

Indian IT-BPO Industry 2009: NASSCOM Analysis

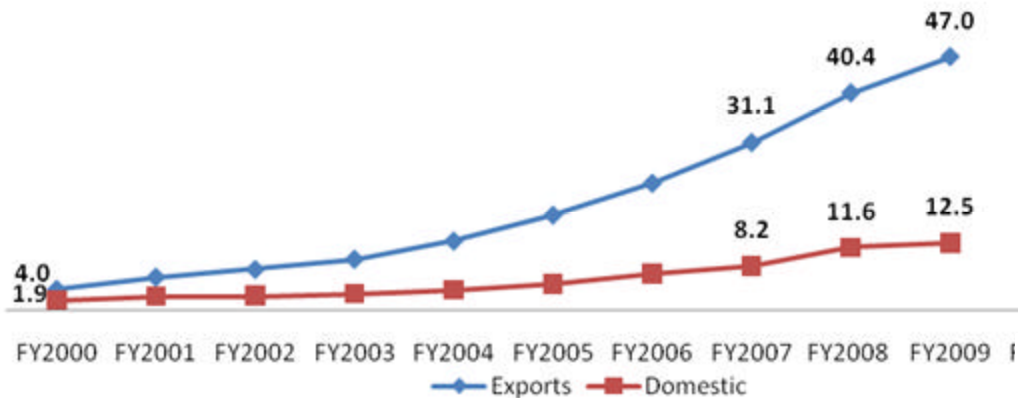
I. Highlights

2008 was a year of transformation for the Indian IT – BPO sector as it began to re-engineer challenges posed by macro-economic environment, with the worldwide spending aggregate estimated to reach nearly USD 1.6 trillion, a growth of 5.6 per cent over the previous year.

- **Global market**
 - o Software and services touched USD 967 billion, an above average growth of 6.3 per cent over past year
 - o Worldwide BPO grew by 12 per cent, the highest among all technology related segments
 - o Hardware spend is estimated to have grown by 4 per cent from USD 570 billion nearly USD 594 billion in 2008
- **Market**
 - o Though the demand side challenges have emerged in terms of reduction in discretionary IT spending, the upside is that outsourcing can help organizations to work through financial and competitive challenges
 - o 2008 was a strong year as number of contracts, total contract value and annualized contract values exceeded as compared to 2007.
 - o Among all users above average growth was witnessed in the Government, Healthcare and manufacturing segments

II. Industry Performance

(USD billion)



Indian IT-BPO Industry - Sector-wise revenue break-up

USD billion	FY2005	FY2006	FY2007	FY2008	FY2009E
IT Services	13.5	17.8	23.3	31.0	35.2
-Exports	10.0	13.3	17.8	23.1	26.9
-Domestic	3.5	4.5	5.5	7.9	8.3
BPO	5.2	7.2	9.5	12.5	14.8
-Exports	4.6	6.3	8.4	10.9	12.8
-Domestic	0.6	0.9	1.1	1.6	1.9
Engineering Services and R&D, Software Products	3.8	5.3	6.5	8.6	9.5
-Exports	3.1	4.0	4.9	6.4	7.3
-Domestic	0.7	1.3	1.6	2.2	2.3
Total Software and Services Revenues	22.5	30.3	39.3	52.0	59.6
<i>Of which, exports are</i>	17.7	23.6	31.1	40.4	47.0
Hardware	5.6	7.1	8.5	12.0	12.1
-Exports	0.5	0.6	0.5	0.5	0.3
-Domestic	5.1	6.5	8.0	11.5	11.8
Total IT Industry (including Hardware)	28.1	37.4	47.8	64.0	71.7

Notes:

*E: Estimates**Figures may not add up due to rounding off.**Source: NASSCOM***III. Growth in Revenues**

- Indian IT-BPO grew by 12 per cent in FY2009 to reach USD 71.7 billion in aggregate revenue. Software and services exports (includes exports of IT services, BPO, Engineering Services and R&D and Software products) reached USD 47 billion, contributing nearly 66 per cent to the overall IT-BPO revenue aggregate.
- IT-BPO exports (including hardware exports) reached USD 47.3 billion in FY2009 as against USD 40.9 billion in FY2008, a growth of 16 per cent.
- While the US (60 per cent) and the UK (19 per cent) remained the largest IT-BPO export markets in FY2008, the industry footprint is steadily expanding to other geographies - with exports to Continental Europe in particular growing at a CAGR of more than 51 per cent over FY2004-2008.
- The industry's vertical market exposure is well diversified across several mature and emerging sectors. Banking, Financial Services and Insurance (BFSI) remained the largest vertical market for Indian IT-BPO exports, followed by Hi-tech/Telecom which together accounted for 61 per cent of the Indian IT-BPO exports in FY2008.

- Domestic IT market (including hardware) reached USD 24.3 billion in FY2009 as against USD 23.1 billion in FY2008, a growth of 5.3 per cent. Hardware grew at 2.6 per cent; Software and services spending supported by increasing adoption, grew by almost 8 per cent.
- Direct employment in Indian IT-BPO crossed the 2.2 million mark, an increase of about 226,000 professionals over FY2008; indirect job creation is estimated at about 8 million.
- IT services (incl. engineering services, R&D, Software products) exports, BPO exports and Domestic IT industry provides direct employment to 947,000, 790,000 and 500,000 professionals respectively.
- As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 5.8 per cent in FY2009. Net value-added by this sector, to the economy, is estimated at 3.5-4.1 per cent for FY2009.
- **Exports** - Contributing 66 per cent to the overall revenue aggregate, exports remained the mainstay of the Indian IT-BPO growth story. Software and services exports, accounting for over 99 per cent of the total exports, reached USD 47 billion and directly employed over 1.7 million professionals in FY2009.
 - Broad-based growth across all the segments of IT services, BPO, Software products and engineering services, is reinforcing India's leadership as the key sourcing location for a wide range of technology related services with Increasing traction in RIM & Application management and widening service portfolios
 - **IT services** (excluding BPO, product development and engineering services), contributed 57 per cent to total exports to reach USD 26.9 billion.
 - **BPO services** exports, up 18 per cent, was the fastest growing segment across software and services exports driven by scale as well as scope. BPO service portfolio was strengthened by vertical specialization and global delivery capabilities.
 - Complementing the strong growth in IT services and BPO exports was the continued growth across **Software product development and engineering services** which also reflected India's increasing role in global technology IP creation. Export revenues from these relatively high-value-added services such as engineering and R&D, offshore product development and made-in-India software products grew at 15 per cent, and clocked USD 7.3 billion in FY2009.
- **Domestic** – In FY2009, domestic market (including hardware) grew at nearly 19 per cent in INR terms to reach INR 1,113 billion (USD 24.3 billion); domestic software and services market reached INR 572 billion (USD 12.5 billion).

Global Markets

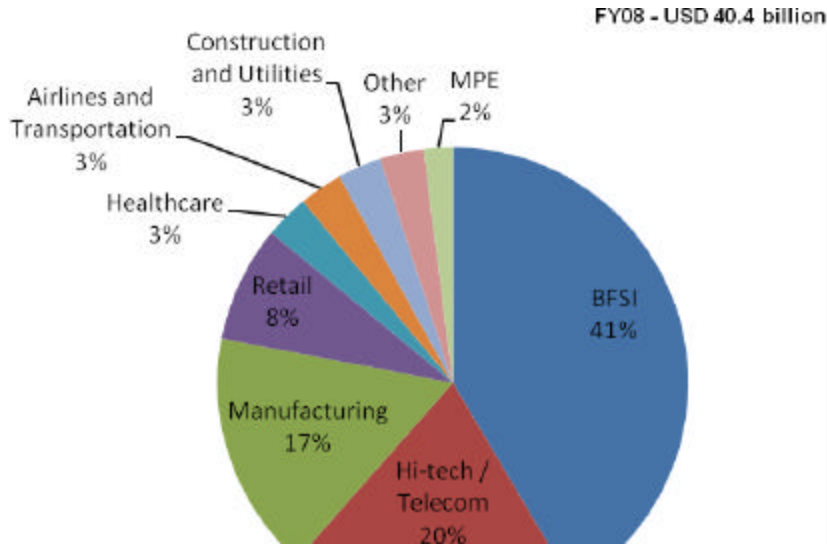
While the US and the UK remain the largest export markets (accounting for about 60 per cent and 19 per cent respectively, in FY2008), the industry footprint is steadily expanding

Market	FY05	FY06	FY07	FY08
Americas	68.30%	67.18%	61.40%	60%
Europe (incl. UK)	23.10%	25.13%	30.10%	31%
Rest of the World (incl. APAC)	8.60%	7.69%	8.50%	9%

Growth Verticals

BFSI, Hi-Tech/Telecom continued to account for more than 60 per cent of the market. Healthcare industry is likely to witness increased IT investments due to increased focus on public health, making

healthcare and insurance affordable to all. Other industries that will see growth include telecom, retail and utilities, etc.



IV. Knowledge Professionals employed in the Indian IT-BPO sector

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
IT Exp. & Services Exports	170,000	205,000	296,000	390,000	513,000	690,000	860,000	946,809
BPO Exports	106,000	180,000	216,000	316,000	415,000	553,000	700,000	789,806
Domestic Market	246,250	285,000	318,000	352,000	365,000	378,000	450,000	500,000
Total	522,250	670,000	830,000	1,058,000	1,293,000	1,621,000	2,010,000	2,236,614

*Figures do not include employees in the hardware sector
Source: NASSCOM

V. Domestic Market Matures

Technology adoption in the domestic market also reported steady gains in FY2009. This segment is expected to reach INR 1,113 billion (USD 24.3 billion) in FY2009, reporting healthy growth across all key segments.

Domestic IT services spends are estimated to grow 20 per cent to touch INR 380 billion (USD 8.3 billion) terms and are showing strong signs of increasing sophistication as building enterprise IT infrastructures and applications, networking and communication become key priorities for India Inc.

Software and BPO spending growth in the domestic market is being supported by increasing adoption. While the software product segment registered a growth 15 per cent (INR 103 billion, USD 2.3 billion), domestic BPO segment recorded the fastest growth of about 40 per cent to reach INR 88.7 billion (USD 1.9 billion).

Hardware segment reached INR 541 billion (USD 11.8 billion) in FY2009, a growth of 17 per cent over FY2008.

VI. Going forward

- The global technology related spending is expected to reduce for the first 2-3 quarters of 2009 on account of the downturn but is expected to pick up in 2010.
- Greater focus on cost and operational efficiencies in the recessionary environment is expected to enhance global sourcing
- There would be pricing pressures coupled with contract renegotiations due to the economic uncertainty. India Inc would remain focused on tactical measures to achieve cost savings and greater productivity
- Services and software segments are estimated to cross USD 1.2 trillion by 2012. This is more than the 5.2 per cent growth expected in the total IT spending
- The worldwide BPO market is expected to grow at a CAGR of 11.9 per cent to reach USD 181 billion by 2012, while ITO market is expected to grow at a CAGR of 6.9 per cent and reach USD 275 billion by 2012
- The huge potential for global sourcing is further highlighted by an addressable market size of USD 500 billion in 2008, which is more than five times bigger than the current market
- The industry will continue to diversify in terms of geographies, verticals and service lines
- SMBs are expected to emerge as a significant opportunity due to lower IT adoption currently
- Lack of working age population in the developed economies and a significant long term cost arbitrage indicates India's sustained cost competitiveness
- Service providers are expected to enhance focus to domestic market to de-risk business and tap into the local growth opportunities
- India Inc. is likely to increase its focus on developing a comprehensive risks framework and identify steps in managing them
- Key stakeholders needs to work seamlessly so as to maximise the opportunity and highlight India on the global map, as the industry is expected to be India's growth engine