

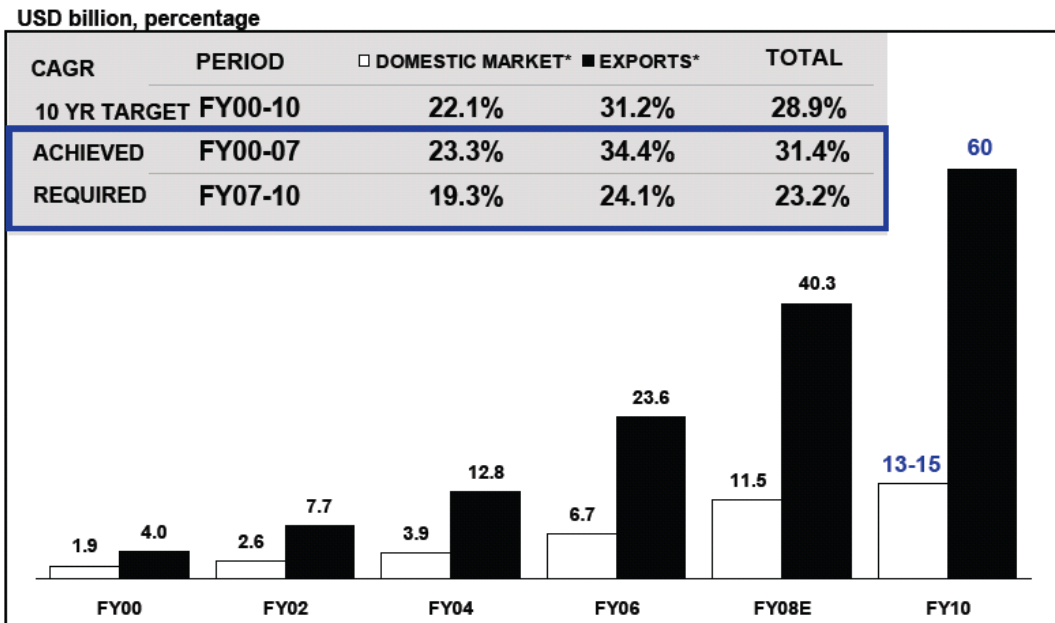
Indian IT-BPO Industry: NASSCOM Analysis

I. Highlights

2007 was a year of continued growth for the technology and related services sector, with the worldwide spending aggregate estimated to reach nearly USD 1.7 trillion, a growth of 7.3 per cent over the previous year.

- **Global market**
 - o Software and services continue to lead, accounting for over USD 1.2 trillion – over 71 per cent of the total spend in 2007
 - o Hardware spends, at USD 478 billion, accounted for over 28 per cent of the worldwide technology spending aggregate in 2007
- **Indian Market**
 - o Underlying the sustained growth were a range of economic, regulatory and demographic drivers – including a continued emphasis on trimming operational costs, dealing with increasing compliance and regulatory requirements, remaining price competitive, transforming into a global services oriented business model and addressing challenges of rising skill shortages, across several developed markets
 - o Strong optimism of the industry to achieve its aspired target of USD 60 billion in exports by 2010

II. Industry Performance



* Includes IT Software and Services, ES and Products, as well as ITES-BPO

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

USD billion	FY2004	FY2005	FY2006	FY2007	FY2008 E
IT Services	10.4	13.5	17.8	23.5	31.0
-Exports	7.3	10.0	13.3	18.0	23.1
-Domestic	3.1	3.5	4.5	5.5	7.9
ITES-BPO	3.4	5.2	7.2	9.5	12.5
-Exports	3.1	4.6	6.3	8.4	10.9
-Domestic	0.3	0.6	0.9	1.1	1.6
Engineering Services and R&D, Software Products	2.9	3.8	5.3	6.5	8.5
-Exports	2.5	3.1	4.0	4.9	6.3
-Domestic	0.4	0.7	1.3	1.6	2.2
Total Software and Services Revenues	16.7	22.5	30.3	39.5	52.0
<i>Of which, exports are</i>	12.9	17.7	23.6	31.3	40.3
Hardware	5.0	5.6	7.1	8.5	12.0
-Exports	0.5	0.5	0.6	0.5	0.5
-Domestic	4.4	5.1	6.5	8.0	11.5
Total IT Industry (including Hardware)	21.6	28.2	37.4	48.0	64.0

Note: Figures may not add up due to rounding off.

Source: NASSCOM

III. Growth in Revenues

- Continuing on its established track-record, the overall Indian IT-BPO revenue aggregate (including the domestic and exports segments and excluding hardware) is expected to grow by over 33 per cent and reach USD 64 billion by the end of the current fiscal year (FY2008).
- Over the same period, direct employment in the sector is expected to reach nearly 2 million, an increase of about 375,000 professionals over the previous year.
- As a proportion of national GDP, the Indian technology sector revenues have grown from 1.2 per cent in FY1998 to an estimated 5.5 per cent in FY2008. Net value-added by this sector, to the economy, is estimated at 3.3-3.9 per cent for FY2008
- **Exports** - Contributing 64 percent to the overall revenue aggregate, exports remain the mainstay of the Indian IT-BPO growth story. Software and services exports, accounting for over 98 per cent of the total exports, are expected to cross USD 40 billion and directly employ nearly 1.6 million professionals, in FY2008 – a commendable achievement over just about two decades
- **Exports by service segment**
 - Broad-based growth, across all the segments of IT services, BPO, product development and engineering services, is reinforcing India's leadership as the key sourcing location for a wide range of technology related services

- **IT services** (excluding BPO, product development and engineering services), contributing 57 per cent of the total exports, remains the dominant segment and is expected to cross USD 23 billion, a growth of 28 per cent in FY2008
- **BPO services**, accounting for over 1/4th of the export aggregate, is the fastest growing segment across software and services exports driven by scale as well as scope. Export revenues for this segment are expected to cross USD 10.9 billion, a growth of 30 per cent in FY2008
- Complementing the strong growth in IT services and BPO exports is the continued growth across **product development and engineering services**, which also reflects 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 is estimated to be growing at over 28 per cent, and are forecast to reach USD 6.3 billion in FY2008

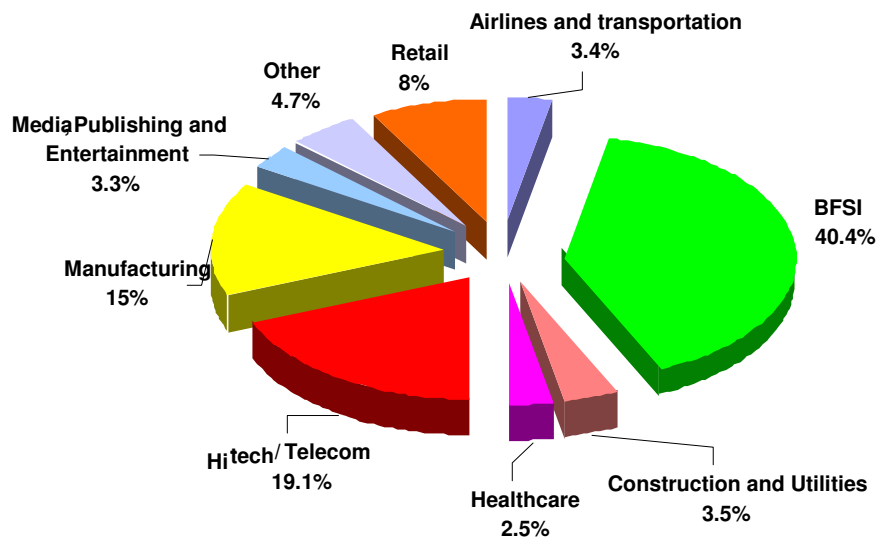
Global Markets

While the US and the UK remain the largest export markets (accounting for about 61 per cent and 18 per cent respectively, in FY2007), the industry footprint is steadily expanding

Market	FY04	FY05	FY06	FY07
Americas	69.40%	68.30%	67.18%	61.40%
Europe	22.60%	23.10%	25.13%	30.10% <i>(UK and Continental Europe)</i>
Rest of the World	8.00%	8.60%	7.69%	8.50% <i>(APAC + ROW)</i>

Growth Verticals

BFSI, Telecom and Hi-Tech continue to account for approximately 60% of the market. Other verticals are also growing rapidly



FY07 Vertical market exposure for industry exports

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

Knowledge Professionals Employed in the Indian IT-BPO sector

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08E
IT Services and Software Exports	162,000	170,000	205,000	296,000	390,000	513,000	690,000	865,000
BPO Exports	70,000	106,000	180,000	216,000	316,000	415,000	553,000	704,000
Domestic Market	198,114	246,250	285,000	318,000	352,000	365,000	378,000	427,000
Total	430,114	522,250	670,000	830,000	1,058,000	1,293,000	1,621,000	1,996,000

Source: NASSCOM

*Figures do not include employees in the hardware sector

V. Domestic Market Matures

Technology adoption in the domestic market also reported steady gains in 2007. This segment is expected to cross USD 23 billion in FY2008, reporting healthy growth across all key segments. Hardware remains the largest segment of the domestic market, and is expected to grow at 44 per cent in FY2008.

Domestic IT services spends are estimated to be growing at about 43 per cent in FY2008, 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, and is expected to grow by over 37 per cent and 45 per cent, respectively.

VI. Going forward

- From a fundamentals viewpoint, the drivers for global sourcing are likely to remain strong in the near future
- Most environmental factors affecting global sourcing also look favourable despite concerns of a possible economic slowdown
- While the short-term US outlook is muted, global tech spending forecasts remain strong, supported by momentum in EMEA and APAC, and an expected resurgence in the US
- Nature of short-term cutbacks in US technology spends are unlikely to impact global sourcing negatively; in fact could even boost its growth
- Worldwide adoption of outsourcing, another key influencing factor, is also expected to grow rapidly over the next five years
- Overall thus, global sourcing of services seems well-placed to continue expanding its share of worldwide IT-BPO spending
- Sufficient demand, strong fundamentals and a favourable environment support a positive outlook for Indian IT-BPO exports
- Further, strong imperatives for increasing technology adoption in India represent significant potential for growth in the domestic market
- Indian IT-BPO is on track to reach USD 60 billion in exports and USD 73-75 billion in overall software and services revenues by 2010
- However, the long-term opportunity is much larger and could yield significant pay-offs not just for the industry but India as a whole
- India is well-positioned to capitalise on this opportunity; key stakeholders need to continue working in a focussed and coordinated manner

