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

A NASSCOM Update

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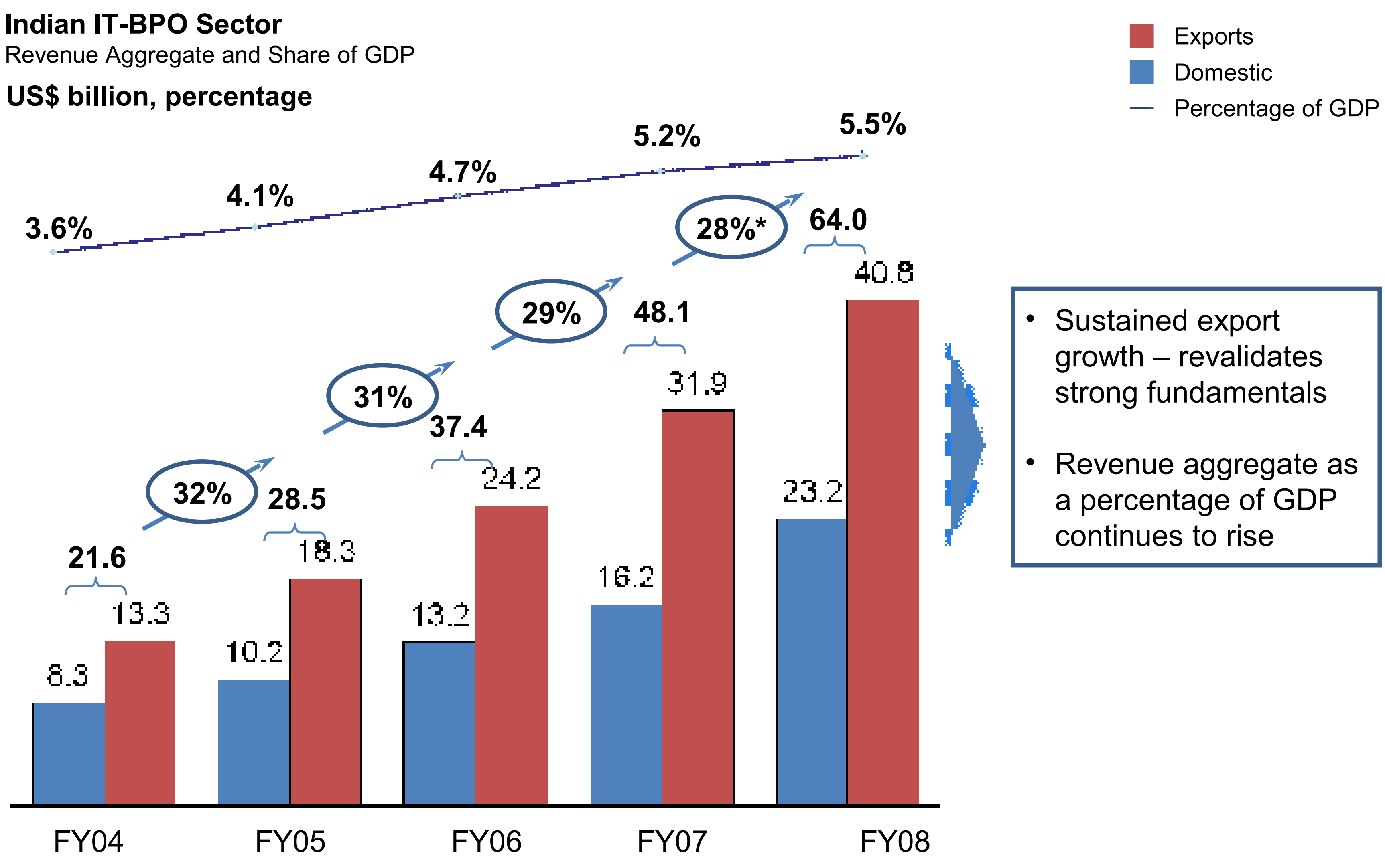
Positive growth in FY08 under clouds of uncertainty



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

Source: NASSCOM

* Domestic Revenue Adjusted for Currency

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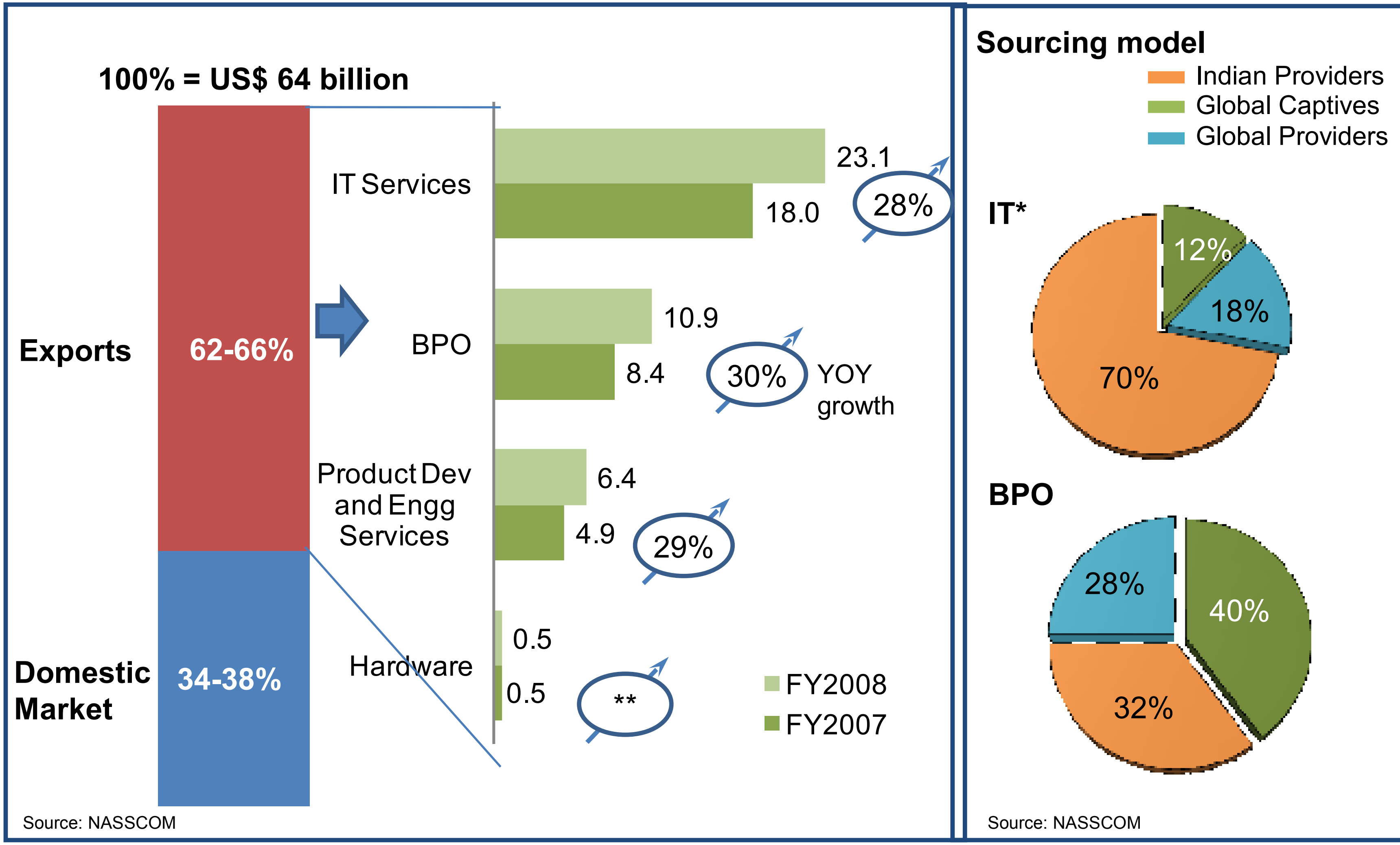
All segments grew well in FY 08



*Includes product development and engineering
** Negligible

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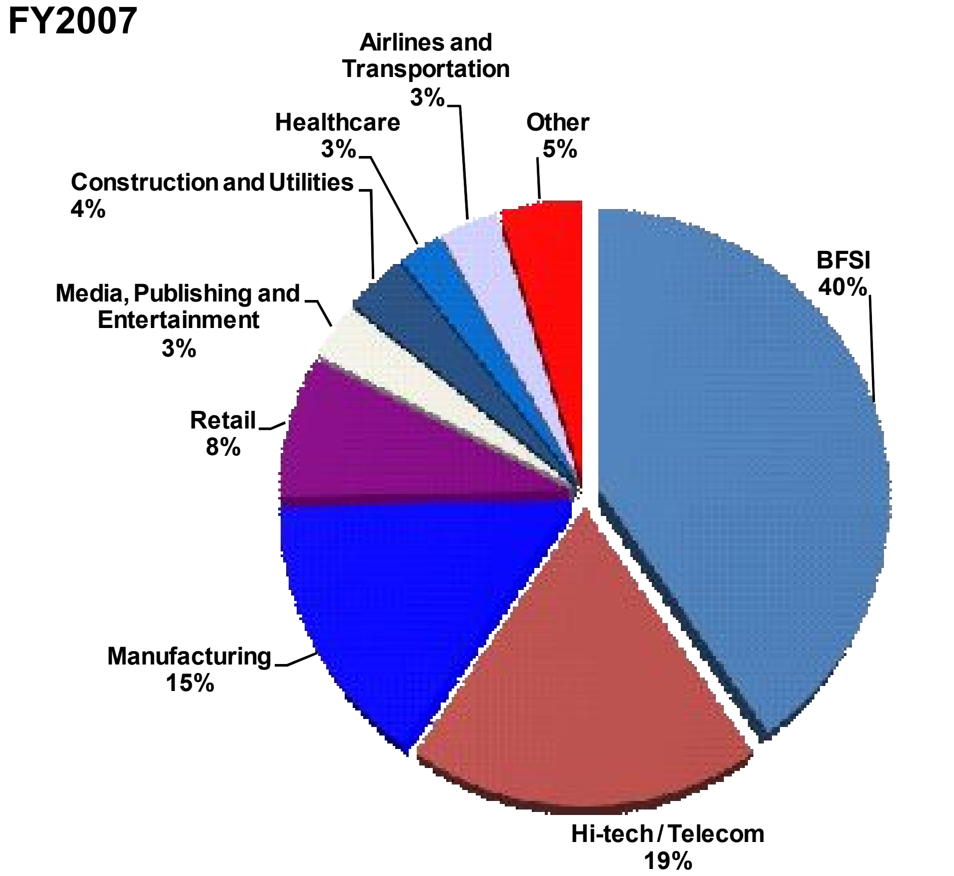
New verticals reduce dependency



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

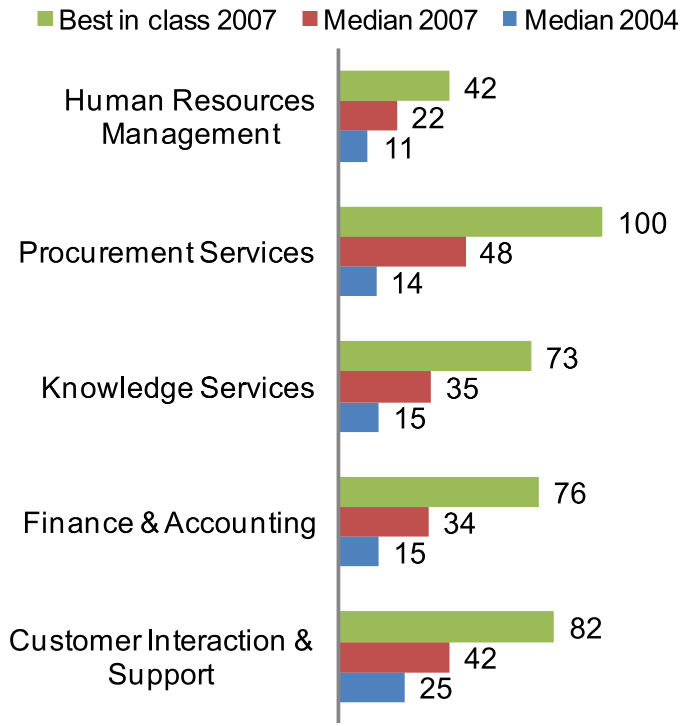
Vertical market exposure for industry exports is well balanced across several mature and emerging sectors

* Excludes hardware exports

Industry progressing to offer end to end service

BPO EXAMPLE

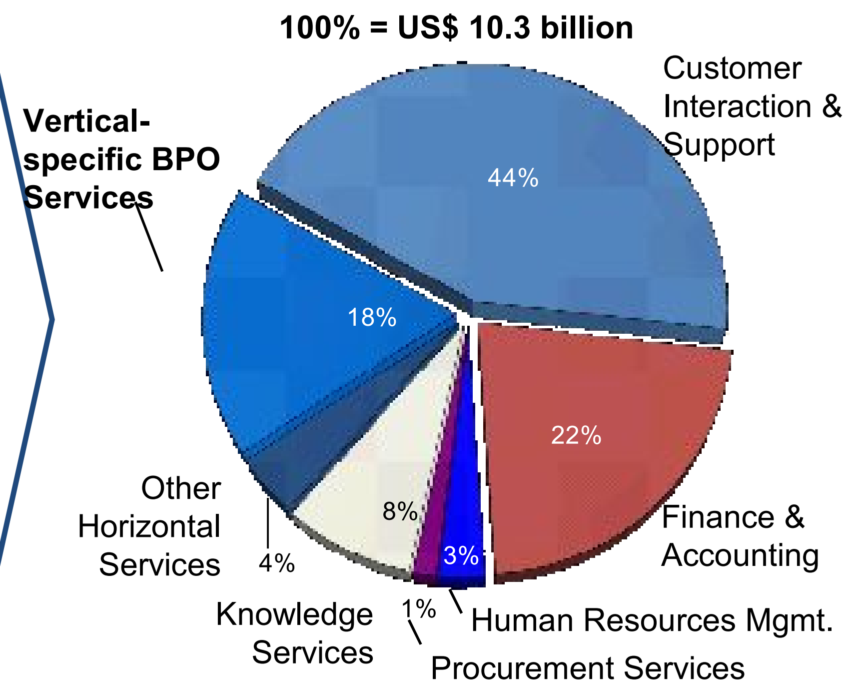
Coverage
Percentage of full service



Source: NASSCOM

Revenue Split by Service Offered

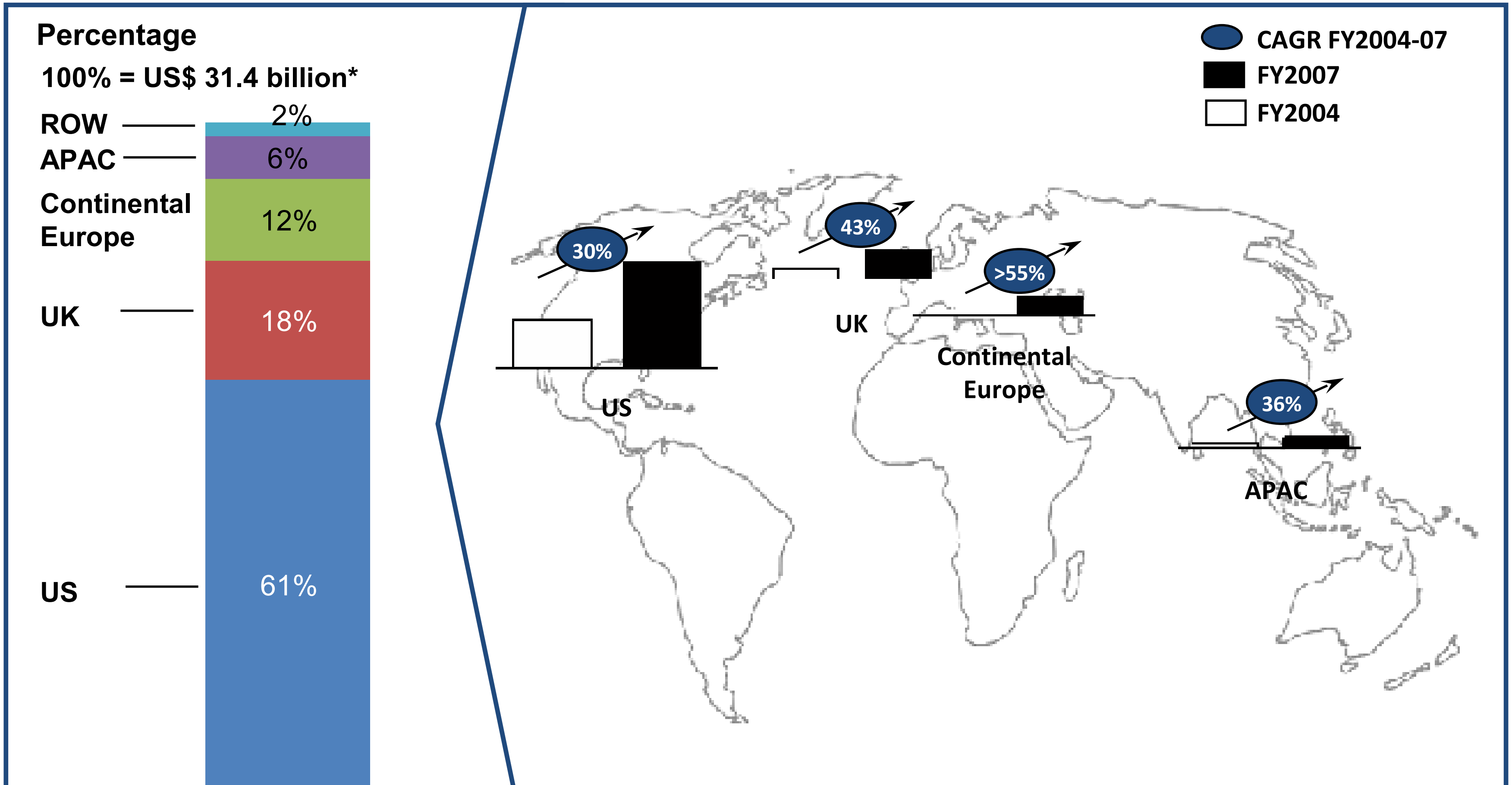
FY2008E



Source: NASSCOM

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

Geographical spread diversified



Source: NASSCOM

Indian IT-BPO Exports grew at a CAGR of 35% over FY2004-07

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%)

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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

- **These improvements will have lasting impact over years!**

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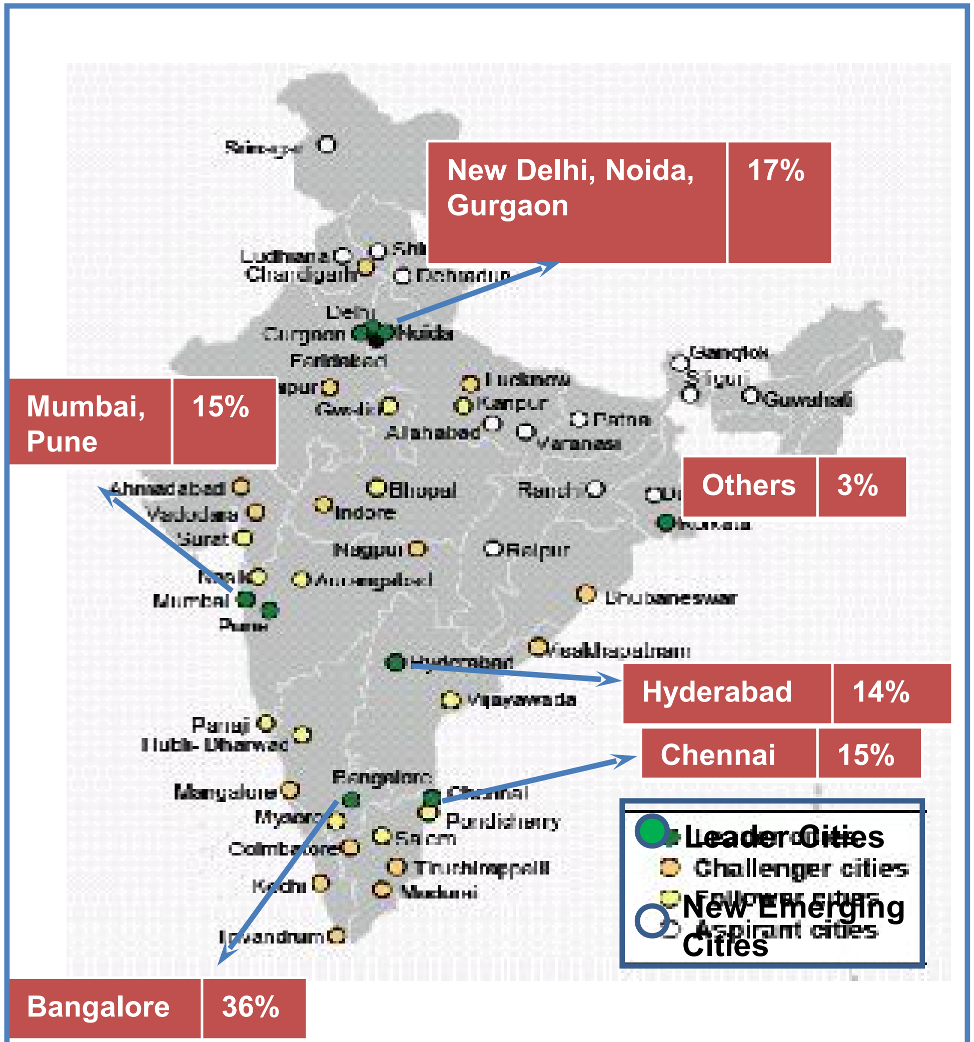
Information Security & Risk Management

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

	Objectives	Initiatives/Impact
Standards	• Compliance with global standards e.g., ISO 27001, CoBIT • Contractual safeguards, robust BCP/ DR planning	• Maximum ISO 27001 certifications obtained globally • Data Security Council of India formed
Network security	• Secure design, documentation & implementation of network e.g., firewall, antivirus encryption	• Documented security policies covering use of information, mobile computing, user access
Physical security	• Isolation of sensitive areas • Access control systems e.g., CCTV surveillance, security guards	• Robust and uniform best practices
Personnel security	• Background checks • Non-disclosure agreements	• National Skills registry (NSR) to facilitate personnel background checks • Cyber security training and awareness
Laws	• Compliance with international laws • Strengthening of Indian legal system	• Amendments to strengthen the IT Act 2000 and Indian Penal Code being enacted

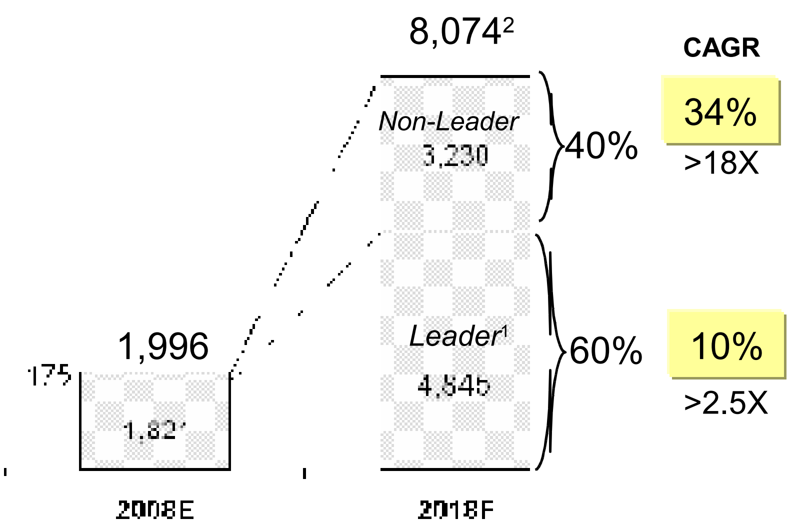
43 tier 2/3 Delivery locations identified



Source: NASSCOM

- 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

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

	Objectives	Initiatives
Short Term	• Enhance overall yield • Improve employability • Expand to tier 2 locations • Lower skill dependence	• 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	• Lower training investment • Enhance specialist and project management expertise	• Faculty Development Program: to increase the suitability of teachers • Facilitating industry access to specialist programs offered by independent agencies
Long Term	• Add education capacity • Promote education reform	• Expansion of higher-education infrastructure: government to set-up 20 new IIITs • 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

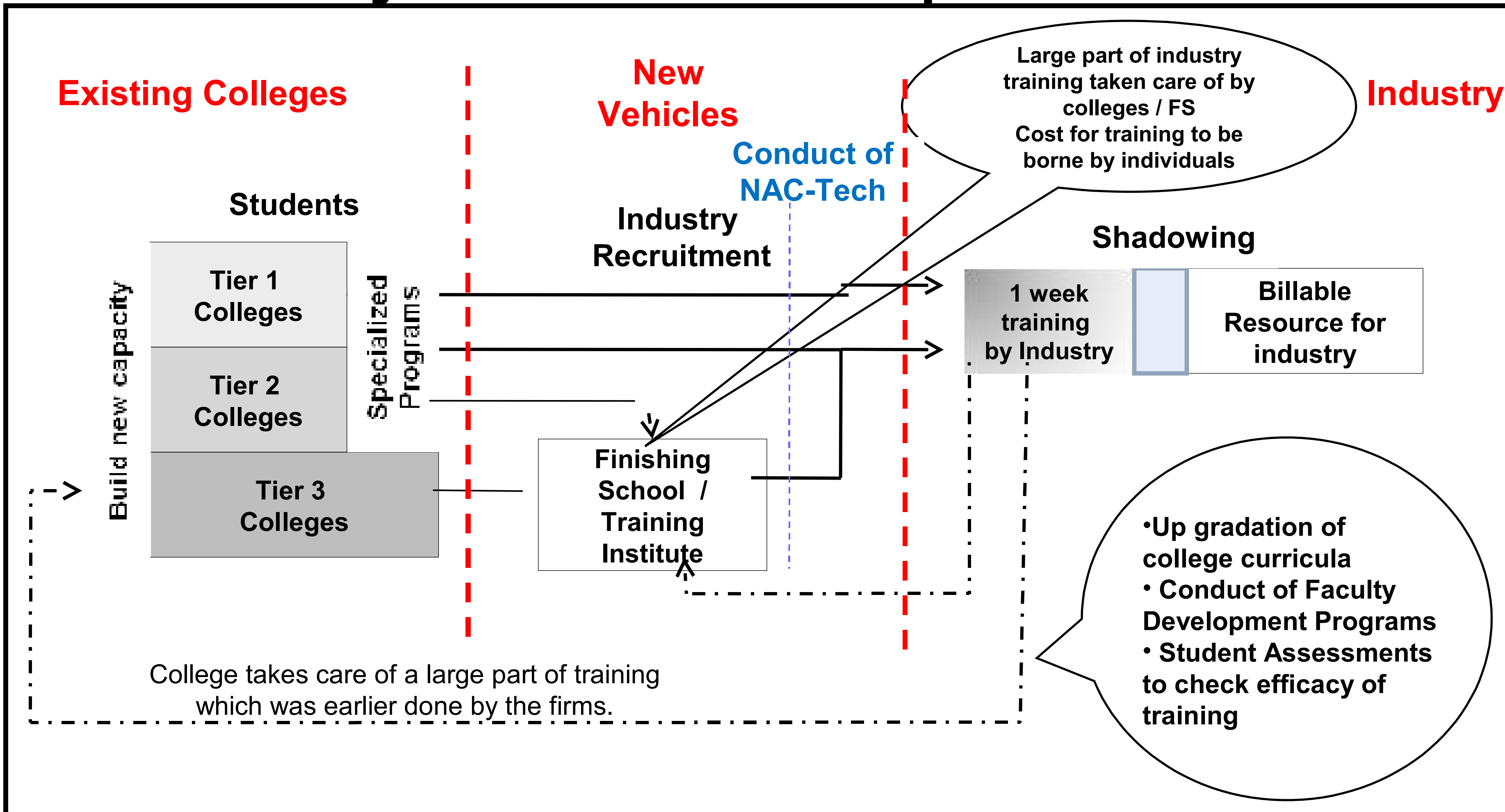
16,885 colleges with a total enrollment of over 9.9 million

Producing 495,000 technical graduates

Nearly 2.3 million other graduates

Over 300,000 post-graduates every year

Major initiatives planned



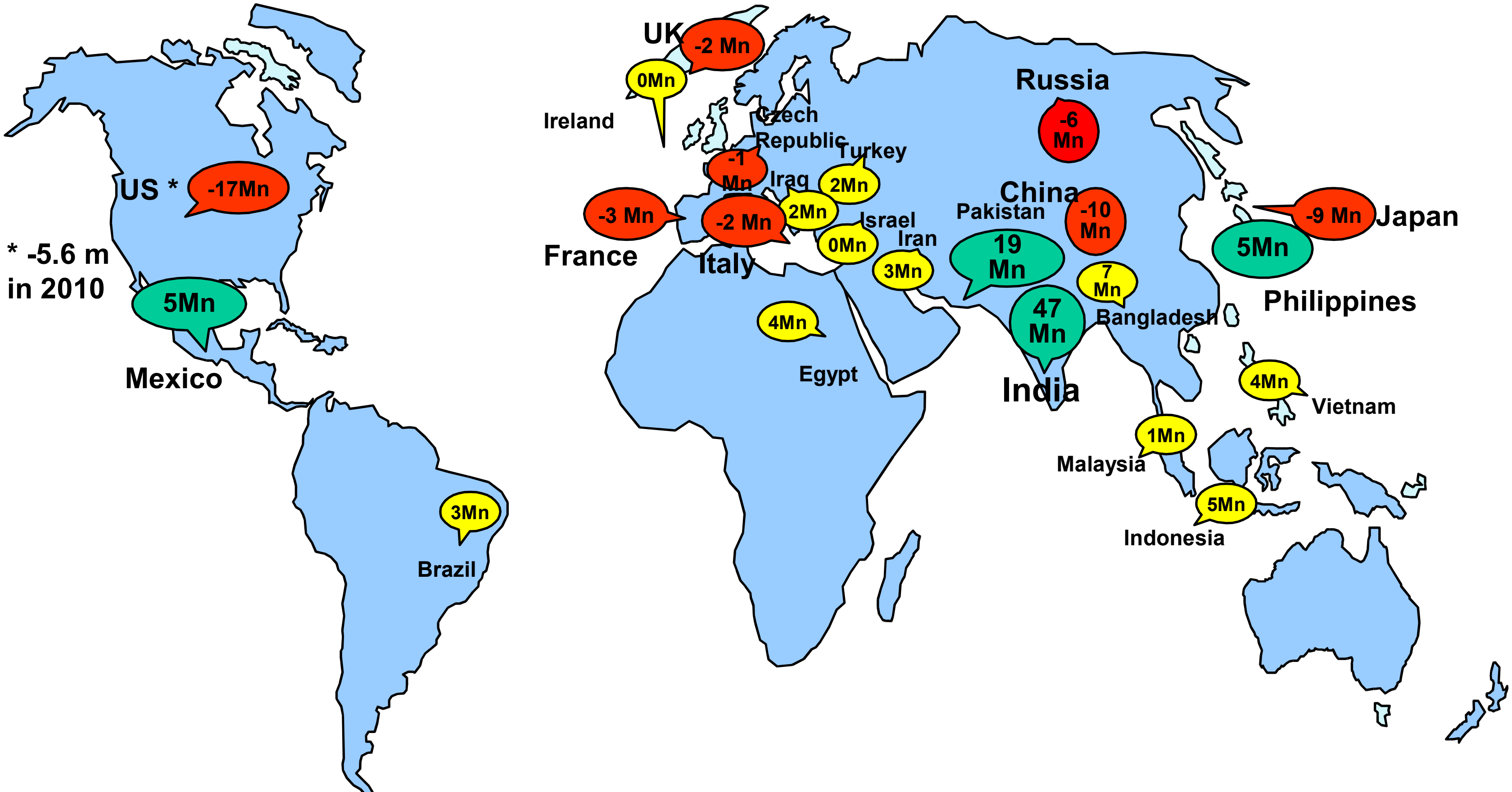
New movement launched in Pune

- 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..

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

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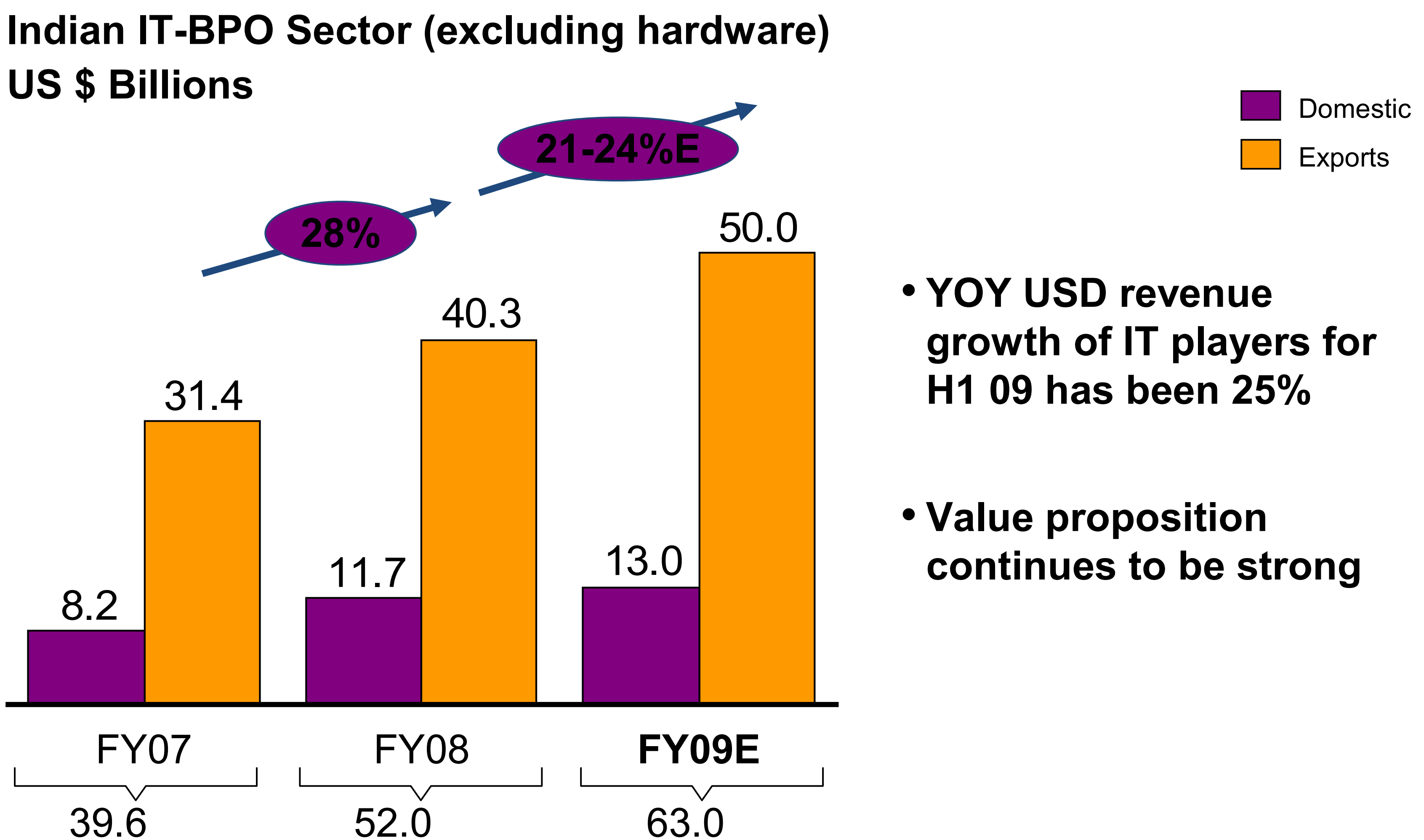
Looking forward...



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

Source: NASSCOM

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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