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India's IT Industry in the 21st Century: Vanguard of the Services Export Revolution

ICRIER-KAS Seminar
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President, NASSCOM

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NASSCOM: Driving thought leadership and collaboration

- Premier trade body and chamber of commerce of the IT-BPO companies in India
- Over 1300 members – includes Indian Companies, MNCs and Captive units
- Access to an international network through 50 MoUs and linkages with 40 industry associations across the globe

Policy Advocacy	Industry Development	Enabling Environment
Global Trade Development	E-Governance	Emerging Companies
Education & Skill Development	Security	Social Development

DSCI PROMOTING DATA PROTECTION

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niSg Architecting e-Government

NSR Credible Data, Credible People

N·S·D·C National Skill Development Corporation

Evolution of the industry
Reinventing, transforming in a short span

Discrete Processes → End-to-end Development

Scale and complexity

	Late 80's-Mid 90s	Late 90s	Early 2000s	Mid 2000 to present	Going Forward…
IT-BPO Product and Service Offerings	▪ Data Entry ▪ Customer support ▪ Software development ▪ ADM ▪ Transaction Processing	▪ Y2K contracts ▪ ADM ▪ IT support ▪ Integration projects	▪ New service lines such as KPO, LPO ▪ Large scale ADM	▪ IT strategy and consulting ▪ High-end services – analytics ▪ Engineering design services	▪ Product innovation ▪ End to end product development ▪ Business transformation
Business needs	▪ Scalability ▪ Lower operating costs	▪ Legacy migration ▪ Y2 K deadlines	▪ Access to new capabilities ▪ Accelerate time to market	▪ Domain expertise ▪ End to end services	▪ Access to R&D capabilities ▪ Value creation

Indian IT-BPO industry overview

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2.8 million	**IT-BPO employees**
58%	**India's share of the global sourcing market**
5,000+	**Number of companies offering IT services, BPO, Engineering services and Software Products**
750+	**Number of MNC centres in India**
~70	**Number of countries serviced by India**
35+	**Number of languages served**

Aggregate industry revenue – USD 100 billion+

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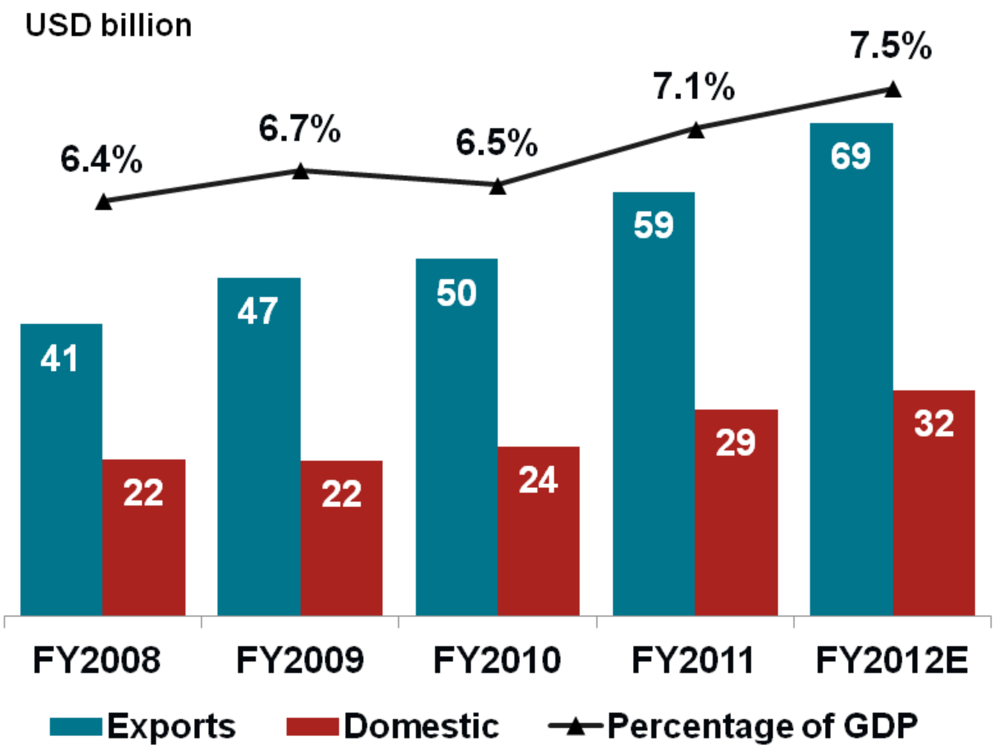
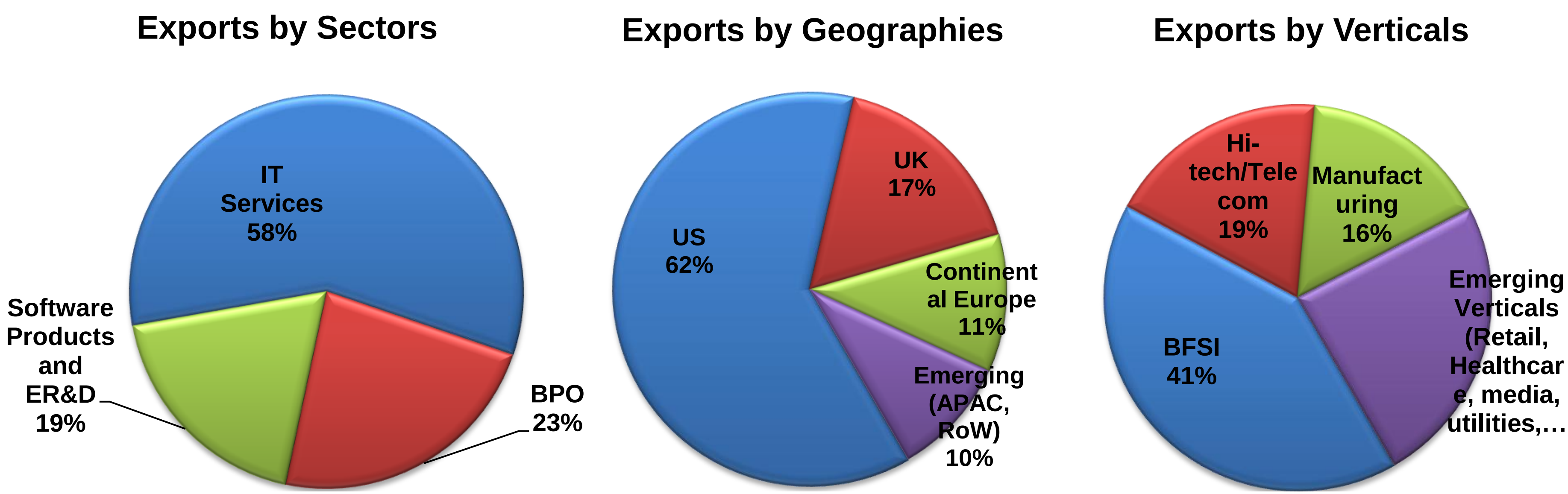


- Total revenue: ~USD 101 billion
- Value add: 60-70%
- Exports CAGR: 17% for last 5 years
- Domestic CAGR in USD: ~10% – reflects impact of variable rupee

Note: E: Estimate
Source: World Bank, NASSCOM

India has built global leadership in IT-BPO



100% =USD 69 billion

- **80% of Fortune 500 companies and 20 of world's largest banks are clients**
- **70% share in global Knowledge Services outsourcing industry**
- **~7.5% share in India's GDP and ~23-25% in total exports**
- **~560 global delivery centers**

Industry taking lead in delivering business outcome impact solutions

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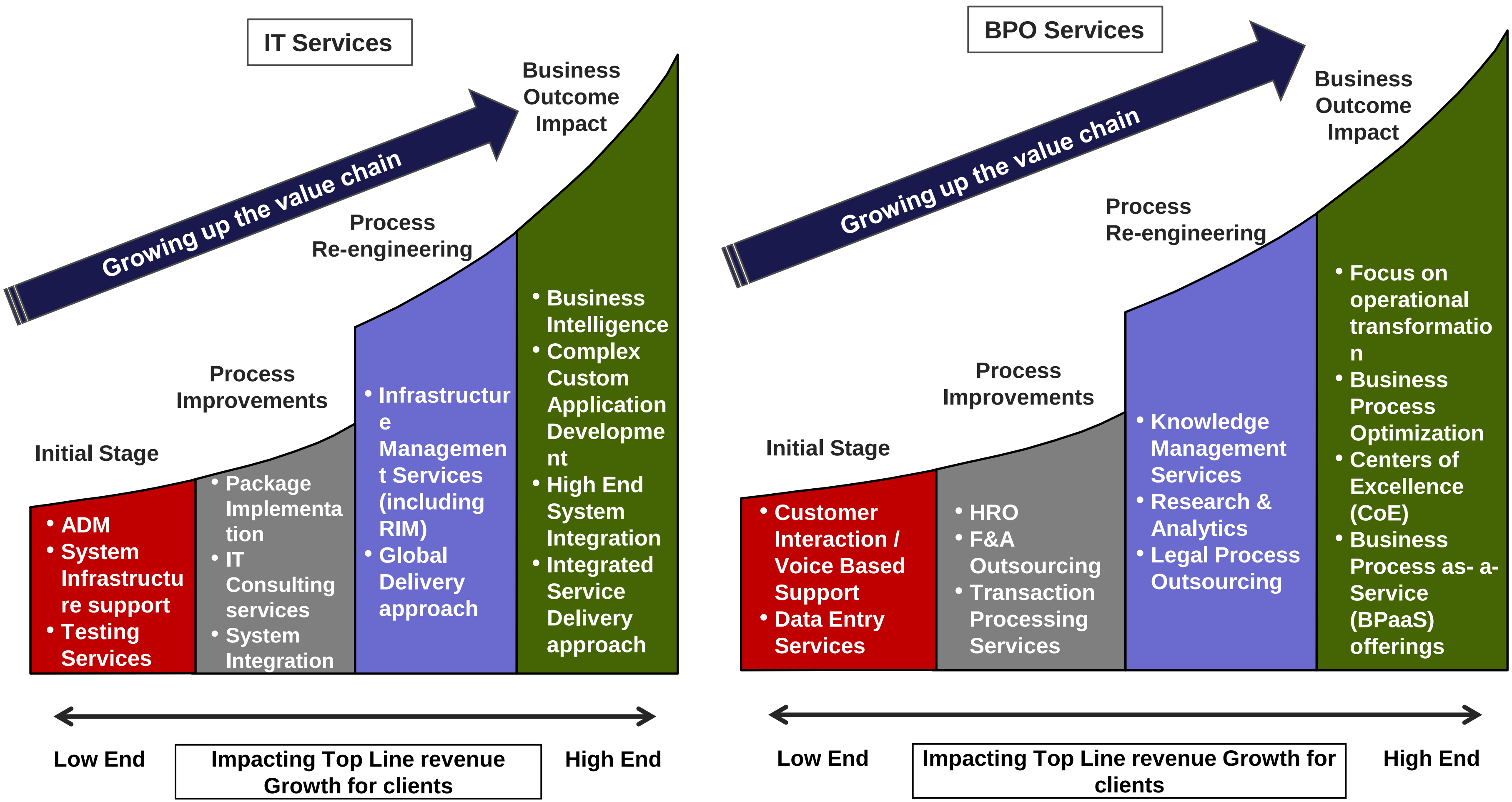
IT–BPO sector: The New Wave



Multi-fold impact on Indian economy

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Multi-fold impact on the Indian economy

Driving Balanced Regional Development

Contribution to state GDP; Enhancing the education system; Employment generation; Infrastructure creation

Empowering diverse human assets

58% of the workforce from tier 2/3 cities, 31% are women, 74% less than 30 yrs old, 5% economically backward classes

Creating Innovation Platform

30X increase in patents filed in last 5 years; Growing R&D spend

Putting India on the Global map

5-6% of total employees in large organisations are non-Indians, From 2009 to 2011 M&As increased 77% CAGR to reach USD 4.5 billion, 770+ captives

Socially responsible and inclusive

Improved access and delivery of services, bridging technological divide, e-governance solutions, CSR activities

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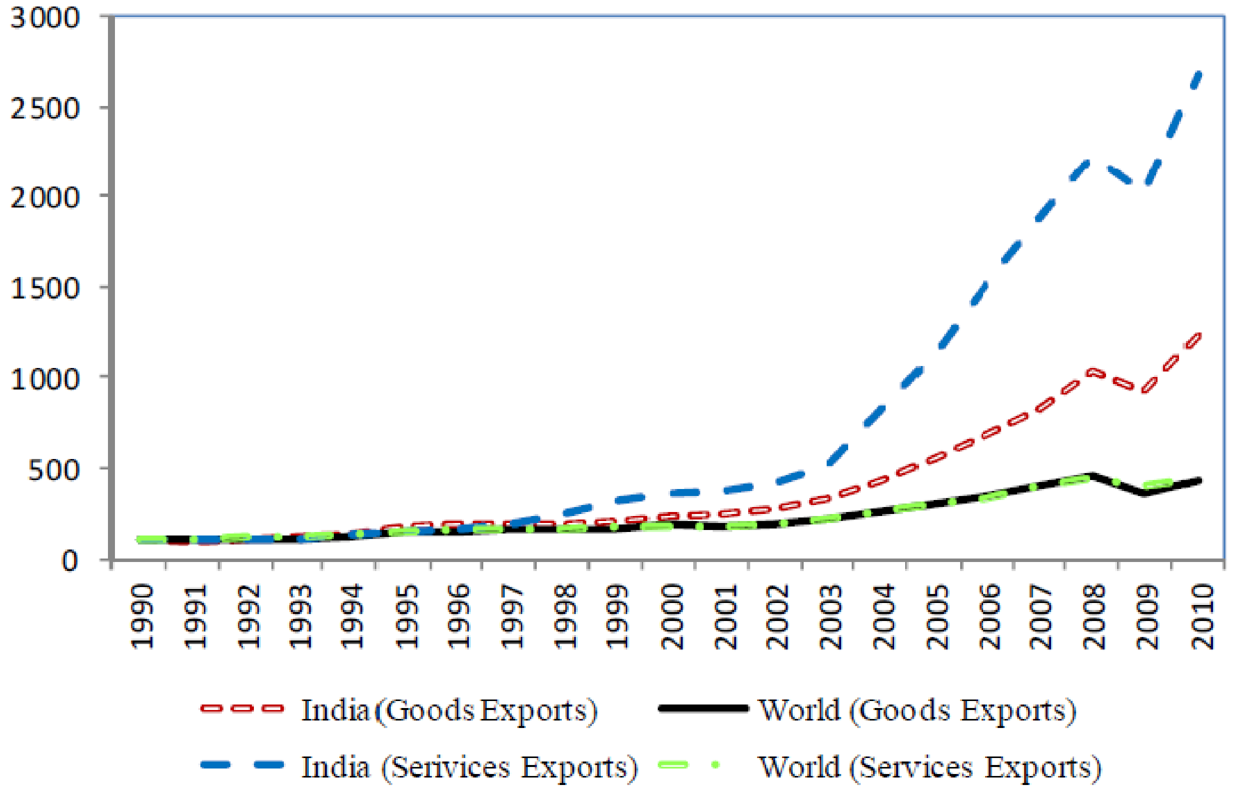
Trends in World exports and Indian exports of Goods and Services in current USD (Index=100 in 1990)



Source: Barry Eichengreen & Poonam Gupta - Report on Exports of Services

In the last decade India's exports of goods and services has risen at a faster pace as compared to the world's exports of goods and services

Growth rate of Services exports, Various countries

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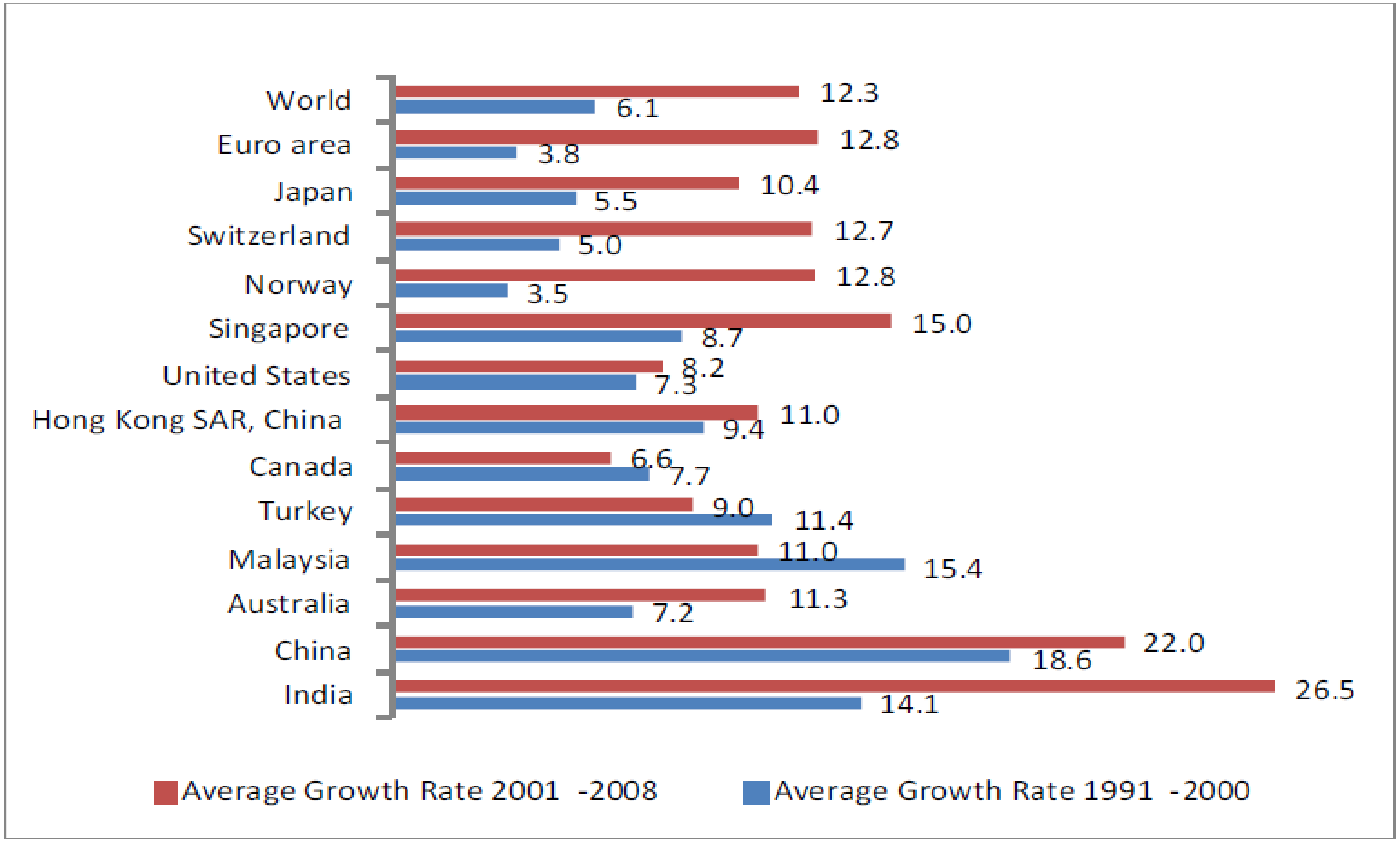

Source: Barry Eichengreen & Poonam Gupta - Report on Exports of Services

India recorded the fastest growth (averaging 26.5%p.a.) in services exports during 2001-2008 among countries, with China at 22%p.a. and Singapore 15%p.a.

Sophistication of Services exports

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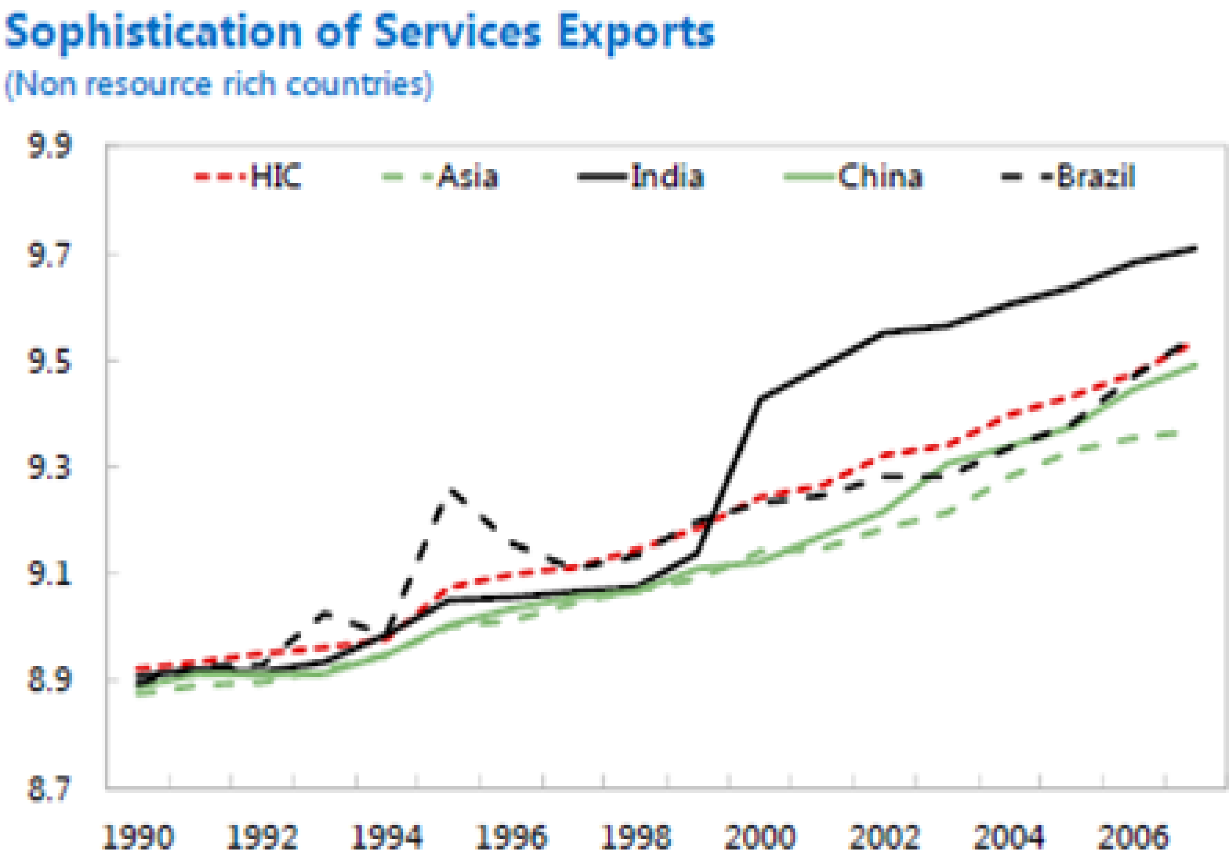

Source: IMF

India's services export portfolio is close to that of developed countries

Services Trade: Surprising resilience during crisis

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- Experience during early crisis period (2007-08) - *Short lived dip*
- Differences across service sectors - *IT-BPO did better*
- Impact of economic crisis on trade
  - Supply side – *Drop in trade because credit dries up*
    - IT Industry less vulnerable
  - Demand side features of IT/ITeS services
    - No inventory or vintage effects
    - Long-term relationships
    - Less discretionary decision-making

Product development and Innovation vibrant

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Indian Product Innovation

India – entering product era	**2400+** Product Firms – **USD 2** billion revenues
Start-ups innovating and growing	**~1100** startups in last 5 years
Entrepreneurship beyond metros	**330** product companies located in Tier 2/3 cities
Focus Areas – new technologies and India	SMB, Cloud, Mobility, Social Media, Analytics, Internet, Education

MNCs leveraging India

Global Product development	**500+** centers focused on product design and development
Products tailored to rural needs	Healthcare, telecom, financial inclusion, energy efficiency.
Products for emerging markets	Products for India used in other emerging markets.
New lines of revenue	India specific products creating new revenue streams

New business models and drivers to ensure continued growth of the IT-BPO industry

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NEW BUSINESS DRIVERS

- ✓ Continued focus on cost savings
- ✓ Partnerships in emerging markets
- ✓ Integration of new technologies into existing solutions
- ✓ Doing more with less – focus on business innovation

NEW BUSINESS MODELS

- ✓ Invest in –
  - Platforms
  - Products
  - Geographies
- ✓ Asset takeover models
- ✓ Risk/reward models
- ✓ Verticalised internal structure

CONTINUED INDUSTRY GROWTH

- ✓ Growth in new clients-
  - Number of active clients for leading companies up by 11% since FY2010
- ✓ Mining existing clients-
  - Revenue per client for top companies up by 18 per cent since FY2010
- ✓ Strong hiring pipeline
  - Over one lakh offers for 2012

Emerging competition: Threat or followers?

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Countries

- 15+ countries, spread across 5 continents global sourcing aspirants
- Philippines, China, Egypt, South Africa, Brazil, Mexico, Bulgaria, Poland, Vietnam, Malaysia, Czech Republic etc

Government Support

- Government – key driver
- Fiscal/tax incentives- Tax holidays, reduced corporate tax
- Talent development- training subsidies, faculty development
- Branding and Marketing support

Unique Value Proposition

- Each country - unique value, different services
- For example, China offers very good infrastructure levels, Philippines offers good multilingual support, Brazil offers time zone sync with US

Niche Segments

- As a result, each country targeting specific segments in global sourcing
- Philippines competing in the voice BPO space, China in the R&D space, Eastern Europe in the KPO segment, Brazil in animation space

Multiple countries trying to compete – India cannot take leadership for granted

Change of the business development model

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Building business relation beyond CIO and global sourcing managers

Identifying newer niches – Customers, Verticals and Geographies

Building non-linearity in growth

Becoming truly more global

Driving growth from Alternate Business Models

Hyper specialization will drive growth

1	Geographies	USA	UK	Western Europe	Japan	BRIC	LatAm
2	Customer segments	B2B - Large	B2B - SMB	B2B2C	B2C		
3	Verticals	BFSI	Retail and Consumer	Telecom	Healthcare	Govt/ Public sector	
4	Sub-verticals	Retail banking	Wholesale banking	Capital markets	Life insurance	Non-Life insurance	
5	Business process/ functions	Customer acquisition	Channel mgmt	Claims mgmt	Policy admin	Product development	Reinsurance mgmt
6	Service lines	IT services	BPO	TIS	Platform / Utility	Managed services	

ABM enables providers to target opportunities that they hitherto had limited access to (e.g. Latam, B2B-SMB)

In core markets, ABM forces providers to focus on opportunities at granular level; potentially 200 granular opportunities exist with >100 M USD revenues

The industry's vision for 2020 – Transform Business, Transform India

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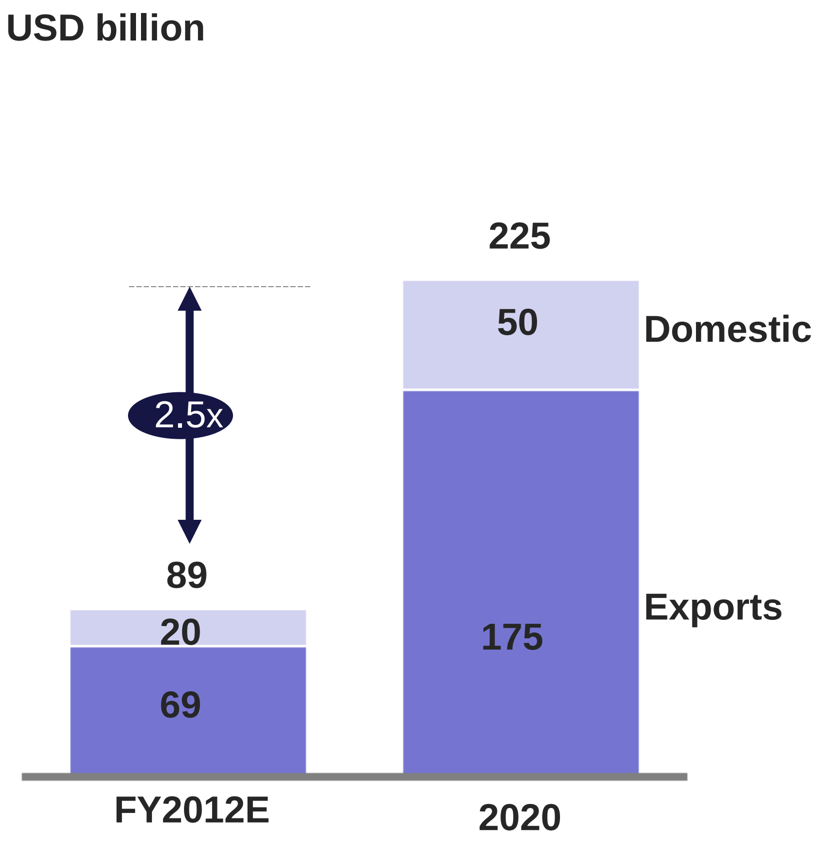
IT/BPO industry revenue potential*



* *Excluding Hardware*

- Domestic market will be a major growth driver
- ICT as the key enabler for delivery of public services
- Innovation hub driving additional GDP contribution
- Increased diversity
- Free market provides opportunities for all

Need to mitigate challenges

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Macro-economic Environment

- Deteriorating EU situation
- Consumer spending not picking up

Competitiveness

- Competition from other locations
- Pressure on billing rates
- Low profitability

Talent

- Availability of specialized talent
- Soft skills enhancement

Policy

- Fiscal incentives withdrawn
- Data security and privacy
- Employee safety and security

Industry Measures

- **Strategic customer partnership**
- **India value add**
- **Global delivery**
- **Talent development**
- **Delivery centers in tier 2/3 towns**

Policy and institutional challenges

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- Ensure favourable business environment
  - Stable, consistent and predictable tax regime
  - Elimination of administrative hassles and protracted litigation
- Support for SMEs and start-ups
- Attract FDI to move up ladder of "Sophistication"
- Monitor and maintain cost competitiveness
- Strategic priority on exports
  - Special Economic Zones
  - Institutional and Fiscal support for new market development
- Skill development
- Immigration and regulatory barriers to services trade

Thank You