

# IT & ITeS

AUGUST  
2012



## Contents

- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Opportunities
- ❖ Success story: Infosys
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## Advantage India

### Growing demand

- Strong growth in export demand from new verticals
- Growing economy to propel rise in local demand

### Global footprint

- Indian IT firms have delivery centres across the world; as of 2011, IT firms had a total of 560 centres in 70 countries
- Industry well diversified across verticals like BFSI, telecom, retail

FY2020F

Market size:  
USD225  
billion

### Advantage India

### Competitive position

- India has 60-70 per cent cost saving over source countries
- Already the leading destination for IT&ITeS, India's market share is still rising; market share grew to 58 per cent in 2011 from 55 per cent in 2010
- Huge talent pool

### Policy support

- Tax holidays extended to IT sector
- SEZ scheme since 2005 to benefit IT companies with single window approval mechanism, tax benefits etc.

FY2012E

Market size:  
USD101 billion

Sources: Nasscom, Aranca Research

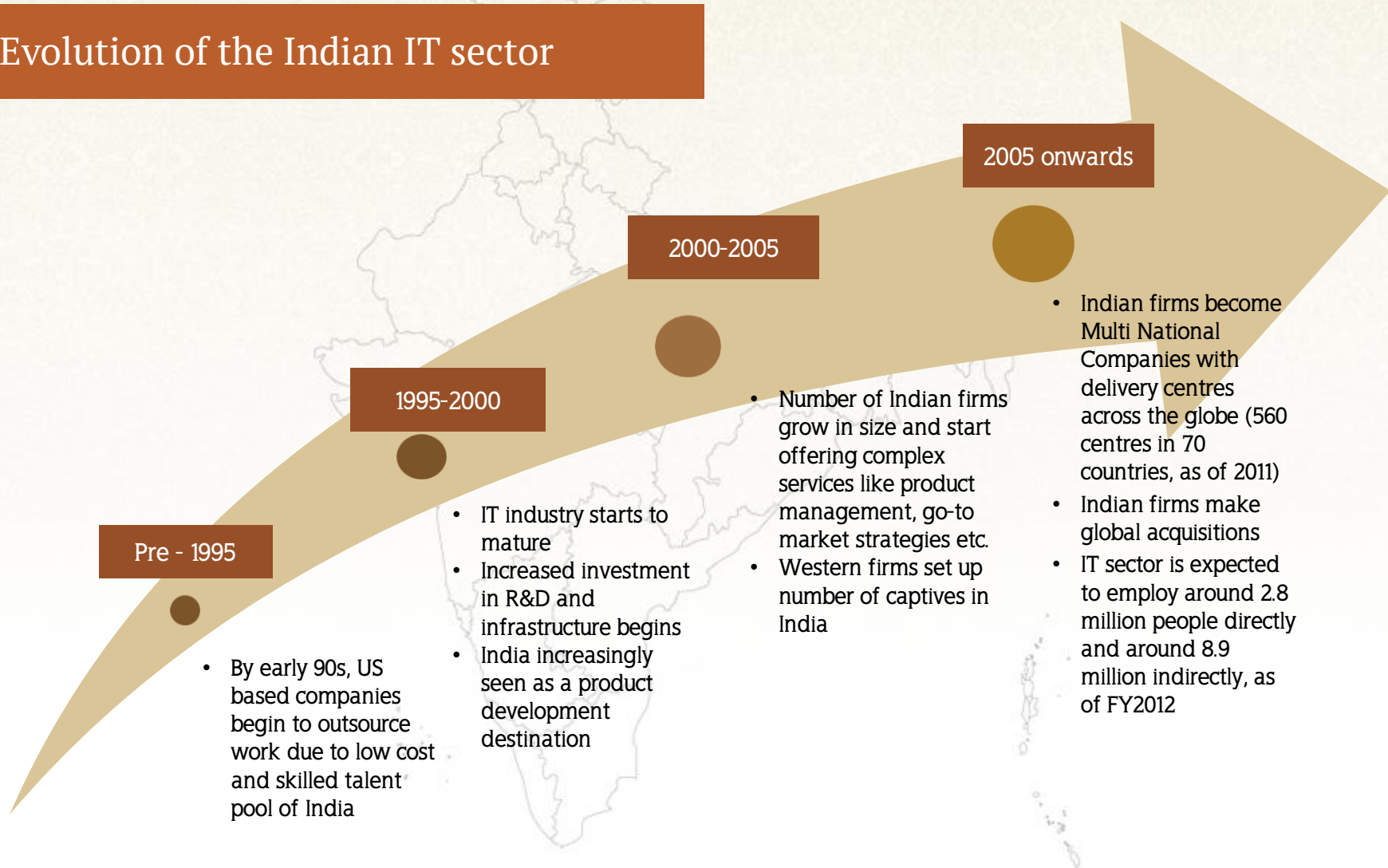
Note: SEZ stands for Special Economic Zone

BFSI stands for Banking, Financial Services and Insurance; E stands for Estimate, F stands for Forecast

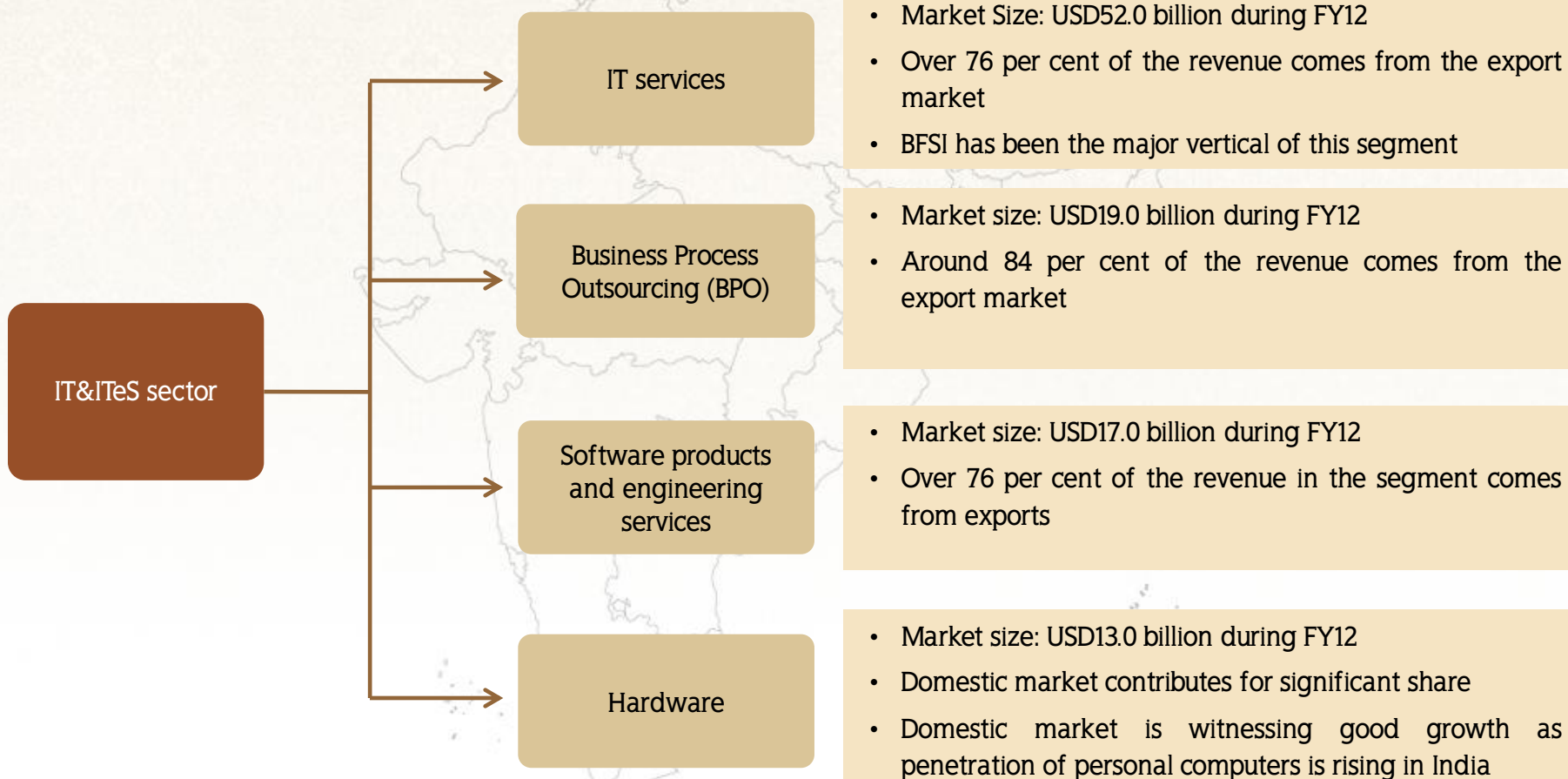
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## Evolution of the Indian IT sector



## Segments of the Indian IT sector

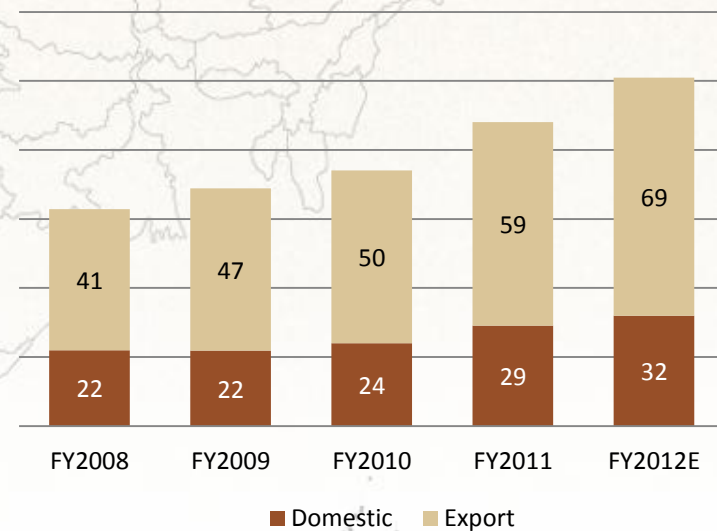


Sources: Nasscom, Edelweiss, Aranca Research

## Indian IT market size growing; TCS the market leader ... (1/2)

- Indian technology and BPO sector (including hardware) is estimated to have generated USD101 billion in revenue during FY12, compared to USD88.1 billion in FY11, at a growth rate of 14.4 per cent
- As a proportion of India's GDP, the contribution of IT sector has risen to 7.5 per cent in FY12 from 1.2 per cent in FY98

Market size of IT industry in India (USD billion)



Sources: Nasscom, Aranca Research

## Indian IT market size growing; TCS the market leader ... (2/2)

- TCS is the market leader commanding about 10.1 per cent of the total Indian IT & ITeS sector's revenue
- Top six firms share around 36 per cent of total industry revenue showing that the market is fairly competitive

### Market share of major IT players based on revenues (FY2012)

Company name	Market share
TCS	10.1%
Wipro	7.7%
Infosys	7.0%
Cognizant*	6.1%
HCL Tech	4.3%
Tech Mahindra	1.1%

Sources: Bloomberg, Aranca Research

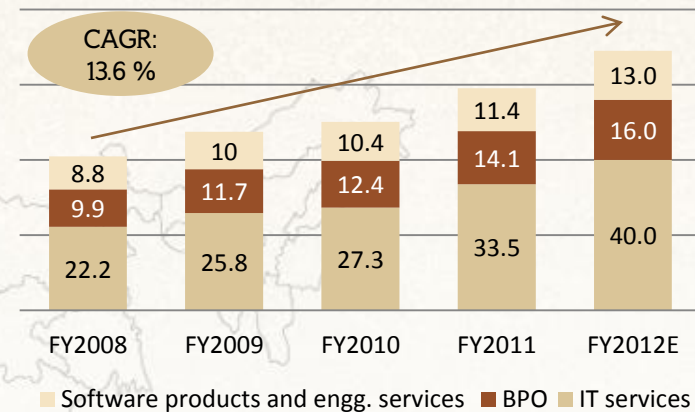
Note: \* - 2011 (calendar year) revenues were considered for Cognizant



## IT and BPO account for over 80 per cent of India's IT&ITeS exports

- Total exports from the IT-BPO sector (excluding hardware) are estimated to reach USD69 billion during FY12; the industry has seen strong growth at a CAGR of 13.6 per cent during FY08-12E despite weak global economic growth scenario
- IT services' exports has been the major contributor to the exports market of India, while they accounted for around 58 per cent of the total IT exports during FY11
- BPO commands a share of around 23.2 per cent of the total IT exports from India

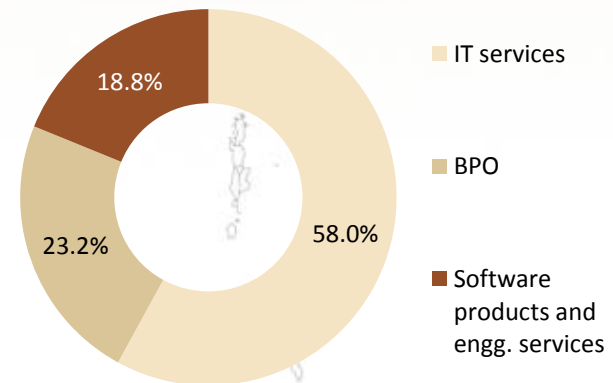
Growth in export revenues (USD billion)



Sources: Nasscom, Aranca Research

Note: CAGR stands for Compounded Annual Growth Rate

Sector-wise breakup of export revenues FY12E



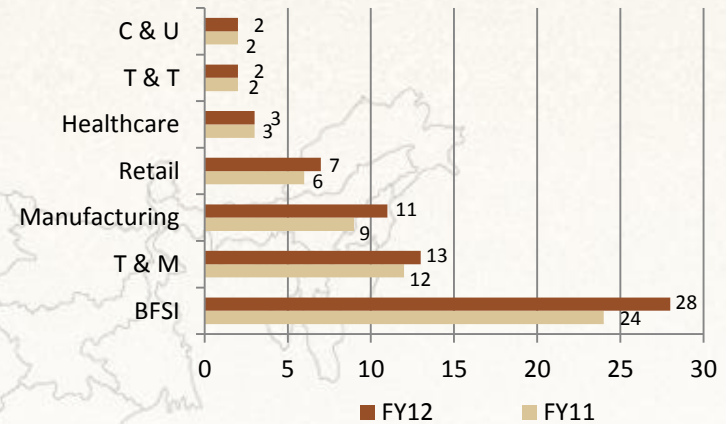
Source: Nasscom, Aranca Research; Note: E stands for Estimate

## BFSI - a key business vertical for IT-BPO industry

- BFSI is a key business vertical for the IT-BPO industry; it accounted for export revenues of around USD28 billion during FY12, resulting in a share of just over 40 per cent of the total IT-BPO exports from India
- Over 85 per cent of the total Indian IT-BPO exports is across four sectors viz. BFSI, telecom, manufacturing and retail. The hitherto smaller sectors are expected to grow going forward

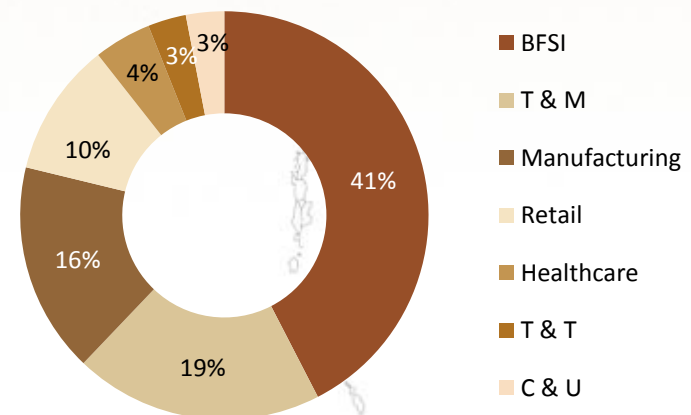
C&U: Construction & Utilities, T&T: Travel and Tourism, T& M: Telecom & Media, BFSI: Banking, Financial Services and Insurance  
Note: The figures mentioned are for IT and BPO only and do not include engineering services and hardware exports

Export revenue growth across verticals (USD billion)



Sources: Nasscom, Edelweiss, Aranca Research

Distribution of export revenue across verticals (FY12)



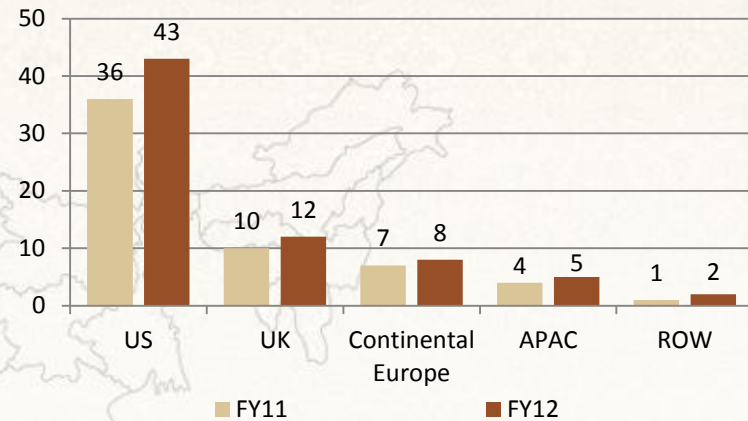
Sources: Nasscom, Edelweiss, Aranca Research

## With over 60 per cent share, US is the major importer of IT services

- US has traditionally been the biggest importer of Indian IT exports; over 60 per cent of Indian IT-BPO exports during FY12 were absorbed by US
- Non US-UK countries only accounted for 22.0 per cent of the total Indian IT-BPO exports during FY12
- Demand from emerging countries is expected to show strong growth going forward

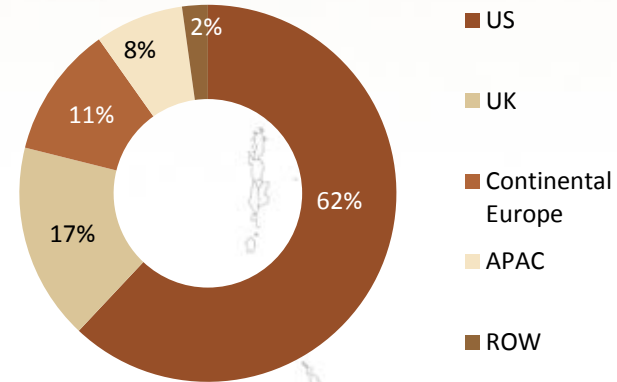
Note: ROW is Rest Of the World, APAC is Asia Pacific

Growth in export revenues across geographies (USD billion)



Sources: Nasscom, Edelweiss, Aranca Research

Distribution of export revenues across geographies (FY12)



Sources: Nasscom, Edelweiss, Aranca Research

## IT-BPO sector dominated by large players

Category	Number of players	% of total export revenue	% of total employees	Work focus
Large sized	7	43-45%	~30%	<ul style="list-style-type: none"> <li>Fully integrated players offering full range of services</li> <li>Large scale operations and infrastructure</li> </ul>
Mid sized	75-80	35-37%	~30-35%	<ul style="list-style-type: none"> <li>Mid tier Indian and MNC firms offering services in multiple verticals</li> <li>Dedicated captive centres</li> </ul>
Emerging	300-350	9-12%	~15-20%	<ul style="list-style-type: none"> <li>Players offering niche IT-BPO services</li> <li>Dedicated captives offering niche services</li> </ul>
Small	>3500	10-12%	~15-17%	<ul style="list-style-type: none"> <li>Small players focussing on specific niches in either services or verticals</li> <li>Includes Indian providers and small niche captives</li> </ul>

Sources: Nasscom, Aranca Research

## Notable trends in the Indian IT&ITeS sector ... (1/2)

### Global sourcing hub

- India was once again rated as the most attractive location for global sourcing by the AT Kearney Global Services Location Index, 2011. (Previously rated as most attractive in its last edition in 2009)
- As adjudged in the rankings by AT Kearney, India offers low cost services, vast skilled talent pool, good quality of infrastructure etc

### Engineering offshoring

- India is the most preferred location for engineering offshoring according to a customer poll conducted by Booz and Co
- Companies are now offshoring complete product responsibility

### Global delivery model

- The number of global delivery centres of Indian IT firms has reached 560, spreading out across 70 countries, as of 2011
- As of 2009, over 150 centres have been set up by various Indian IT firms in North America

### Patent filing

- Increased focus on R&D by Indian IT firms has resulted in rising number of patents filed by Indian IT firms
- The share of IT firms in total patents filed in India went up from 4 per cent in FY05 to 13 per cent in FY08

## Notable trends in the Indian IT&ITeS sector ... (2/2)

### Changing business dynamics

- India's IT market is witnessing a significant shift from a few large size deals to multiple small size deals
- Delivery models are also being altered, as business is moving to capex (capital expenditure) based models from opex (operational expenditure) based models, from a vendor's frame of reference

### Large players gaining advantage

- Large players with wide range of capabilities are gaining ground as they move from being simple maintenance providers to full service players, offering infrastructure, system integration as well as consulting services

### New technologies

- Disruptive technologies such as cloud computing, social media and data analytics are offering new avenues of growth, across the verticals, for IT companies

### Growth in non-linear models

- India's IT sector is gradually moving from linear model (increasing head count to increase revenues) to non-linear models
- In line with this, Indian IT companies are focusing on new models such as platform based BPO services, creation of Intellectual property, etc.

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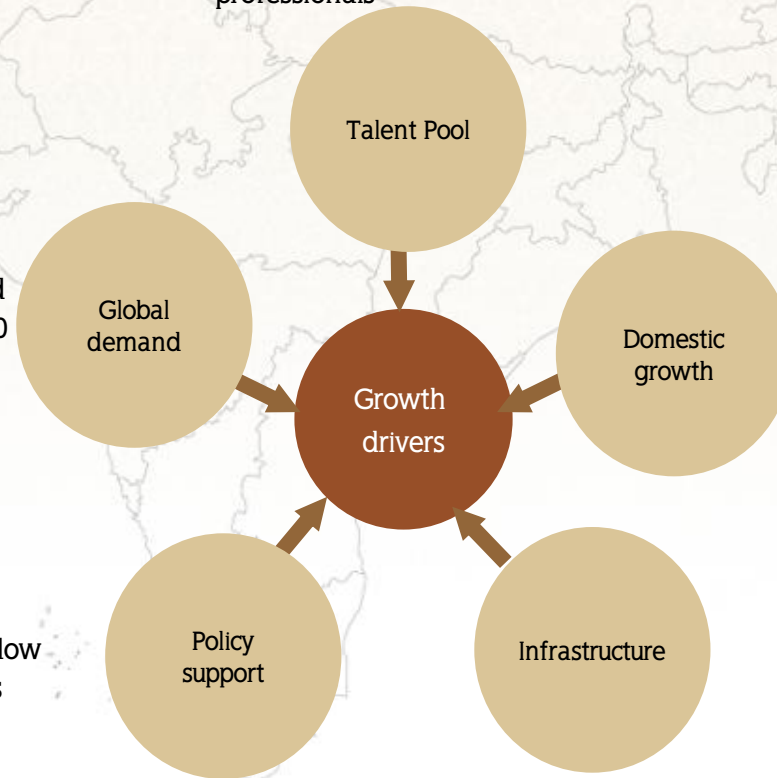
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## IT sector to be driven by strong demand and Indian expertise

- 4.4 million graduates are estimated to have been added to India's talent pool in FY12
- Strong mix of young and experienced professionals

- Global IT offshore spending is expected to grow at a CAGR of 8.0 per cent during FY11-13
- Global BPO spending is expected to grow at a CAGR of around 7.0 per cent during FY11-13

- Tax holidays for STPI and SEZs
- Procedural ease and single window clearance for setting up facilities



- Computer penetration expected to increase
- Government expected to become a major contributor to domestic demand by 2013-14

- Robust IT infrastructure across various Indian cities such as Bengaluru
- Delivery centres spread across various countries

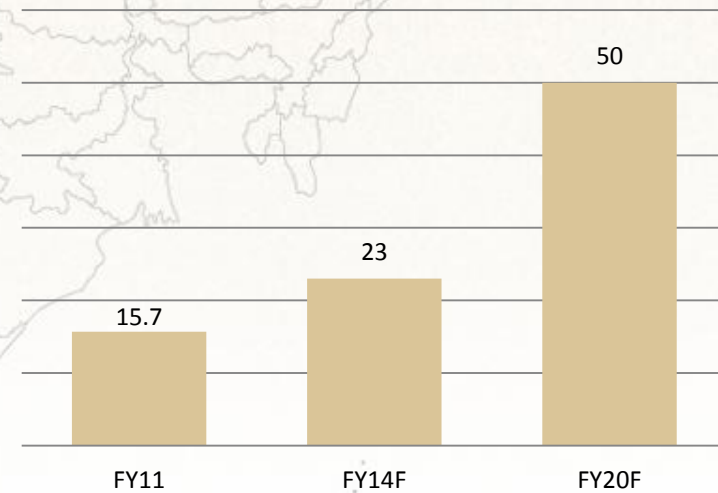
*Sources:* STPI stands for Software Technology Park of India  
SEZ stands for Special Economic Zone



## Strong domestic and global demand expected ... (1/2)

- Increasing affluence of domestic consumers, globalisation of key segments expected to enhance the domestic spend on IT services
- Number of sectors in India are expected to outsource higher percentage of their non core work giving boost to IT-BPO sector
- Domestic market is expected to cross USD50 billion by 2020

Domestic revenue from IT and BPO (USD billion)

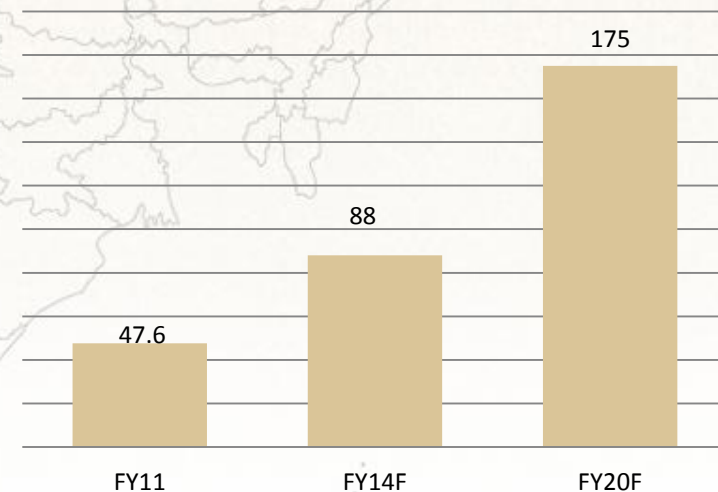


Sources : Nasscom, Aranca Research

## Strong domestic and global demand expected ... (2/2)

- Indian IT-BPO exports are expected to reach USD175 billion by 2020
- Over 80 per cent growth is expected from the non-traditional sectors such as public sector, media and utilities
- Strong demand is expected from emerging countries which currently account for only 20 per cent of global IT spending

Export market revenue of IT and BPO (USD billion)

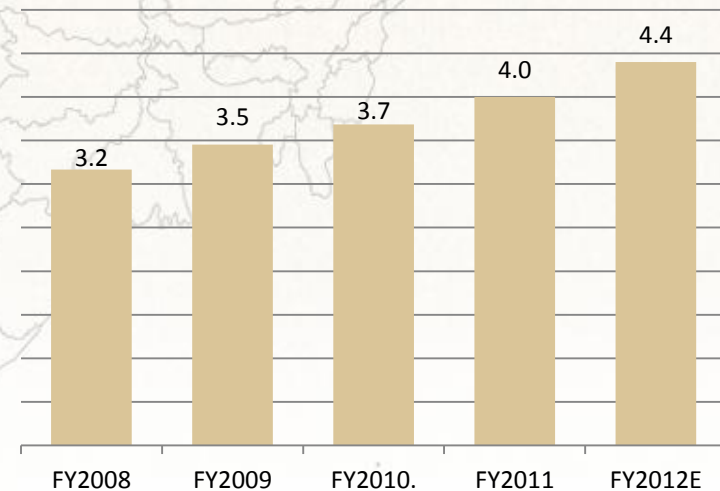


Sources : Nasscom, Aranca Research

## Indian talent pool ready to take IT sector to the next level ... (1/2)

- Availability of skilled talent has been a major reason behind India's emergence as global outsourcing hub
- India added an estimated 4.4 million graduates to the talent pool during FY12
- Growing talent pool of India has the ability to drive the R&D and innovation business in the IT-BPO space

Graduates addition to talent pool in India (in millions)

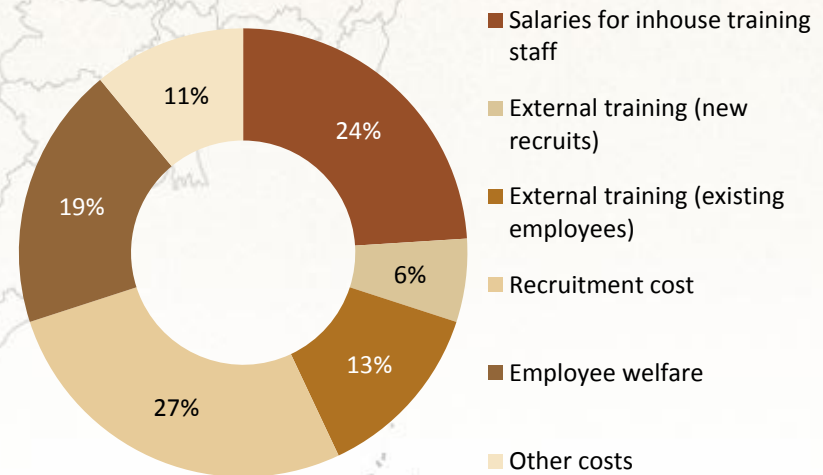


Source: Nasscom, Aranca Research  
Note: Graduates includes both graduates and post graduates

## Indian talent pool ready to take IT sector to the next level ... (2/2)

- About 2 per cent of the industry revenue is spent on training employees in the IT-BPO sector
- 40 per cent of the total spend on training is spent on training new employees
- A number of firms have forged alliances with leading education institutions to train their employees

Training expenditure by Indian IT-BPO sector



Sources : Nasscom, Aranca Research

## NASSCOM's comprehensive plan to increase employability of India's talent pool

### Objectives

### Initiatives

#### Short term

- Enhance over all yield of employees
- Improve employability
- Expand to tier 2 cities
- Lower skill dependence

- Industry to enhance investment in training
- Use NAC and NAC – Tech to assess employability of talent pool
- Identified new tier 2 locations

#### Medium term

- Bring down investment on training
- Develop specialist and project management expertise

- Launched National Faculty Development Programme to increase suitability of Faculty
- Aiding industry access to specialist programmes offered by independent agencies

#### Long term

- Expand education capacity
- Promote reforms in education

- Expansion of higher-education infrastructure; 20 new IIITs to be set up by government
- Programme to increase PhDs in technology

*Source* : Nasscom, Aranca Research

Note: NAC – Nasscom Assessment of Competence, IIIT: Indian Institutes of Information Technology;

## SEZs to drive Indian IT sector; Tier II cities emerge as new centres ... (1/2)

- As of FY2011, 6,554 STPI units were operational, while 5,564 units have exported IT services and products. During FY11, approximately 76.0 per cent of total IT exports was accounted for by STPI units;
- IT-SEZs have been initiated with a view to creating zones that lead to infrastructural development, exports and employment

### Characteristics of STPI and SEZ in India

Characteristics of STPI and SEZ in India		
Parameters	STPI	SEZ
Term	10 years	15 years
Fiscal benefits	<ul style="list-style-type: none"> <li>• 100 per cent tax holiday on export profits</li> <li>• Exemption from excise duties and customs</li> </ul>	<ul style="list-style-type: none"> <li>• 100 per cent tax holiday on exports for first five years</li> <li>• Exemption from excise duties and customs</li> </ul>
Location and size restrictions	<ul style="list-style-type: none"> <li>• No location constraints</li> <li>• 23 per cent STPI units in tier II and III cities</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted to prescribed zones with a minimum area of 25 acres</li> </ul>

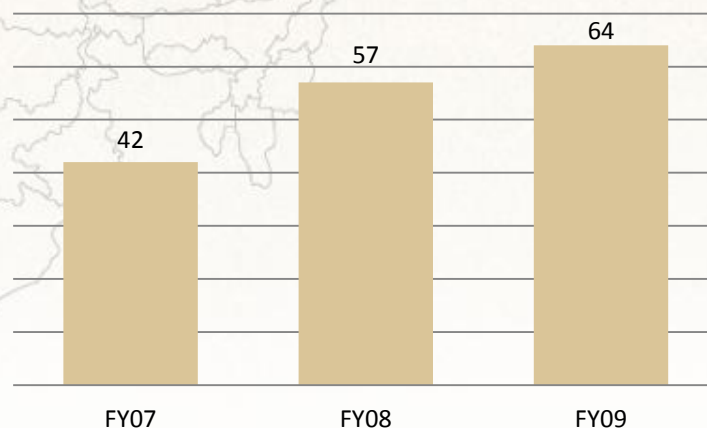
Sources: Nasscom, Aranca Research, STPI

## SEZs to drive Indian IT sector; Tier II cities emerge as new centres ... (2/2)

## Trends in tier II and III cities

- 43 new tier II/III cities are emerging as IT delivery location
- This could reduce pressure on leading locations
- The cost in newer cities is expected to be lower by up to 28 per cent than the leading cities
- Over 50 cities already have basic infrastructure and human resource to support the global sourcing and business services industry
- Some cities are expected to emerge as regional hubs supporting domestic companies
- Jaipur is emerging as an IT city with exports of over USD64 million in FY09 as shown below

## Growth of IT industry in Jaipur



■ IT Exports in USD millions from Jaipur

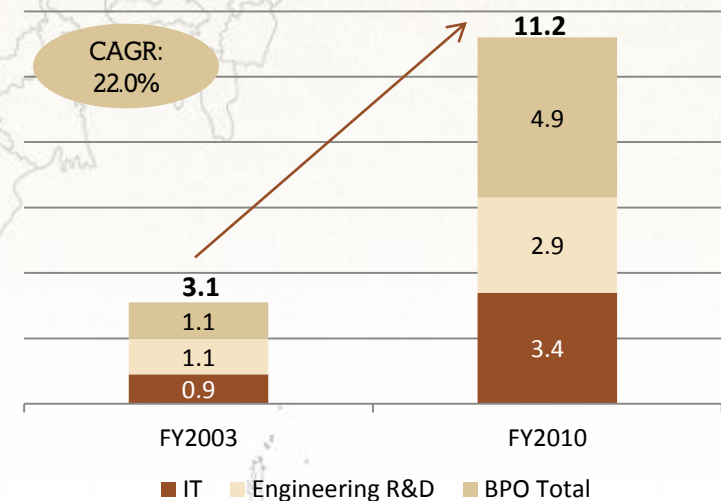
*Sources : Nasscom, Aranca Research*

## Tremendous growth of Global In – House Centres (Captive centres)

### Key highlights

- Global In - House Centres (GIC), also known as captive centres, are one of the major growth drivers of IT-BPO sector in the country.
- As of FY2010, captive segment accounted for **22 per cent** of IT-BPO **revenues** and 21 per cent of employees
- The impact of the segment goes beyond revenues and employment, as it helped in developing India as a **R&D hub** and create an **innovation ecosystem** in the country
- With in the captive landscape, **ER&D/SPD** (Engineering Research & Development /Software Product Development) is the largest sub-segment,
- Companies from North America and Europe are the major investors in the captive segment in the country, accounting for over 90 per cent of captives in the country

Growth in revenues of captive centres in India (USD billion)



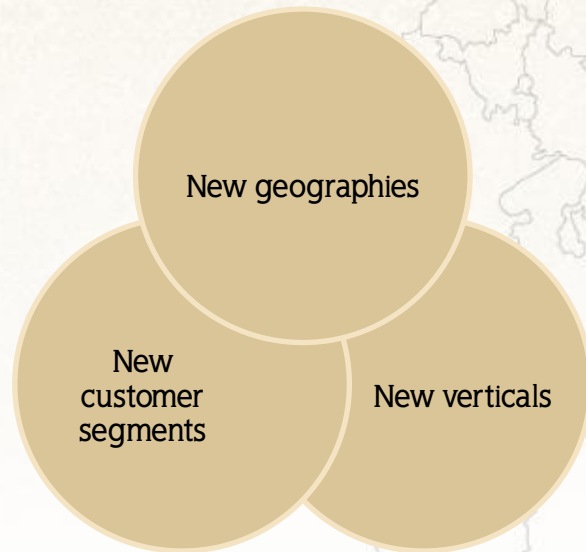
Source: Nasscom



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## Newer geographies and verticals provide huge opportunities



- SMBs have IT spend of over USD185 billion but contribute only 15 per cent of India's IT revenues
- Emergence of new service offerings and business models will aid in tapping this market profitably and efficiently

- BRIC nations, continental Europe and Japan have IT spending of over USD183 billion but contribute only 12 per cent of India's IT revenues
- Adoption of technology and outsourcing is expected to make Asia the second largest IT market

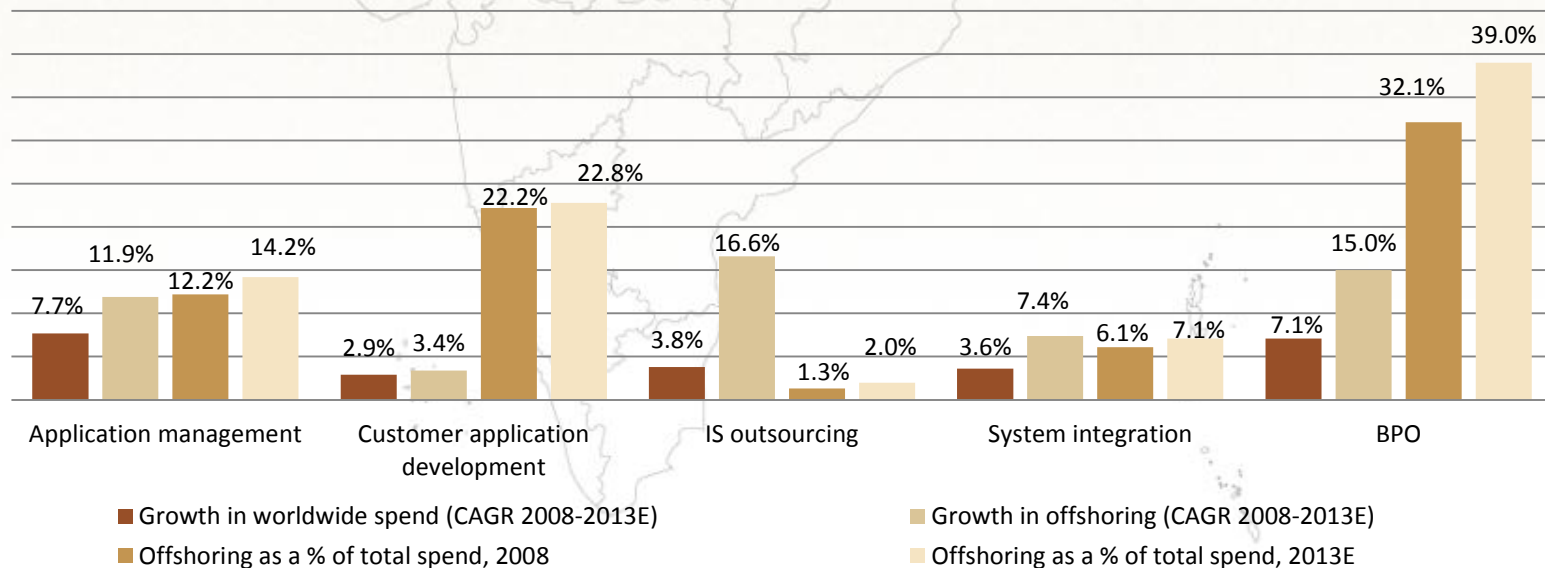
- Public sector, healthcare, media and utilities have IT spend of over USD587 billion but constitute only 20 per cent of India's IT revenues
- A number of sectors are expected to depend on technology and service providers to reduce the cost to serve

*Sources:* All the figures are taken from International Data Corporation (IDC) and Nasscom and are FY10 estimates  
Notes: SMB- Small and Medium Businesses

## Spending on offshoring set to rise; India at an advantage

- Growth in offshoring is expected to outclass the growth in overall IT spend across the various verticals
- Offshoring as a per cent of total spend is also expected to rise across the various verticals
- India has the opportunity to tap the growing offshoring market with its cost advantage, expertise and huge talent pool

Source: Nasscom, Aranca Research



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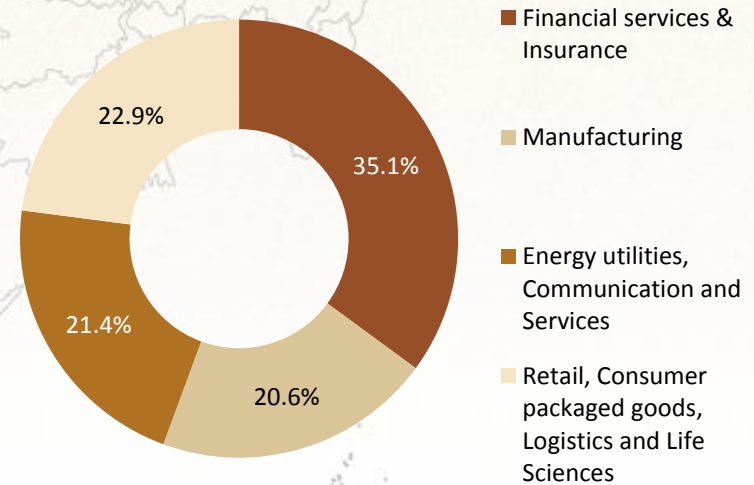
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## Infosys: The emergence of an Indian MNC ... (1/2)

### Milestones

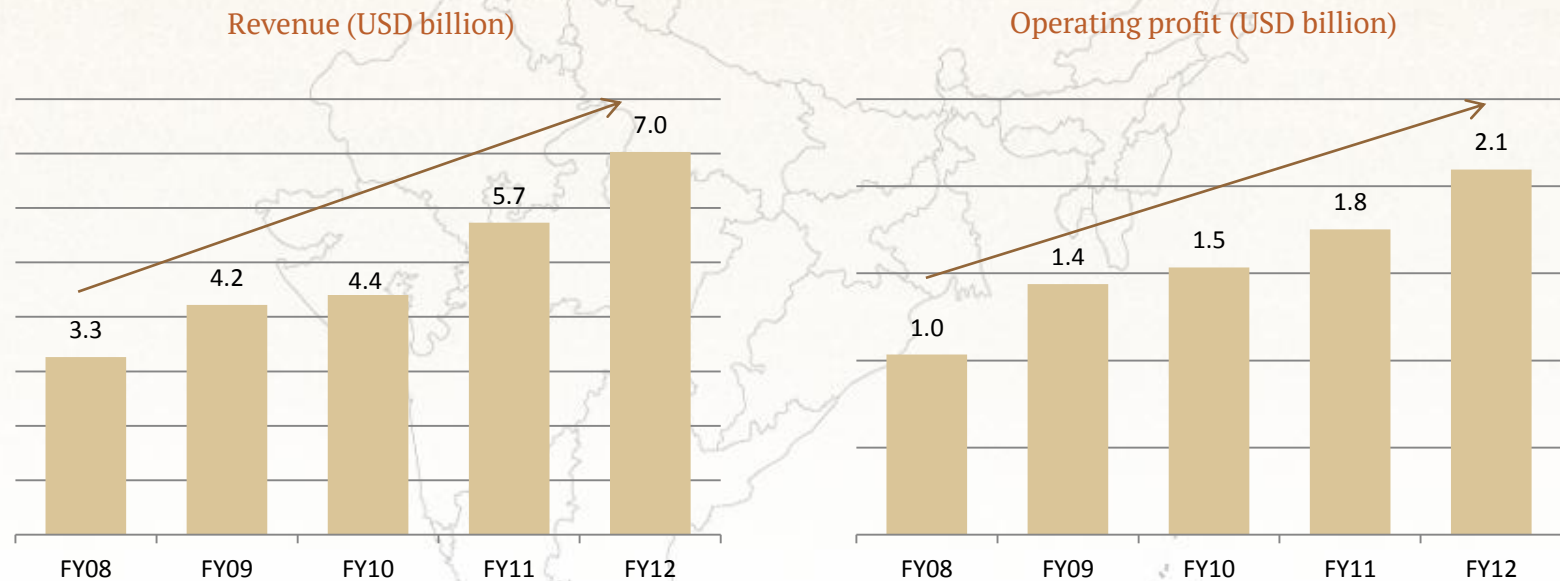
- 1983: Infosys is founded by six engineers in Pune with an initial capital of USD250
- 1993: Goes public
- 1999: Touches revenue of USD100 million; Listed on NASDAQ
- 2006: Infosys celebrates 25 years; Revenues cross USD2 billion; Employees grow to 50,000+
- 2008: Infosys crosses revenue of USD4 billion; Net profit cross USD1 billion
- 2009: Infosys selected member of the global Dow; Employee strength crosses 100,000
- 2011: Employee strength crosses 130,000
- 2012: Revenues cross USD7 billion mark; ranked among the world's most innovative companies by Forbes

Segment wise revenue breakup (FY12)



Sources: Infosys website and Annual report

## Infosys: The emergence of an Indian MNC ... (2/2)



Sources: Infosys website and Annual report

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## Industry Associations

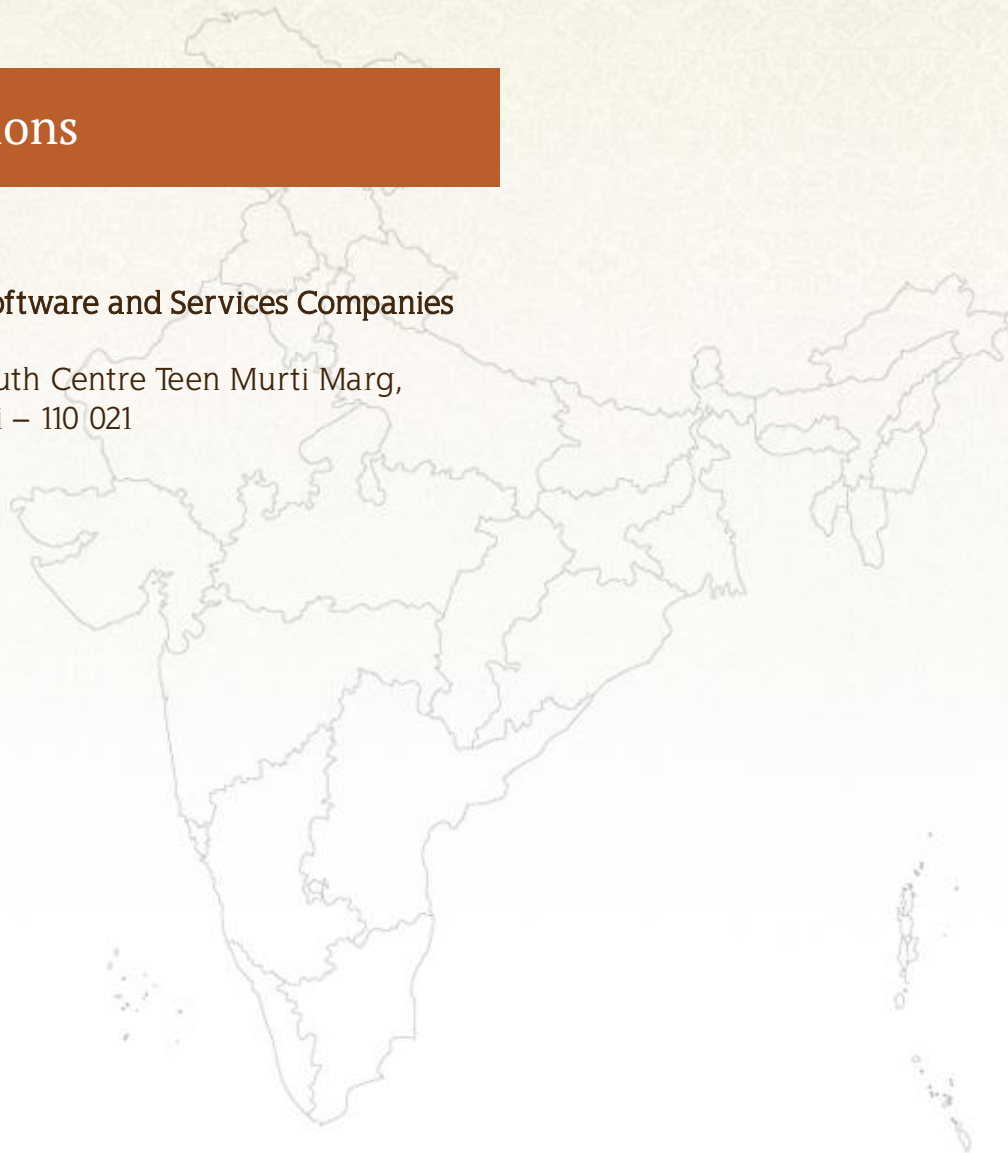
### National Association of Software and Services Companies (NASSCOM)

Address: International Youth Centre Teen Murti Marg,  
Chanakypuri, New Delhi – 110 021

Phone: 91 11 2301 0199

Fax: 91 11 2301 5452

E-mail: [info@nasscom.in](mailto:info@nasscom.in)





## Glossary

- **APAC:** Asia Pacific
- **BFSI:** Banking, Financial Services and Insurance
- **BPO:** Business Process Outsourcing
- **CAGR:** Compounded Annual Growth Rate
- **C&U:** Construction & Utilities
- **FDI:** Foreign Direct Investment
- **GOI:** Government of India
- **INR:** Indian Rupee
- **IT&ITeS:** Information Technology-Information Technology Enabled Services
- **NAC:** Nasscom Assessment of Competence
- **ROW:** Rest Of the World
- **SMB:** Small and Medium Businesses
- **STPI:** Software Technology Parks of India
- **SEZ:** Special Economic Zone
- **T&T:** Travel and Transport
- **T&M :** Telecom & Media
- **USD:** US Dollar
  - Conversion rate used: USD1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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