

HOW IS THE INDIAN IT-BPO INDUSTRY FACING THE CURRENT GLOBAL UNCERTAINTIES ?

A NASSCOM Update

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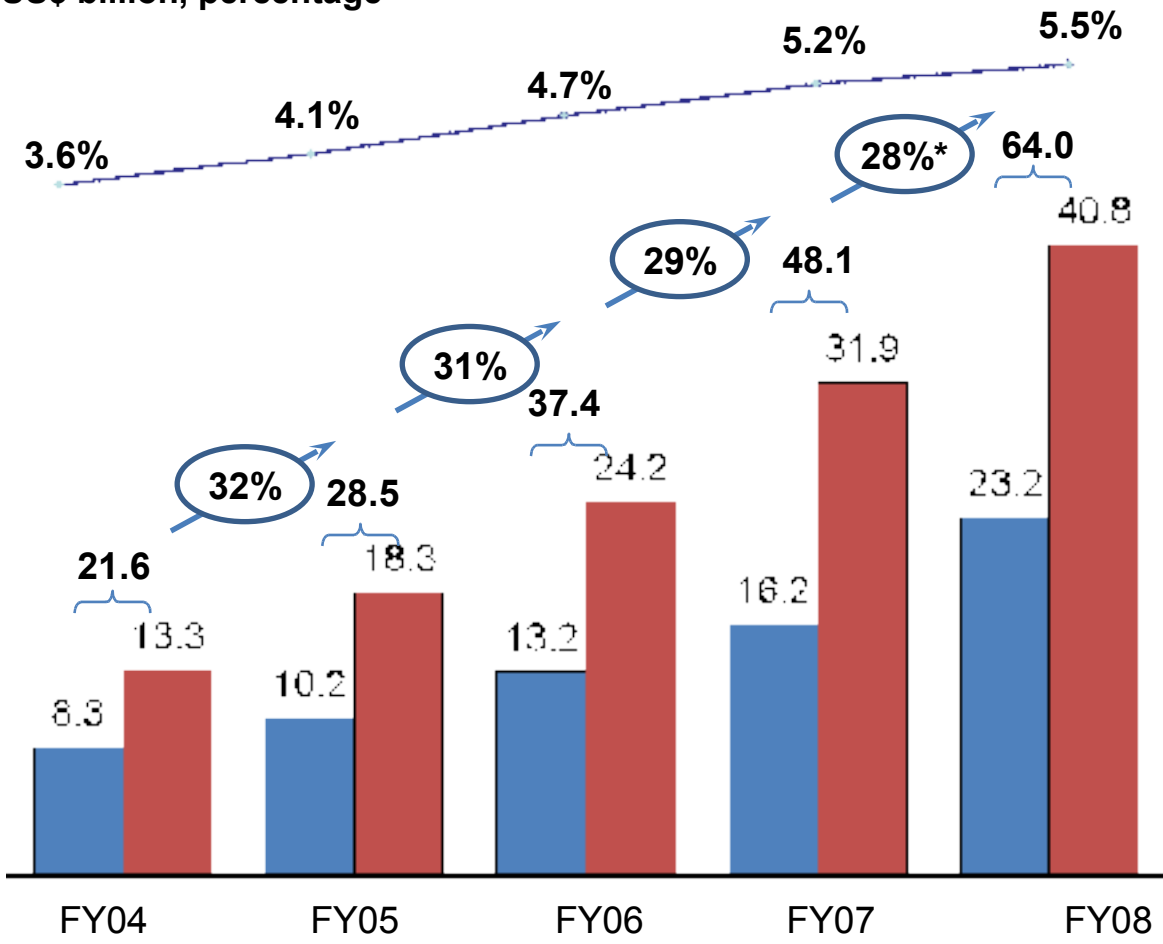
Positive growth in FY08 under clouds of uncertainty

Indian IT-BPO Sector

Revenue Aggregate and Share of GDP

US\$ billion, percentage

■ Exports
 ■ Domestic
 — Percentage of GDP

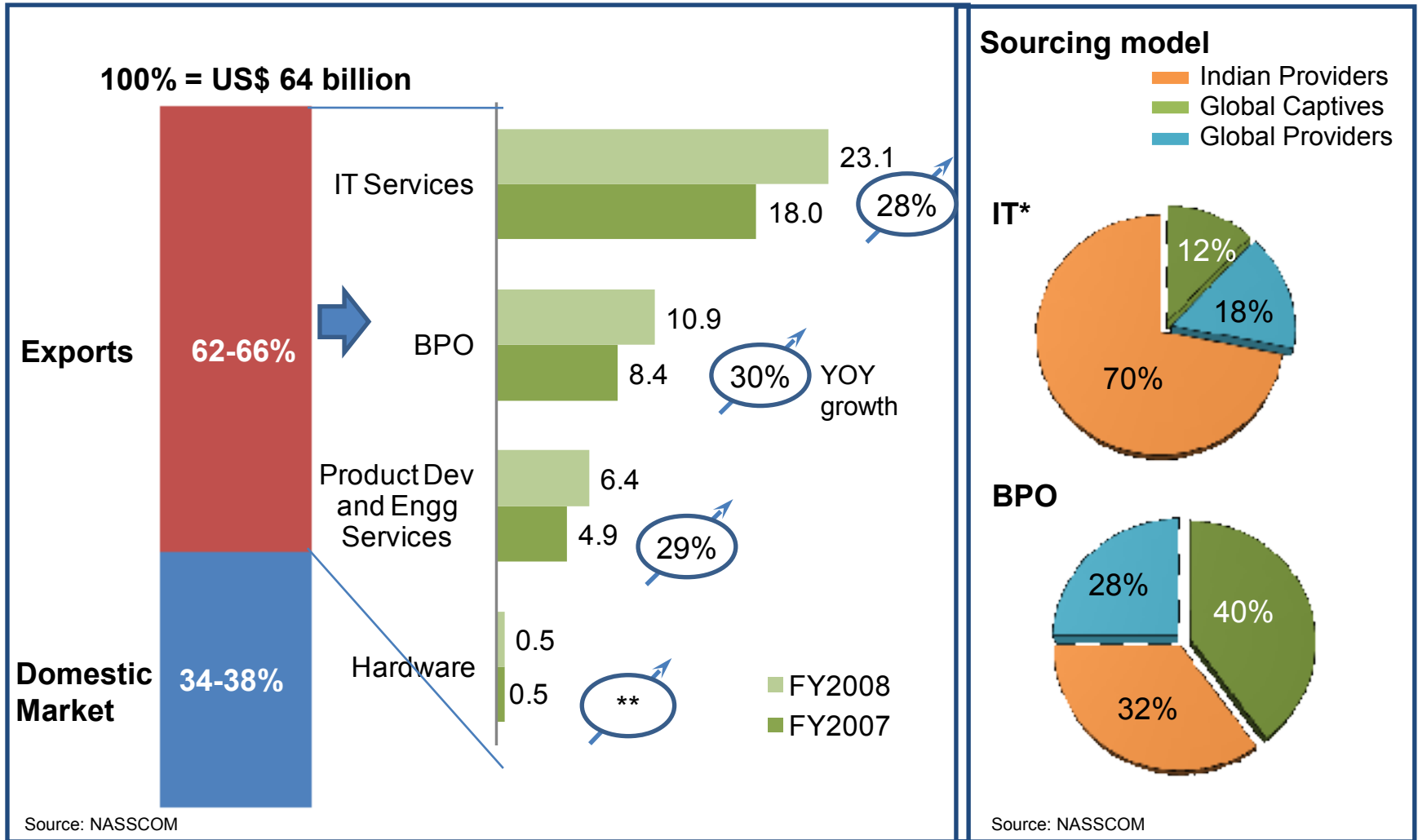


- Sustained export growth – revalidates strong fundamentals
- Revenue aggregate as a percentage of GDP continues to rise

Source: NASSCOM

* Domestic Revenue Adjusted for Currency

All segments grew well in FY 08

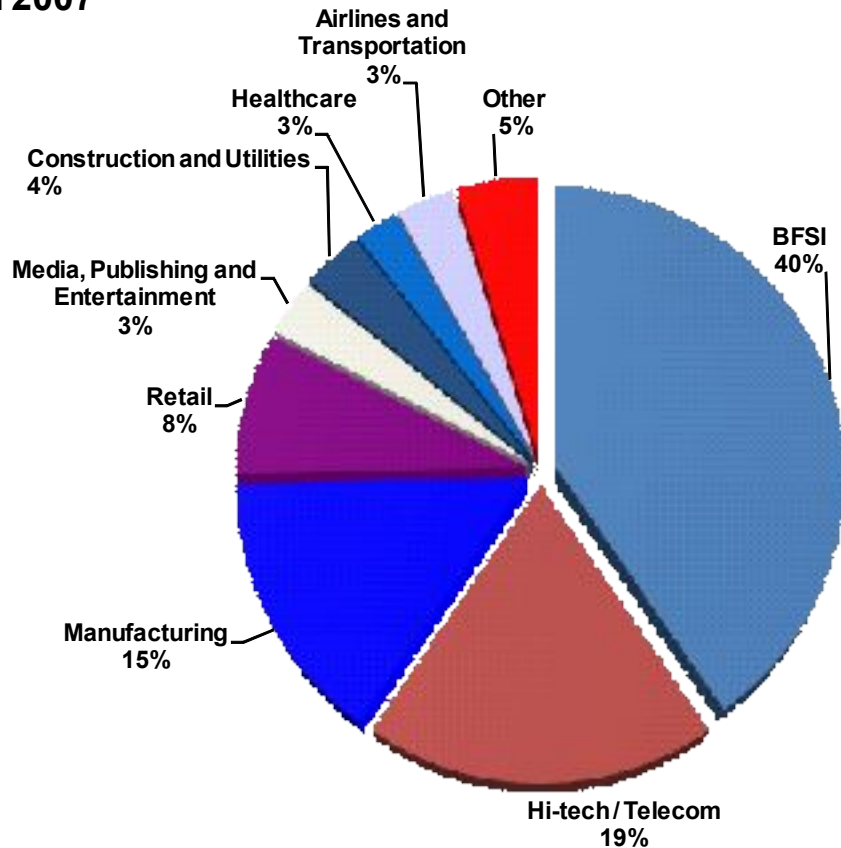


*Includes product development and engineering

** Negligible

New verticals reduce dependency

FY2007



Source: NASSCOM

- **Banking, Financial Services, Insurance and Hi-tech / Telecom account for nearly 60% of Indian IT-BPO exports**
- **Manufacturing and retail are other large sectors**
- **Airlines, media, healthcare and utilities are some emerging high-growth sectors**

Vertical market exposure for industry exports is well balanced across several mature and emerging sectors

* Excludes hardware exports

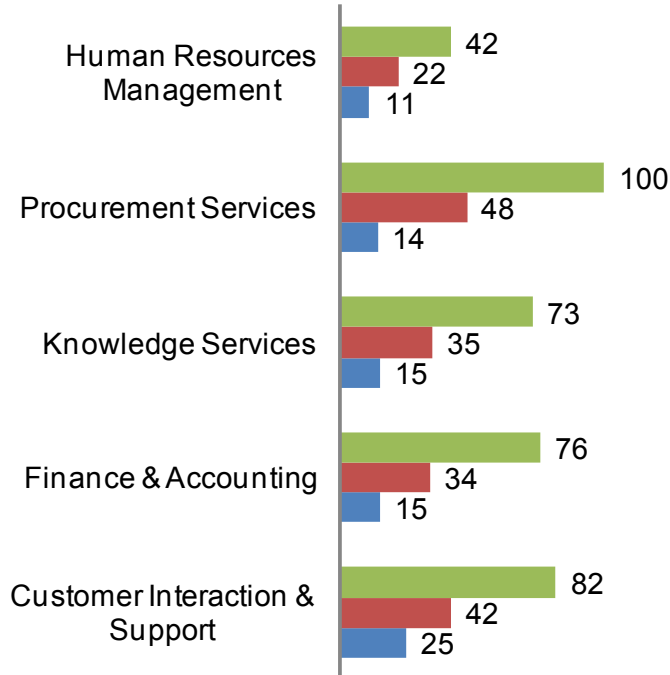
Industry progressing to offer end to end service

BPO EXAMPLE

Coverage

Percentage of full service

■ Best in class 2007 ■ Median 2007 ■ Median 2004

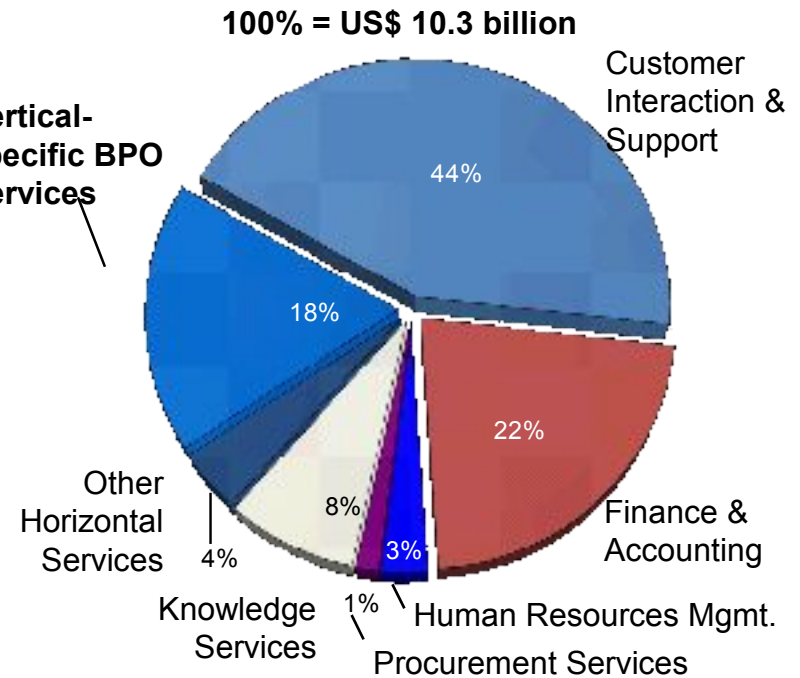


Source: NASSCOM

Revenue Split by Service Offered

FY2008E

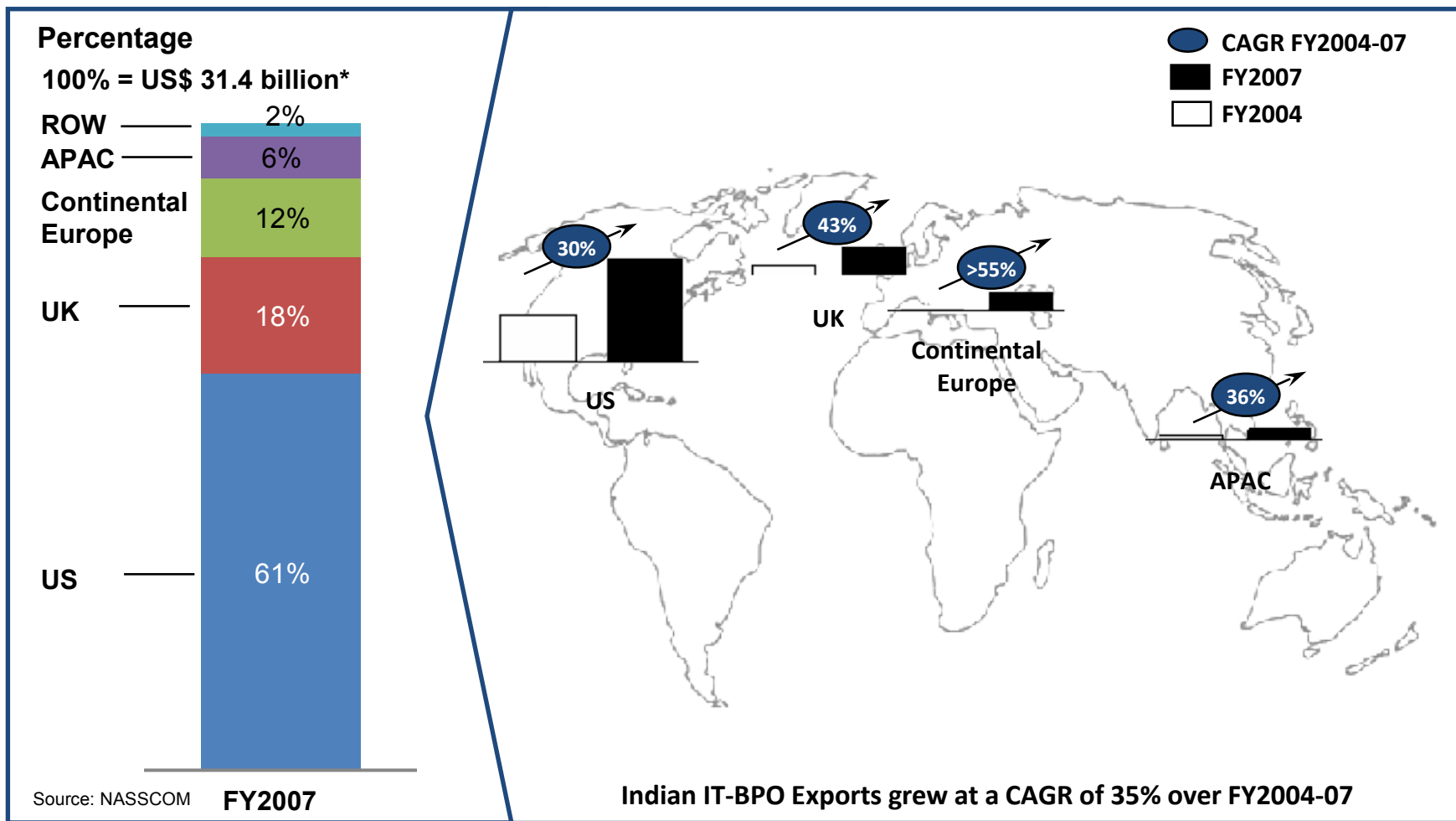
Vertical-specific BPO Services



Source: NASSCOM

Export growth is also being supported by increasing breadth and maturity of the service portfolio.

Geographical spread diversified



Europe, APAC and Middle East markets growing rapidly

*Excludes hardware exports

1 Top 3 countries include Germany (~2.5%), Netherlands (~2%), Switzerland (~1%)

2 Top 3 countries include Australia (~1.5%), Japan (~1.5%), and Singapore (~1.3%)

But.....

Will the meltdown in the financial markets and the slowdown in all sectors make all these projections irrelevant ?

Current Global Uncertainties

- Signs of US Slowdown post sub-prime and wall street crisis; impact on other economies
- Economic instability
 - Oil crisis, food prices, inflation, unstable currencies, volatility in stock markets etc.
- Concerns over US election; forthcoming Indian elections and the continuing decline of stock markets
- Constraints within India on talent, infrastructure etc.

Tightening the belt

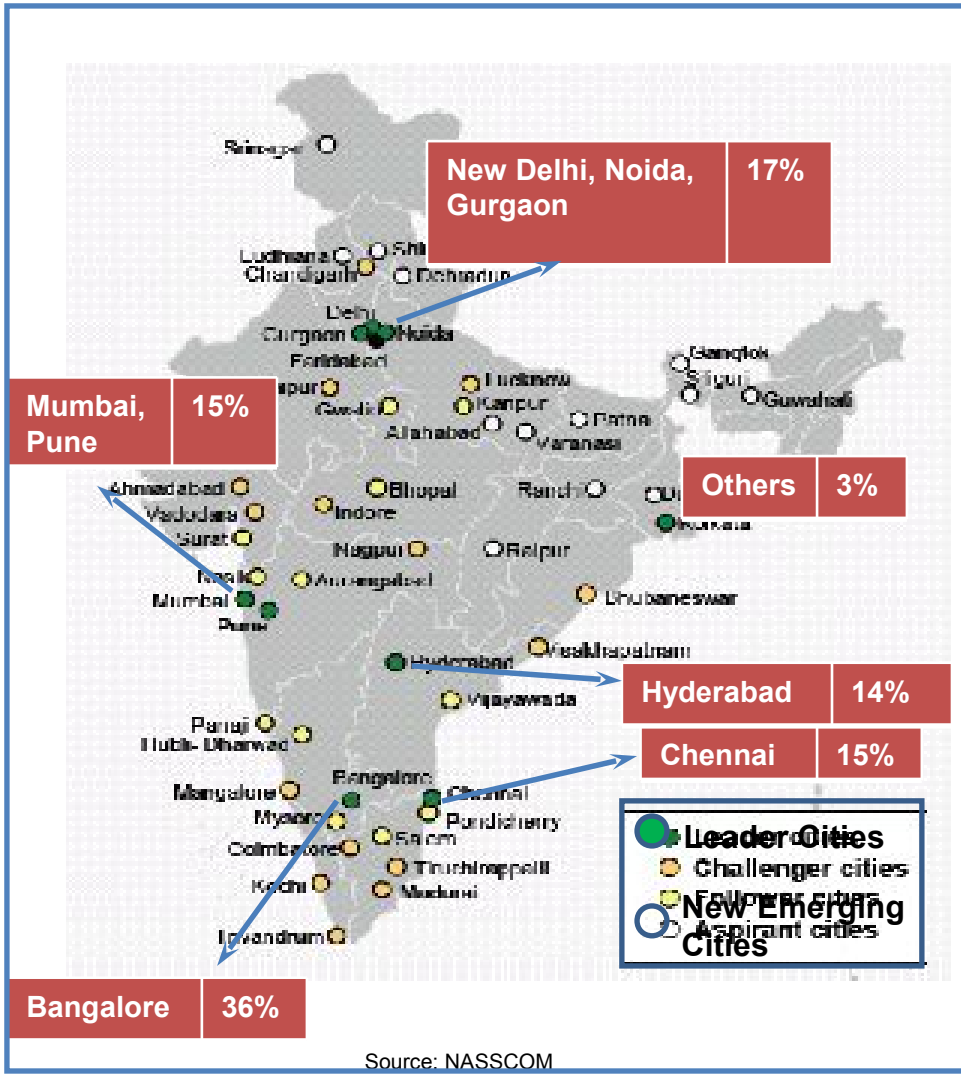
- Wake up call 10 months ago when USD touched Rs. 39
 - Focus on productivity, efficiency, resource utilization
 - Wage moderation, reduced lateral hiring, reduced attrition
 - More efficient asset utilization – real estate, IT etc
 - Expansion into tier 2/3 cities
 - Domestic market and new markets
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- **These improvements will have lasting impact over years!**

Information Security & Risk Management

The NASSCOM 4 E model for trusted sourcing – Engagement, Education, Enactment and Enforcement is being proliferated.

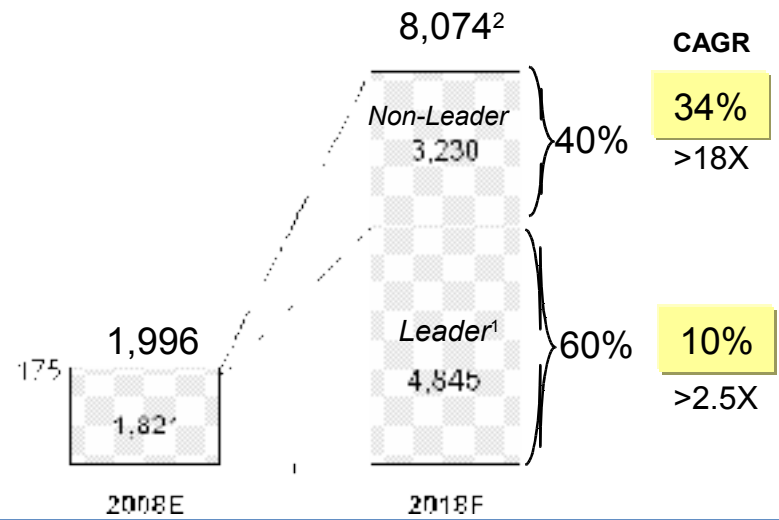
	Objectives	Initiatives/Impact
Standards	<ul style="list-style-type: none"> • Compliance with global standards e.g., ISO 27001, CoBIT • Contractual safeguards, robust BCP/ DR planning 	<ul style="list-style-type: none"> • Maximum ISO 27001 certifications obtained globally • Data Security Council of India formed
Network security	<ul style="list-style-type: none"> • Secure design, documentation & implementation of network e.g., firewall, antivirus encryption 	<ul style="list-style-type: none"> • Documented security policies covering use of information, mobile computing, user access
Physical security	<ul style="list-style-type: none"> • Isolation of sensitive areas • Access control systems e.g., CCTV surveillance, security guards 	<ul style="list-style-type: none"> • Robust and uniform best practices
Personnel security	<ul style="list-style-type: none"> • Background checks • Non-disclosure agreements 	<ul style="list-style-type: none"> • National Skills registry (NSR) to facilitate personnel background checks • Cyber security training and awareness
Laws	<ul style="list-style-type: none"> • Compliance with international laws • Strengthening of Indian legal system 	<ul style="list-style-type: none"> • Amendments to strengthen the IT Act 2000 and Indian Penal Code being enacted

43 tier 2/3 Delivery locations identified



- 7 centers account for over 95% of exports
- 43 tier 2/3 cities emerging; will reduce pressure on these centers
- On an average, costs in tier 2/3 cities is 28% less than leader cities
- By 2018, it is forecasted that 40% of IT-BPO exports will originate from non-leader locations

Employment Distribution Amongst Location Categories ('000s)



The industry is well spread across multiple locations. Tier 2/3 cities emerging

Note: 1. Leader locations are Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, NCR (Delhi, Noida, Gurgaon, Faridabad), Pune
2. Assuming a conservative growth in employment at 15% CAGR over next decade

Comprehensive Plan for making India's large talent base "employable"

	Objectives	Initiatives
Short Term	<ul style="list-style-type: none"> • Enhance overall yield • Improve employability • Expand to tier 2 locations • Lower skill dependence 	<ul style="list-style-type: none"> • Industry to enhance investments in training • Entry-level assessment for BPO and IT, finishing schools : Through NAC, NAC-Tech • New locations identified; govt's engaged
Medium Term	<ul style="list-style-type: none"> • Lower training investment • Enhance specialist and project management expertise 	<ul style="list-style-type: none"> • Faculty Development Program: to increase the suitability of teachers • Facilitating industry access to specialist programs offered by independent agencies
Long Term	<ul style="list-style-type: none"> • Add education capacity • Promote education reform 	<ul style="list-style-type: none"> • Expansion of higher-education infrastructure: government to set-up 20 new IITs • Program to increase PhDs in technology • NASSCOM VC fund focused on technology innovation

Recognizing this imperative, the industry is proactively working on several initiatives to strengthen India's long-term cost advantage

INDIA – Differentiators!



Abundant Talent!

347 higher education institutes

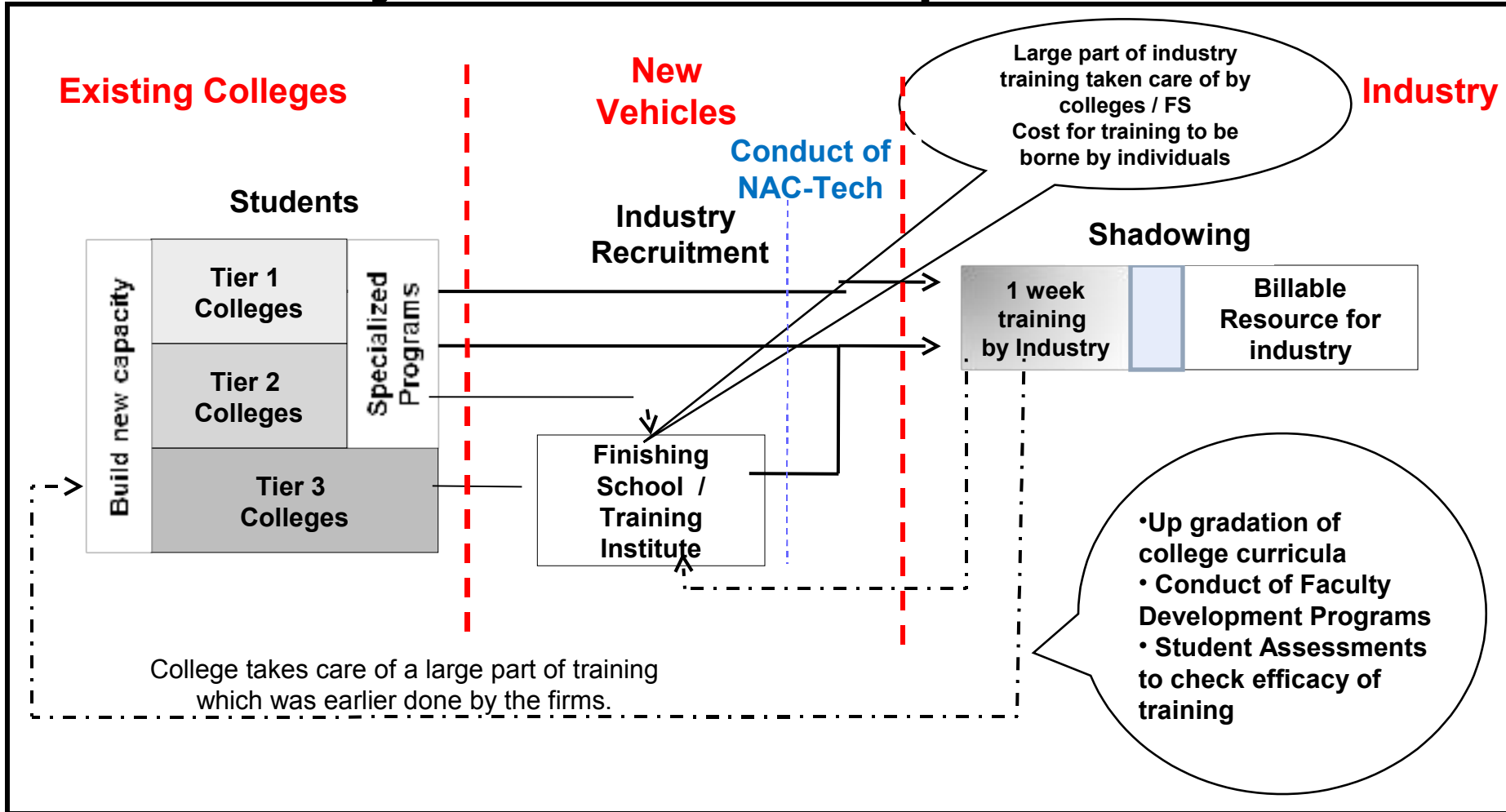
16,885 colleges with a total enrollment of over 9.9 million

Producing 495,000 technical graduates

Nearly 2.3 million other graduates

Over 300,000 post-graduates every year

Major initiatives planned

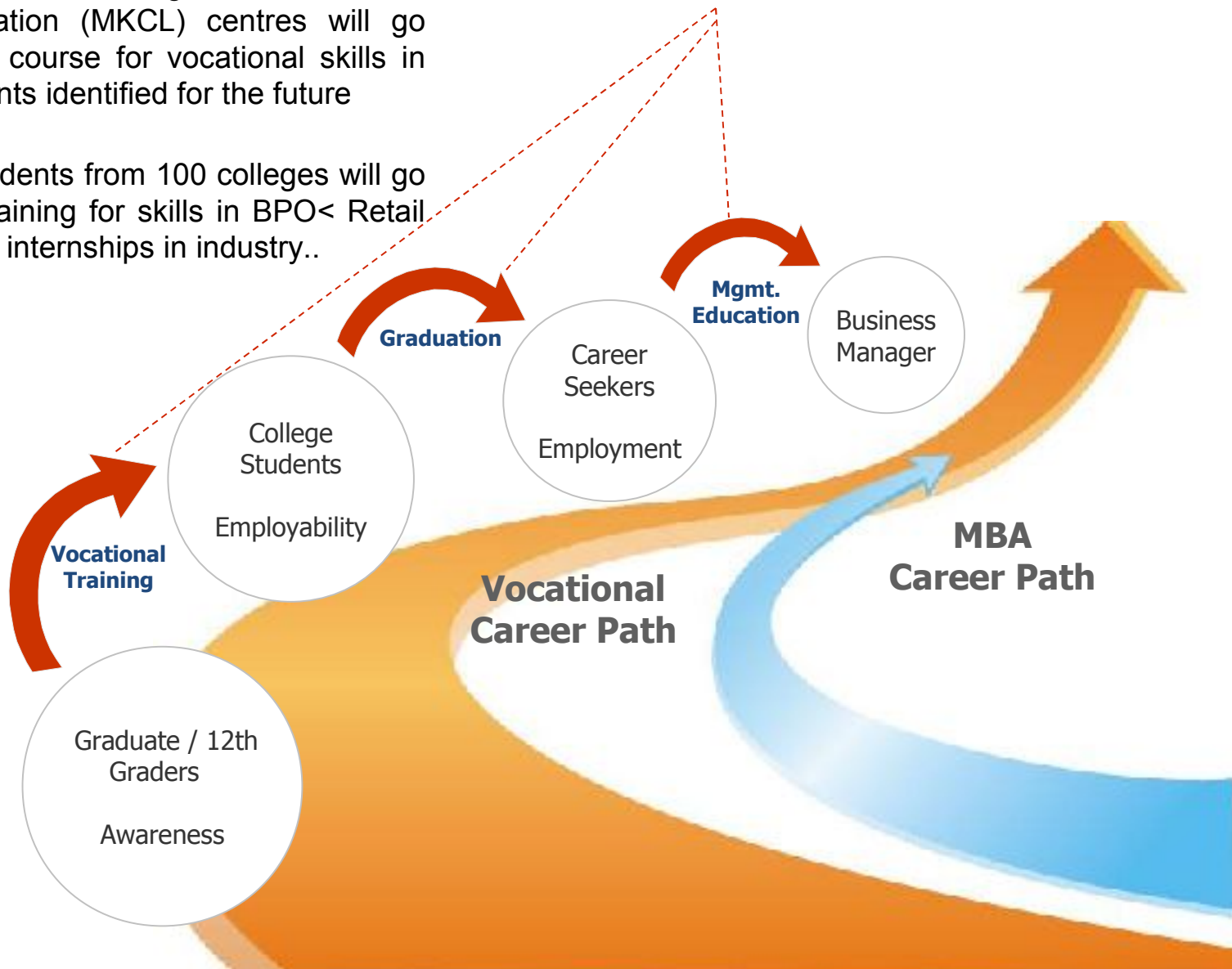


New movement launched in Pune

- 100,000 students enrolling at Maharashtra Knowledge Corporation (MKCL) centres will go through awareness course for vocational skills in key services segments identified for the future

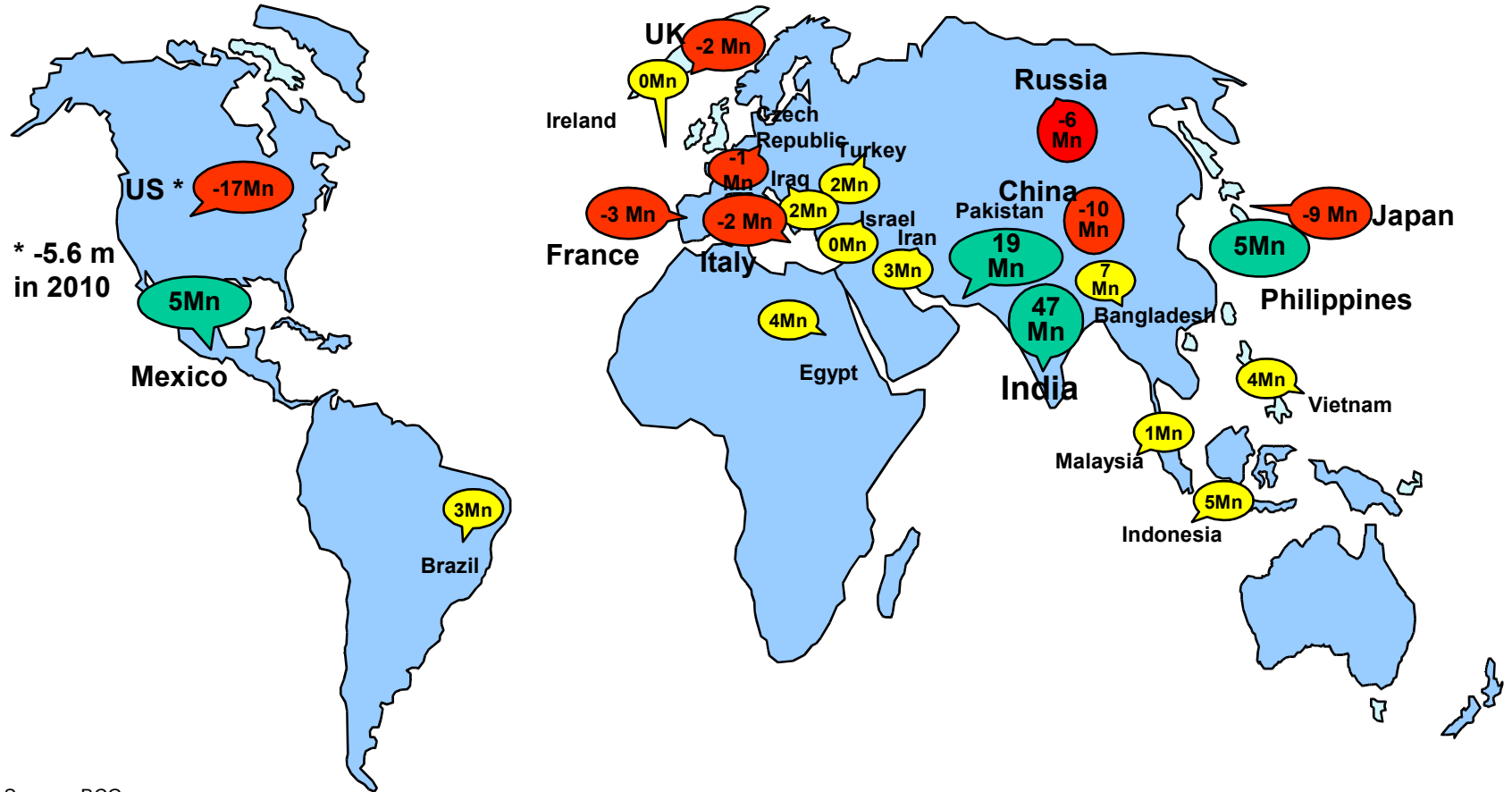
- 30,000 college students from 100 colleges will go through intensive training for skills in BPO, Retail and Healthcare with internships in industry..

Global Careers



Overcoming Talent Crunch : Supply will not be a constraint in future

Global working age population 2020

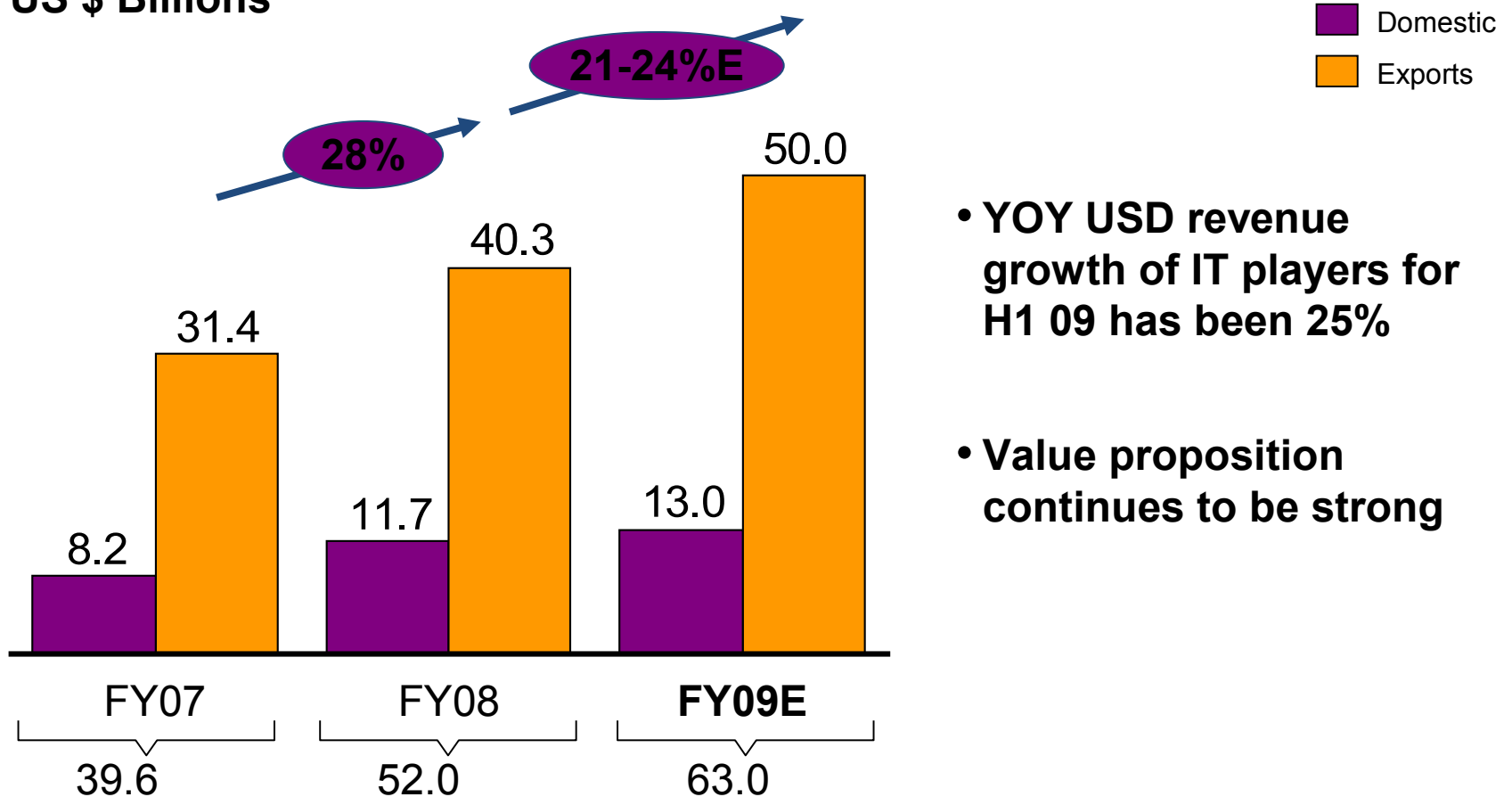


Source : BCG

With an increasing imbalance in the global workforce, India's demographic advantage is likely to be a key driver of future growth

Looking forward...

Indian IT-BPO Sector (excluding hardware) US \$ Billions



- YOY USD revenue growth of IT players for H1 09 has been 25%
- Value proposition continues to be strong

What will drive growth in the long term?

- Recognise need for transformation and change
- Keep cost pressures under control and ensure more supply sources to avoid unsustainable salary pressures In new segments.
- Increased domain expertise and focus on innovation will be the key to the success of India Inc in the new world order.
- Participation of all knowledge eco-system players in making this dream a reality
- Global talent shortage; pressure on resources in developed world can be addressed by India to minimise social unrest and negative fallouts of the digital divide.

Thank You !

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