INDIAN IT INDUSTRY: NASSCOM ANALYSIS

FY 2006-07 witnessed a revalidation of the Indian Information Technology – Business Process Outsourcing (IT-BPO) growth story, driven by a maturing appreciation of India's role and growing importance in global services trade. Industry performance was marked by sustained double-digit revenue growth, steady expansion into newer service-lines and increased geographic penetration, and an unprecedented rise in investments by Multi-national Corporations (MNCs) – in spite of lingering concerns about gaps in talent and infrastructure impacting India's cost competitiveness. The sector looks set to close the year at record levels, with the revenue aggregate growing by nearly ten times over the past ten years.

Positive market indicators including large unaddressed white-spaces and the unbundling of IT-BPO mega-deals with increasing shares of global delivery, strongly support the optimism of the industry in achieving its aspired target of USD 60 billion in exports by 2010.

While India is uniquely advantaged to best address these opportunities, they are not lost to others. Timely, coherent and continued action is needed to ensure that India makes the most of these opportunities and maintains its lead.

Key Highlights of the IT-ITES sector performance

IT Industry-Sector-wise break-up

USD billion	FY 2004	FY 2005	FY 2006	FY 2007E
IT Services	**10.4**	**13.5**	**17.8**	**23.7**
-Exports	7.3	10.0	13.3	18.1
-Domestic	3.1	3.5	4.5	5.6
ITES-BPO	**3.4**	**5.2**	**7.2**	**9.5**
-Exports	3.1	4.6	6.3	8.3
-Domestic	0.3	0.6	0.9	1.2
Engineering Services and R&D, Software Products	**2.9**	**3.9**	**5.3**	**6.5**
-Exports	2.5	3.1	4.0	4.9
-Domestic	0.4	0.8	1.3	1.6
Total Software and Services Revenues	**16.7**	**22.6**	**30.3**	**39.7**
Of which, exports are	**12.9**	**17.7**	**23.6**	**31.3**
Hardware	**5.0**	**5.9**	**7.0**	**8.2**
Total IT Industry (including Hardware)	**21.6**	**28.4**	**37.4**	**47.8**

Total may not match due to rounding off
**NASSCOM estimates have been reclassified to provide greater granularity*
– *Historical values for a few segments have changed due to availability of updated information*

- **Growth in Revenues:** The Indian IT-ITES sector (including the domestic and exports segments) is expected to exceed USD 47.8 billion in annual revenue in FY07, an increase of nearly 28 percent in the current fiscal
  - Contribution to GDP estimated to be 5.4% up from 4.8% last year.
  - Service and software exports remain the mainstay of the sector contributing USD 31.3 billion and beating forecast to register a 32.6% growth
  - Increasing traction in offshore product development and engineering services is supplementing India's efforts in IP creation. This segment is growing at 22-23 percent and is expected to report USD 4.9 billion in exports, in FY 2006-07.
  - MNC investments reach an unprecedented scale; over USD 10 billion announced in FY 2006-07, to be invested over the next few years.

- **Service-line expansion:** Aiding service providers to take on larger and more complex deals, and is driving up the average size of contracts awarded to Indian firms. Indian Service Providers have grown their share of contracts of values in excess of USD 50 million dollars from 1% in 2002 to 7% in 2006.
  - High offshore component of delivery and superior execution in multi-location delivery continue to be key differentiators
  - Broad-based industry structure - IT led by large Indian firms, BPO by a mix of Indian and MNC third-party providers and captives, reflects the depth of the supply-base
  - Even though larger players continue to lead growth, gradually increasing their share in the industry aggregate; several high-performing SMEs also stand out

- **Employment Trends & NASSCOM Initiatives:** Total IT Software and services employment to reach 1.6 million in FY07. The industry in collaboration with the government and other stakeholders has initiated several initiatives to further enhance the availability and access to suitable talent for IT-ITES in India
  - The NAC (NASSCOM Assessment of Competence has been nationally rolled our in November 2006, after a successful pilot. This is being taken to a number of states in 2007
  - A comprehensive skill assessment and certification programs for entry-level talent and executives (low-middle level management) is underway
  - An image enhancement program to build greater awareness about the career opportunities in this segment is underway
  - NASSCOM has been working with the academia across the country under its IT Workforce development initiative to encourage and facilitate greater industry interaction; NASSCOM has signed MoUs with UGC and AICTE to take forward these initiatives
  - NASSCOM has suggested the concept of experimenting with adapting the Special Economic Zone concept (deregulation and removal of restrictions) for education, and create Special Education Zones. The long term steps that are needed include much higher government investment in education, major education reform and better compensation and research grants for teachers/researchers
  - NASSCOM has proposed the setting up of a chain of finishing schools for IT professionals to make them more employable with a simple 3-4 months of

honing of technical skills and imparting soft skill training, helping bridge the manpower supply-demand gap by at least 30-40%. It has been proposed that finishing schools be set up by the IITs and National Institutes of Technology.

Employment figures-Software and Services sector

Sector	FY 2004	FY 2005	FY 2006	FY 2007E
IT Services	215000	297000	398000	562000
ITES-BPO	216000	316000	415000	545000
Engineering Services and R&D and Software Products	81000	93000	115000	144000
Domestic Market (including user organizations)	318000	352000	365000	378000
TOTAL*	**830000**	**1058000**	**1293000**	**1630000**

**Figures do not include employees in the hardware sector*

- **Domestic Market Matures:** Complements the continued growth in IT-ITES exports and for the first time ever in FY 2006 showed signs of breaking out of the hardware led growth and the trend of software and services gaining share is expected to continue
  - The total size of the domestic market is expected to cross USD 15.9 billion in FY 2006-07, a growth of 21 percent over FY 2005-06
  - Traditionally, this segment has been led by MNCs. However, Indian firms are gradually gaining ground. Overtime this segment could become a larger SME play, as the mid-sized firms increase their levels of IT adoption

- **Global Markets:** While US and UK remain the dominant markets for IT-ITES exports, revenues from newer markets are growing rapidly

	FY03	FY04	FY05	FY06
Americas	69.10%	69.40%	68.30%	67.18%
Europe	22.20%	22.60%	23.10%	25.13%
Rest of the World	8.70%	8.00%	8.60%	7.69%

Growth Verticals: BFSI, Telecom and Hi-Tech continue to account for approximately 60% of the pie. Other verticals such manufacturing, retail, transportation, healthcare and utilities are also growing rapidly

- **Emerging Locations -** As global delivery matures, newer locations are emerging; however India is expected to remain the undisputed leader

- **Going forward:** For India to fully capitalize on the opportunity and sustain a disproportionate lead in the global IT-ITES space, stakeholders need to continue working towards timely and coherent execution of initiatives to address supply-side concerns across the following areas
  - Augmenting Talent Supply

- Creating world-class infrastructure
- Strengthening information security
- Enhancing operational excellence
- Providing regulatory support
- Catalyzing domestic market development
- Fostering an ecosystem for innovation