

As ₹ falls, IT cos under pressure to cut prices

Mini Joseph Tejaswi | TNN

Bangalore: Indian IT companies are coming under pressure from clients to renegotiate rates downwards for older projects and drop rates for new ones, given the gains that the vendors are making from the sharp drop in the rupee value against the dollar.

Contract values are typically in dollars and those that were signed when the rupee was at, say, 45 to the dollar in August last year, would today deliver 26% higher revenues in rupees to Indian vendors, given that the rupee has fallen to that extent since then.

"Many global tech buyers are watching the day-to-day drop in the Indian rupee. Some already have asked for a 'cut' from the rupee windfall," said the CFO of a leading IT company who did not want to be named because his company is in the silent period ahead of its June quarter results. He said it would be tough for IT companies to resist such demands. "Some IT companies may be willing to share a part of the gains," he said.



The CEO of a mid-sized IT firm said the buyers were asking for a share in the rupee gains because many of them were in deep trouble themselves on account of the slowdown/recession in Western markets. "If we don't give them a cut, they may not renew the contract or move to another vendor," he said.

Analysts also believe customers would put pressure on tech vendors to drop prices and renegotiate contracts. Pradeep Udhas, executive director in consultancy firm KPMG, says this could pose a new challenge for tech firms. But he also says many of the vendors may be able to resist this demand by pinning their arguments on inflation.

Inflation in India has for

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long been close to double digits, leading to all-round increase in costs, including for the IT vendors for whom much of the costs are in rupees. So the benefit from the rupee fall would be reduced to that extent, and the profit gains would not be as significant as the revenue gains.

Hari Rajagopalachari, leader for the technology sector in consultancy firm PwC India, says the fundamental reason for the fall in the rupee is hyperinflation in India. "So the advantage we get from rupee depreciation will get neutralized in high inflation. Indian tech providers may well argue their case of inflation if they are asked to share their profitability with clients," he says.