
ENTERING A



NEW PHASE

The Indian outsourcing sector continues to expand at a steady pace as Indian ITeS players seek out new geographies, besides acquiring international firms. A report by **R. Nagesh.**

NDIA'S outsourcing sector is growing at a steady pace as global demand for its services continues to expand rapidly. India today has a 51 per cent share of the global outsourcing industry and firms – both domestic and international – are offering a plethora of services to foreign companies, multinationals, and governments and state-owned undertakings across the world.

Globally, the outsourcing market available to India's ITeS sector has grown three-fold since 2004 and crossed the US\$ 90 billion-mark in 2008, according to the National Association of Software and Services Companies (NASSCOM), the premier industry body. But the addressable market size of global outsourcing is estimated to be around US\$ 500 billion, indicating the enormous opportunities that are available to the sector in India.

Interestingly, the Indian outsourcing industry is swiftly moving up the value chain, providing not just business process and information technology services, but increasingly offering services in areas such as knowledge process outsourcing (KPO), research and development, biotechnology and pharmaceuticals, engineering, automobile and aerospace research, and legal processes.

SEEKING NEW OPPORTUNITIES

THE Indian information technology and business process outsourcing (BPO) industry expects to earn revenues of US\$ 71.7 billion in the current fiscal, according to the National Association of Software and Services Companies (NASSCOM), accounting for 5.8 per cent of the country's gross domestic product (GDP).

Software and services revenues are expected to add up to US\$ 60 billion, while software and services exports are likely to expand by 16-17 per cent and garner revenues worth US\$ 47 billion. Overall, IT-BPO exports are expected to grow by 4-7 per cent, and an expansion of 15-18 per cent in domestic demand will fuel further growth.

Several factors have helped the industry sustain growth in recent months. They include growth in the domestic market, a three-fold growth in emerging verticals and geographies, globalisation – with Indian companies acquiring international players – and the fact that the industry has managed over 90 per cent repeat business from clients.

The global economic crisis has highlighted the maturity, resilience and enhanced efficiencies of the Indian IT industry. These will have a significant impact on its bottom-line, especially now that the worst of the global economic crisis is coming to an end.

“While the short-term challenges exist, the potential for this industry is tremendous and it will not be demand constrained,” remarks Som Mittal, president, NASSCOM. “The opportunity ahead is likely to increase by three times and India can aggregate revenues of US\$ 225 billion by 2020.”

Mittal believes that 80 per cent of incremental

growth for the Indian IT-BPO industry will be driven by opportunities outside the current core markets, verticals and customer segments.

The BPO sector is one of the fastest-growing segments in the ITeS business, recording year-on-year growth of 37 per cent for the last six years. It also offers the maximum potential for growth as globally companies are moving non-core activities to India. In 2008, the worldwide BPO spend grew by 12 per cent, despite the global slowdown.

According to NASSCOM, India's BPO revenues grew from US\$ 1.6 billion in 2002 to US\$ 14.7 billion in 2009, making it the fastest growing industry. BPO services exports are expected to clock 18 per cent growth in the current fiscal. Other segments of the ITeS industry are also faring well.

For instance, IT services, which involves a range of activities including consulting, systems integration, IT outsourcing/managed services/hosting services, training and support/maintenance (but excludes BPO, engineering services, R&D and software products), has seen a 16.5 per cent

growth in 2009, with revenues of US\$ 26.9 billion.

The engineering, R&D and software products exports segment is expected to grow by 14.4 per cent in the current fiscal, to touch US\$ 7.3 billion.

The Indian IT-BPO industry provides direct employment to nearly 2.25 million people and indirect jobs to more than 8 million. According to NASSCOM, India has a cost advantage of around 60-70 per cent as compared to source markets. Additional productivity improvements and the development of Tier-2 and Tier-3 cities as future delivery centres are expected to enhance India's cost competitiveness.

At present, seven Indian cities account for 95 per cent of export revenues. The industry is now focussing on developing 43 new locations that could emerge as IT-BPO hubs over the coming years. India's young demographic profile, the presence of a vast skilled workforce – well-versed in English and proficient in subjects such as mathematics – besides the more than 3.5 million graduates and post-graduates coming into the workforce every year, give the IT-BPO industry tremendous clout in terms of human resources.





thousands of employees.

Besides TCS and Wipro, other Indian ITeS companies that have a presence in Scotland include Hero ITeS – which acquired a Scottish call centre firm and today has seven BPO centres in the province and employs 2,000 people – Larsen & Toubro and Usha Martin (which acquired Converso, a leading Scottish BPO, in December 2008). Usha Martin’s facility is based in Southend, which is emerging as the call centre capital of the UK.

The global economic slowdown presented an ideal opportunity for Indian companies to acquire international BPO firms. “It is a good time for Indian players to go in for acquisitions and buy assets in the US, as valuations have become cheap,” notes Pramod Bhasin, chairman, NASSCOM.

The Indian outsourcing industry, which has traditionally been dependant on the US for a major share of its revenues, is also diversifying geographically, looking at other regions of the world. NASSCOM and PricewaterhouseCoopers (PwC), an

Indian companies are fast diversifying into new territories and opening up further opportunities for growth.

Ameet Nivsarkar,
vice-president, NASSCOM

international consultancy, have identified China, Japan and the Nordic region as the major new growth regions for the industry.

The Nordic region, for instance, has an outsourced services market estimated to be worth US\$ 10 billion. “Indian compa-

nies are fast diversifying into new territories and opening up further opportunities for growth,” explains Ameet Nivsarkar, vice-president, NASSCOM. “Currently, 90 per cent of exports are focussed on the US and Europe. The Nordic region with very high information and communications technology adoption, besides R&D investments, offers an untapped opportunity for Indian IT companies and another potential entry point to Europe.”

Abhijeet Ranade, associate director, PwC, says: “Rather than looking at the Nordics in isolation, Indian IT-BPO companies should target the region as a first step towards a larger presence in the European multilingual and multicultural mainland. This will also enable them to develop and drive their strategy for small and medium businesses.”

The Indian ITeS industry, which continues to hire thousands of college graduates across the country – and even abroad – is poised to enter a new growth phase, which will occur both within India and around the world. 🌍