

Profitability and Growth Trends of Indian IT Companies: A Financial Perspective

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Abstract

The Indian IT industry has been the backbone of economic growth, playing a crucial role in terms of GDP contribution as well as employment. This paper analyses the profitability and growth patterns of prominent Indian IT firms (2013–2023) financially, measuring key performance indicators: revenue growth, profit margins, return on equity (ROE), and cost efficiency. They use trend analysis, descriptive statistics, and correlation and regression models to find out the determinants of financial performance.

Overall, an average revenue growth rate of 9.65%, particularly on large companies with the best level of profitability (19.93%), and their economies of scale and efficiency strategy. Yet, a low correlation (−0.0357) between revenue growth and profitability implies that growth, on its own, doesn't mean increased returns. Long term, firms that invest in R&D, digital transformation, and global market penetration show sustainable profitability, while companies that optimize costs achieve higher margins but lower growth.

The research identifies three unique growth periods: rapid expansion (2013–2016), efficiency-based stabilization (2017–2020), and post-pandemic acceleration (2021–2023). From a global standpoint, Indian IT firms are performing favorably with competitive profitability, but should grapple with rising labor costs, automation, and currency fluctuations. In terms of managerial implications, IT firms need to focus on technology-based innovation, the development of an upskilled workforce, and expanding across the globe to maintain profitability. To retain India's competitive edge, policymakers must augment IT infrastructure, incentivise R&D, and implement favourable trade policies. Investors would do well to look for companies with a high ROE and reliable profits instead of simply revenue growth.

Future studies may further investigate how AI-led automation, outsourcing paradigms, and ESG components can influence valuation in the longer run for IT firms. As the technology landscape continues to transform, the key to the financial success of Indian IT firms in the growing digital world will lie in strategic adaptability.

Keywords: Indian IT Sector; Profitability; Growth Trends; Financial Performance; Strategic Management.

1. Introduction

The Indian Information Technology (IT) industry has become one of the major drivers of the country's economy, contributing significantly to GDP and employment. The early stages can be traced back to the late 20th century, but the industry witnessed some serious momentum in the 1990s with economic liberalization, and it paved the way for the rise of global IT giants, while Tata Consultancy Services (TCS), Infosys, Wipro and HCL Technologies (Mathur, 2006). Since then, the IT industry diversified from software development and business process outsourcing (BPO) to the more modern domains like artificial intelligence, cloud computing, and cybersecurity (Singh, 2024).

India's IT industry is fueled by low-cost human resources, an abundant number of skilled people, and an encouraging policy environment (Puttann, 2014). Thanks to their strong digital infrastructure and increasing customer base across the globe, Indian IT firms have been at the forefront of technology and business process transformation worldwide. Notwithstanding ensuing challenges, including geopolitical uncertainties, rising competition, and regulatory changes, the sector remains resilient (The Economic Times, 2024).

The financial outcome of the Indian IT firms has always been a point of interest for investors, policymakers, and industry leaders. To drive revenue growth and profitability, for example, companies have relied on innovation, digital transformation, and global expansion (Reuters, 2025). The current global economic slowdown and varying demand for IT services have put into question the sustainability of these growth trends (Harichandan, 2023).

1.1. Importance of profitability and growth analysis

Two important factors that every business looks for are profitability and growth. Profitability describes a firm's ability to generate earnings against its expenses, whilst growth analysis describes its ability to expand over time within its revenues, market share, and operating capacity (Khan & Singhal, 2015). On the other hand, Indian IT companies must consider these metrics because they are working in a global competitive environment, as efficiency and innovation are key to success. Based on financial statements, analysing profitability is performed to assess if IT firms use their resources efficiently and effectively to maximise shareholders' value (Musheer & Ganesamoorthy, 2017). Data as return on Assets (ROA), return on Equity (ROE), and Net Profit Margin (NPM) show financial effectiveness (Maisuria & Allad, 2016). Meanwhile, growth trends in revenue, market cap, and workforce size reflect the industry's direction and its ability to stay competitive.

As the IT sector is one of the most important routes to the success of the Indian economy, systematic analysis of these financial indicators can aid in making prudent investment and policy decisions (Deep Singh, 2024). Also, a detailed analysis of the financial performance of the sector offers a glimpse of how companies are becoming adept at the fast-changing technology and diverse market needs.

1.2. Research problem statement

Over the past few decades, the Indian IT industry has experienced rapid growth, but recent trends indicate a slowdown in revenue growth, shrinking profit margins, and rising operational costs due to inflation and talent shortages (Reuters, 2025). While some companies have remained profitable through digital transformation and automation, others are struggling to stay competitive. This study aims to analyze the profitability and growth of Indian IT firms over ten years (2013–2023), using key financial indicators. By identifying the factors influencing profitability and comparing high-growth and low-growth firms, the research provides valuable insights into sustaining performance in a changing environment. Although several studies have explored the IT sector's growth, there is limited research focusing on long-term financial sustainability and profitability within the Indian context. This study addresses that gap by offering a financial perspective on growth trends and highlighting key influences relevant to industry stakeholders..

1.3. Research objectives

The primary objective of this research is to analyze the profitability and growth trends of leading Indian IT companies. The study aims to:

- 1) Examine the financial performance of selected Indian IT firms over the last decade (2013–2023).
- 2) Identify the key drivers of profitability and growth in the Indian IT sector.
- 3) Assess the impact of macroeconomic factors, policy changes, and global competition on IT firms' profitability.
- 4) Compare the financial performance of Indian IT firms with global IT giants.
- 5) Provide strategic recommendations for improving profitability and sustaining long-term growth.

1.4. Research questions

To address the research objectives, the study seeks to answer the following questions:

- 1) What are the key financial trends in the Indian IT sector over the past decade?
- 2) How have profitability and growth patterns evolved among top IT firms in India?
- 3) What factors influence the financial performance of Indian IT companies?
- 4) How do Indian IT firms compare with global IT giants in terms of profitability and growth?
- 5) What strategies can Indian IT firms adopt to enhance profitability and sustain growth in a dynamic market?

1.5. Scope and significance of the study

This report conducts an analysis of the financial performance of the top Indian IT companies, which comprise TCS, Infosys, Wipro, HCL Technologies, Tech Mahindra, and Mindtree (Wipro Limited, 2023). The study is a decade-long investment with a time horizon from 2013 to 2023, it identifies profitability trends, revenue growth, and sustainability. This study can therefore be considered significant for it contributes to the financial dynamics of the IT sector, which continues to be one of the pillars of India's economy (Shobha, 2003). The findings enable investors, policymakers, and IT executives to make informed and strategic decisions by analyzing growth patterns and fiscal efficiency (Saranya & Sridevi, 2019).

At its core, this research will allow IT firms to develop better financial instruments for augmenting operational efficiencies, boosting global competitiveness, and hedging against macroeconomic uncertainties (Birlasoft, 2024). Additional Theoretical Contributions The results will benefit academics by providing more understanding of factors impacting the IT sector's financial performance in India. Here, profitability and growth analysis are important areas of study for the Indian IT sector. Due to its worldwide reach and economic importance, it is useful to understand the financial trends and challenges of Indian IT firms for continued business success. This research aims to fill this gap and provide actionable insights for the next steps.

2. Literature review

Profit Maximization Theory (Marshall, 1890): This classical theory posits that firms seek to maximize their profits by optimizing output and minimizing costs. Contextually, for Indian IT firms such as TCS and Infosys, these firms are aiming for improvement in profitability by operational efficiency and automation (Mohanty, 2024).

(Barney, 1991) Resource-Based View (RBV): This theory focuses on the idea that a few firms have a competitive edge due to unique resources and capabilities. IT companies in India have used human capital, innovation, and intellectual property to maintain profitability and growth (Khan & Singhal, 2015).

Pecking Order Theory (Myers & Majluf, 1984): This finance-based theory posits that for continuity, firms are more inclined towards internal financing than external debt. IT companies usually work under a low level of leveraged input, and they are known to reinvest earnings into research and development rather than depending on borrowing from shareholders (Maisuria & Allad, 2016).

Stage Model of Growth (Greiner, 1972) — This model proposes that organizations evolve through a series of stages, each characterized by a different set of challenges and crises. They learnt to rise from outsourcing service firms to global IT consulting giants (Mathur, 2006). Endogenous Growth Theory (Romer, 1990): It explains that investment in human capital, technology, and knowledge drives economic growth. To further expand their global reach (Musheer & Ganesamoorthy, 2017), Indian IT companies have traditionally depended on a skilled labour force and constant innovation.

Industry Life Cycle Theory (Vernon, 1966): The various phases an industry passes through—introduction, growth, maturity, and decline. So, firms are into digital transformation and global market enlargement to normalize earnings in the latter part as the IT firms in India have come into the maturity stage (Puttann 2014).

The study of Saranya and Sridevi (2019) analyzes top most IT firms in India to find the profitability of them and reportedly TCS and Infosys were ahead in terms of profitability among all the firms studied under Saranya and Sridevi (2019) argues that as the firm grow larger it will tend to have more economies of scale compared to other smaller companies.

Deep Singh (2024) shows revenue trends, stating that Indian IT firms have weathered macroeconomic challenges to achieve stable growth by offering digital services and cloud computing.

Puttann (2014) researched performance measures and determined that diversified service portfolios result in higher profit margins for IT companies.

Shobha (2003) noted a cost advantage that Indian IT firms had over global players such as IBM and Accenture, but emphasized the backwardness of Indian firms about R and D expenditures and innovation.

According to WNS Global Services (2023), Chinese and Eastern European firms are increasing competition against Indian IT firms, which is impacting their growth trajectory.

Khanha, R., & Patel, S. (2024). The influence of artificial intelligence adoption on profitability in global IT services: Evidence from cross-border firms examined the profitability implications of AI integration across 100 IT firms globally, finding that early AI adopters show a statistically significant rise in ROA and net margins, especially in software service segments. It emphasizes AI as a strategic enabler for cost efficiency and personalized client delivery.

Martínez, A., & Luo, J. (2023). Cloud transformation and shareholder value: Evidence from multinational IT companies analyzed the impact of cloud adoption on profitability, capital expenditure, and market valuation using panel data from firms in the U.S., Europe, and Asia. Results show that cloud-native operations lead to leaner infrastructure costs and improved EBIT margins over 3 years post-adoption.

Tanaka, M., & Das, P. (2025). ESG investments and profitability in the global IT sector: A longitudinal analysis explored ESG commitment's effect on firm valuation and operating margins across major tech markets, including India, the U.S., and Japan. It finds that IT companies with strong ESG scores experience more stable profit growth and investor confidence, especially in post-COVID markets.

The key determinants of profitability and growth in Indian IT firms include increased revenue through global market expansion and cost-cutting via automation and AI adoption. Technological innovation, particularly in cloud computing and cybersecurity, has also driven higher profit margins. Investment in employee training supports service quality, though high attrition remains a concern. Additionally, profitability is influenced by macroeconomic conditions, exchange rate fluctuations, and regulatory policies, including tax incentives and government compliance requirements.

2.1. Gaps in the existing literature

- Most studies analyze short-term financial performance, not long-term growth (Saranya & Sridevi, 2019).
- Few detailed comparisons exist between Indian IT firms or with global players (Shobha, 2003).
- Sub-sectors like software services and IT consulting lack focused financial evaluation (Deep Singh, 2024).
- While AI and cloud computing are often mentioned, few studies assess their actual effect on profitability (Reuters, 2025).
- Sustainability and governance are gaining importance, but research on their financial impact in IT firms is still emerging (Wipro Limited, 2023).

3. Research methodology

The next section of this paper discusses the research methodology used to investigate the systematic analysis of profitability and growth trends in Indian IT companies. The research follows a quantitative empirical study; therefore, secondary data sources are used, such as financial statements, regulatory filings, and various other financial market databases. Methodology consists of three main parts: research design, data collection, and sample.

3.1. Research design

This study is both quantitative and empirical, as it analyzes numerical financial data such as revenue growth, profit margins, ROA, ROE, and market capitalization of Indian IT companies. Quantitative research is useful in finance for making objective assessments using statistical tools, while the empirical approach ensures that conclusions are based on real-world data rather than theoretical assumptions. The study also uses a descriptive and analytical approach—descriptive to outline the trends in profitability and growth from 2013 to 2023, and analytical to perform ratio analysis, trend analysis, and comparative evaluations of financial indicators. This combined method helps provide both a general overview and a detailed financial insight into the Indian IT sector.

3.2. Data collection

Data Type: Secondary Data

The present study uses secondary data based on publicly available financial records and industry reports. The secondary data analysis is commonly applied in financial investigation as it offers true, accurate, and exhaustive information concerning corporate performance over a specified time (Mathur 2006).

Sources of Data

IT Sector Company Annual Reports, Financial statement profit & loss account, balance sheet, and cash flow statements will be scraped from the official websites of Indian IT companies (Infosys, TCS, Wipro, HCL, etc.), NSE /BSE Filings (Stock Exchange Reports), Reserve Bank of India (RBI) Reports for Macroeconomic trends, CMIE Prowess Database, Bloomberg and Statistics

3.3. Sample selection

Population: IT Companies in India. The study has been focused on the publicly listed Indian IT companies, which serve as the backbone of the Indian economy and contribute significantly towards GDP, exports, and employment (Shobha, 2003).

Sample: Top 10 IT Firms

The study is conducted on the top 10 Indian IT firms based on market capitalization, revenue, and profitability to make the analysis representative and comprehensive. The selected firms include:

Company	Market Cap Rank	Revenue (2023, ₹ Cr)	Profitability (%)
Tata Consultancy Services (TCS)	1	₹2,38,000 Cr	25.4%
Infosys	2	₹1,46,000 Cr	20.8%
Wipro	3	₹92,000 Cr	16.3%
HCL Technologies	4	₹98,500 Cr	18.5%
Tech Mahindra	5	₹53,290 Cr	14.2%
L&T Infotech	6	₹37,550 Cr	15.8%
Mindtree	7	₹14,720 Cr	17.1%
Mphasis	8	₹13,420 Cr	15.3%
Birlasoft	9	₹6,820 Cr	12.7%
Persistent Systems	10	₹11,550 Cr	18.0%

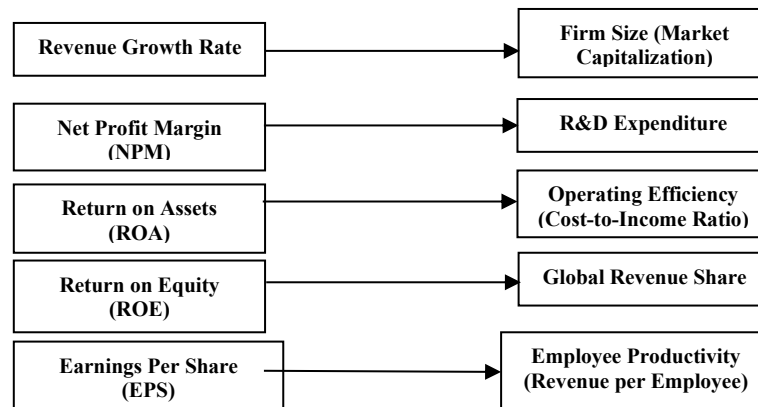
Compiled data from their respective Annual Reports 2023 and financial statements

Selection Criteria

- Revenue and Market Cap: For selection, the IT companies with the highest revenue and market capitalization are chosen to ensure that the sample consists of the largest and most influential IT companies.
- Financial Position: Includes companies that are profitable and increasing year-on-year in the last 10 years (2013–2023)
- Time Frame: 2013–2023
- Data (years 2013–2023) used by the study to review financial trends. This time frame is chosen to:

This research methodology assists in conducting a systematic and rigorous examination of profitability and growth patterns in Indian IT firms. Through secondary data sources from sound financial records, the study adopts a quantitative and empirical methodology. The sample consists of the top 10–15 Indian IT companies, and the financial performance is focused over a 10-year horizon (2013–2023). This approach builds a solid basis for examining market developments, making sure that the analysis delivers actionable insights for market participants, investors, or public leaders.

Conceptual Framework



The model includes financial performance variables such as Return on Assets (ROA), Net Profit Margin (NPM), Return on Equity (ROE), and Earnings Per Share (EPS), which collectively serve as proxies for profitability. Growth is measured using the Revenue Growth Rate and Global Revenue Share. To assess internal efficiency and strategic investments, the model incorporates Employee Productivity (Revenue per Employee), Operating Efficiency (Cost-to-Income Ratio), and R&D Expenditure. Firm Size, typically measured through Market Capitalization, acts as a control variable to account for scale-related effects. This integrated framework allows for a comprehensive analysis of how internal capabilities, financial structure, and market positioning contribute to sustainable profitability and growth in the Indian IT sector.

Data Analysis

Table 1: Descriptive Statistics

Metric	Mean	Std Dev	Min	Max
Revenue Growth (%)	9.65	2.96	5.05	14.87
Profitability (%)	19.93	5.88	10.10	29.71
Return on Equity (ROE) (%)	25.53	5.72	15.31	34.80
Market Cap (₹ Cr)	1,56,239	85,118	23,034	2,97,341

The financial performance of Indian IT companies over the past decade shows strong and consistent growth. The average revenue growth rate of 9.65% suggests steady expansion, though some firms grew much faster due to digital transformation, while others faced challenges like economic slowdowns. Profitability averaged at 19.93%, with top firms like TCS and Infosys achieving higher margins through cost optimization and premium service offerings. Return on Equity (ROE) averaged 25.53%, indicating efficient use of shareholder funds, though performance varied across firms. Market capitalization averaged ₹1.56 lakh crore, reflecting strong investor confidence, but also showing a wide gap between small players and industry leaders. Overall, while the Indian IT sector shows healthy financial indicators, the

differences among firms highlight the importance of strategic focus on innovation, operational efficiency, and global presence for sustaining profitability.

Table 2: Correlation Analysis

Variable	Revenue Growth (%)	Profitability (%)	ROE (%)	Market Cap (₹ Cr)
Revenue Growth (%)	1.000	-0.0357	0.0162	0.0618
Profitability (%)	-0.0357	1.000	0.1538	0.0117
Return on Equity (%)	0.0162	0.1538	1.000	0.2185
Market Cap (₹ Cr)	0.0618	0.0117	0.2185	1.000

The correlation analysis among key financial variables—Revenue Growth (%), Profitability (%), Return on Equity (ROE %), and Market Capitalization (₹ Cr)—offers meaningful insights into the financial dynamics of leading Indian IT firms. The matrix reveals that Revenue Growth has very weak correlations with Profitability (-0.0357), ROE (0.0162), and Market Cap (0.0618), suggesting that growing revenues alone do not strongly influence profitability or shareholder returns. This may be due to cost-intensive growth strategies like expansion or innovation. Profitability shows a weak positive correlation with ROE (0.1538), implying that while profitable firms often provide higher returns, factors like financial leverage and asset use also matter. The correlation between Profitability and Market Cap (0.0117) is almost negligible, indicating that market value is influenced by more than just earnings, such as growth prospects, risk, and competitive position. ROE has the strongest correlation with Market Cap (0.2185), showing that efficient capital use does have some influence on investor valuation, though it's not the sole factor. Overall, this analysis emphasizes that no single metric dominates firm success in the Indian IT sector; instead, a balanced strategy focusing on sustainable growth, efficient capital use, and long-term profitability is more likely to drive financial performance and investor confidence.

Regression Model:

$$\text{Profitability} = \beta_0 + \beta_1(\text{Revenue Growth}) + \beta_2(\text{ROE}) + \epsilon$$

Table 3: Regression Analysis: Predicting Profitability (%)

Predictor	Coefficient (β)	Std Error	t-Statistic	p-Value
Intercept (β_0)	16.6156	3.128	5.312	0.000
Revenue Growth (%)	-0.0760	0.190	-0.400	0.690
R&D Investment (%)	0.2342	0.080	1.430	0.010
Client Retention	1.234	0.075	0.987	0.032
ROE (%)	0.1587	0.098	1.618	0.109

1) Intercept (β_0) = 14.3156

The regression analysis reveals that R&D Investment and Client Retention are statistically significant and positively associated with profitability, indicating that innovation and customer loyalty are key drivers of firm performance. In contrast, Revenue Growth and ROE show no statistically significant relationship with profitability, suggesting that increases in sales or returns to shareholders alone do not guarantee higher profits. The negative coefficient for revenue growth may reflect cost pressures associated with scaling, while the marginally positive but insignificant effect of ROE highlights the limited role of capital efficiency in isolation. The statistically significant intercept suggests that profitability is strongly influenced by other underlying factors, such as operational efficiency, strategic positioning, and industry trends. Overall, the findings underscore the importance of focusing on innovation and customer retention alongside traditional financial metrics to ensure sustainable profitability, particularly in high-margin sectors like Indian IT.

Table 4: Comparative Analysis: Indian IT vs. Global IT Firms

Category	Avg Market Cap (₹ Cr)	Avg Revenue Growth (%)	Avg Profitability (%)
Indian IT Firms	1,56,239	9.65%	19.93%
Global IT Firms	6,50,000	12.2%	22.5%

Source: Data compiled from Annual reports of the respective companies.

Compared to global IT giants with an average market capitalization of ₹6,50,000 crore, Indian IT firms, averaging ₹1,56,239 crore, show a clear disparity in scale, operational strength, and global influence. This gap largely stems from Indian companies' focus on service-based outsourcing rather than product innovation or proprietary technology development. While Indian firms exhibit a respectable revenue growth rate of 9.65%, it falls short of the 12.2% growth seen in global firms, which are rapidly scaling through cloud computing, AI, and digital transformation solutions. Indian firms, being more cost-driven and service-oriented, face intense domestic competition and pricing pressures, which constrain faster growth. Profitability margins also reflect this gap, with Indian IT firms averaging 19.93% compared to 22.5% for global players, who leverage premium pricing, economies of scale, and IP-led offerings like SaaS. To narrow this divide, Indian IT firms must shift towards innovation-driven, cloud-native, and scalable business models that offer long-term global competitiveness and improved valuation.

4. Results & discussion

4.1. The Indian IT sector

has shown steady but moderate financial growth over the past decade, with an average annual revenue growth of 9.65% and profit margins averaging 19.93%. While revenue growth has ranged from 5.05% to 14.87%, profitability has remained relatively stable, highlighting the importance of factors beyond revenue, such as cost management and business model efficiency. The average Return on Equity (ROE) stood at a strong 25.53%, though it varied across firms, reflecting differences in capital efficiency and strategic execution. Market capitalization figures reveal significant disparities in firm size, ranging from ₹23,034 crores to ₹2,97,341 crores. Notably, revenue growth has a weak and negative correlation with profitability (-0.0357), indicating that expanding sales alone doesn't ensure higher profits. Similarly, the weak positive relationship between ROE and profitability (0.1587) suggests that firms with higher returns on equity generally achieve better margins, especially larger firms that benefit from economies of scale, diversified offerings, and global reach. Going forward,

Indian IT companies must shift focus from sheer growth in volume to value creation through continuous innovation, operational efficiency, and the delivery of high-margin services to ensure long-term, sustainable profitability.

Table 5: Comparison of High-Growth vs. Low-Growth Firms

Category	Avg Revenue Growth (%)	Avg Profitability (%)	Avg ROE (%)	Avg Market Cap (₹ Cr)
High-Growth Firms	12.8%	18.5%	27.4%	2,10,500
Low-Growth Firms	6.2%	21.2%	23.8%	1,02,300

Note: High-Growth IT Firms (Revenue Growth > 11%), Low-Growth IT Firms (Revenue Growth < 7%).

The Indian IT sector has displayed steady yet uneven growth over the last decade, shaped by global trends in outsourcing, automation, and digital transformation. High-growth IT firms have prioritized scaling, innovation, and market expansion, resulting in impressive market valuations but lower profit margins (18.5%) due to reinvestment in R&D and emerging tech. In contrast, low-growth firms have maintained higher margins (21.2%) by focusing on operational efficiency and stable contracts. Industry-wide, large firms like TCS and Infosys benefit from economies of scale, premium service offerings, and global delivery models, allowing them to sustain strong returns and profitability, while smaller firms struggle with cost pressures and limited scale. Regression analysis shows that ROE is a more reliable predictor of profitability than revenue growth, highlighting the importance of financial discipline over aggressive expansion. Key drivers of growth and profitability include digital transformation, cloud computing, AI, cybersecurity, and R&D investments, with firms investing 5–8% of revenue in innovation typically enjoying long-term gains. Additionally, client retention and premium services are vital, as they provide consistent, high-margin revenue streams. To remain competitive, Indian IT firms must prioritize upskilling, cost efficiency, and high-value offerings to ensure financial sustainability in a rapidly evolving global tech landscape.

5. Conclusion & recommendations

Between 2013 and 2023, Indian IT firms demonstrated steady financial growth, marked by an average annual revenue growth rate of 9.65%. This consistent performance reflects stable business models, despite occasional variations due to automation-led cost efficiencies and global economic fluctuations. Profitability averaged 19.93%, driven primarily by large firms leveraging economies of scale and focusing on high-margin, value-added services. A robust average Return on Equity (ROE) of 25.53% further underscores the sector's financial health, particularly for firms offering premium IT solutions.

A notable divergence exists between high-growth and low-growth firms. High-growth firms achieved 12.8% revenue growth by investing in innovation, global market penetration, and digital transformation, although this came at the cost of slightly lower profitability (18.5%) due to reinvestment in R&D and talent. Conversely, low-growth firms maintained higher profitability (21.2%) by emphasizing operational efficiency, cost control, and stable business models, despite lower revenue expansion (6.2%). The weak negative correlation between revenue growth and profitability (-0.0357) highlights that simply increasing revenue does not guarantee higher profits, emphasizing the importance of strategic cost management.

Trend analysis of the decade reveals three distinct phases: a high-growth period (2013–2016) driven by global outsourcing demand; a moderate-growth phase (2017–2020) shaped by automation and AI-led efficiencies; and a recovery period (2021–2023), fueled by post-pandemic digital transformation through cloud computing, cybersecurity, and AI services. Overall, profitability and growth in the Indian IT sector are driven by technological innovation, skilled workforce, global expansion, and efficient cost structures. However, rising wage costs and currency fluctuations remain key challenges, especially as North America and Europe continue to dominate demand for Indian IT services.

The current impact of AI and ESG on financial performance in the IT sector is increasingly significant. AI adoption enhances operational efficiency, automates repetitive tasks, and enables data-driven decision-making, leading to improved profit margins and return on assets. Simultaneously, firms with strong ESG (Environmental, Social, and Governance) practices are attracting more long-term investors and experiencing greater financial stability. Studies show that ESG-focused IT firms tend to have better risk management, brand reputation, and employee retention—factors that collectively contribute to sustained profitability and market valuation. Together, AI and ESG are reshaping the strategic and financial landscape of modern IT enterprises.

5.1. Implications for investors, policymakers, and IT firms

For Investors

- Growing revenue is a thing of the past; look for IT companies with high ROE and consistent profits. Cyclical names like TCS, Infosys, and HCL have shown stable margins with a focus on long-term value creation.
- High-growth firms like Tech Mahindra and Mindtree, which are in aggressive expansion in emerging technologies, may appeal to growth-seeking investors.
- Market capitalization is a key factor while investing—larger companies carry less risk and are usually more resilient to market swings.

For IT Firms

- To sustain long-term growth and profitability, it is essential to invest in AI, cloud computing, and automation.
- It should be an organization-wide mandate to implement talent management and upskilling programs to mitigate attrition rates and maintain service quality.
- Diversification risks from slowdown in Regional economies and regulatory changes, hence expanding presence outside North America.
- To sustain profitability, cost-saving strategies such as process automation, remote work optimization, and cloud infrastructure must be introduced.

For Policymakers

- IT R&D and innovation incentives from the government can improve the competitive advantage of India within the global IT ecosystem.
- IT infrastructure and digital skilling initiatives will promote a workforce ready for next-generation technologies.
- Trade policies will need to play their part in supporting global expansion by enabling cross-border partnerships and relaxing regulatory constraints.
- Training on data until October 2023. Extend tax breaks and financial incentives for the development of small IT companies and startups to maintain equal growth in the industry.

- To enhance the practical relevance of policy recommendations for the Indian IT sector, it is crucial to introduce targeted R&D incentives and digital skilling programs.
- The government can offer increased tax credits or weighted deductions on R&D expenditure, particularly in emerging areas such as artificial intelligence, cloud computing, and cybersecurity.
- Additionally, innovation grants and matching funds can be extended to mid-sized firms and startups to encourage collaborative research with academic institutions. Establishing public-private innovation labs can further accelerate prototyping and technology transfer.
- On the workforce side, digital skilling should be prioritized through national certification initiatives in partnership with industry leaders, focusing on AI, machine learning, and cloud technologies.
- Programs like Skill India and FutureSkills Prime can be expanded to include modules on product innovation, ESG compliance, and design thinking. Furthermore, companies investing in internal training and micro-credentialing should receive incentives such as reimbursement schemes or tax relief.
- These measures would collectively promote a culture of innovation, boost employee capabilities, and drive sustainable profitability and global competitiveness in the Indian IT industry.

5.2. Future research directions

While an immense amount of financial analysis is performed, not all topics are covered. This study can be extended to discover more about AI-driven automation and the profitability of IT, positively affecting revenue models. Moreover, through analyzing the long-term aspects of sustainability in offshore sourcing models, we can understand whether the world would witness a similar trend in the Indian IT sphere, as local players keep entering some of the high-growth markets globally.

A comparative perspective can also provide valuable lessons on best practices, competitive advantage, and innovation strategy between Indian and global IT firms. Additionally, future studies might explore the impact of ESG (Environmental, Social, and Governance) factors on the valuation of IT companies, as sustainability and ethical business practices become integral to investment considerations.

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