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Currency Devaluation's impacts: An analysis of Infosys Limited

Ananya Priya

Research Scholar, Department of Commerce and Business Management, Ranchi University, Ranchi, India

ABSTRACT

During its development stage, currency devaluation is a significant issue for India. India has emerged as the United States' top trading partner, thanks to its strategic and economic assistance. This study examined how Infosys Limited was affected by currency devaluation relative to the dollar between 2012 and 2023. It has witnessed the Indian Rupees rise to new heights in relation to the dollar and then plummets to new lows. Growth is the ultimate goal of every business. A corporation has gained a competitive advantage over others due to the increased competition generated by the changing times. A number of metrics, including revenue, profits, and employment rate indicates where the business stands in the marketplace. Few studies have looked closely at how currency devaluation has affected the nation's IT industry. Understanding the effects of currency devaluation on Infosys Limited's employment and financial performance is the aim of this study.

Keywords: Currency, Devaluation, Employment, Financial Performance, Infosys Limited.

INTRODUCTION

Currency devaluation occurs when a country's currency loses value relative to foreign currencies, can significantly impact IT companies. The effects depend on whether the company primarily operates domestically or internationally. Currency devaluation can be a double-edged sword for IT companies. While it enhances export competitiveness and increases revenue from international clients, it may also lead to higher costs and operational challenges. The overall impact depends on the company’s business model, revenue sources, and cost structure. The impact of currency devaluation on Infosys, like other export-oriented IT companies in India, is multifaceted. Infosys generates a significant portion of its revenue in foreign currencies, primarily USD, EUR, and GBP. Since Infosys earns a majority of its income in foreign currencies, devaluation of the Indian Rupee (INR) increases its revenue when converted into INR. For example, if the INR weakens against the USD, Infosys receives more INR for each dollar earned. Many of Infosys's operational costs, such as salaries for employees in India, are denominated in INR. Currency devaluation enhances margins as foreign revenue rises but local costs remain relatively stable. While a steady devaluation is favorable, sudden and sharp movements can lead to unpredictable earnings. Infosys, like other IT companies, manages this through currency hedging, but these instruments add a cost and are not foolproof. The need to hedge against currency fluctuations to protect earnings stability adds a financial burden, which can partially offset the benefits of devaluation. Infosys, like other export-oriented Indian IT companies, typically benefits from currency devaluation, especially against the USD. However, it must manage risks related to volatility, hedging costs, and its exposure to non-USD revenues.

Positive Impacts:

- IT companies providing services or products to international clients may benefit as their offerings become cheaper for clients paying in stronger foreign currencies. This can lead to increased demand for their services.
- Revenues earned in foreign currencies (e.g., USD, EUR) translate to more local currency when converted. This can boost overall revenues and profitability in the domestic market.
- Devaluation can make a country more attractive as an outsourcing hub. Foreign companies may find it cheaper to outsource IT services to a devalued currency region, potentially increasing the client base for local IT firms.

Negative Impacts:

- IT companies relying on imported hardware, software licenses, or technology may face higher costs due to currency devaluation, squeezing profit margins.
- Employees may demand higher salaries to cope with inflation triggered by devaluation, increasing operational costs.
- If the company has loans or financial obligations in foreign currency, repayment becomes more expensive in local currency, straining cash flow.
- Some international clients may perceive economic instability as a risk and hesitate to engage with IT companies in a country experiencing devaluation.

REVIEW OF LITERATURE

Arora (2014) examined the actual effects of the rupee's depreciation on the Indian economy and found that, over time, the country stands to lose more and benefit less from a weaker currency. According to research, there is now a new risk to the Indian economy since the rupee has lost a lot of value in relation to the US dollar. By raising the FII limit on investments in corporate and government debt instruments and introducing greater caps on ECBs, the RBI can loosen capital controls and draw in investors. A stable political and economic climate can be established by the government. The future of the Eurozone and the global economic outlook, however, will have a significant impact on the INR.

Soni & Prashar (2013) The Indian economy is affected in a variety of ways by the devaluation of the rupee. The primary effects include increased import costs, increased exports, more costly capital-intensive project execution, a slowdown in general economic development due to rising interest rates, and a deterrent to FII flow. The author examines the true causes of the rupee's devaluation and demonstrates how it has a negative long-term effect on the Indian economy.

R. Sirohi (2013) claims that people experience increased commodity prices as a result of currency depreciation, which affects students who are currently studying abroad or who plan to travel. Divergent views have been expressed by Divakaran, N Deepa, and Dr. G.S. Gireeshkumar (2014) regarding the effects of the currency devaluation on the Indian economy. They mentioned how this will help the export-oriented economy in India. The main ones include the IT industry, textiles, pharmaceuticals, gems and jewelry, power, and fertilizers. Due to the weak rupee, Indian producers would be able to charge higher prices and will be more competitive on the global market. However, it can also increase the current account deficit and bring about inflation.

Agarwal (2012) "Effect of devaluation of Indian currency in Indian economy," in his paper states that devaluation is a means of correcting the BOP imbalance. In his article, he states that depreciation of the currency is preferable to devaluation since it would boost exports and, as a result, boost employment, both of which contribute to economic growth.

Oberoi (2012) "Riding the INR Stocks," in the article reveals that how currency-sensitive shares are being impacted by the volatility of the INR. How currency-sensitive shares are being impacted by the volatility of the INR discusses how enterprises that focus on exports stand to benefit the most from INR depreciation. Software services, pharmaceuticals, aquaculture, engineering, and jewelers are some of these. However, the engineering goods, diamonds, and jewelers sectors saw limited growth because the increase in the cost of importing raw materials partially offset the gains. Conversely, enterprises in the fields of information technology (IT) and pharmaceuticals are benefiting from an emphasis on exports. Devaluation increases profit in several industries, such as IT. The IT industry generates around $60 billion in revenue annually through the export of software and services.

Bhawna Kalra (2012) “Devaluation of INR vs. USD: A historical prospective” states the causes of devaluation both before and after liberalization are discussed in this essay. The author is attempting to research how the Indian economy is affected by the depreciation of the INR. Additionally, he notes that the persistently low INR is more concerning than encouraging. The author argues that in order to maintain stable currency, active central government engagement is necessary.

OBJECTIVES OF THE STUDY

- To determine how currency devaluation affects Infosys Limited's revenue.
- To understand how currency devaluation affects Infosys Limited's operating profit.
- To determine how Infosys Limited's employment is affected by currency devaluation.

SCOPE OF THE STUDY

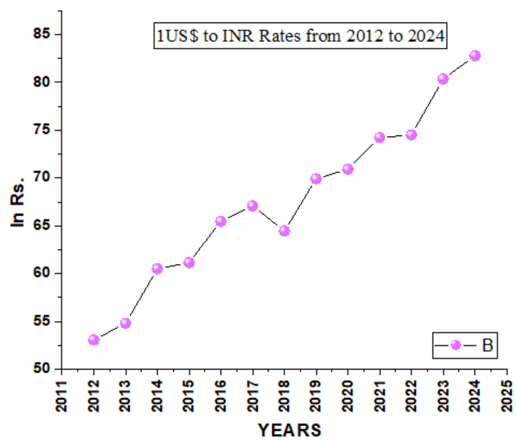
The study would demonstrate how currency devaluation affects Infosys Limited's employment and financial performance.

RESEARCH METHODOLOGY

The information used in the study is obtained from secondary sources, specifically the annual revenue, operating profit, and employee figures from the previous 12 years that have been collected from the Infosys Limited website. Additionally, the RBI's official website provides the annual average of the Indian rupee's exchange rate against the US dollar for 13 years, from 2012 to 2024. Journals, magazines, research bulletins, essays, and other easily accessible publications are also cited. The study consists of both qualitative and quantitative data, and the quantitative information has been utilized to support the qualitative information gathered.

Impacts of Indian Rupee (INR) Devaluation on Infosys Limited

YEARS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
INR Vs USD	53.06	54.78	60.50	61.14	65.46	67.07	64.45	69.92	70.90	74.23	74.50	80.36	82.79

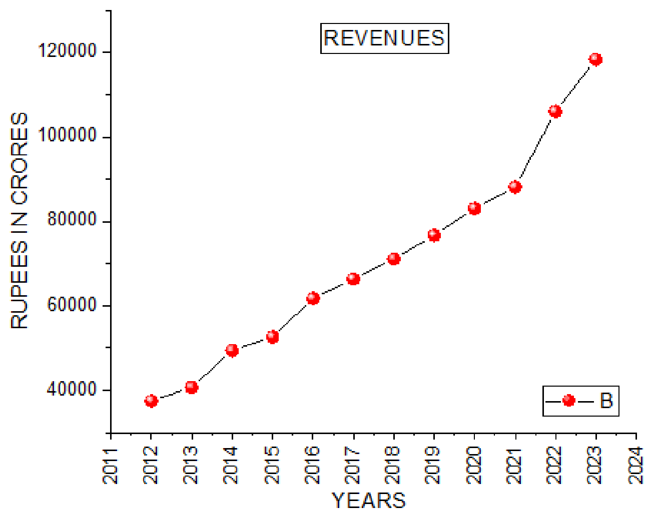


Currency devaluation can significantly impact multinational companies like Infosys, which operates globally and earns a substantial portion of its revenue from foreign markets. Infosys earns a significant portion of its revenue in foreign currencies, such as the US dollar, euro, and pound. If the Indian rupee (INR) depreciates against these currencies, the company can benefit as its foreign revenue translates into more INR, boosting its top line. If the currency devaluation happens in a country where Infosys operates (e.g., a drop in the pound or euro), it might reduce the demand for IT services due to reduced spending capacity in that region. If the currency of the country where Infosys has operations depreciates, the cost of running operations there may increase when converted into INR. As Infosys has a large workforce in India, a weaker rupee relative to foreign currencies may reduce overall operational costs when compared to revenues in stronger currencies. Clients in countries experiencing currency devaluation may face financial pressures, leading to reduced IT budgets and delayed decision-making on outsourcing projects. Clients may demand price reductions in response to their local currency's devaluation, potentially impacting Infosys' margins. Infosys typically employs hedging strategies to mitigate risks associated with currency fluctuations. However, significant and prolonged devaluation may still affect margins despite these measures. Currency devaluation may lead to increased volatility in Infosys' stock price, as investors may react to the perceived risks or opportunities stemming from exchange rate fluctuations. It makes Infosys's services cheaper for international clients.

This enhances its competitiveness compared to companies operating in regions with stronger currencies, potentially attracting more clients or enabling better pricing power. Clients looking to reduce costs in a tight economic environment may prefer outsourcing to Infosys due to the cost advantage created by a weaker INR. Any costs incurred in foreign currencies, such as software licenses, cloud services, or training from international vendors, increase due to devaluation. However, these costs are usually a smaller fraction of Infosys’s total expenses. For operations abroad, such as maintaining offices or paying expatriate staff in foreign currencies, a weaker INR increases costs. Infosys earns revenue in multiple currencies. While devaluation against the USD is generally beneficial, fluctuations against other currencies like EUR or GBP could have mixed effects depending on the currency distribution of its revenue. Devaluation in India could coincide with macroeconomic issues that may also affect Infosys's clients in regions like Europe or North America, potentially dampening demand for its services. Currency devaluation often leads to a favorable view of Infosys by investors, as it is expected to boost revenue and margins. This can result in an increase in stock prices, at least in the short term. If the devaluation is perceived as a sign of economic instability, overall market conditions might overshadow any positive impact on Infosys's financial performance. Devaluation makes India-based operations even more cost-effective for Infosys. This may lead the company to further strengthen its offshore delivery capabilities. If devaluation negatively impacts Indian clients, their IT spending might shrink, slightly impacting Infosys's domestic operations.

Impacts of Indian Rupee (INR) Devaluation on the Revenue of Infosys Limited

YEARS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
REVENUE	37464	40700	49425	52630	61750	66365	71110	76700	83070	88140	106015	118365

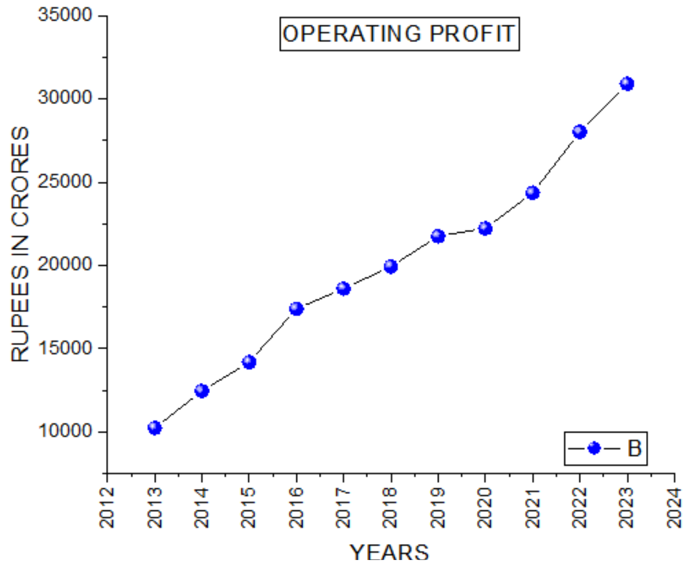


The impact of currency devaluation on Infosys's revenue is primarily positive due to its global operations and significant reliance on foreign currencies, particularly the USD. A substantial portion (approximately 60-70%) of Infosys's revenue comes from the US market, with additional contributions from Europe and other regions. When the Indian Rupee (INR) devalues against the USD, EUR, or GBP, the same amount of foreign currency translates into a higher amount in INR. Currency devaluation makes Infosys's services more cost-competitive internationally, potentially leading to higher demand and more contracts.

This indirectly boosts revenue in the long term. Infosys may retain price flexibility during negotiations, leveraging its enhanced cost advantage to attract more clients. Sudden or sharp devaluations can introduce uncertainties. For example: Hedging losses may offset some revenue gains if Infosys has hedged significant amounts at lower exchange rates. Clients in regions experiencing their own currency depreciation (e.g., Eurozone) may negotiate lower prices, reducing Infosys's pricing power. While devaluation benefits Infosys in INR terms, it could strain the budgets of foreign clients, leading to slower decision-making or reduced IT spending. Infosys uses hedging strategies like forward contracts and options to mitigate currency risks. While this stabilizes revenues, it may reduce the immediate gains from a favorable devaluation. Example: If Infosys locks in exchange rates at ₹75/USD but the market rate moves to ₹80/USD, the potential upside is capped.

Impacts of Indian Rupee (INR) Devaluation on the Operating Profit of Infosys Limited

YEARS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
OPERATING PROFIT	8530	10239	12456	14195	17390	18602	19938	21755	22220	24356	28015	30905



Currency devaluation generally has a positive impact on the operating profit of Infosys due to its global revenue structure and cost base being predominantly in Indian Rupees (INR). Since a significant portion of Infosys's revenue (60-70%) is earned in USD and other foreign currencies, devaluation of the INR increases revenue when converted to INR. This revenue increase directly contributes to higher operating profit margins, assuming costs remain stable. A large portion of Infosys's costs, such as employee salaries, infrastructure, and operational expenses, is denominated in INR. Devaluation leads to unchanged local costs and improve profitability.

While foreign revenues increase in INR terms, costs in INR remain stable, improving operating margins. The widening gap between revenue and costs increases operating profits. If Infosys incurs costs in foreign currencies, such as software licenses, tools, or cloud services, these costs increase due to currency devaluation. However, such expense typically forms a small part of Infosys's overall cost base and may not significantly erode operating profit. Salaries and other costs for employees working onsite (abroad) are denominated in foreign currencies. Devaluation of the INR increases these costs when converted back to INR, slightly offsetting revenue gains.

Infosys employs currency hedging (e.g., forward contracts) to manage exchange rate volatility. While hedging can stabilize operating profits, it might cap the upside from favorable devaluation. With higher revenue in INR terms and largely stable fixed costs, Infosys benefits from operating leverage. The additional revenue helps to absorb fixed costs more effectively, leading to higher operating margins.

A consistent devaluation of INR against the USD (e.g., by 5-10%) can improve operating margins by 1-2% or more, depending on the company's cost structure and hedging policies. If clients in weaker economic regions face currency devaluation themselves (e.g., Eurozone or emerging markets), they may negotiate lower pricing. This could offset some revenue and profit gains. Sudden or sharp devaluation may lead to operational inefficiencies or unhedged exposures that create temporary profit volatility.

Impacts of Indian Rupee (INR) Devaluation on the Employment of Infosys Limited

YEARS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NO. OF EMPLOYEES	150	156	160	176	194	200	204	228	242	259	314	343

Currency devaluation can have both direct and indirect impacts on the employment scenario at Infosys, given its reliance on a global business model and a predominantly INR-based cost structure. Devaluation makes Infosys's services more cost-competitive in international markets. This can lead to an increase in client demand, resulting in more projects and contracts, which in turn may require Infosys to hire additional employees. Infosys might expand its offshore delivery centers in India to capitalize on the cost advantage, boosting domestic employment opportunities. New roles may be created to handle expanded client portfolios, such as project managers, software developers, and domain specialists. Infosys may also scale up its training programs to onboard fresh talent and meet growing demand. Since most of Infosys's employees are based in India and are paid in INR, their salaries remain unaffected by currency devaluation. This allows Infosys to hire more employees without significant cost escalation in INR terms. Onsite employees (working abroad) are paid in foreign currencies like USD, EUR, or GBP. Currency devaluation increases the relative cost of these employees when converted back to INR, potentially leading Infosys to limit onsite hiring or replace onsite roles with offshore roles. If clients in regions like Europe or emerging markets experience economic pressure due to their own currency devaluation or inflation, they may reduce their IT budgets. This could slow down hiring or lead to project delays, indirectly impacting employment at Infosys. Infosys may prioritize offshore hiring (India-based roles) over onsite hiring to capitalize on the cost advantage of a weaker INR. Increased focus on automation and digital solutions could slightly reduce the need for manual or repetitive roles. Infosys might invest in upskilling its workforce to align with new client demands and evolving technologies, ensuring sustained employment opportunities in high-value areas. Devaluation strengthens Infosys's offshore delivery model, making India a more attractive hub for IT services. This can lead to long-term job growth in India-based operations. Over time, increased demand for Indian IT talent due to currency devaluation could lead to higher wages, slightly reducing the cost advantage and slowing down hiring.

CONCLUSION

Currency devaluation can have both positive and negative impacts on Infosys, depending on the nature and extent of the devaluation. While a weaker rupee benefits revenue growth, it also brings challenges like client spending reductions and pricing pressures in affected regions. Infosys' ability to manage these impacts lies in its global diversification, cost management, and currency hedging strategies. Currency devaluation has a direct positive impact on Infosys's revenue in INR terms, driven by the favorable conversion of foreign earnings. However, the extent of the benefit depends on the mix of currencies, hedging practices, and the economic health of Infosys's clients. Currency devaluation positively impacts Infosys's operating profit by increasing INR-denominated revenues while leaving INR-based costs largely unchanged. The extent of profit growth depends on factors like the degree of devaluation, cost structure, hedging policies, and global economic conditions. Generally, Infosys experiences margin expansion during periods of INR devaluation, making it a net beneficiary of such scenarios. Currency devaluation generally has a positive impact on employment at Infosys in the short to medium term, especially in its offshore operations in India. The company is likely to see increased demand for its services, prompting new hires and expanded training programs. However, challenges such as pressure on onsite hiring and potential client budget constraints may temper these effects in certain scenarios.

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AUTHOR'S BIOGRAPHY

Ananya Priya is a Research Scholar and a faculty in School of Management Studies, Dr. Shyama Prasad Mukherjee University, Ranchi, impacting knowledge to MBA and BBA students since 2022. She has been academically a meritorious student throughout her academic career. She cleared UGC-NET Exam in 2020 and HP-SET Exam in 2021. She has written so many research articles and a book named Currency and Commerce.