

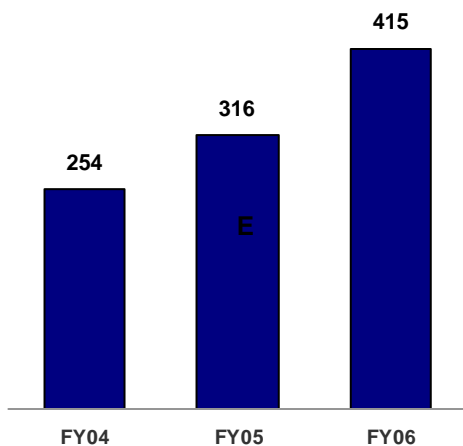
INDIAN ITES-BPO INDUSTRY : NASSCOM ANALYSIS

The Indian ITES-BPO Scenario

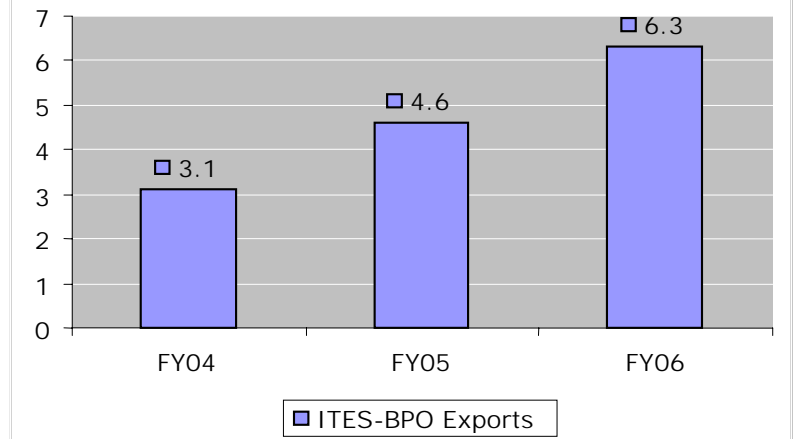
The Indian ITES-BPO segment continued to chart strong year-on-year growth at 37 per cent for FY 2005-06. Growth is being driven by a steady increase in scale and depth of existing service lines. There also has been addition of newer vertical specific services and emerging/ niche business services in the past year.

Key Highlights of Indian ITES-BPO sector performance

Employees ITES-BPO (in '000)



Exports ITES-BPO
in USD billion



- Indian ITES-BPO exports have grown to USD 6.3 billion in FY 2005-06, recording a growth of 37 per cent. It is expected to grow to USD 8-8.5 billion in FY 2006-07
- Net employment in the ITES-BPO segment has grown by approximately 100,000 in FY 2005-06, taking the total direct employment within this segment to 415,000
- Employee turnover/ attrition levels appear to be stabilising with the talent acquisition, development and retention initiatives being undertaken by the players, beginning to deliver results

Key Growth Drivers of Indian ITES-BPO Exports

- **Globalisation, overseas competition and the business economics imperative**
 - Rapid growth of globalisation has added to competitive pressures across geographic markets that were previously relatively isolated from overseas competition
 - The resulting impact on growth and profitability continues to push organisations towards more cost efficient business models

- **Global sourcing going mainstream, significant senior business leadership vision and oversight**
 - Having convincingly established proof-of-concept, global sourcing is now a key element of corporate boardroom agendas
 - As a part of mainstream business strategies, offshore/outsourcing initiatives are being accorded significant senior leadership oversight
 - Increasing emphasis on leveraging the model for greater strategic business impact; not restricted to functional support (IT, HR, etc.)

- **India’s demonstrated superiority, sustained cost advantage and fundamentally powered value proposition**
 - Outsourcing to India has provided companies with significant benefits over the arbitrage in labour costs – through business process enhancements and improvements
 - Indian vendors are expanding their service offerings, enabling customers to deepen their offshore engagements; the shift from low-end business processes to higher-value, knowledge-based processes is having a positive impact on the overall industry growth
 - Indian vendors have successfully built-up the scale of their operations to match the pace of increasing demand for these services – ensuring that client organisations do not have to settle for alternate options
 - In spite of the rising elements of cost, Indian offshore operations provide cost savings of 40-50 per cent and in spite of wage inflation averaging 10-15 per cent annually, companies are able to leverage declines in telecom and other overhead costs, productivity gains and economies of scale to sustain the cost arbitrage
 - Recent research has shown that even at current levels of suitability India has the largest pool of suitable offshore talent – accounting for 28 per cent of the total suitable pool available across all offshore destinations and outpacing the share of the next closest destination by a factor of 2.5.
 - The number of IT-ITES professionals employed in India has grown from 830,000 in FY 2003-04 to well over one million in FY 2004-05. This rapid growth in industry employment has been facilitated by the combination of two fundamental factors – a favourable demographic profile and a large, expansive and established network of academic infrastructure.
 - The underlying factor highlighting India’s long-term attractiveness is its highly favourable demographic profile. With nearly 60 per cent of its population between the age of 15-59, and more than half below the age of 25, India will continue to have a significantly higher number of people in the productive (working) age group than in the dependent age group for at least the next few decades. In contrast, countries including the US, Europe, Japan and China have a more aged population with dependency ratios likely to increase over the same period.

Indian IT Sector: Knowledge Professionals Employed*							
(nos.)	1999-00	2000-01	2001-02	2002-03	2003-04E	2004-05E	2005-06E
IT, Engineering and R&D, Software Products Exports	110,000	162,000	170,000	205,000	296,000	390,000	513,000
IT-enabled services Exports	42,000	70,000	106,000	180,000	216,000	316,000	408,000
Domestic sector	132,000	196,114	246,250	285,000	318,000	352,000	385,000
Total	284,000	430,114	522,250	670,000	830,000	1,058,000	1,287,000

* Does not include employee numbers relating to the hardware sector

Source: NASSCOM

- **Global IT spends** are projected to grow at a steady rate of 10-11% per annum. The increase in global BPO spend will further give an impetus to the Indian ITES-BPO industry. Also, unpenetrated potential of G2000 corporations (late adopters) will lead to demand deepening vertical and geographic market penetration of offshore outsourcing