

NASSCOM Launches Strategic Review 2009 at the India Leadership Forum

The annual study on the performance of the Indian IT-BPO industry points to double digit growth in 2007-08, but tougher time ahead.

NASSCOM's Strategic Review, the final word on the annual statistics related to the Indian IT-BPO industry, was released at the India Leadership Forum 2009 in Mumbai. The study described 2008 as a transformational year for the IT-BPO sector, where it re-engineered itself to face the challenges presented by a global economic downturn.

According to the report, during 2007-08, the Indian IT-BPO industry maintained its double digit growth rate and was a net hirer. This growth was fueled by increasing diversification in the geographic base and industry verticals, and adaptation in the service offerings portfolio.

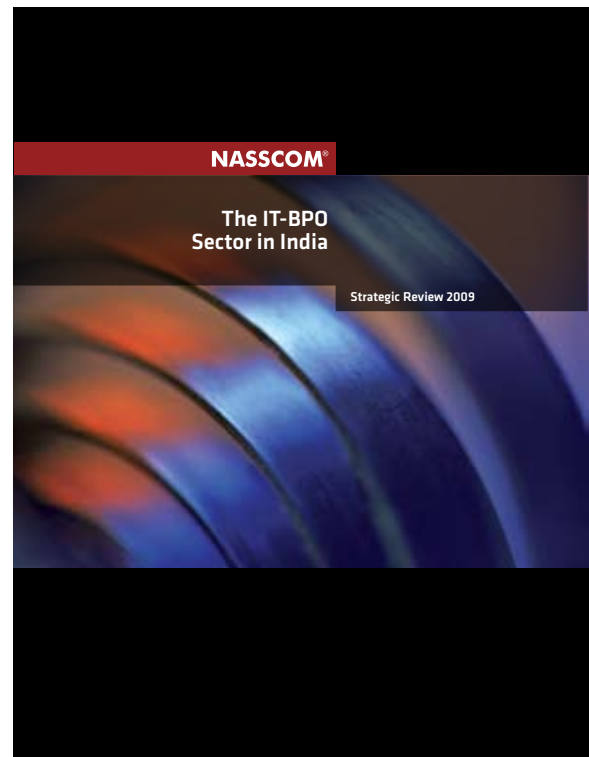
While the effects of the economic crisis were expected to linger in the near term future, the Indian IT-BPO industry displayed resilience and tenacity in countering the unpredictable conditions and reiterating the viability of India's fundamental value proposition. Consequently, India managed to retain its leadership position in the global sourcing market.

At the same time, the survey showed that substantial growth would take place over the next two years enabling the industry to get past the USD 60 billion export target in FY2011.

The performance of the Indian IT-BPO industry

Here are some of the highlights of Strategic Review 2009:

- The Indian IT-BPO industry was estimated to achieve revenues of USD 71.7 billion in FY2009, with the IT software and services industry accounting for USD 60 billion of revenues
- During this period, direct employment was expected to reach nearly 2.23 million, an addition of 226,000 employees
- Indirect job creation was estimated to touch 8 million
- As a proportion of national GDP, the sector revenues grew from 1.2 per cent in FY1998 to an estimated 5.8 per cent in FY2009. The net



value-added by this sector, to the economy, was estimated at 3.5-4.1 per cent for FY2009

- The sector's share of total Indian exports (merchandise plus services) increased from less than 4 per cent in 1998 to almost 16 per cent in 2008
- Export revenues touched USD 47.3 billion in FY2009, accounting for 66 per cent of the total IT-BPO industry revenues. Cross currency movement during the year, led by the strengthening (and high volatility) of the US dollar versus some of the major invoicing currencies (Euro, Pound), suppressed volume growth in the European market by about 2.2 per cent at an industry level. While the US, with a 60 per cent share remained the largest export market for Indian IT-BPO services, incremental growth was being driven by the European market, with UK and Continental Europe growing at a CAGR of 41.1 per cent and 51.4 per cent in the period FY2004-08
- The industry's vertical market mix was well-balanced across several mature and

emerging sectors, with the BFSI segment remaining the largest vertical, accounting for over 41 per cent of the total revenues

- The IT services segment aggregated export revenues of USD 26.9 billion, accounting for 57 per cent of total exports
- Indian IT service providers evolved from application development and maintenance companies, to full service players providing testing services, infrastructure services, consulting and system integration
- Within these segments, it was IT outsourcing that exhibited strong growth, in line with global trends

According to the report, strong fundamentals, a robust enabling environment, and enhanced value delivery capability were the hallmarks of the Indian IT-BPO industry in the year gone by and would continue to be its key differentiators.

- Remote infrastructure management, expected to deliver almost 30 per cent net savings to customers, continued its robust performance, with an above average growth of 25 per cent expected in FY2009
- BPO remained the fastest growing segment of the industry, and was estimated to reach USD 12.8 billion in FY2009, growing at 17.5 per cent
- The engineering, R&D, and software products segment was also expected to grow by 14.4 per cent in the current fiscal, to touch USD 7.3 billion

Domestic market on a roll

The Strategic Review 2009 indicated a robust domestic market, stating that it presented a significant opportunity as IT spending in India was growing at a pace faster than any other country in the Asia Pacific region. The demand for offshoring was also gaining momentum in the Indian market, driven by a need for specialised skill sets by organisations and not just labour arbitrage. Domestic IT-BPO revenues were expected to grow at almost 20 per cent to reach INR 1,113 billion in FY2009, spurred by increased IT-BPO adoption. While growth in the hardware spend (the largest segment) had moderated, the domestic BPO segment remained the stellar performer, with a growth of 40 per cent during FY2008, and revenues of INR 88.7 million.

Domestic IT services were expected to grow by 20 per cent in FY2009.

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Future outlook

The study pointed out that going forward, the key global sourcing drivers would continue to be cost, access to talent, business improvements, increasing speed-to-market and access to emerging markets. The future outlook for all these drivers was positive, leading to increased momentum for global sourcing. The focus on cost reduction is expected to increase, keeping in mind the current recessionary environment. Environmental considerations such as climate change, global warming, social responsibilities, and compliance issues would all add up to an increase pressure on margins, that would need offsetting by increasing global sourcing. Access to talent is likely to become more decisive as workforce demographics indicate a shortfall in the long-term, in all major developed countries such as USA, UK, France and Germany, Japan and some developing countries as well.

In the final analysis, it was pointed out that India, with its fundamental advantages could capture a large share of the opportunities available provided the country's IT-BPO industry worked closely with customers, the government and academia. It was also suggested that NASSCOM engage with all the stakeholders within the ecosystem, and step up its numerous activities to realise the full potential of the sector. Efforts towards enhancing information and data security; participation in public private initiatives in technology-led development; proactively working with academia to address quality of education and building an integrated delivery model in leading cities alongside Tier 2/3 locations were some of the critical imperatives for the industry and NASSCOM, the report said.

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- Access to talent
- Business improvements
- Increasing speed-to-market
- Access to emerging markets