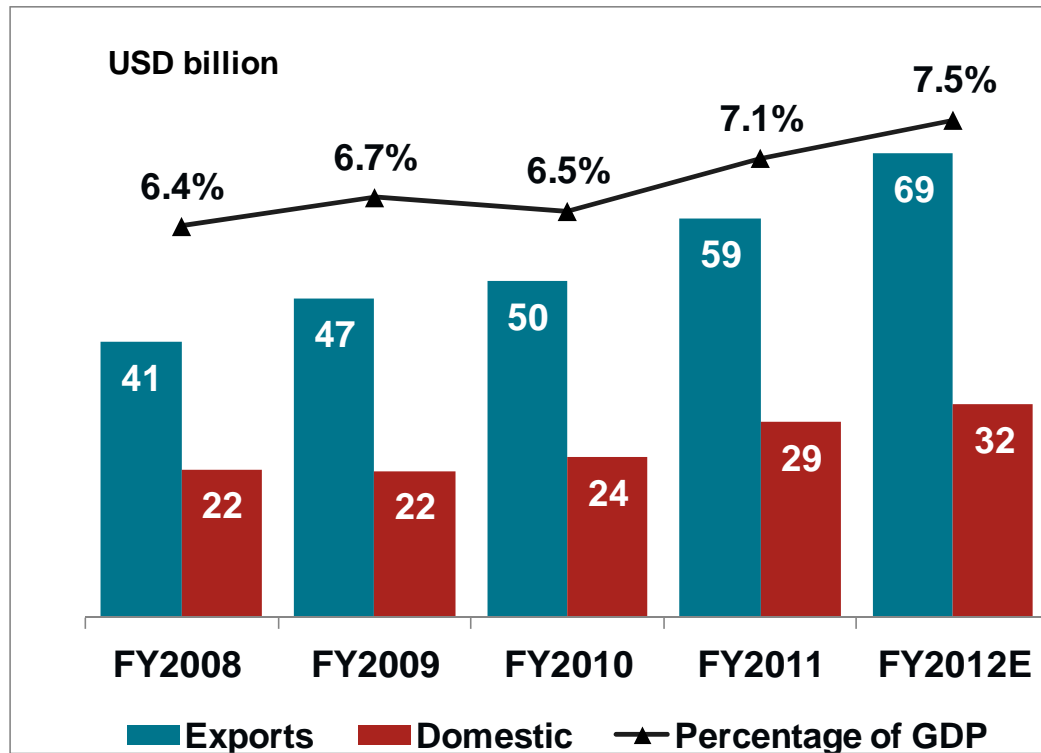


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# The evolution of the IT industry in India – opportunities for ASIA

Srinath Batni

# Indian IT-BPO industry revenue crosses USD 100 billion



## IT-BPO revenue aggregate<sup>1</sup>

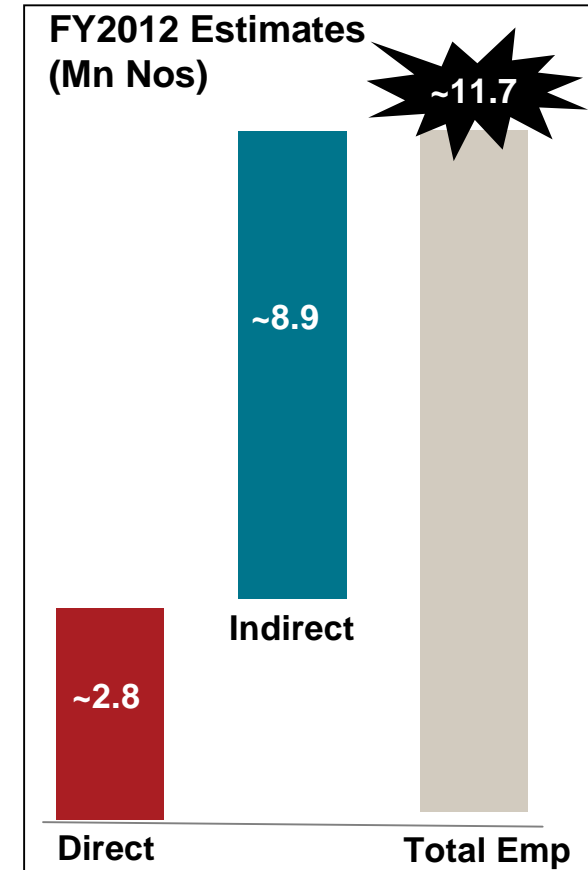
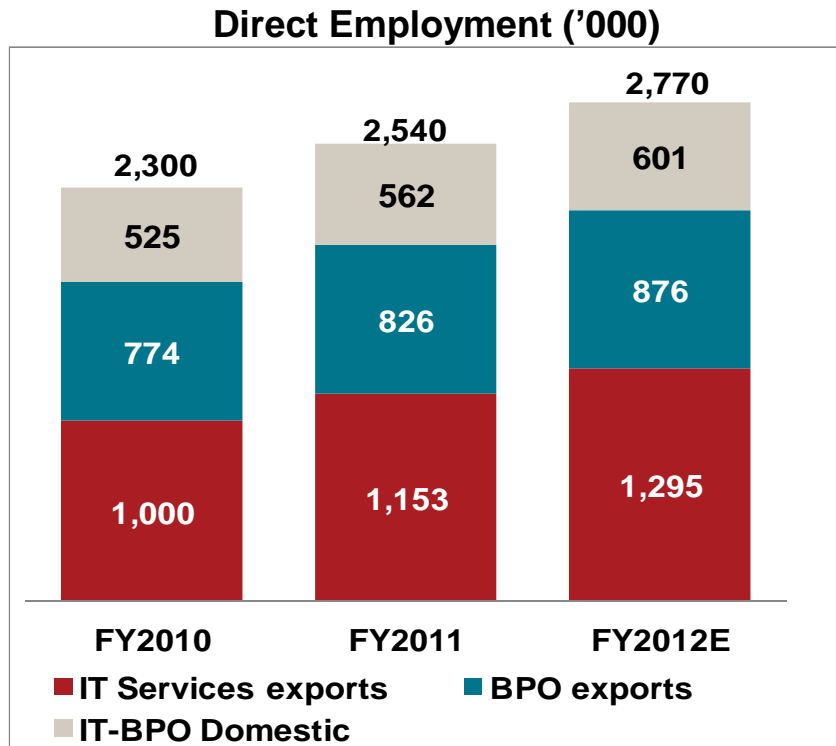
- Total revenue: ~USD 101 billion
- Relative to India's GDP: ~7.5 per cent
- Relative to merchandise exports: ~25%
- Value add: 60-70 per cent
- Exports CAGR: 17 per cent for last 5 years
- Domestic CAGR in USD: ~10 per cent – reflects impact of variable rupee

Note: 1) Exports (IT services, software products, OSPD, ER&D, BPO, hardware); Domestic (Hardware, IT services (incl. ER&D), S/W products, BPO)

E: Estimate

Source: World Bank, NASSCOM

# The industry to provide employment to about 12mn people in FY2012

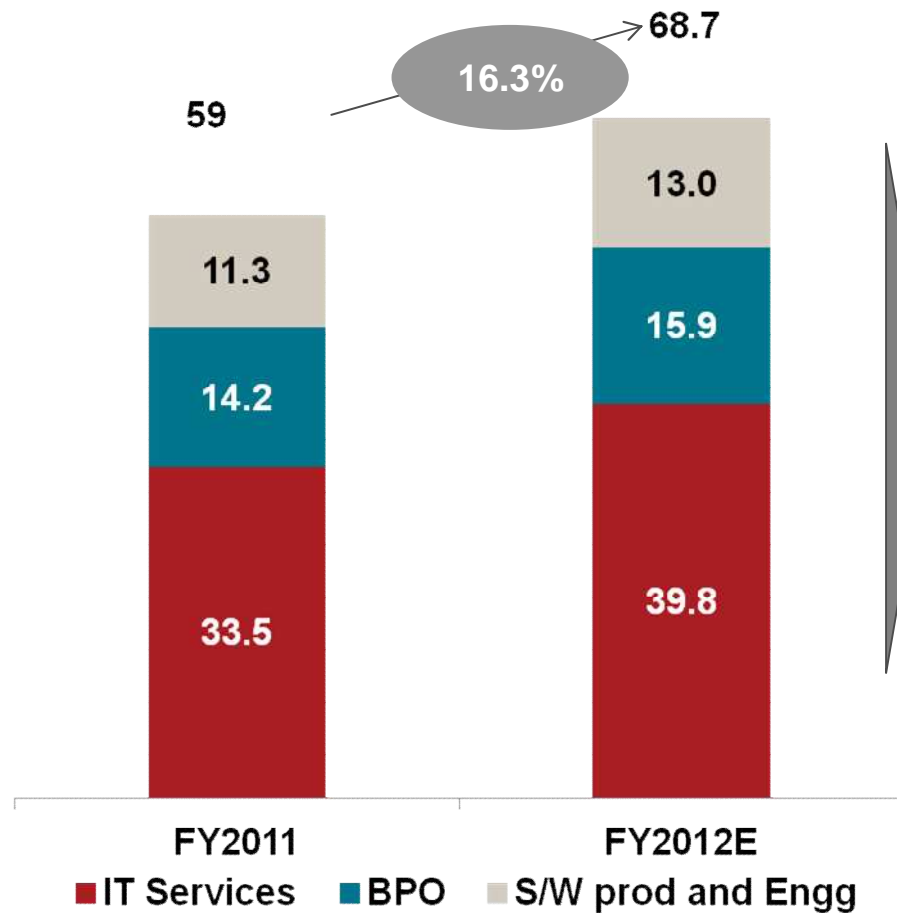


- IT-BPO industry expected to employ around 2.8 million professionals (growth rate of 9 per cent) in FY 2012
- IT service exports remains the largest employer, with around 47 per cent share of total direct employment

\*Excluding Hardware  
Source: NASSCOM

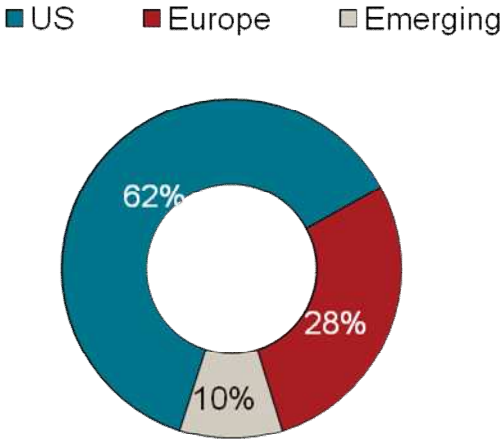
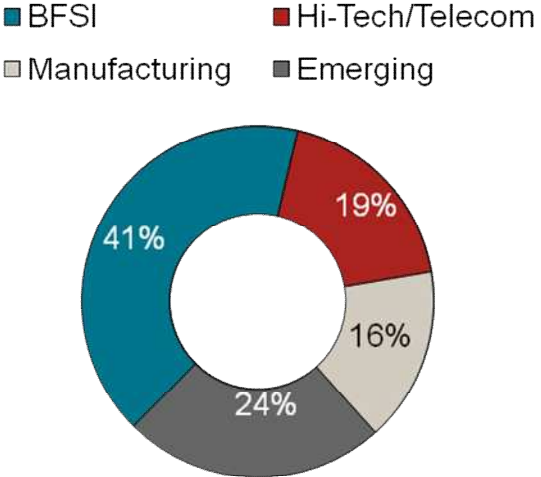
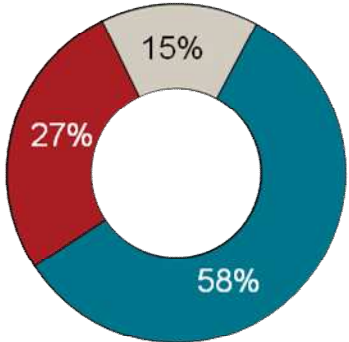
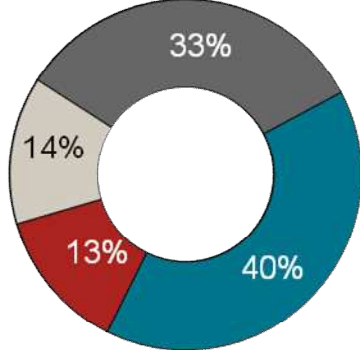
# Indian IT-BPO exports continues on the growth path in FY2012

IT-BPO Export revenues\*  
(USD billion)



- India's share in global sourcing - 58 per cent in 2011, up from 55 per cent in 2010
- IT services exhibiting fastest growth at 19 per cent, BPO growing by 12.2 per cent, and Software Products & ER&D by 15 per cent
- Transformation, new business models, driving organisation wide efficiencies
- Services around disruptive technologies- cloud, mobility, analytics, social media
- Flexible product portfolios, verticalised solutions

# Increasing focus on diversifying into new geographies and verticals

<p><b>Industry Growth in emerging geographies and verticals ~1.4X more than mature segments</b></p>	<p><b>Industry Geographic break-up, FY2012</b></p>  <p>■ US ■ Europe ■ Emerging</p>	<p><b>Industry Vertical break-up, FY2012</b></p>  <p>■ BFSI ■ Hi-Tech/Telecom ■ Manufacturing ■ Emerging</p>
<p><b>Revenue breakup of top 10 Indian companies demonstrates this</b></p>	<p><b>Geographic break-up, Q2FY2012 (top 10 companies)</b></p>  <p>■ US ■ Europe ■ RoW</p>	<p><b>Vertical break-up, Q2FY2012 (top 10 companies)</b></p>  <p>■ BFSI ■ Hi-Tech/Telecom ■ Manufacturing ■ Emerging</p>

Source: NASSCOM

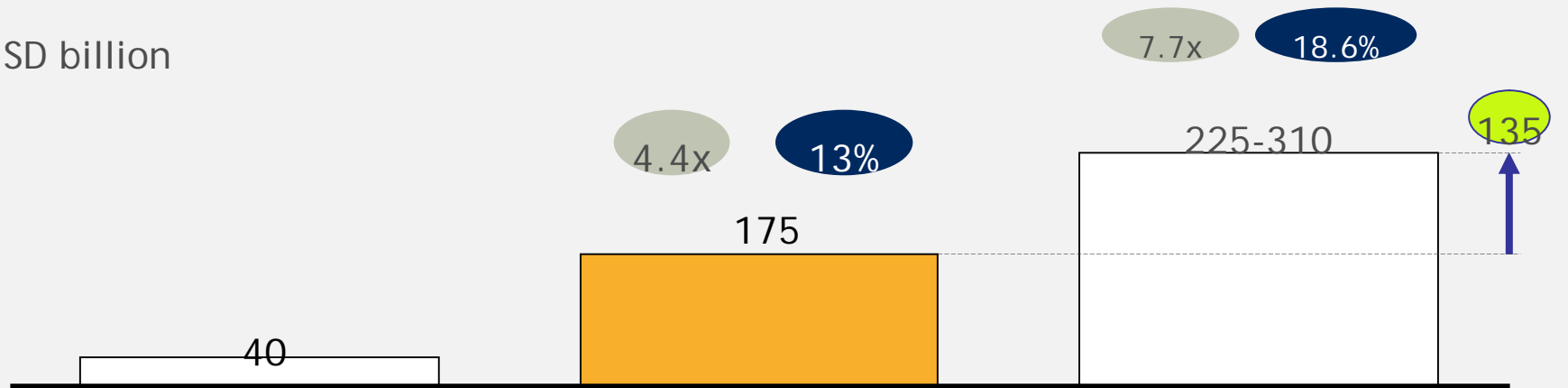
# Creating an industry with rapidly evolving capabilities, in sync with customers

<p><b>Indian MNC- global talent, international footprint</b></p>	<p>Presence in 70+ countries through onsite, nearshore model, 3-4 per cent foreign employees</p>	<p><b>Number of global centers</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Number of global centers</th> </tr> </thead> <tbody> <tr> <td>FY2009</td> <td>460</td> </tr> <tr> <td>FY2011</td> <td>560</td> </tr> </tbody> </table>	Year	Number of global centers	FY2009	460	FY2011	560
Year	Number of global centers							
FY2009	460							
FY2011	560							
<p><b>Growth from new markets</b></p>	<p>Industry able to expand to new geographies and verticals and customer segments</p>	<p><b>SMBs as a % of total revenues</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>SMBs as a % of total revenues</th> </tr> </thead> <tbody> <tr> <td>FY2009</td> <td>10%</td> </tr> <tr> <td>FY2012E</td> <td>12%</td> </tr> </tbody> </table>	Year	SMBs as a % of total revenues	FY2009	10%	FY2012E	12%
Year	SMBs as a % of total revenues							
FY2009	10%							
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<p><b>Collaborative Customer relationship</b></p>	<p>Enhanced client relations -vendor to partnerships, augmented sales teams</p>	<p><b>YoY growth of sales personnel</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>YoY growth of sales personnel</th> </tr> </thead> <tbody> <tr> <td>FY2009</td> <td>11%</td> </tr> <tr> <td>FY2012E</td> <td>16%</td> </tr> </tbody> </table>	Year	YoY growth of sales personnel	FY2009	11%	FY2012E	16%
Year	YoY growth of sales personnel							
FY2009	11%							
FY2012E	16%							
<p><b>Partnerships, Alliances and M&amp;A</b></p>	<p>Continued focus on enhancing capability through M&amp;A, global partnerships and alliances</p>	<p><b>M&amp;A deal value, USD billion</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>M&amp;A deal value, USD billion</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>1.4</td> </tr> <tr> <td>2011</td> <td>4.5</td> </tr> </tbody> </table>	Year	M&A deal value, USD billion	2009	1.4	2011	4.5
Year	M&A deal value, USD billion							
2009	1.4							
2011	4.5							
<p><b>Changing GIC model</b></p>	<p>GIC model rapidly evolving towards high end services and management roles</p>	<p><b>Captive centers opened in India</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Captive centers opened in India</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>12</td> </tr> <tr> <td>2011</td> <td>22</td> </tr> </tbody> </table>	Year	Captive centers opened in India	2010	12	2011	22
Year	Captive centers opened in India							
2010	12							
2011	22							

# Industry's potential in the future

## India's technology and business services export market in 2020 - scenarios\*

USD billion



FY 2008

FY 2020-Current Initiatives

FY 2020-Focused Initiatives and Innovation - driven growth

- Likely scenario
- Growth multiple
- CAGR

- Slow pace of reforms in education (talent pool of 10 million)
- Limited development of Tier II, III cities
- Continued trust as a sourcing hub
- Continued government support
- Limited lash back from protectionism

- Expedited reforms in tertiary education
- 10-15 Tier II cities with world class infrastructure
- Adoption of new business models by the industry
- India among the top 3 innovation hubs of the world
- Talent pool of 13.5 million

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# Impact of the industry on the Indian economy



# Lasting, Sustainable and Phenomenal contribution over the last decade

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**Multi-fold  
impact on the  
Indian  
Economy**

**Contributing to India's economy**

**Driving Balanced Regional Development**

**Empowering the diverse human assets**

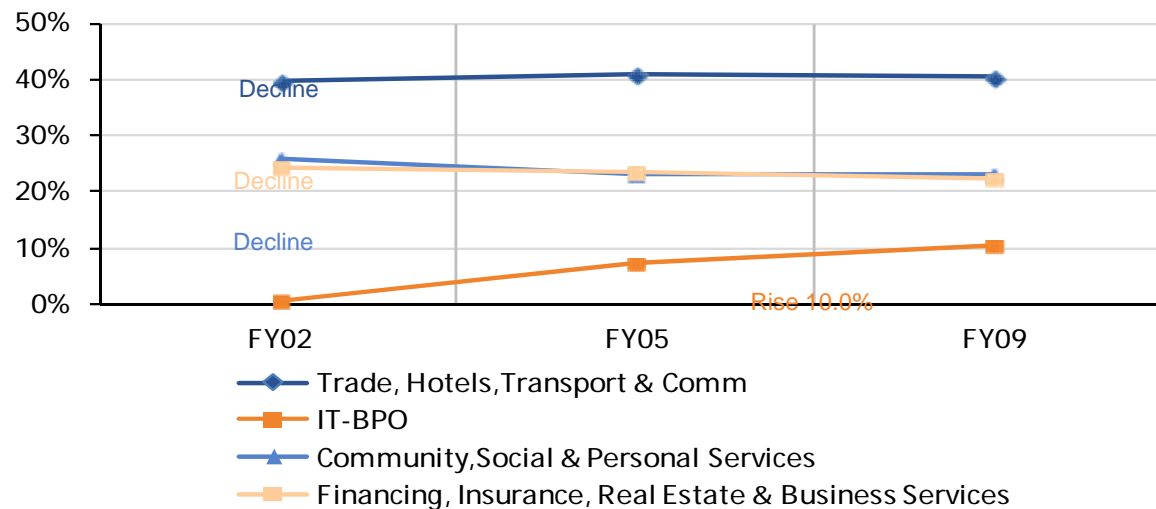
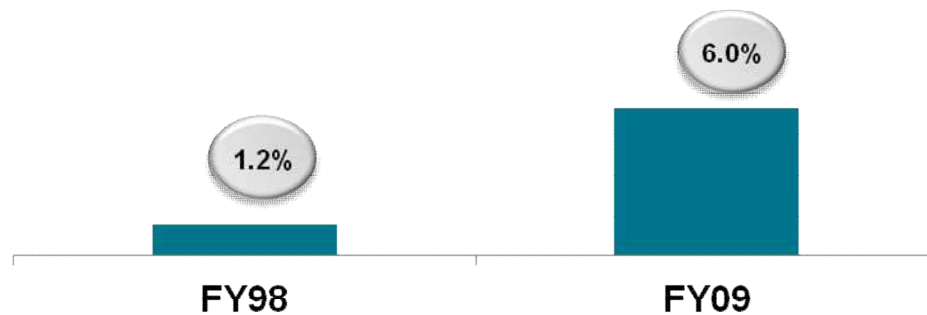
**Creating Innovation Platform**

**Putting India on the Global map**

**Socially responsible and inclusive**

# Catalysing India's transformation to a services-based economy

**Indian IT-BPO Industry's contribution to GDP**

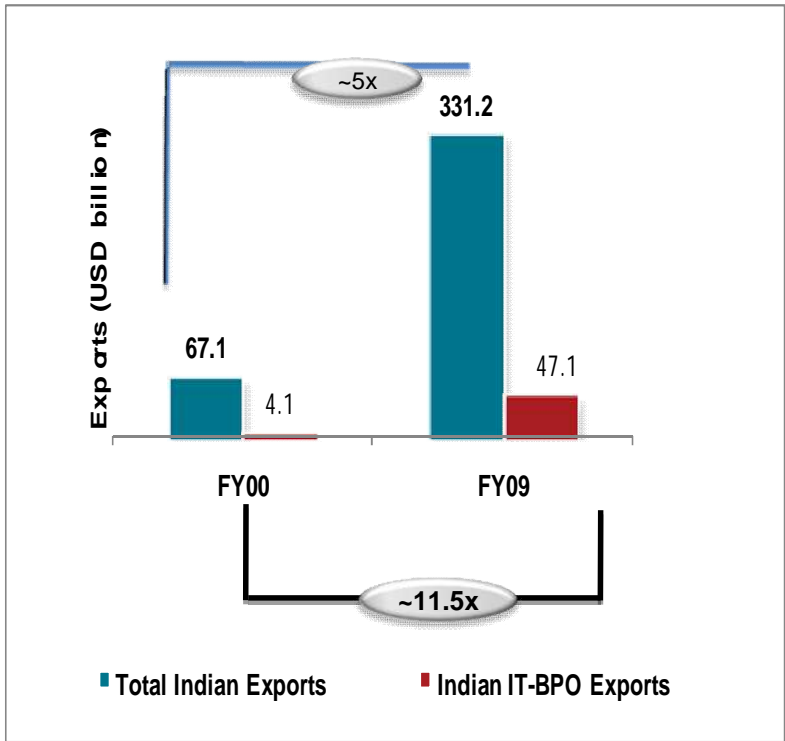


- **Contributes to 10% of India's service sector revenues**
- **Unique "service led" export oriented model**
- **Contributing 9% of India's incremental GDP**
- **Per capita GDP contribution of IT-BPO employees ~ 80 times that of agriculture**

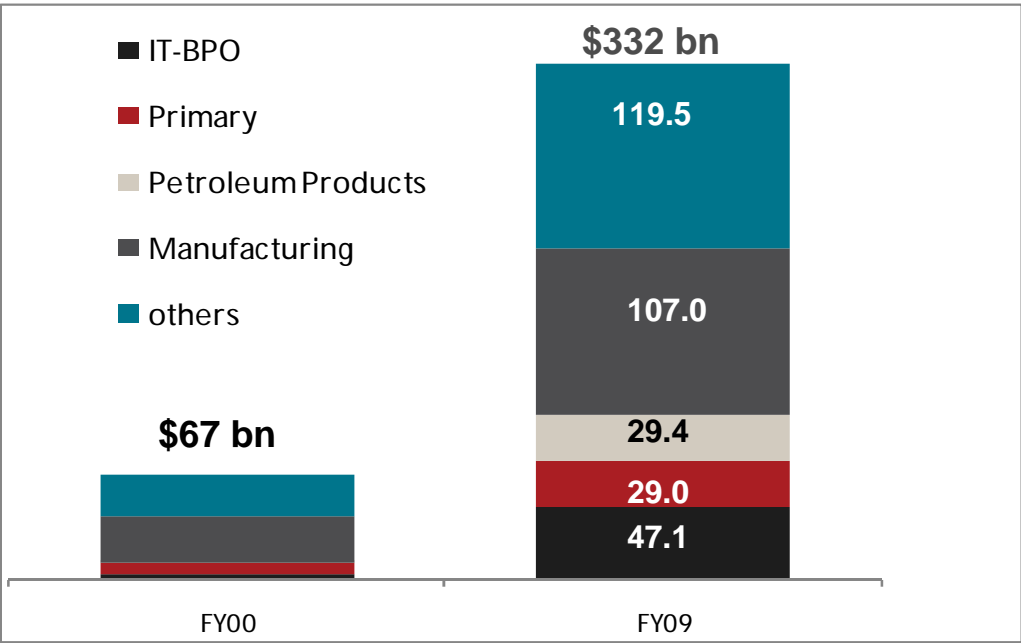
- **By 2020, expected to account for**  
 –~10% of India's GDP  
 –14% of total services sector revenues

# Contributes 14% to India's total exports

**Grown twice as fast as the total Indian exports over the past decade\***



**Modified India's export mix from traditional commodities to services**

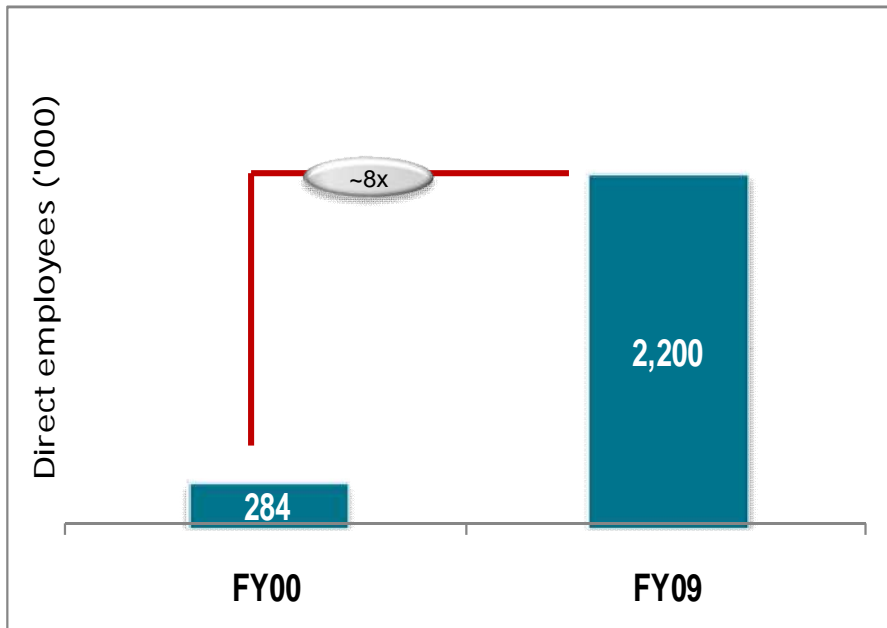


**Expected to account for 18-20% of total India's exports in 2020**

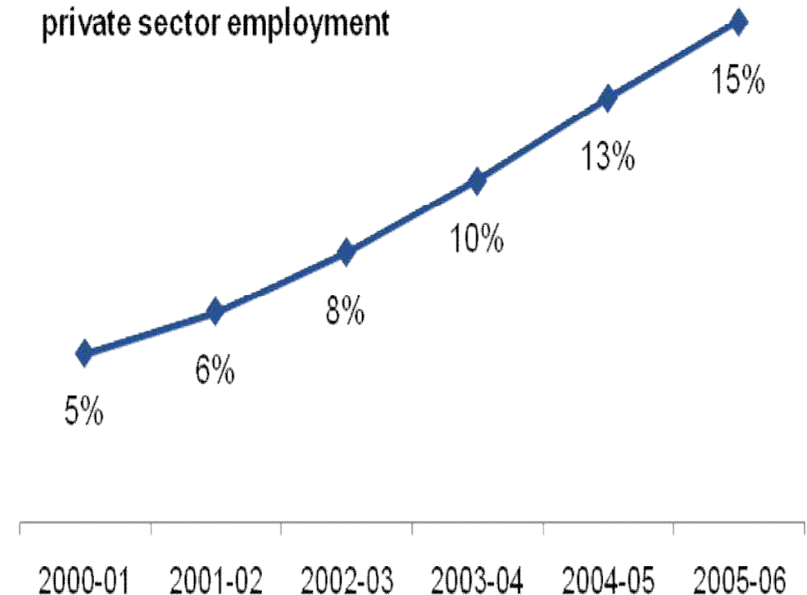
\*Includes invisibles, Primary – includes agriculture and mining

# 8X increase in direct employment; 3X increase in the share of organized private sector

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Contribution of IT-BPO industry to organised private sector employment



- Direct employment of 2.7 million; Indirect employment ~8 million
- 45% of total incremental urban employment in the last decade

**By 2020 - Direct employment of 10 million; Indirect employment of 20 million**

# Employment opportunities for diverse sections of the society

## Employment beyond Urban areas

- ~58% of the IT-BPO workforce is from tier 2/3 cities
- ~ 56% employees are chief bread earners

## Bridging the gender divide

- ~31% women employees in FY09; account for 45% of new intake
- ~26% of the female employees are chief wage earners
- ~20% of the female employees are at managerial level or above

## Empowering the youth

- ~74% of employees are less than 30 years old;
- ~35% are less than 25 years of age

## Livelihood for Economically backward

- ~5% of the IT-BPO workforce from economically backward sections

## Employing the Differently abled

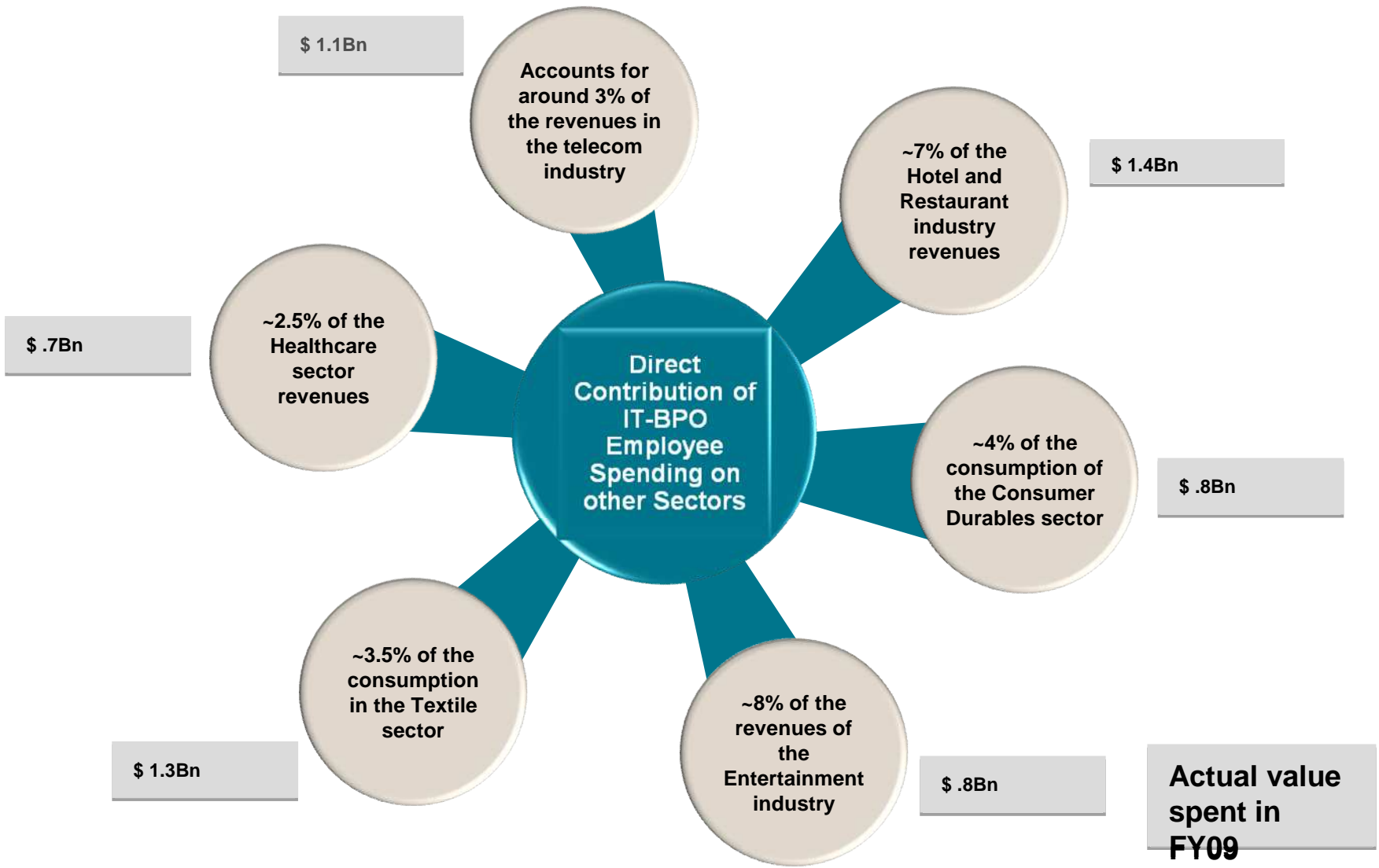
- ~60% of companies provide employment to differently abled people

- Changing aspirations of India's youth
- Created high paying jobs
- Setting new standards of work environment
- Emerging as a "Skill Factory"

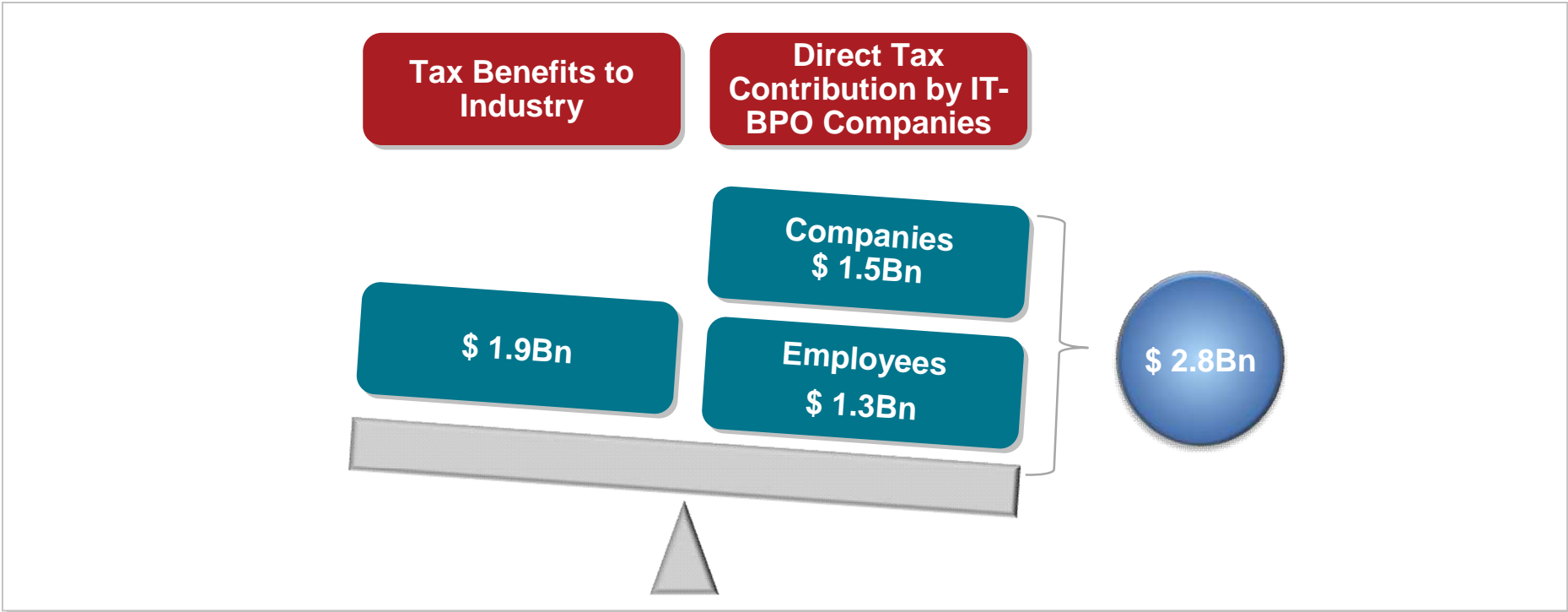
**By 2020**

- 5 mn women employees
- 4 mn direct employees from tier 2/3 locations

# Significant downstream impact - employees spent ~\$14.5Bn



# Fuelling India's Growth - ~ \$2.8Bn direct taxes paid in FY09



**By 2020: Direct tax contribution of companies ~ \$ 7.2Bn; Direct tax contribution of employees ~ \$25.6Bn**

## Started to impact the rural areas

**Rationale: Domestic market; local language; untapped talent; lower attrition**

Creating Employment and infrastructure	Creating Wealth and Improving Living Standards	Career and Personal Development	Empowering Women
<ul style="list-style-type: none"> <li>• &gt; 5,000 directly employed at about 35 rural BPO centers</li> <li>• Direct: Indirect employment ratio 1:1.4</li> <li>• Development of infrastructure, internet connectivity</li> </ul>	<ul style="list-style-type: none"> <li>• Infusing ~INR 25 million per month into rural communities</li> <li>• Rural BPO employee earns ~ INR 5000 every month</li> </ul>	<ul style="list-style-type: none"> <li>• Training in language, technical and soft skills</li> <li>• Better standard of living</li> <li>• Job security</li> </ul>	<ul style="list-style-type: none"> <li>• Majority is women workforce - 66% of the workforce;</li> <li>• Existence of all-women BPOs</li> </ul>

**By 2020, 200K jobs to be created in rural areas**



# Spearheaded India's thrust on innovation – 30X increase in patents

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## Focusing on R&D and Boosting Innovation

### Growing R&D spend

- Average R&D spend 0.5–1% of revenues; 2.5-5% of profits

### Strengthening role in IP creation

- Patents in the Computer/Electronics segment increased 30X over 2005–09

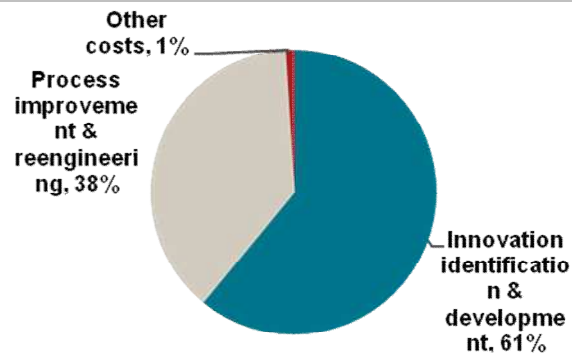
### Developing software products

- Software products revenues more than tripled over FY06–09

### Attracting global technology players

- Number of offshore development centers (ODCs) in 2009 is 3x-4x of ODCs in 2006

### Breakdown of R&D costs



Innovation driving additional GDP contribution of ~2% by 2020

Key initiatives driving innovation include setting up R&D centers, conducting trainings, events and workshops around innovation, and collaborating with academic institutions

## Socially responsible corporations



**Driven by companies, employees and personal philanthropy**

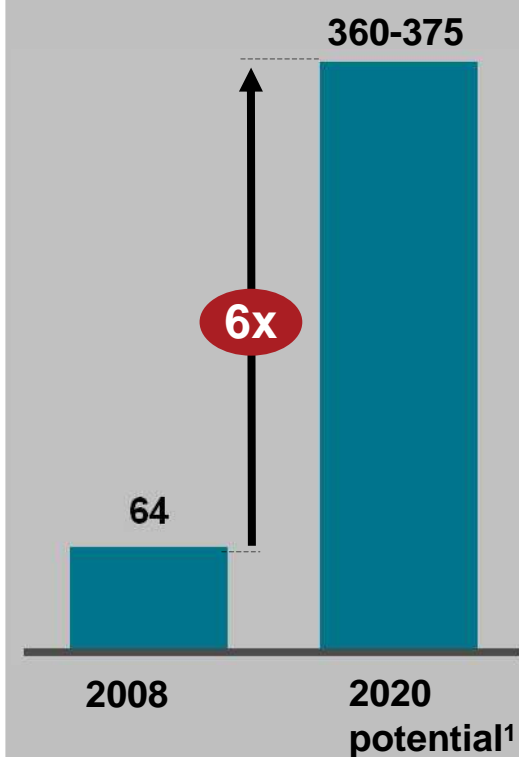
- Improved access to and delivery of services in healthcare, education and banking.
- Bridging the technological divide by developing products and services for rural and disadvantaged sections
- E-governance solutions

- In FY09, contributed over INR 230 crores towards CSR activities.
- ~63% of the companies proactively undertake CSR activities
  - ~50% companies focusing their CSR initiatives toward education
  - ~30% companies focusing on environment
  - ~28% companies focusing at increasing health awareness

# By 2020, this industry can become a strategic growth engine for India

## IT/BPO industry size

US\$ billion

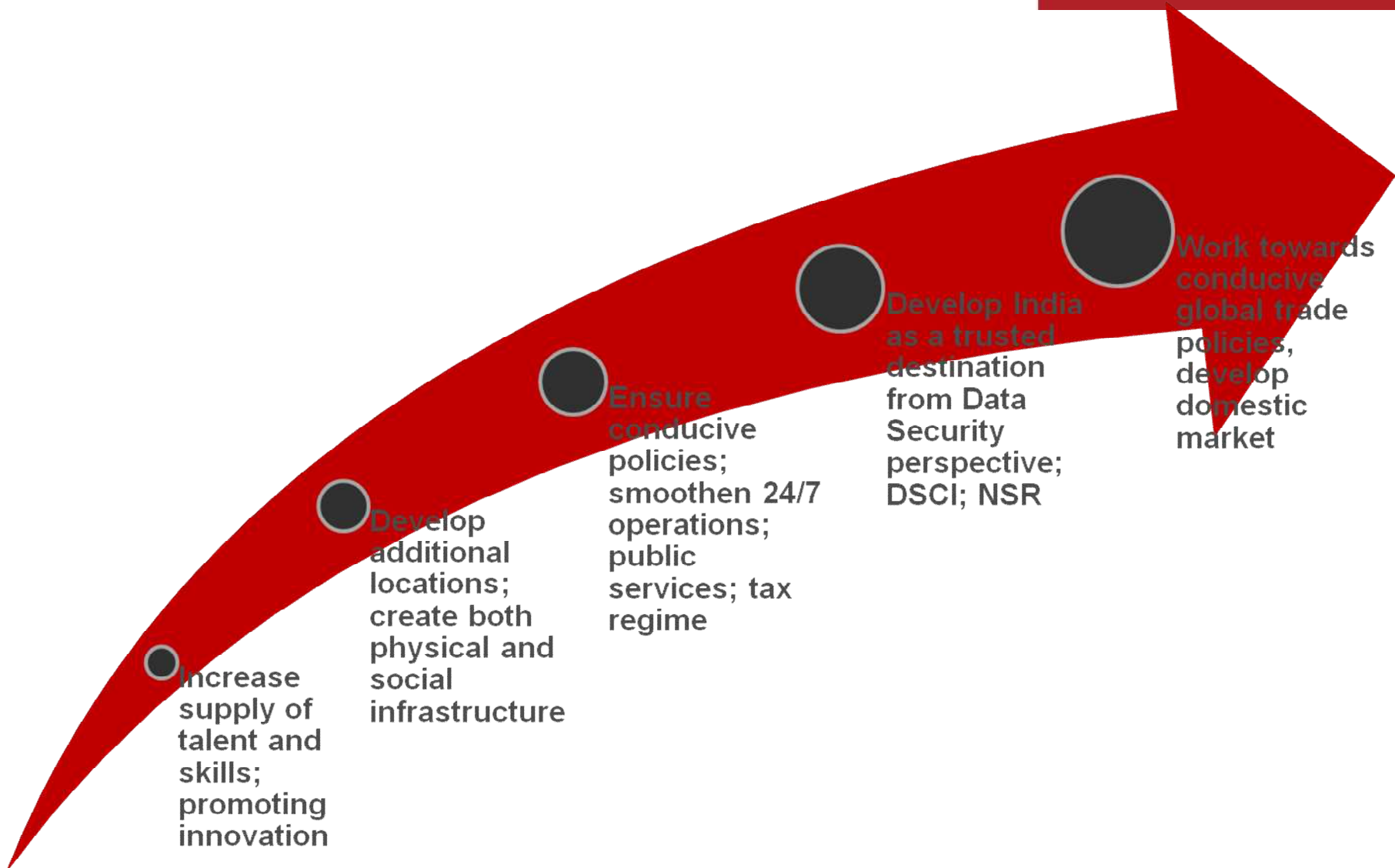


Areas	Contribution by 2020
<b>Economy</b>	<ul style="list-style-type: none"> <li>~10% of annual GDP</li> <li>18-20% of annual exports</li> </ul>
<b>Employment</b>	<ul style="list-style-type: none"> <li>30 million employment opportunities (direct and indirect)</li> <li>Job creation in rural and non-metro areas - 20-fold increase in the number of employees operating from tier 2/3 locations</li> <li>Increased diversity (women are 50% of the total workforce)</li> <li>Significant global career opportunities due to location-independent models</li> </ul>
<b>Balanced Regional Growth</b>	<ul style="list-style-type: none"> <li>8-10 satellite townships around Tier-I cities</li> <li>10-15 Tier-II cities with upgraded basic and business infrastructure</li> </ul>
<b>Reduced fiscal burden</b>	<ul style="list-style-type: none"> <li>ICT can provide solutions at a fraction of the cost of traditional solutions</li> </ul>
<b>Globally reputed innovative solutions</b>	<ul style="list-style-type: none"> <li>Innovation driving additional GDP contribution of ~2%</li> </ul>

<sup>1</sup>Innovation driven growth scenario

# NASSCOM agenda going forward

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# Comprehensive Plan for making India's large talent base "employable"

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## Objectives

## Initiatives

### Short Term

- Enhance overall yield
- Improve employability
- Expand to tier 2 locations
- Lower skill dependence

- Industry to enhance investments in training
- Entry-level assessment for BPO and IT, finishing schools : Through NAC, NAC-Tech
- New locations identified; govt's engaged

### Medium Term

- Lower training investment
- Enhance specialist and project management expertise

- Faculty Development Program: to increase the suitability of teachers
- Facilitating industry access to specialist programs offered by independent agencies

### Long Term

- Add education capacity
- Promote education reform

- Expansion of higher-education infrastructure: government to set-up 20 new IITs
- Program to increase PhDs in technology
- NASSCOM VC fund focused on technology innovation

Recognizing this imperative, the industry is proactively working on several initiatives to strengthen India's long-term cost advantage

	Objectives	Initiatives/Impact
<b>Standards</b>	<ul style="list-style-type: none"><li>• Compliance with global standards e.g., ISO 27001, CoBIT</li><li>• Contractual safeguards, robust BCP/DR planning</li></ul>	<ul style="list-style-type: none"><li>• Maximum ISO 27001 certifications obtained globally</li><li>• Data Security Council formed</li></ul>
<b>Network security</b>	<ul style="list-style-type: none"><li>• Secure design, documentation &amp; implementation of network e.g., firewall, antivirus encryption</li></ul>	<ul style="list-style-type: none"><li>• Documented security policies covering use of information, mobile computing, user access</li></ul>
<b>Physical security</b>	<ul style="list-style-type: none"><li>• Isolation of sensitive areas</li><li>• Access control systems e.g., CCTV surveillance, security guards</li></ul>	<ul style="list-style-type: none"><li>• Robust and uniform best practices</li></ul>
<b>Personnel security</b>	<ul style="list-style-type: none"><li>• Background checks</li><li>• Non-disclosure agreements</li></ul>	<ul style="list-style-type: none"><li>• National Skills registry (NSR) to facilitate personnel background checks</li><li>• Cyber security training and awareness</li></ul>
<b>Laws</b>	<ul style="list-style-type: none"><li>• Compliance with international laws</li><li>• Strengthening of Indian legal system</li></ul>	<ul style="list-style-type: none"><li>• Amendments to strengthen the IT Act 2000 and Indian Penal Code being enacted</li></ul>

In addition, the industry continues to evolve its already high standards for data security and IP protection.

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# India and Asia

How can the industry work for a win-win?

## India and Asia

- Historically shared friendly ties

## Mutual respect

- Asian companies in India are extremely respected and enjoy a favourable mindshare with the Indian consumers
- For e.g.
  - Suzuki continues to own nearly 50% of the Indian passenger car market share for close to 20 years running
  - Samsung and LG are the largest consumer electronics brands and enjoy tremendous respect in Indian minds



## Opportunities for Asian companies in India

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**India is one of the fastest growing economies in the world.**

**With rapid rise in incomes and purchasing power, close to 300 Million people are now in the “consumer middle class”**

**Government policies have been consistently moving towards economic reforms and to invite global corporations to compete in the market**

**There is a tremendous opportunity for Asian companies to participate in the India boom, especially in the Infrastructure, telecom, financial and energy sectors**

**WIN WIN**

India has a proven model of technology solutions for the world. Asia can participate in the sector for a mutually beneficial relationship – e.g. Philippines

Resources will also be required for Asia's success in product innovation and manufacturing

Migrating legacy systems to new platforms is now critical

Indian companies can work with Asian companies to solve the above mentioned problems

Asian companies expanding overseas can also leverage Indian resources

Lastly, ASOCIO members can come together to fight global protectionism and to evolve common standards – in case of data security, etc.

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**Thank you**