

IT & ITeS

NOVEMBER
2011



Contents

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

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
- Industry well diversified across verticals like BFSI, telecom, retail

2020F

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
- 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.

2011

Market size:
USD76 billion

Source: Nasscom, Aranca Research

Note: SEZ stands for Special Economic Zone

BFSI stands for Banking, Financial Services and Insurance

IT & ITeS

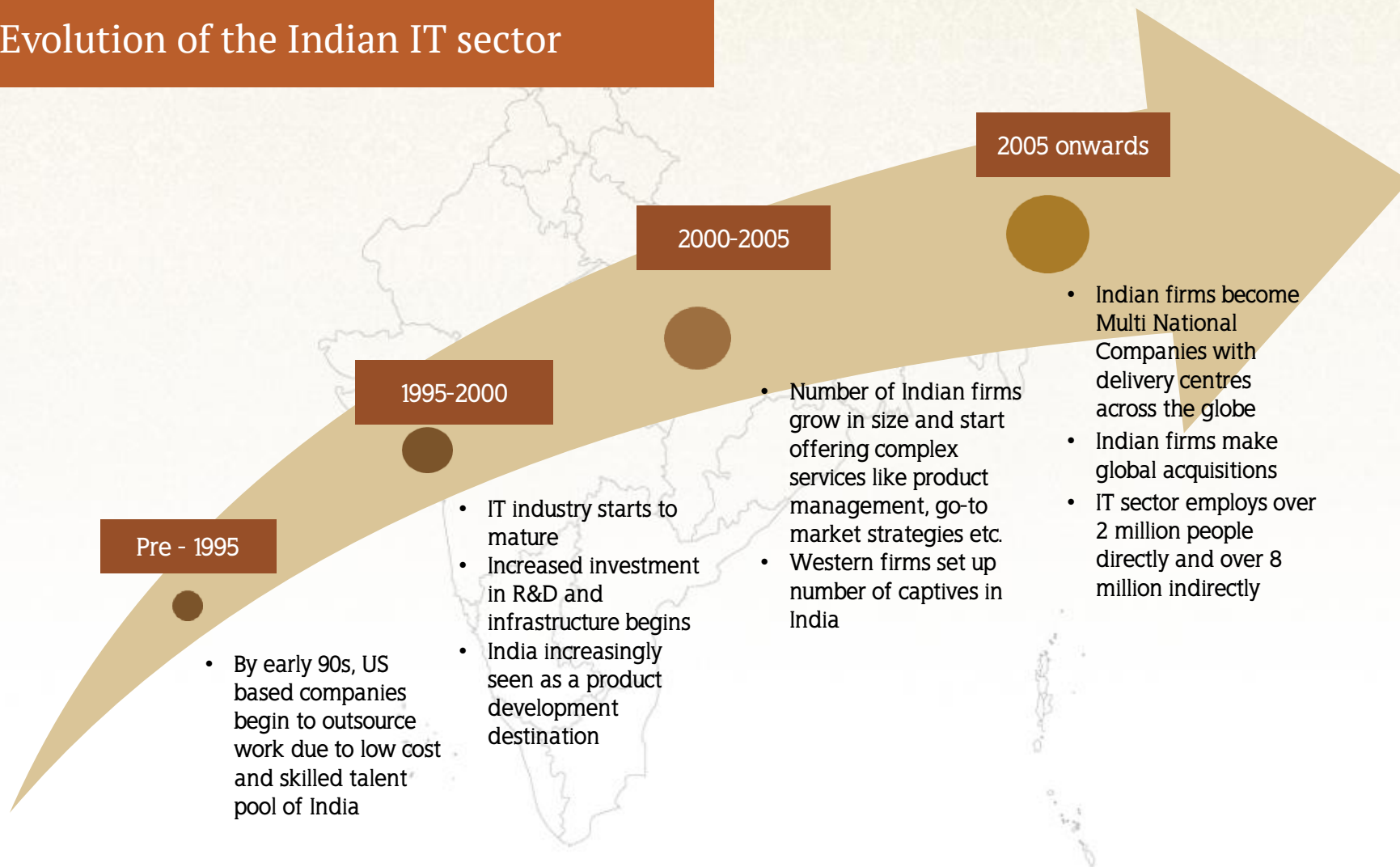
NOVEMBER
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Contents

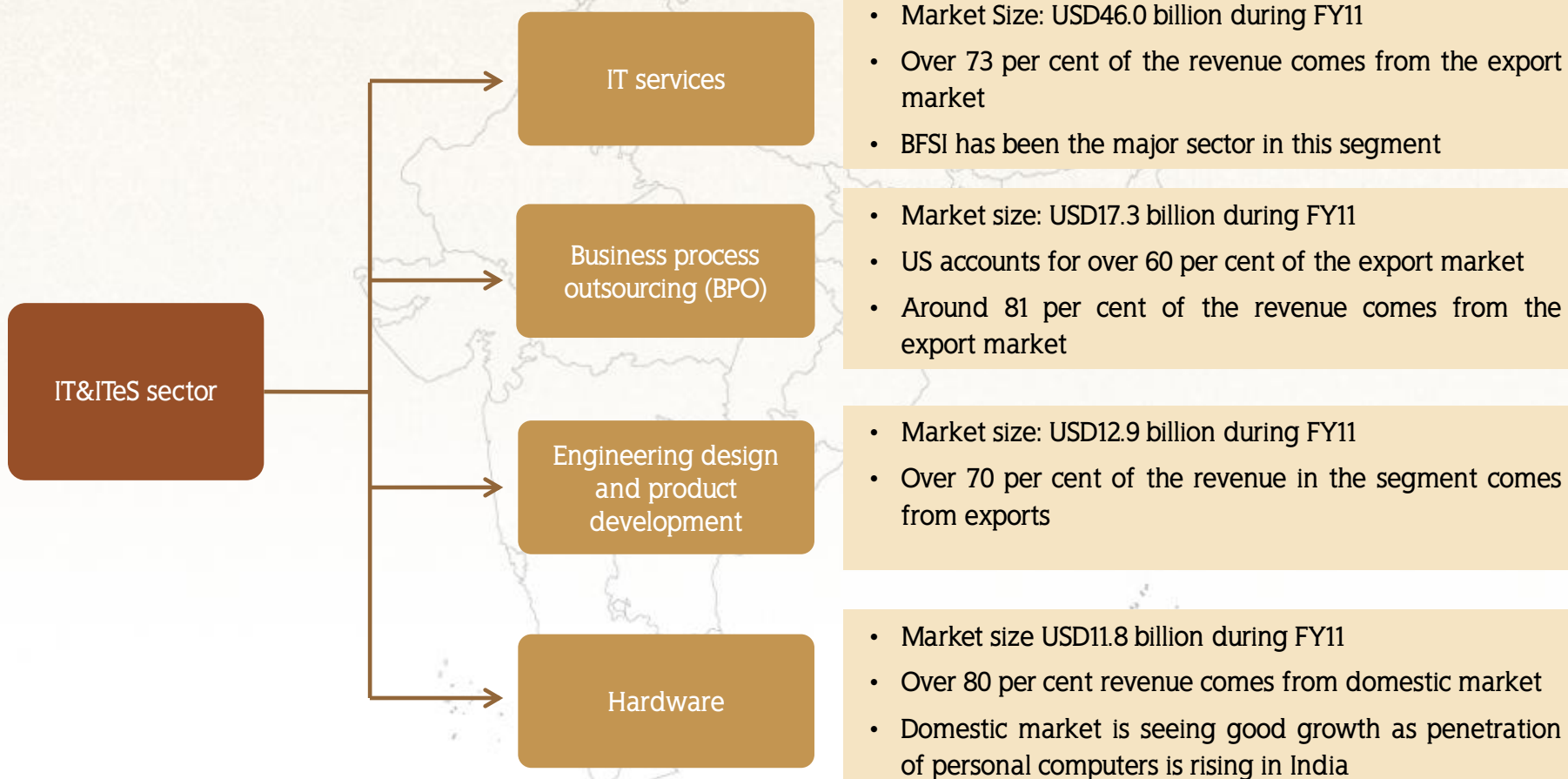
- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Opportunities
- ❖ Success story: Infosys
- ❖ Useful information

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Evolution of the Indian IT sector



Segments of the Indian IT sector



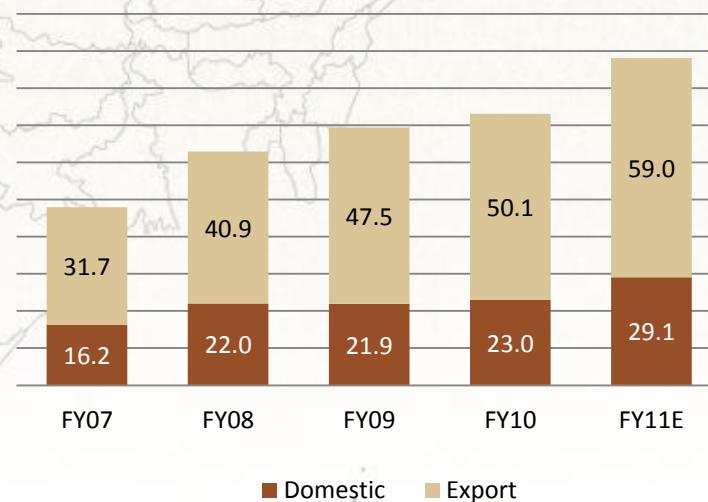
Source: Nasscom, Aranca Research

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

- Indian technology and BPO sector is estimated to have generated USD88.1 billion in revenue during FY11 at a year-on-year growth rate of 20.1 per cent
- As a proportion of India's GDP, the contribution of IT sector has risen from 1.2 per cent in FY98 to 6.4 per cent in FY11

Note: The revenue figures of Cognizant are for the year ending 2010

Market size of IT industry in India (USD billion)



Source: Nasscom, Aranca Research

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

- TCS is the market leader commanding over 8.5 per cent of the total Indian IT & ITeS revenue
- Top firm firms share around 35 per cent of total industry revenue showing that the market is fairly competitive

Market share of major IT players based on revenues (2010)

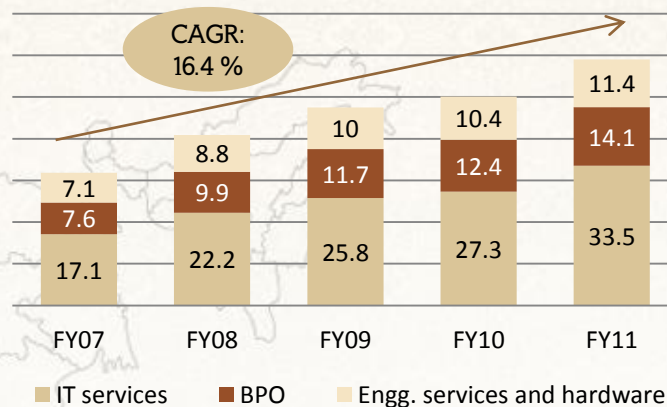
Company name	Market share
TCS	8.5%
Wipro	7.9%
Infosys	6.9%
Cognizant	5.2%
HCL Tech	4%
Tech Mahindra	1.2%
Mahindra Satyam	1.2%

Source: Aranca Research

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

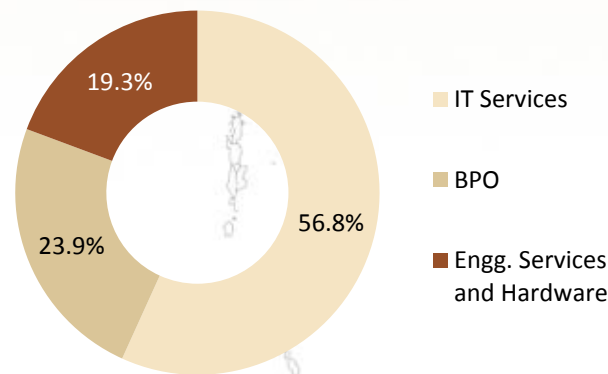
- Total exports from the IT sector stands at USD59 billion during FY11; the industry has seen strong growth at a CAGR of 16.4 per cent during FY07-11 despite weak global economic growth scenario
- IT services' exports has been the major contributor to the exports market of India with exports of over 57 per cent of the total IT exports during FY11
- BPO commands an export share of around 24 per cent

Sector-wise export revenues (USD billion)



Source: Nasscom, Aranca Research
Note: CAGR stands for Compounded Annual Growth Rate

Sector-wise breakup of export revenues FY11



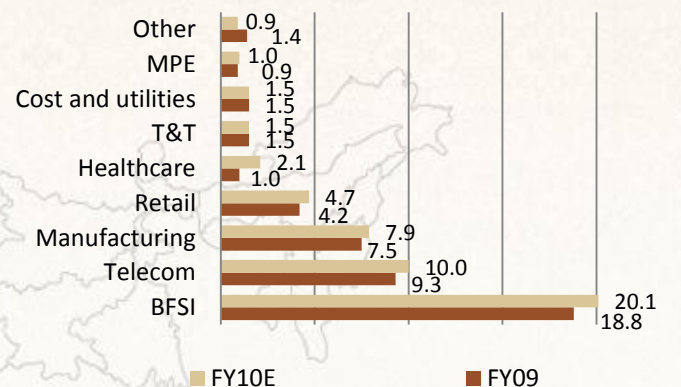
Source: Nasscom, Aranca Research

BFSI the major vertical in the IT-BPO segment

- BFSI is the major vertical of business for the IT-BPO segment with export revenue of USD20.1 billion during FY10 commanding a share of over 40 per cent of the total IT-BPO exports from India during FY10
- 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

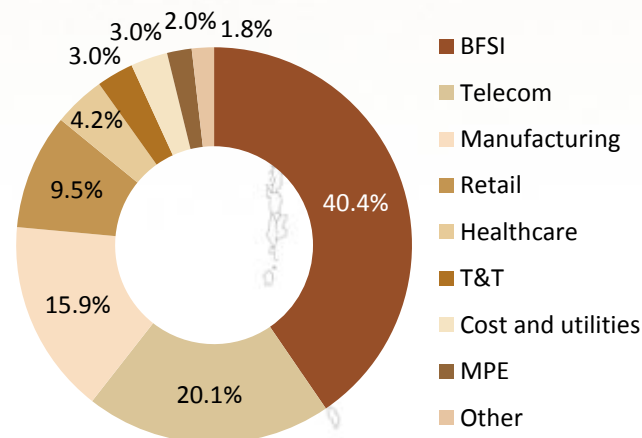
T&T: Travel and Tourism, MPE: Media, Publishing and Entertainment
Note: The figures mentioned are for IT and BPO only and do not include engineering services and hardware exports

Export revenues breakup across verticals (USD billion)



Source: Nasscom, Aranca Research

Market share in terms of export revenue (FY10E)



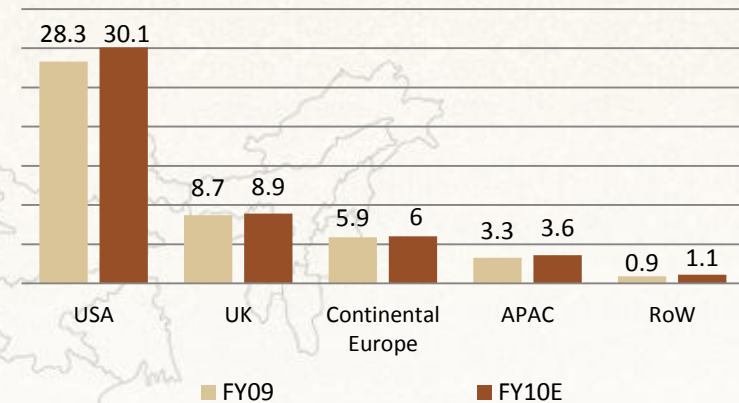
Source: Nasscom, Aranca Research

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 and during FY10 over 60 per cent of Indian IT-BPO exports worth USD30.1 billion were absorbed by the US
- Non US-UK countries only share 21.5 per cent of the total Indian IT-BPO exports
- Demand from emerging countries is expected to show strong growth going forward

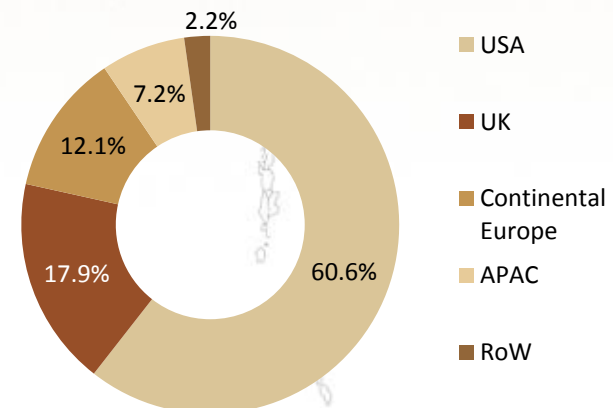
Note: The figures mentioned are for IT and BPO only and do not include Engg. Services and hardware exports RoW is Rest of the World, APAC is Asia Pacific

Geographical segmentation of export revenue (USD billion)



Source: Nasscom, Aranca Research

Geographical segmentation of export revenue (FY10)



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

Source: Nasscom, Aranca Research

Notable trends in the Indian IT&ITeS sector

Global sourcing hub

- India has been rated as the most attractive location for global sourcing
- India offers low cost, vast skilled talent pool, good quality of infrastructure etc as adjudged in the rankings by AT Kearney

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 crossed 250 centres in over 60 countries as of 2009
- 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

Contents

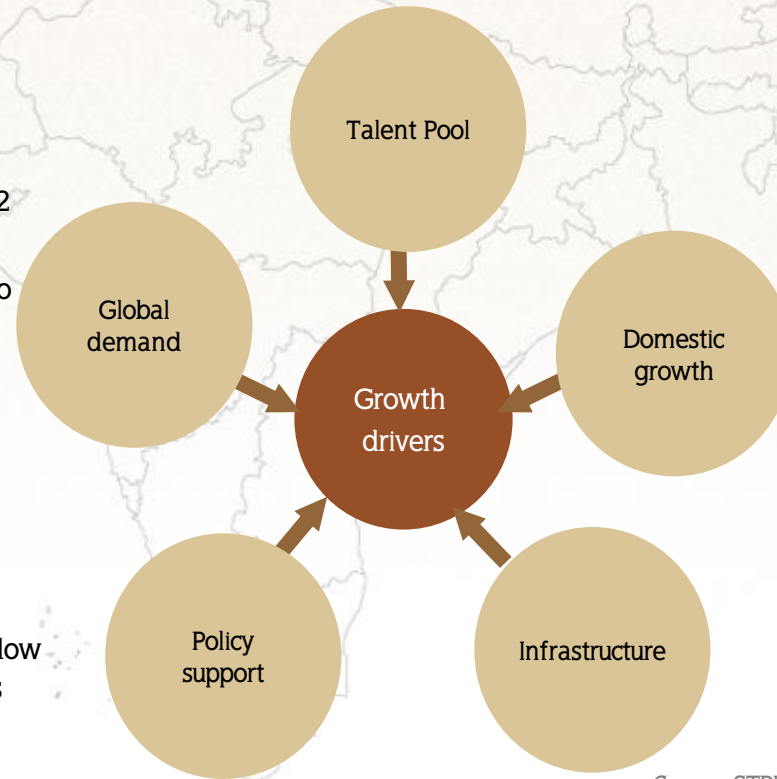
- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Opportunities
- ❖ Success story: Infosys
- ❖ Useful information

IT sector to be driven by strong demand and Indian expertise

- 3.7 million addition to talent pool every year
- Strong mix of young and experienced professionals

- Global IT offshore spending expected to grow at CAGR of 6.2 per cent during FY08-13
- Global BPO spending expected to grow at a CAGR of 9.1 per cent during FY08-13

- 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

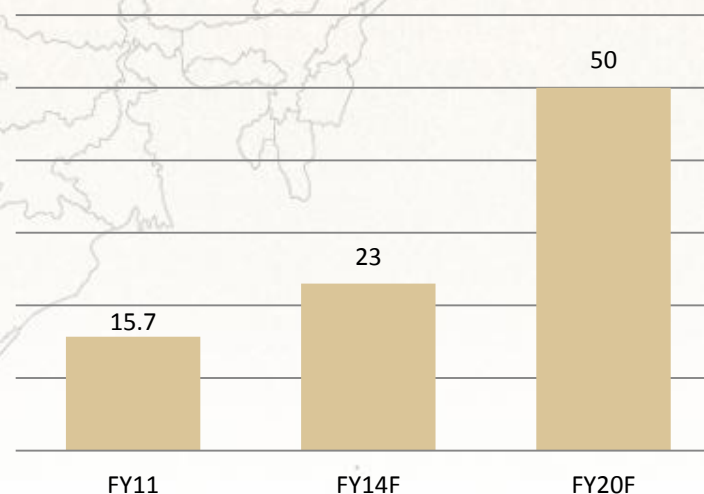
- Robust IT infrastructure across various Indian cities such as Bengaluru
- Delivery centres spread across various countries

Source: 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)

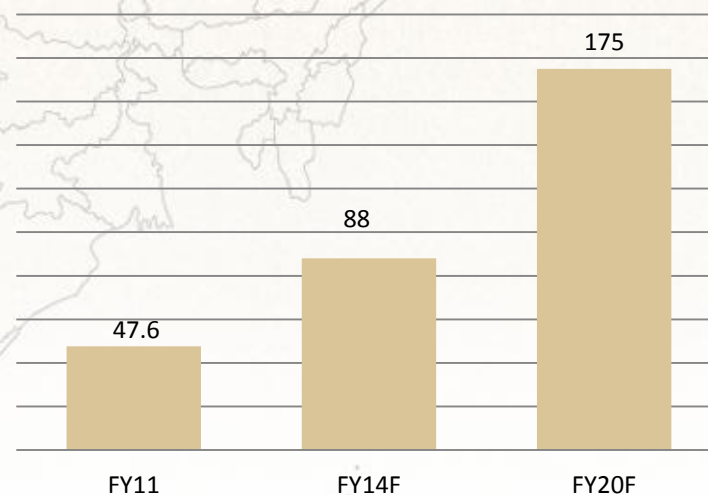


Source : Nasscom, Aranca Research

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)

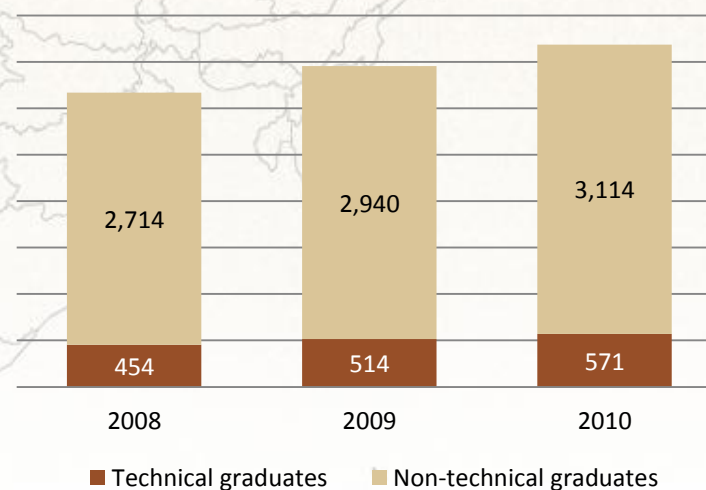


Source : Nasscom, Aranca Research

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 over 3.7 million graduates during 2010
- Growing talent pool of India has the ability to drive the R&D and innovation business in the IT-BPO space

Graduates addition per year in India ('000)



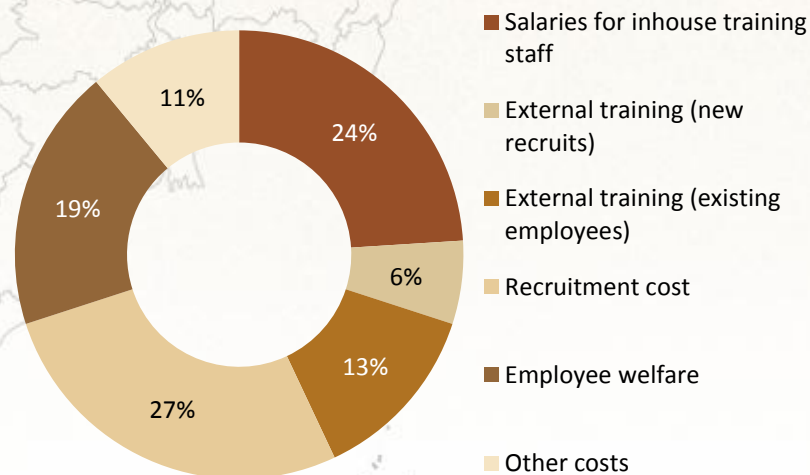
Source : Nasscom, Aranca Research

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



Source : Nasscom, Aranca Research

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

- During FY10, 94 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"> • 100 per cent tax holiday on export profits • Exemption from excise duties and customs 	<ul style="list-style-type: none"> • 100 per cent tax holiday on exports for first five years • Exemption from excise duties and customs
Location and size restrictions	<ul style="list-style-type: none"> • No location constraints • 23 per cent STPI units in tier II and III cities 	<ul style="list-style-type: none"> • Restricted to prescribed zones with a minimum area of 25 acres

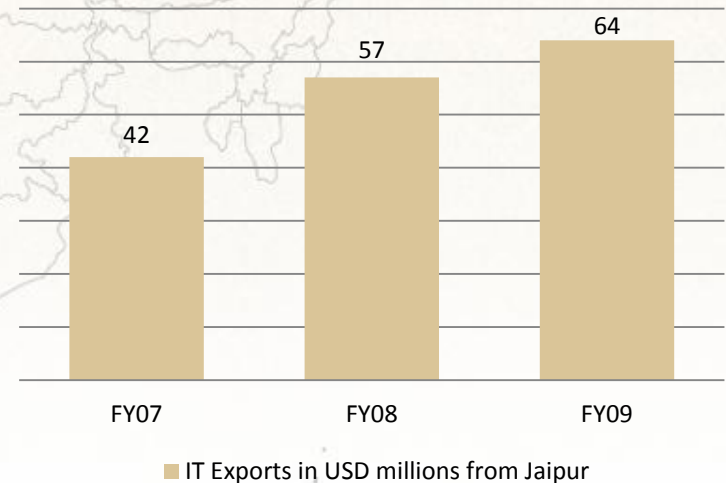
Source : Nasscom, Aranca Research

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

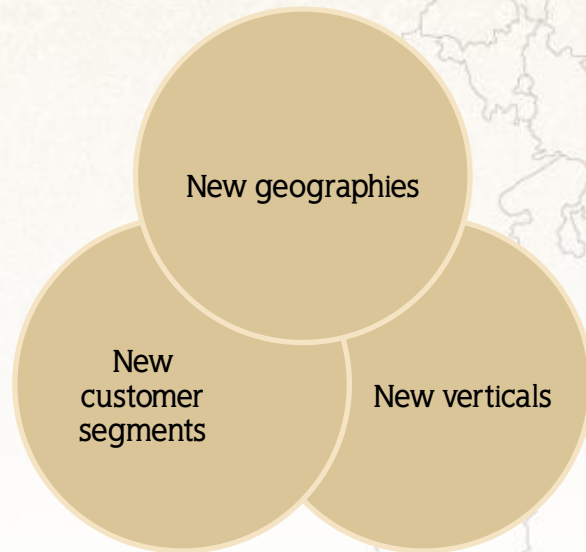


Source : Nasscom, Aranca Research

Contents

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

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

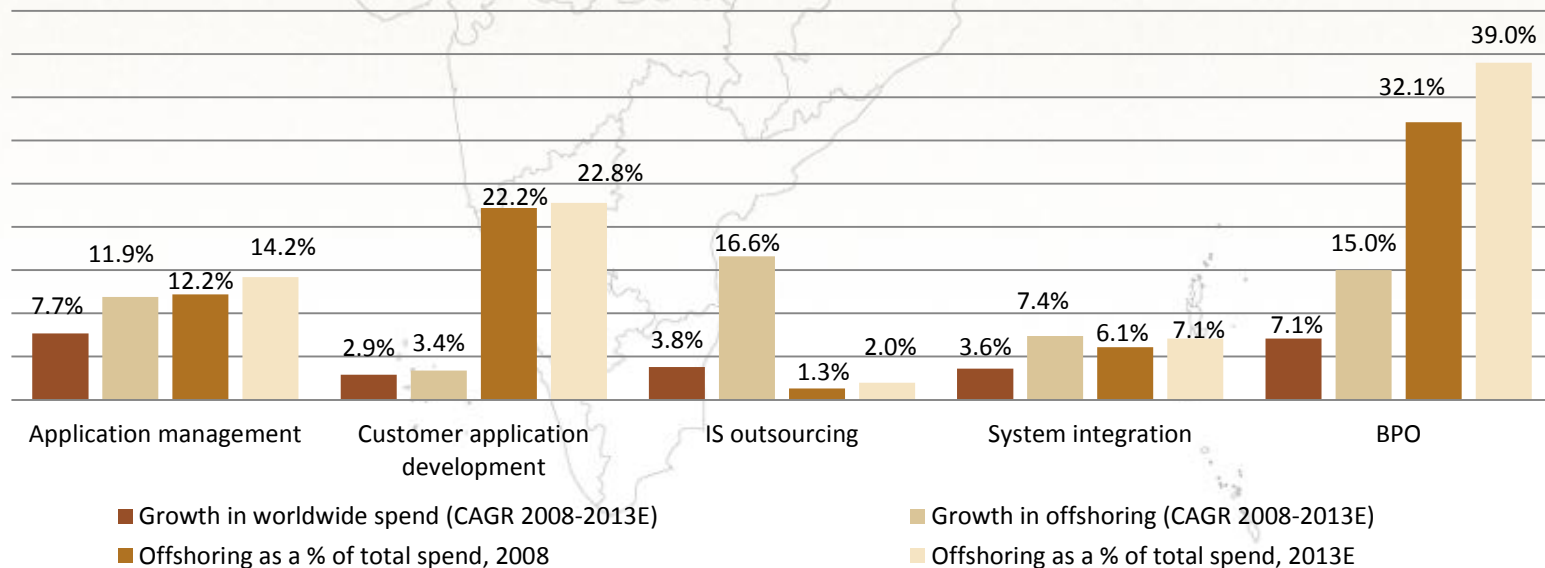
- Public sector, healthcare, media and utilities have IT spend of over USD587 billion but constitute only 20 per cent of India's IT revenues
- A number of sectors are expected to depend on technology and service providers to reduce the cost to serve

Source: 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



Contents

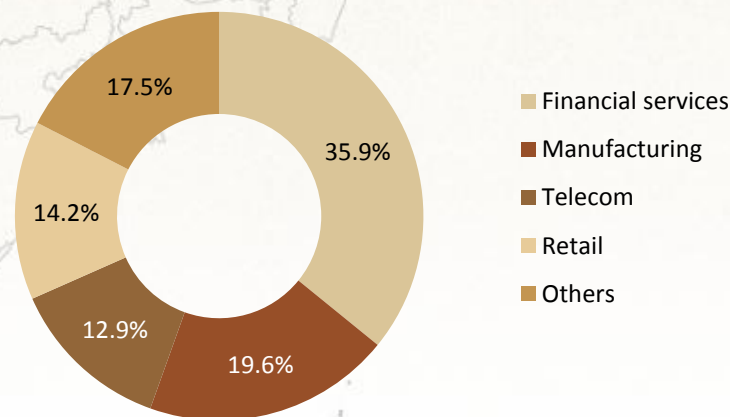
- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Opportunities
- ❖ Success story: Infosys
- ❖ Useful information

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

Milestones

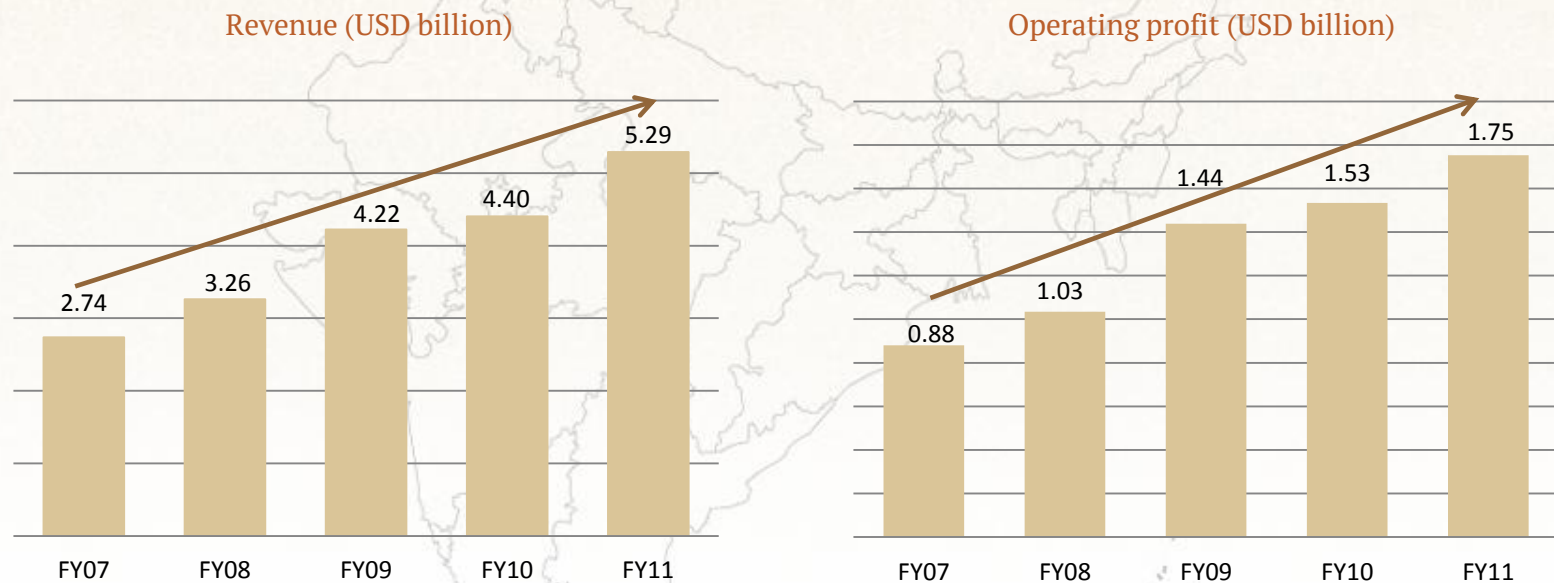
- 1983: Infosys is founded by six engineers in Pune with an initial capital of USD250
- 1993: Goes public
- 1999: Touches revenue of USD100 million; Listed on NASDAQ
- 2006: Infosys celebrates 25 years; Revenues cross USD2 billion; Employees grow to 50,000+
- 2008: Infosys crosses revenue of USD4 billion; Net profit cross USD1 billion
- 2009: Infosys selected member of the global Dow; Employee strength crosses 1,00,000

Segment wise revenue breakup (FY11)



Source: Infosys website and Annual report

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



Contents

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

Industry Associations

National Association of Software and Services Companies (NASSCOM)

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

Phone: 91 11 2301 0199

Fax: 91 11 2301 5452

E-mail: info@nasscom.in



Glossary

- **BFSI:** Banking, Financial Services and Insurance
- **BPO:** Business Process Outsourcing
- **FDI:** Foreign Direct Investment
- **GOI:** Government of India
- **INR:** Indian Rupee
- **IT&ITeS:** Information Technology-Information Technology Enabled Services
- **SEZ:** Special Economic Zone
- **T&T:** Travel and Transport
- **USD:** US Dollar
 - Conversion rate used: USD1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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