Weak ₹ a silver lining for IT services cos

Enhancing margins

- ₹ is projected to depreciate by about 4.7% Y-o-Y this quarter against $
- Every 1% ₹ depreciation versus the greenback results in a revenue spike and can improve operating margins by 20–30 bps
- 90% of IT services sector revenue comes from global mkts

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With the majority of revenue coming from the US, the declining Indian rupee against the US dollar is proving to be a net positive for the information technology (IT) services sector. Experts expect that for the third quarter (October–December) of 2025-26, this trend will support margins.

The Indian IT services industry earns roughly 90 per cent of its revenue from global markets — around 57 per cent from the US and about 28 per cent from Europe.

Aditya Jhaver, director at Crisil Ratings, said, "On a weighted-average basis, factoring in the sector's revenue mix and foreign exchange (forex) hedging policies, this rupee depreciation could translate into a forex-led mid-single-digit revenue growth and a consequent improvement in operating profitability for the industry's players." He added, "With current currency trends expected to persist through the remainder of December, the rupee is projected to depreciate by about 4.7 per cent year-on-year this quarter against the US dollar. The decline against the euro is expected to be sharper, at roughly 14 per cent."

According to UnearthInsight, every 1 per cent rupee depreciation versus the dollar results in a revenue spike in rupee terms, with operating margins improving by 20–30 basis points for US export-heavy IT companies. "However, this also affects subcontracting costs, as 85–95 per cent of subcontractors for Indian IT firms are hired locally in the US. Overall, it could positively impact margins by 20 basis points over the medium term," said Gaurav Vasu, founder and chief executive officer of UnearthInsight.

The falling rupee comes at a time when deal closures have slowed, affecting top-line growth. IT companies have seen margins come under pressure because large and mega deals are usually cost-optimisation-focused, with multiple firms competing for the same clients. This often forces them to compromise on margins to maintain revenue during periods of slow growth and an uncertain macroeconomic environment.

Companies often offset this by improving operational efficiency or delaying wage hikes to maintain target margin bands. For instance, Infosys aims to maintain margins between 20 and 23 per cent, while Tata Consultancy Services targets 25–28 per cent.

Being predominantly export-oriented, the IT services sector has historically benefited from rupee depreciation through higher revenue realisation and margin gains. Over the past few financial years, this effect has been evident, with recent rupee volatility largely driven by global geopolitical developments, including US tariff actions and broader trade-related uncertainties, according to Crisil.