

# India IT Growth Story- Recession Impact & Recovery Analysis

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## Abstract

The Global Economic Crisis occurred due to the global debt trap becoming wider and wider, forcing the developed economies and developing economies to shift their gear and bringing liquidity adjustment in to the market by Intervening with the correction measures taken from time to time.

All these changes were done and we saw the reflection in terms of recent policy changes. US becoming protective and bringing the anti outsourcing bill, which brought new challenges for Indian IT industry. Indian economy has take steps but they are not yet adequate for bringing any double digit growth in GDP, as we are planning to catch on with Chinese growth story.

The Indian economy is growing at a steady pace by crossing the challenges and correcting the future road map for various industries. The government has shifted gears and brought the focus on long term growth story rather than short term gains.

Both the state government and central government focus is on attracting FDI investors as reflected in the paper. The paper highlights certain trends and short term forecast as a brief analysis. Suggestions are reflected for facing off the future double dip recession emerging round the corner following the European Crisis.

**Keywords:** Double Dip, FDI, IT, Global, Economy, Trend, Forecast, Central Government, State Government, India, China, European, Outsourcing

## **1. Introduction**

Information technology (IT) is the branch of engineering that deals with the use of computers and Telecommunications to retrieve, store and transmit information. It encompasses the methods and techniques used in information handling and retrieval by automatic means (**Folorunso, Ogunde, & Vincent, 2007**).

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The means include computers, telecommunications, office systems or any combination of these elements. The purchase or sale of goods between two or more countries requires the connection and use of a complex set of service operation offered by IT. These services operation has been affected by the recent global economic meltdown.

The effects of global economic meltdown vary from countries to countries depending on the level of government response and proper economic initiatives (Metaxiotis et al., 2007). However, the following factors are indicators of financial crisis in a country:

- (i) Reduced trade and industrial production
- (ii) Unemployment
- (iii) Recession entrepreneurs
- (iv) Decreased volatility of financial markets
- (v) Reduced business travels.

## **2. Innovation Solution**

The Future of IT lies in Green IT Innovation which includes Green Hardware and Software Technology. It is important to utilize the power of Internet and globalize the Entrepreneurial Thought Process in to a knowledge driven paradigm. The promising new innovations, laying the groundwork for an upsurge in profits and sustainability, will be the central Focus for aspiring entrepreneurs planning to represent India at various world forums and summit.

The Stability of China and its growing importance in world affairs should be studied with minute details, because the Chinese innovation mechanism is way ahead of its counterparts and had already taken unprecedented lead in capturing the world market.

The shrinking European Economy and maturing Japanese economy has brought new challenges for Indian IT sector (Onsite and off shoring Business Model). The knowledge driven industry in India needs to shift the current focus from Information technology to Innovative Technology.

Creating employment at home for the talent available at Rural India will be possible if the following factors can be answered by Central or State government under the e-governance project.

- How can IT, often the largest energy consumer, both directly and with its enormous cooling needs, keep leaping costs within limits?
- How can it contain escalating equipment costs by optimizing business processes through swift consolidation of servers and storage?
- With data center capacity doubling every five years with soaring demand, how can Green IT drastically reduce the need for expansion and demand for space?
- How can business manage carbon emissions with exciting new technologies such as shipping logistics planning coupled with supply chain management?
- By rapid technology turnover and by modifying other green processes – virtual travel and client interface and telecommuting – how can Green IT meet the UN goal of reconciling current progress with future responsibility?
- How do the private and public sectors alike meet the clamorous demand for higher standards of social and environmental responsibility and function viably?
- Reduce energy costs by 80%.
- Power down servers without affecting applications or users.
- Green your datacenter while decreasing costs and improving service levels.

### 3. Opportunities And Trend Created In The Indian Economic Environment

India has been ranked at the third place in global foreign direct investments in 2009 and will continue to remain among the top five attractive destinations for international investors during 2010-11, according to United Nations Conference on Trade and Development (UNCTAD) in a report on world investment prospects titled, 'World Investment Prospects Survey 2009-2011' released in July 2009.

The 2009 survey of the Japan Bank for International Cooperation released in November 2009, conducted among Japanese investors continues to rank India as the second most promising country for overseas business operations, after China.

India attracted FDI equity inflows of US\$ 2,214 million in April 2010. The cumulative amount of FDI equity inflows from August 1991 to April 2010 stood at US\$ 134,642 million, according to the data released by the Department of Industrial Policy and Promotion (DIPP). The services sector comprising financial and non-financial services attracted 21 per cent of the total FDI equity inflow into India, with FDI worth US\$ 4.4 billion during April-March 2009-10, while construction activities including roadways and highways attracted second largest amount of FDI worth US\$ 2.9 billion during the same period. Housing and real estate was the third highest sector attracting FDI worth US\$ 2.8 billion followed by telecommunications, which garnered US\$ 2.5 billion during the financial year 2009-10. The automobile industry received FDI worth US\$ 1.2 billion while power attracted FDI worth US\$ 1.4 billion. During April-March 2009-10, according to data released by DIPP. In April 2010, the telecommunication sector attracted the highest amount of FDI worth US\$ 430 million, followed by services sector at US\$ 355 million and computer hardware and software at US\$ 172 million, according to data released by DIPP. During the financial year 2009-10, Mauritius has led investors into India with US\$ 10.4 billion worth of FDI comprising 43 per cent of the total FDI equity inflows into the country. The FDI equity inflows in Mauritius is followed by Singapore at US\$ 2.4 billion and the US with US\$ 2 billion, according to data released by DIPP.

During April 2010, Mauritius invested US\$ 568 million in India, followed by Singapore which invested US\$ 434 million and Japan that invested US\$ 327 million, according to latest data released by DIPP.

### 4. Investment Scenario

In May 2010, the government cleared 24 foreign investment proposals, worth US\$ 304.7 million. These include:

- Asianet's proposal worth US\$ 91.7 million to undertake the business of broadcasting non-news and current affairs television channels.
- Global media magnate Rupert Murdoch-controlled Star India holdings' investment of US\$ 70 million to acquire shares of direct-to-home (DTH) provider Tata Sky.
- AIP Power will set up power plants either directly or indirectly by promotion of joint ventures at an investment of US\$ 24.4 million.
- Sembcorp Utilities, a company based in Singapore, has picked up 49 per cent stake in the 1,320 mega watt (MW) coal-fired plant of Thermal Powertech Corporation India Ltd, a special purpose vehicle and subsidiary of Gayatri Projects Ltd, for US\$ 235.1 million.
- Cinopolis, a Mexico-based multiplex operator, is looking at expanding its footprint in India. The company which started operations in India last year plans to invest US\$ 350 million in the next five years to operate 500 screens in 40 cities.
- According to a study released by global consultancy Bain & Company, private equity (PE) and venture capital (VC) investments are projected to reach US\$ 17 billion in 2010. The report includes a survey conducted across leading PE investors globally. The survey revealed number of respondents planning to invest in the range of US\$ 200-500 million in 2011 has risen nearly four-fold to 27 per cent. Further, as per figures released by Grant Thornton, the food processing and agri-based companies have attracted US\$ 300 million PE investments during January-June 2010. In 2009, PE investments in these sectors were about US\$ 398 million.
- IL&FS Investment Managers (IIML) plans to invest US\$ 300 million, in real estate and urban infrastructure projects by the end of 2010.
- "We are in the advance stages of finalising 3-4 deals in residential real estate and urban infrastructure space like roads and hospitality," said Shahzaad Dalal, Vice-Chairman and MD, IIML.
- Investments by French companies in India is expected to touch US\$ 12.72 billion by 2012, and would focus on automobile, energy and environment sectors among others, according to Jean Leviol, Minister Counsellor for Economic, Trade and Financial Affairs, French Embassy in India.
- Japanese pharmaceutical major, Eisai plans to invest US\$ 21.25 million in India to expand its manufacturing capacity and research capabilities. The investment will be used for increasing the manufacturing capacity of Active Pharmaceutical Ingredients (APIs) and product research at the Eisai Knowledge Centre in Visakhapatnam.
- Japan's Kobelco Cranes, a subsidiary of Kobe Steel, is planning to invest US\$ 12.7 million to set up a plant near Chennai to produce crawler cranes. The plant will begin production in 2011.

- Franco-American telecom equipment maker, Alcatel-Lucent plans to shift its global services headquarters to India. The headquarters would need about US\$ 500 million in investments over three years, according to Ben Verwaayen, Chief Executive Officer, Alcatel-Lucent

## 5. Policy Initiatives

- The Government of India has released a comprehensive FDI policy document effective from April 1, 2010. The Circular 1 of 2010 consolidates into one document all the prior policies/regulations on FDI which are contained in FEMA, 1999; RBI Regulations under FEMA, 1999 and Press Notes/Press Releases/Clarifications issued by DIPP and reflect the current 'policy framework' on FDI.
- Furthermore, the government has allowed the Foreign Investment Promotion Board (FIPB), under the Ministry of Commerce and Industry, to clear FDI proposals of up to US\$ 258.3 million. Earlier all project proposals that involved investment of above US\$ 129.2 million were put up before the Cabinet Committee of Economic Affairs (CCEA) for approval. The relaxation would expedite FDI inflow, according to Mr. P Chidambaram, Union Home Minister.
- Exchange rate used: 1 USD = 47.07 INR (as on July 2010)

## 6. Post Recession Analysis

1. Controlling the spiraling inflation and creating job opportunities will be one of the major objectives in the year 2011 for the GOI and State Government.
2. The double dip recession fear looming largely in Asia following the European crisis is evident. So the Indian IT Sector business model should be realigned in order to fit the growing requirement of rural empowerment in India.
3. Government should sustain the implementation of projects and planned acquisition of lands in order to derive the benefits of PPP.
4. The quantum of thrust in empowering women and making school children's IT savvy should be the prime objective.

## 7. Conclusion

The Impact of recession and growth of Indian IT companies had proven the importance of realigning operations for facing-off recession in 2010. The Rise of Cognizant Technologies during the period and Infosys expanding its operation in US have proven the strength of Indian IT (Software) powerhouse during the period of Recession. Wipro appointing multiple CEO's for stabilizing its business and focusing on the growth of every vertical specially the Consulting area as an independent unit is a specific Goal Driven Strategy.

“The Growth story continues with small and medium scale IT industries with Government Extending the Life Line of STPI (Software Technology Parks of India)”.

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