



Confederation of Indian Industry

CII Southern Region

Industry and Economic Update

IT & IT-Enabled Services Industry

October-December 2009

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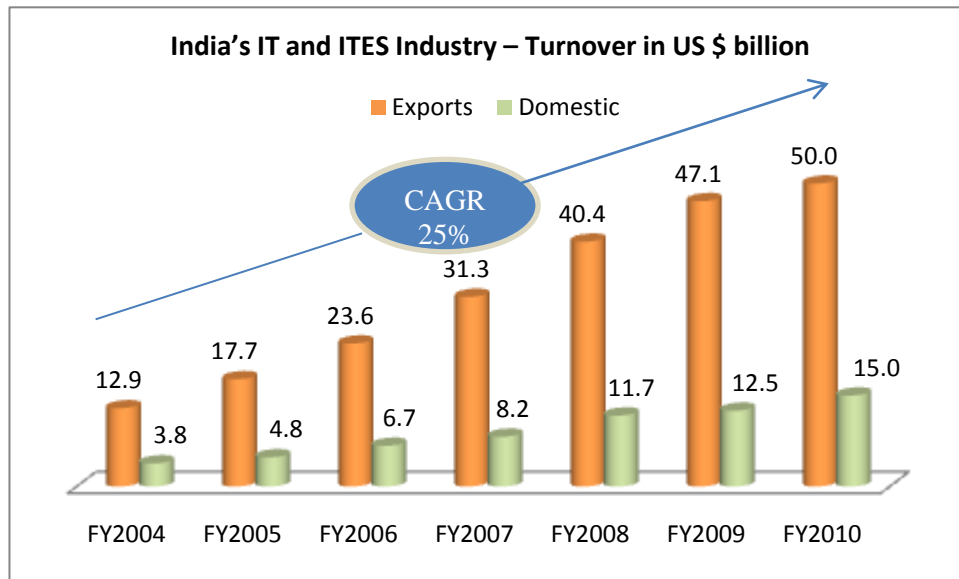
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RECENT DEVELOPMENTS

IT and ITES Industry in India

IT (Information Technology) industry is one of the fastest growing industries in India and includes the software industry and Information Technology Enabled Services (ITES), which also includes the Business Process Outsourcing (BPO) industry. India has a niche position for itself as a software developer and a desirable destination for ITES services.

The major segments of the Industry are IT Services, BPO, and Engineering Services, R&D, and Products. Much of the activity is centred on service offerings in Banking, Financial Services, and Insurance (BFSI), Hi-Tech and Telecom, Manufacturing, and Retail. These are also referred to as various 'industry verticals' in common parlance.



*FY2010 estimate

Source: NASSCOM and IMAcS estimates

The Indian IT and ITES Industry is estimated to record a turnover of US\$ 65 billion during FY2010, with exports accounting for about US\$ 50 billion and contributing to over 75% of industry revenues. The industry is expected to record a CAGR of close to 25% between FY2004 and FY2010.

India Domestic IT-ITES Market Size (in Rs. Crore)

| Market Segment | 2008 | 2009 | 2010 | 2013 | Growth 2009 over 2008 | Growth 2010 over 2009 |
|--------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------------|-----------------------|
| Software | 10,147 | 11,454 | 13,064 | 21,065 | 12.9% | 14.1% |
| Services | 24,322 | 27,888 | 32,190 | 52,071 | 14.7% | 15.4% |
| Hardware + Others | 58,248 | 55,926 | 62,401 | 94,173 | - 4.0% | 11.6% |
| Total Domestic IT Market | 92,718 | 95,268 | 1,07,655 | 1,67,309 | 2.8% | 13.0% |
| Total Domestic ITES Market | 6,846 | 9,638 | 13,011 | 29,896 | 40.8% | 35.0% |
| Total Domestic IT-ITES Market | 99,564 | 1,04,906 | 1,20,666 | 1,97,205 | 5.4% | 15.0% |

Source: IDC

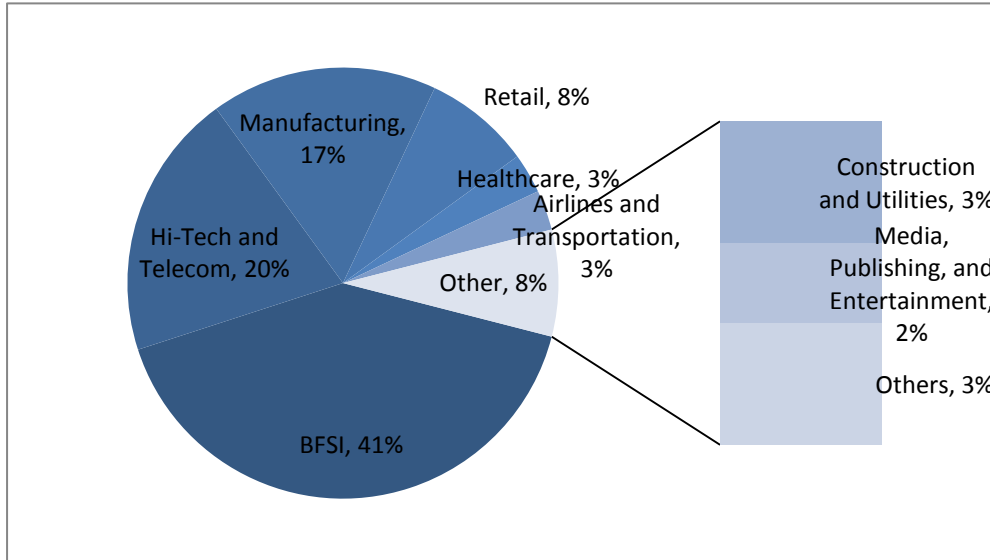
The Indian domestic IT-ITES market is expected to grow at 15% in 2010 to achieve revenues of Rs. 1,20,666 crore or US\$ 26.2 billion compared to Rs 1,04,906 crore or US\$ 22.8 billion in 2009¹.

The annual growth rate of the Indian domestic IT-ITES market growth rate is expected to reduce down from an average of 24% recorded during 2003-08 (Growth Phase 1.0) to 14.6% over the next five-years to 2013 (Growth Phase 2.0). This relatively slower growth will witness enhanced competition leading to a rapidly changing strategy and continuous market re-alignment on the part of ICT vendors and suppliers.

Banking, Financial Services, and Insurance (BFSI), Hi-Tech and Telecom, Manufacturing, and Retail are the industry verticals where majority of the activities are centred.

¹ IDC

Industry verticals in the IT and ITES Sector - 2009

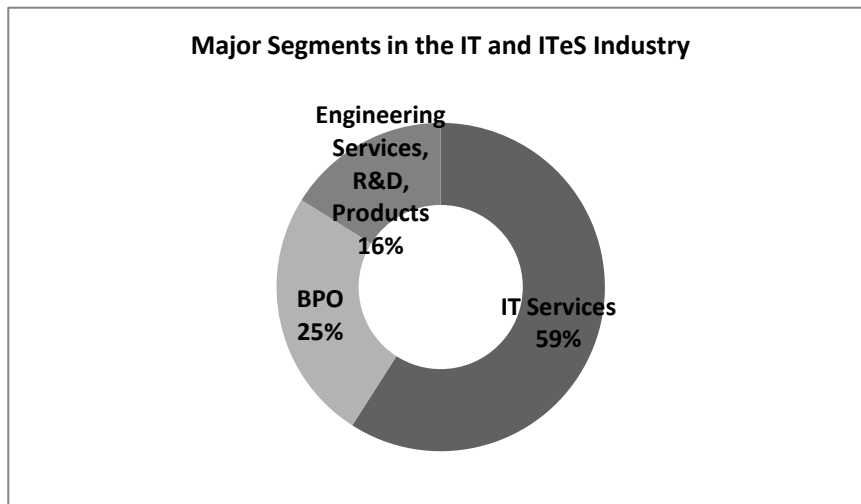


Source: NASSCOM Factsheet 2009 and IMAcS analysis

The exports from Software Technology Parks (STP) increased 15.1% in rupee terms to Rs. 207,358 crore or US\$ 45 billion in 2008-09, as against Rs 1,80,155 crore or US\$ 44 billion in 2007-08.

IT and ITES– Major Segments

The major segments of the Industry are IT Services, BPO, and Engineering Services, R&D, and Products.



Source: NASSCOM

Customer Application Development and Maintenance contribute to over 50% of revenues in this space. This is primarily because the activity is viewed as 'outsourcable'. The industry garners a large chunk of its revenues from IS outsourcing and software support activities.

Enterprise solutioning, Remote Infrastructure Management (RIM), testing services, are expected to fuel growth in this segment. In order to grow, companies are increasingly looking at positioning themselves as end-to-end solution providers. Recent acquisitions by IT companies are primarily meant to acquire either scale or capabilities in niche segments such as IT consulting, telecom and healthcare products.

The BFSI, telecom, retail, and manufacturing sectors account for major portion of the IT Services revenues.

IT Services

The IT Services segment is the largest contributor to the IT and ITES Industry, accounting for about 57% of the total software and services exports, remains the dominant segment and is estimated at Rs. 1,619 billion or US\$35 billion in FY2009, a growth of nearly 30% over the previous year in rupee terms².

Major Segments of IT Services Exports

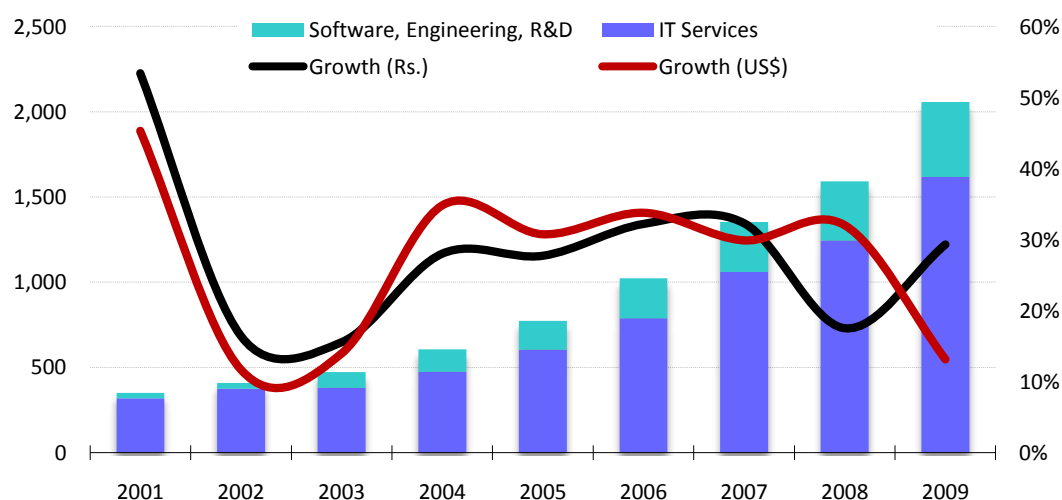
| IT Services - Exports | Contribution (%) |
|------------------------------------|------------------|
| Project Oriented | 58% |
| IT Consulting | 3% |
| Systems Integration | 3% |
| Custom Application Development | 49% |
| Network Consulting and Integration | 1% |
| Software Testing | 2% |
| Outsourcing | 33% |
| Application Management | 12% |
| IS Outsourcing | 6% |
| Others | 15% |
| Support and Training | 9% |
| Software development and support | 7% |
| Hardware deployment and support | 1% |
| IT education and training | 1% |
| Total | 100% |

Source: NASSCOM and IMAcS analysis

² NASSCOM and IMAcS analysis

India's IT Services Market and Growth

FY, Rs. billion



Source: NASSCOM, IMAcS Analysis

During FY2007-09, India's IT services market has increased at a 3-year CAGR of 25% in US\$ terms and 26% in rupee terms. Growth continues to be dominated by exports, which increased at a 3-year CAGR of 25% in US\$ terms, and 27% in rupee terms. However, spending in the domestic market has also witnessed increased growth, with revenues increasing at a 3-year CAGR of 24% in rupee terms.

India's IT Services Market

| FY | US\$ billion | | | | Rs. billion | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2007 | 2008 | 2009 | 3-year CAGR | 2007 | 2008 | 2009 | 3-year CAGR |
| IT Services | 23.50 | 31.00 | 35.20 | 25.5% | 1,061 | 1,246 | 1,619 | 27.1% |
| Exports | 18.00 | 23.10 | 26.90 | 26.5% | 813 | 929 | 1,237 | 28.0% |
| Domestic | 5.50 | 7.90 | 8.30 | 22.6% | 248 | 318 | 382 | 24.2% |
| Software Products | 3.10 | 4.00 | 4.30 | 19.8% | 140 | 161 | 198 | 21.3% |
| Exports | 1.50 | 1.80 | 2.00 | 18.6% | 68 | 72 | 92 | 20.0% |
| Domestic | 1.60 | 2.20 | 2.30 | 20.9% | 72 | 88 | 106 | 22.4% |
| Engineering/R&D | 3.40 | 4.60 | 5.30 | 23.7% | 154 | 185 | 242 | 24.8% |
| Exports | 3.40 | 4.60 | 5.25 | 23.3% | 154 | 185 | 242 | 24.8% |
| Total | 30.00 | 39.60 | 44.80 | 24.7% | 1,355 | 1,592 | 2,059 | 26.2% |
| Exports | 22.90 | 29.50 | 34.15 | 25.4% | 1,034 | 1,186 | 1,571 | 27.0% |
| Domestic | 7.10 | 10.10 | 10.60 | 22.3% | 321 | 406 | 488 | 23.8% |

Source: NASSCOM, IMAcS Analysis

In the largest segment of IT services, growth in recent years has been driven by high growth in project oriented engagements, and in particular custom application development. However, IT outsourcing has also increased at a high rate during FY2005-09. In addition to the growth in scale, the portfolio of

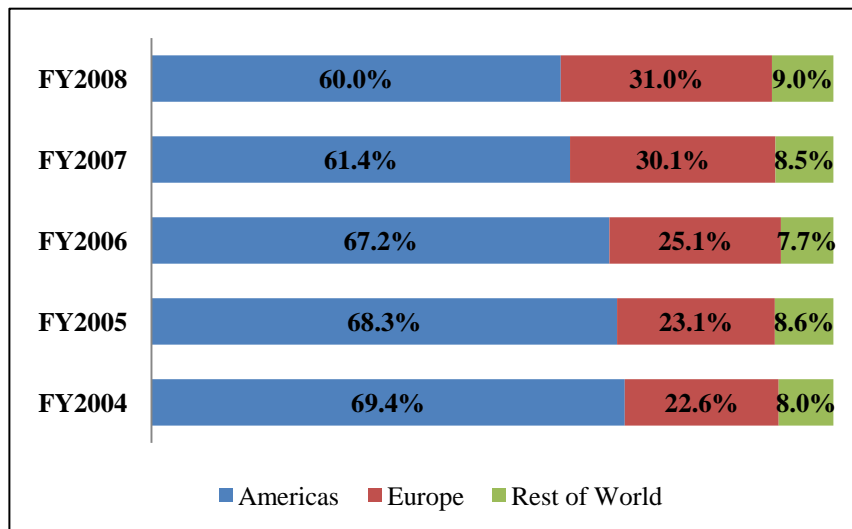
services sourced globally continued to expand into higher-value, more complex activities- further reinforcing the growing maturity of the global delivery model.

The domestic IT services market has also witnessed higher growth in recent years, driven primarily by systems integration and application management.

Enterprise resource planning (ERP), customer relationship management (CRM) and supply chain management (SCM) remain the key drivers in software products marketing.

Because of sustained competitive advantages of Indian software companies, and continued expectations of high growth in the future, the revenues of Indian software companies are expected to increase at a high rate in the medium-term. However, profitability could be affected by pricing pressures on services, volatility of the rupee against the dollar and other currencies and increased wage pressures in India and onsite. The appreciation of the rupee against the US dollar had adversely impacted revenues and operating results for many companies in FY2008. However, the rupee depreciation against the US\$ and Euro has resulted in stable/improved margins for many companies during FY2009.

Share of export revenues from different geographies



Source: NASSCOM and IMAcS analysis

The major market for software and services remains the Americas (primarily USA), accounting for about 60% of revenues. However, recognising the need to diversify their client base, companies in this industry have increase the share of revenues outside of USA from about 30% in 2004 to about 40% currently. Continental Europe and APAC are likely to see increase in their share of revenues.

NASSCOM Top 20 IT Services Exporters 2008-09

1. Tata Consultancy Services Ltd.
2. Infosys Technologies Ltd.
3. Wipro Ltd.
4. HCL Technologies Ltd.
5. Tech Mahindra Ltd.
6. Patni Computer Systems Ltd.
7. Mphasis Ltd.
8. Oracle Financial Services Software Ltd.
9. Aricent Technologies (Holdings) Ltd.
10. CSC India Pvt. Ltd.
11. Larsen & Toubro Infotech Ltd.
12. Prithvi Information Solutions Ltd.
13. Polaris Software Lab Ltd.
14. MindTree Ltd.
15. Mascon Global Ltd.
16. 3i Infotech Ltd.
17. HSBC Software Development (India) Pvt. Ltd.
18. Hexaware Technologies Ltd.
19. Mastek Ltd.
20. Sonata Software Ltd.

Engineering Services, R&D and Software Products

The range of services outsourced includes engineering and designing solutions across diverse industry verticals like telecommunications (30% of revenues), automotive (19%), aerospace (8%), construction, utilities and industrial design and research and development divisions of the leading high-tech companies.

The Engineering Services/R&D segment achieved a turnover of Rs. 242 billion or US\$5.2 billion during 2009³. This segment is expected to touch US\$50 billion in revenues by 2020. Global software giants such as Microsoft and Oracle have been leaders in this area, and have established captive development centres. The past few years have witnessed increased growth because of global clients across sectors such as telecom, automotive, aerospace, and construction in sourcing their Engineering & R&D requirements from India. Several global players are now sourcing these services from Indian firms and/or through their captive units in India.

Global software giants such as Microsoft and Oracle have been leaders in the Engineering, R&D services exports market area, and have established captive development centres. The past few years have witnessed increased growth because of global clients across sectors such as telecom, automotive, aerospace, and construction in sourcing their engineering & R&D requirements from India. Several global players are now sourcing these services from Indian firms and/or through their captive units in India.

³ NASSCOM and IMAcS analysis

The software products segment achieved turnover of Rs. 198 billion or US\$4.3 billion during 2009⁴. Software products form the fastest growing segment of the global IT industry, with the software spends forecast to grow from US\$315 billion in FY2009 to US\$537 billion in FY2015.

The growth is likely to be in the areas of Business Intelligence (BI), Enterprise Resource Management (ERM), Storage, Security, BFSI, telecom, healthcare, Retail, search engine marketing, mobile applications, social networking, and online gaming.

ITES/BPO

The terms ITES and BPO are often used interchangeably. However, strictly speaking, ITES involves outsourcing of business processes (domestic or offshore) that can only be combined with IT.

India enjoys a cost advantage of around 60-70% as compared to source markets. Additional productivity improvements and the development of tier II and III cities as future delivery centres is expected to enhance India's cost competitiveness. ITES centres in India are able to deliver superior quality because of specialisation and scale benefits. India already has a large and rapidly growing number of ITES services providers collectively covering a wide range of services with different levels of complexity and value added.

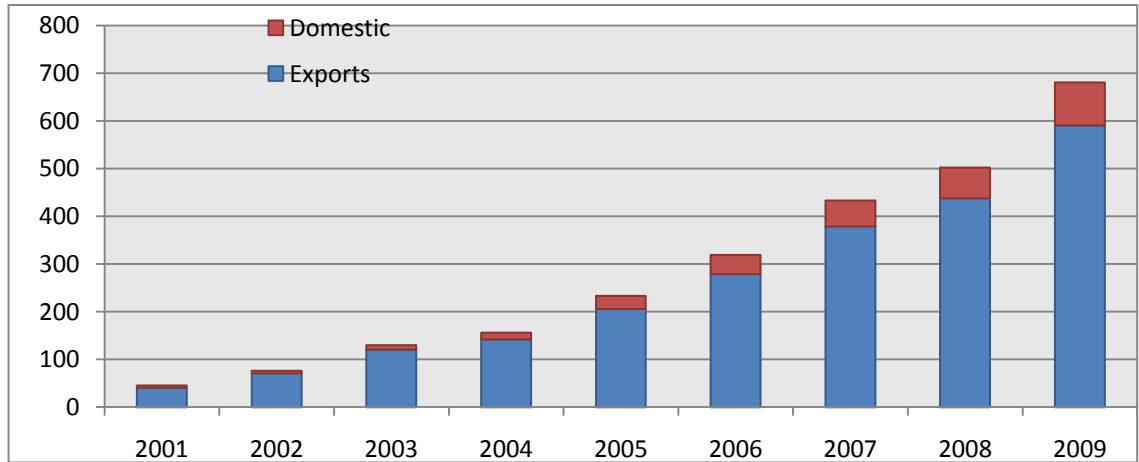
India's share in the global BPO spend is about 3.2%. Customer interaction, and Finance and Accounting services account for a significant portion of BPO revenues. Emergence of domestic BPO is the key highlight for FY2009 recording a growth of above 40% in rupee terms. The growth is led by the BFSI, Telecom and Airline industries and a greater vendor focus with specific service offering.

The domestic IT-BPO market is growing at the rate of 15-18% and is expected to reach Rs. 650 billion or US\$ 15 billion during 2009-10.

Outsourcing companies in North America and India, which have long dominated the industry, are being challenged by competition from Latin America, Eastern Europe and Asia in service areas such as contact centers, business process outsourcing, and information technology outsourcing.

⁴ NASSCOM and IMAcS analysis

Revenue Trends in the Indian ITES Industry

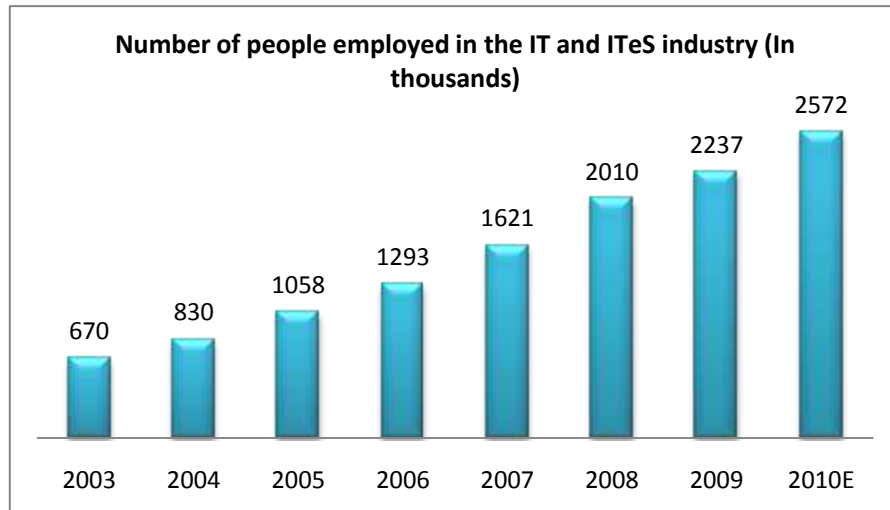


Rs. billion

Compiled by IMAcS from NASSCOM data

Although export revenues still predominate, revenues in the domestic ITES industry have also exhibited strong growth in recent years.

Employment Trends in the Indian IT and ITES Industry



NASSCOM and IMAcS estimates

A major impact of the growth has been on employment creation, which has almost doubled every year. The number of people employed in the IT and ITES sector has increased from 670,000 in 2003 to 2,237,000 in 2009. This number is expected to increase to 2,572,000 during 2010. India's labour force is expected to increase by 1.5% per annum till 2020, implying an addition of around 130 million.

Employment growth in IT-ITES could provide jobs for a significant share of these additions to labour force.

NASSCOM Top 20 IT-BPO Employers 2008-09

1. Tata Consultancy Services Ltd.
2. Infosys Technologies Ltd.
3. Wipro Ltd.
4. Cognizant Technology Solutions India Pvt. Ltd
5. HCL Technologies Ltd
6. HP India
7. Mphasis Ltd
8. Intelenet Global Services Ltd*
9. IBM-Daksh Business Process Services Pvt Ltd*
10. Genpact India Pvt Ltd
11. Tech Mahindra Ltd
12. Aegis Ltd*
13. WNS Global Services (P) Ltd*
14. Firstsource Solutions Ltd*
15. CSC India Pvt Ltd
16. Patni Computer Systems Ltd
17. Larsen & Toubro Infotech Ltd
18. Hinduja Global Solutions Pvt Ltd*
19. Oracle Financial Services Software Ltd
20. Convergys India Services

*Pure-play BPO firms

NASSCOM Top 15 BPO Exporters 2008-09

1. Genpact India Pvt Ltd
2. WNS Global Services (P) Ltd
3. Tata Consultancy Services BPO
4. IBM-Daksh Business Process Services Pvt. Ltd
5. Wipro BPO
6. Firstsource Solutions Ltd
7. Aditya Birla Minacs Worldwide Ltd
8. Aegis Ltd
9. Infosys BPO
10. HCL BPO
11. exl Service.com (India) Pvt Ltd
12. Intelenet Global Services Ltd
13. Hinduja Global Solutions Pvt Ltd
14. 24/7 Customer Pvt Ltd
15. Mphasis BPO

IT Exports

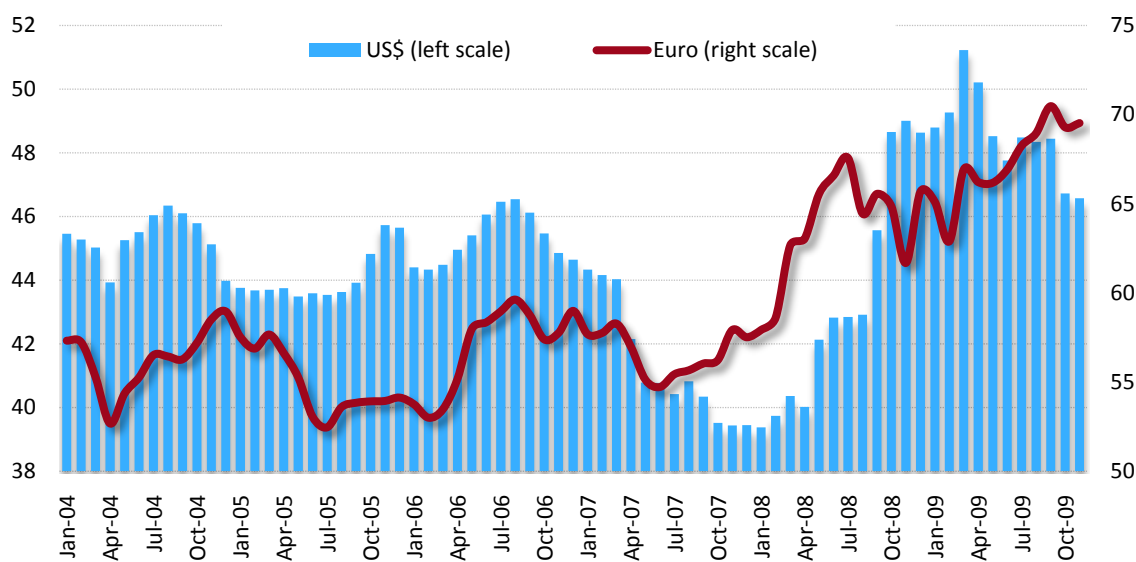
India's software services and ITES now contribute a small but growing share of trade in invisibles. The major market for software and services remains the Americas (primarily USA), accounting for about 60% of revenues. However, recognising the need to diversify their client base, companies in this industry have increased the share of revenues outside of USA from about 30% in 2004 to about 40% currently. Continental Europe and APAC are likely to see increase in their share of revenues. The Export revenues are estimated to account for 66% of the total IT/ITES industry revenues in FY2009.

During FY2009, BPO exports are up by 16.5% registering revenues of USD 12.7 billion. Engineering services and product exports clocked revenues of US\$ 7.1 billion, growing at 11% in FY2009⁵.

NASSCOM estimates India's software exports to grow 4-7% in 2009-10. Indian software exports, though recovering, were unlikely to return to the 30% growth seen before the economic slowdown and also because of the higher revenue base.

Exchange Rate of the Rupee

Rs. Per unit



Source: Gol

During FY2009, the Indian rupee generally depreciated. The rupee, which depreciated during Q4FY2008, appreciated thereafter. However, from around end-April 2008, the rupee depreciated continuously thereafter, reflecting large capital outflows by FIIs, increased demand for dollars by the oil companies and bearish stock market conditions. The Indian Rupee has recently witnessed strong appreciation against the US Dollar. The rupee that averaged Rs. 48.4 against the US\$ during September 2009 has strengthened to Rs. 46.6 during November 2009. This implies an over 10% rise from its lows of over Rs. 52 to a Dollar in March 2009. The rupee averaged 48.42 against the US\$ in Q1FY2010, against 49.83 in Q4FY2009.

⁵ NASSCOM

IT Revenues show Low Revenue Growth in Q2FY2010

The second quarter of FY2010 continued to witness dismal revenue performances. On the profit front, IT majors performed well but mid-sized and small companies reported fall in profits. During this quarter, pricing continued to be weak for most players led by some fresh rate cuts and the flow-through impact of re-negotiations which were closed by companies in the previous quarter.

The revenue growth of the companies dropped to 3% during this quarter. However PAT grew faster by 11% as the industry dealt with the slowdown by curtailing expenses.

The PBDIT growth of IT majors was not affected by the dramatic slowdown in net sales. This was because of the sharp decrease in the wage cost and decline in other expenses. IT majors were slow on hiring which was evident from their net employee additions during the quarter that fell by over 75%.

Infosys, Wipro and HCL Technologies registered sales growth in the range of 3% and 9%. The sales growth of TCS inched up by less than 1%. Tech Mahindra was hit the hardest as its sales declined by 2.8% during this quarter. IT majors maintained their PAT margin in the range of 19-30% in the last two quarters.

Performance of top IT companies in India during Q2FY2010

| | Income (Rs. Cr.) | Sales (Rs. Cr.) | PBDIT/Income (%) | | PAT/Income (%) | |
|------------------|---------------------|--------------------|------------------|----------|----------------|----------|
| | | | Q2FY2009 | Q2FY2010 | Q2FY2009 | Q2FY2010 |
| TCS | 5,744.4 | 5,744.4 | 24.9 | 28.7 | 18.7 | 21.1 |
| Infosys | 5,433.0 | 5,201.0 | 34.2 | 37.4 | 26.5 | 26.5 |
| Wipro | 5,979.2 | 5,857.8 | 22.1 | 26.6 | 15.4 | 20.6 |
| HCL | 1,295.2 | 1,247.3 | 27.7 | 33.1 | 20.7 | 23.2 |
| Tech Mahindra | 1,146.8 | 1,109.8 | 30.8 | 27.5 | 25.9 | 18.4 |

ITES industry reports average revenue and earnings growth during Q2FY2010

The ITES industry registered a sharp decline in revenues, reporting a single digit growth of 9%. Total expenses excluding interest, depreciation and tax expenses grew by a mere 4% as a result of which PBDIT grew by 7%. PAT margins of most of the companies contracted this quarter due to rise in interest cost and depreciation expenses.

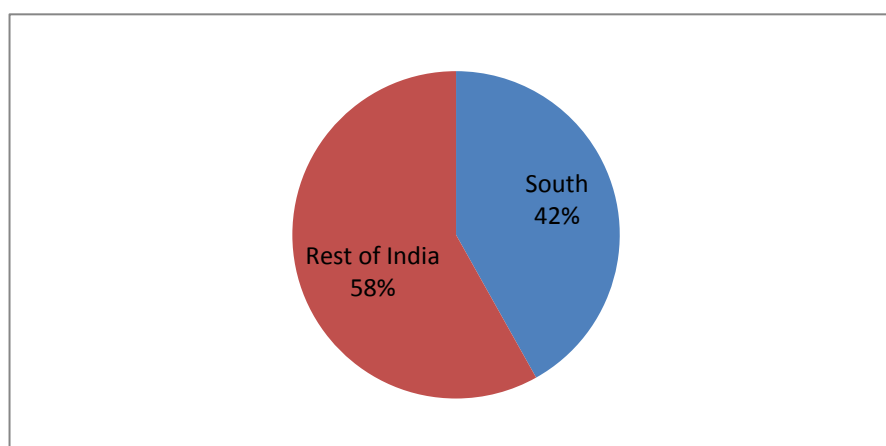
Performance of top ITES companies in India during Q2FY2010

| | Income (Rs. Cr.) | Sales (Rs. Cr.) | PBDIT/Income (%) | | PAT/Income (%) | |
|--------------------------|---------------------|--------------------|------------------|----------|----------------|----------|
| | | | Q2FY2009 | Q2FY2010 | Q2FY2009 | Q2FY2010 |
| Firstsource Solutions | 165.6 | 163.8 | 26.4 | 18.9 | 16.1 | 8.2 |
| Hinduja Solutions | 123.1 | 123.1 | 30.0 | 30.2 | 20.2 | 17.7 |
| Allied Services | 110.5 | 110.4 | 25.0 | 28.4 | 20.3 | 21.9 |

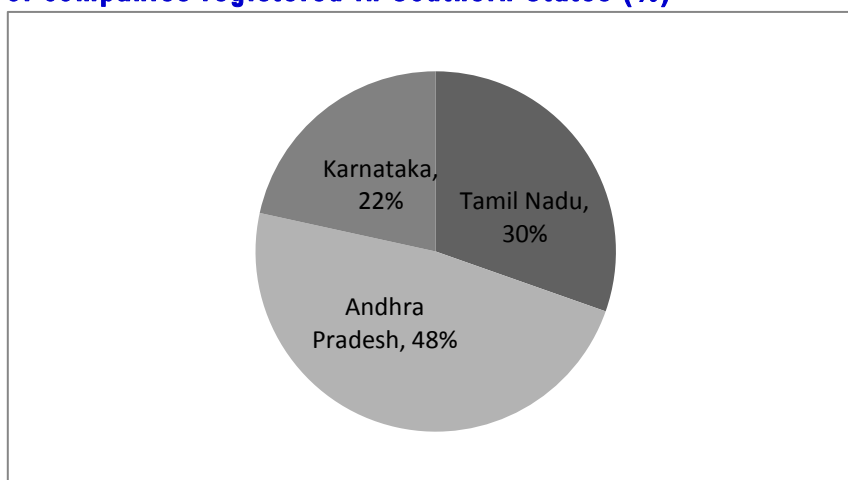
Southern Region

There are over 216 companies operating in India in the IT and ITES sector. There are over 90 companies which have registered office in the southern region.

Regional Distribution of IT and ITES Companies (%)



Distribution of companies registered in Southern States (%)



IT and IT-Enabled Services

From the above figure we can see that 42% of the IT and ITES companies have their registered offices in South India. In South India, most number of companies has their registered offices in Andhra Pradesh followed by Tamil Nadu and Karnataka.

STATE LEVEL ANALYSIS

Karnataka

Karnataka has always been a proactive state, and thus it is the most sought after IT destination in the country. In Karnataka as well as in India, Bengaluru takes the lead as the most preferred IT destination owing to its climate, good social, education and health facilities. Bengaluru is known as the 'Silicon Valley of India'. Bengaluru's IT industry is divided into three main clusters — Software Technology Parks of India (STPI); International Tech Park, Bengaluru (ITPB) and Electronics City. The State's IT industry accounts for almost one-third of India's IT exports.

Karnataka has over 2,000 operational companies in the IT/ITES space (2009) employing over 5.5 million professionals. About 50 percent of the world's SEI CMM Level 5 certified companies are located in Bengaluru. Bengaluru is among the five largest technology hubs in the world.

Key players

- Infosys
- Wipro
- Tata Consultancy Services
- Oracle
- Dell
- IBM
- Microsoft
- Accenture
- Cognizant
- Yahoo
- Google

Mysore: 49 STPI registered companies which together export of US\$ 185 million during 2006-07; a 250 percent growth against the exports in 2004-05.

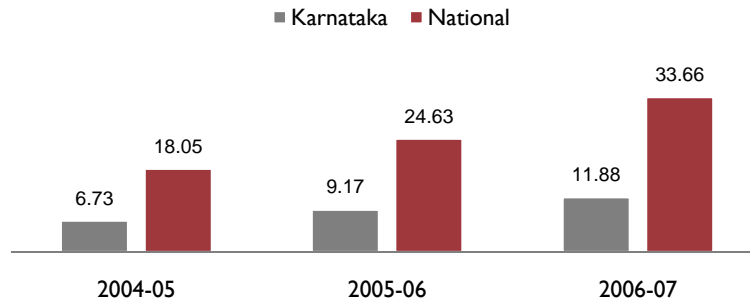
Mangalore: 24 STPI registered companies with exports of US\$ 166 million during 2006-07.

Hubli: 13 STPI registered companies with exports of about US\$ 2.1 million in 2006-07.

Karnataka's share in national software exports is more than 35 percent; IT/ITES export growth rate at about 30 percent.

Karnataka has 33 SEZs in the IT/ITES sector. Mangalore, Mysore, Hubli-Dharwad, and Belgaum are the SEZ zones.

Karnataka vs national exports (US\$ billion)



Source: STPI

Tamil Nadu

Tamil Nadu is the third largest economy in India and the state has attracted a large number of investment proposals in the recent times. The rapid growth of IT in Tamil Nadu is due to factors such as a conducive IT policy of the state, cost effective real estate, large bandwidth/telecommunication, presence of an international airport nearby, and availability of power. Tamil Nadu has an 11% share of the total Indian Information and Communication Technologies production.

The portfolio consists of application software and system software, which has the highest share of around 70 per cent; ITES and BPO with 13%; communication software, VLSI design and Web solutions with a share of 8%; IT consultancy with a contribution of 6%; and product development with a contribution of 3%.

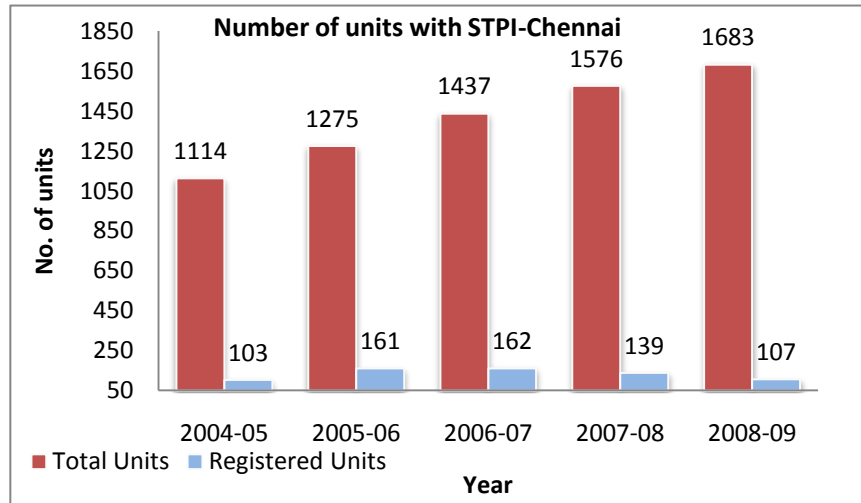
Key players

- CTS
- Computer Associates
- Xansa
- Polaris
- Mahindra Satyam
- Tata Consultancy Services (TCS)
- Infosys
- CSC
- i-Gate
- Patni
- Ajuba
- HCL
- DSRCL
- Virtusa

Tamil Nadu has 22 approved IT Parks. TIDEL Park in Chennai is the IT Park spanning over 1.3 million sq. ft. of area. TIDEL is the first largest IT facility in India Promoted by Tamil Nadu Industrial Development Corporation (TIDCO). A TIDEL Park in Coimbatore will start functioning from February 2010. The number of SEZ units in IT and ITES in Tamil Nadu has grown from 12 in 2006-07 to 52 in 2008-09.

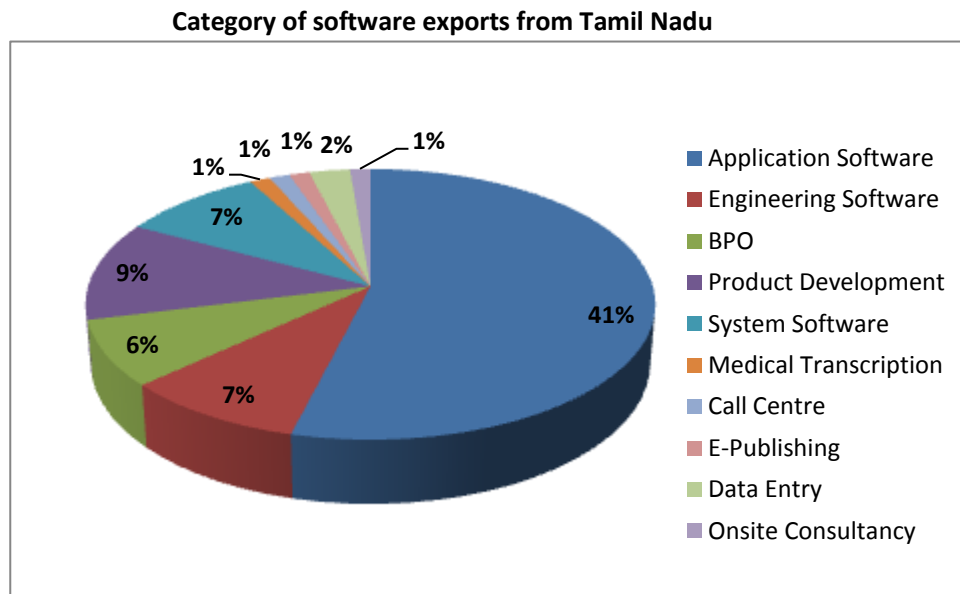
Software Technology Parks of India (STPI) Chennai was established in 1995. As of today, STPI Chennai has established its sub-centres at Trichy, Madurai, Tirunelveli, Coimbatore and Pondicherry.

The number of software units in Tamil Nadu has increased from 1,114 in 2004-05 to 1,683 in 2008-09.



Source: STPI-Chennai

Majority of software exports from Tamil Nadu are those of application software.



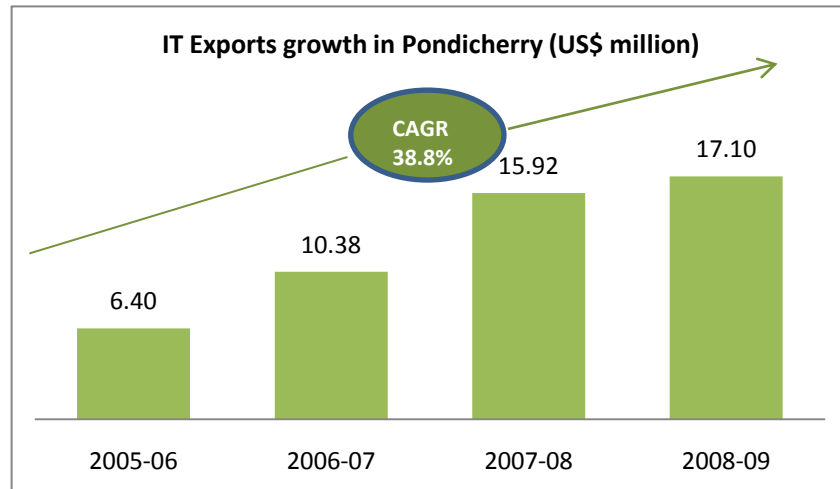
Source: STPI-Chennai

Pondicherry or Puducherry

Pondicherry has the advantage of proximity to Chennai – 162 kms south of Chennai with good educational institutes. IT incentives from the Government of Pondicherry are as follows:-

- 20% Investment Subsidy
- 50% Connectivity Subsidy
- Venture Capital Finance

- 10 years Sales Tax Holiday



Source: STPI-Chennai

The IT exports from Pondicherry have grown at a CAGR of 38.8% from US\$ 6.40 million during 2005-06 to US\$ 17.10 million during 2008-09.

Andhra Pradesh

The State of Andhra Pradesh has been at the forefront of India’s IT growth.

The following incentives are offered for setting up IT Units:

- 100% Reimbursement of Registration Fee, Stamp Duty & Transfer of Property Duty
- 25% rebate in power tariff
- Exemption from Zoning Regulation & Special Stipulations for IT Parks on Private lands and IT Campuses
- A subsidy of Rs. 50 lakh to the first five anchor IT/ITES companies employing more than 250 employees in IT or 500 employees in ITES in any Tier-II location.
- Rs. 15 lakh as recruitment assistance for employing minimum 100 employees in IT & 200 employees in ITES within two years of commencement of commercial operations in the Tier-II city.

Key players

- Mahindra Satyam
- Microsoft
- Cognizant
- Genpact
- Intergraph
- CSC
- Zensar
- iGate
- Patni Computers
- IBM
- Sonata Software

The Hyderabad Information Technology and Engineering Consultancy City (HITEC City) is one of the largest Information Technology parks in India.

In the last financial year, 69 new companies, including nine foreign companies, were registered with the STPI while 22 units were set up in the state under the SEZ scheme. Besides, 52 existing companies expanded their operations. Andhra Pradesh has had a steady growth in exports, recording a 24.5 per cent growth in 2008-09 against the national average of 20.7 per cent.

The state attracted investments to the tune of US\$ 110 million, of which investments from foreign companies were at US\$ 2-3 million as of July, 2009.

Total employment generated by IT and ITES industry in the state increased from 239,000 in 2007-08 to 251,786 in 2008-09. The total employment generated by the IT sector in 2008-09 increased by 12,768 for the STP and SEZ units.

Kerala

The IT industry of Kerala has an annual turnover of about Rs. 15 billion directly employing about 60,000 people. Due to certain inherent strengths of the state such as its cost factor, favourable climate, Kerala is uniquely placed to emerge as a major IT destination in the country, in spite of having started late. With the industry galloping at a healthy CAGR of about 25% there is enough opportunity available for the State to capture a fair share of the growing IT/ITES business. Kerala's IT sector will generate as many as 200,000 jobs in the next five years.

Both Thiruvananthapuram and Kochi are the growth hubs for the IT sector in the state. The Technopark at Thiruvananthapuram and Infopark at Kochi are the two major IT parks in the state. Cyberpark at Kozhikode is being developed over a 43-acre campus. The state also has many private IT parks such as Smart City-Kochi, L&T Park, Leela Park, Brigade Park, and Muthoot Park.

To augment the potential of Kochi as an emerging destination for the ITES industry, the Department of IT, Government of Kerala, has set up India's first exclusive ITES training centre in Kochi. ITES Habitat Centre is a training and facilitation centre for IT/ITES industry.

State-wise Developments

- The software exports from Tamil Nadu have grown from US\$ 3.02 billion in 2005-06 to US\$ 7.97 billion in 2008-09 registering a CAGR growth of 38.2 per cent between 2005-06 and 2008-09.
- Andhra Pradesh registered an export turnover of Rs. 325.1 billion or US\$7.1 billion from the IT/ITES industry during 2008-09, a growth of 24.5% in rupee terms over the previous year's Rs 261.2 billion or US\$5.7 billion⁶.
- According to STPI-Bengaluru, revenue from software exports in Karnataka grew 23% to Rs. 749.3 billion or US\$ 16.3 billion during FY2008-09. During the period, 84 software units were added, which included 35 foreign equity companies, two Indian major and 47 small and medium enterprises, taking the total approved STP units to 2,085 and electronic hardware technology park (EHTP) units to 68.

⁶ Business Standard dated 2nd July, 2009

INVESTMENTS AND PROJECTS

All-India FDI inflows

In Rs. Billion

| Year/Industry | 2006-07 (Apr-Mar) | 2007-08 (Apr-Mar) | 2008-09 (Apr-Mar) | 2009-10 (Apr-Oct'09) | Cumulative Inflows (Apr'00-Oct'09) |
|--------------------------------|-------------------|-------------------|-------------------|----------------------|------------------------------------|
| Computer Software and Hardware | 117.9 | 56.2 | 73.3 | 23.9 | 418.9 |

Source: Department of Industrial Policy & Promotion

The computer software and hardware sector has attracted the second highest FDI inflows of 9% after the services sector which has attracted the highest FDI of 22%.

Investments

The project costs of many investments in IT and ITES projects in the five southern states of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Pondicherry are not available. These investments include existing, planned, projects under execution and those deferred. Ownership wise, it is the private sector firms that own a large portion of over 81% of the total investments.

Of these, investments by Indian entities account for about 97% while the balance is from foreign firms. State governments have a small share of investments of about 14%. Although, investment values of most of the projects are unavailable, going by the number of projects, it is the private sector that dominates total investment in the sector.

About 26% of the investments are in the planning stage. They have been announced by the private sector, state and central government sectors. These projects in the planning stage are located, mainly, in Karnataka, which is the preferred destination for IT investments. Karnataka and Andhra Pradesh almost have the same number of projects.

The keys projects in Tamil Nadu are the India Land Techpark IT Park in Ambattur, IT Park in Coimbatore and the Mini Tidel Park in Coimbatore. An IT Park at Alappuzha is being planned. Technopark's Phase III development is being implemented as an IT/ITES special economic zone over 92 acres, making Technopark a 10 million sq. ft technology park. Work on construction of the 1 million sq. ft IT building with green technology has started.

The Karnataka State Electronics Development Corporation has invited bids to set up two software parks at Mysore and Mangalore. Firstsource Solutions completed two of its BPO projects located at Bengaluru, one of the project is worth Rs. 200 million. Ness Technologies is expected to start Phase II of its Bangalore Development Centre.

A centralized processing centre for the Income Tax Department costing Rs. 255 crore or US\$ 55 million is being established in Bengaluru, which the largest project in ITES.

Number of IT and ITES Projects in Southern India

| | Completed | Deferred | Planning | Stalled | Under Execution | Total |
|--------------|-----------|-----------|-----------|----------|-----------------|------------|
| AP | 12 | 3 | 12 | - | 18 | 45 |
| Kerala | 3 | 1 | 6 | - | 7 | 17 |
| TN & Pondy | 41 | 2 | 14 | 3 | 25 | 85 |
| Karnataka | 15 | 5 | 18 | - | 15 | 53 |
| Total | 71 | 11 | 50 | 3 | 65 | 200 |

As can be seen from the above table, about 33% of the investments are under execution. About 36% of the projects have been completed and 25% of the investments are under planning stage. The numbers of deferred and stalled investments are very less at 7%.



| Project Name : | Promoter : | Cost (Rs. Million) : | Ownership : | Implementation Stage : |
|----------------|------------|-------------------------|-------------|---------------------------|
|----------------|------------|-------------------------|-------------|---------------------------|

Major IT and ITES Projects in Southern States

| Project Name : | Promoter : | Cost (Rs. Million) : | Ownership : | Implementation Stage : |
|---|---|----------------------|------------------|------------------------|
| Software Park (Bengaluru) [Oracle Technology Park] | Oracle India Pvt. Ltd. | 6,000.00 | Private (Indian) | Deferred |
| IT Park (Doddaballapur) | Puravankara Projects Ltd. | 3,770.00 | Private (Indian) | Planning |
| IT Park (Bellandur) [Pritech Park-II] | Primal Projects Pvt. Ltd. | 3,750.00 | Private (Indian) | Under Execution |
| IT Park (Whitefield) [Bhoruka Tech Park] | Bhoruka Park Pvt. Ltd. | 2,560.00 | Private (Indian) | Under Execution |
| Global Tech Park (Bengaluru) | Supreme Build Cap Pvt. Ltd. | 2,220.00 | Private (Indian) | Under Execution |
| Software Parks | Divyasree Developers Pvt. Ltd. | 2,110.00 | Private (Indian) | Completed |
| Software Park (Bengaluru) [Salarpuria GR Tech Park] | Salarpuria Properties Pvt. Ltd. | 1,100.00 | Private (Indian) | Completed |
| Software Technology Park (Bengaluru) | IBC Knowledge Park Pvt. Ltd. | 822.00 | Private (Indian) | Under Execution |
| IT/ BT Park (Rajajinagar) | Karnataka State Industrial Investment & Devp. Corpn. Ltd. | 500.00 | State Government | Completed |
| Software Park (Hubli) | Karnataka State Electronics Devp. Corpn. Ltd. | 360.00 | State Government | Completed |
| Software Campus (Bengaluru) | Planetasia.Com Ltd. | 240.00 | Private (Indian) | Deferred |
| Software Park (Electronic City) | Mysore Intercontinental Hotels Pvt. Ltd. | 200.00 | Jaypee Group | Under Execution |

Source: Compiled by IMaCS

Tamil Nadu and Pondicherry

IT and IT-Enabled Services

| | | | | |
|--|---|----------|-------------------|-----------------|
| IT Park (Ambattur) [India Land Techpark] | India Land & Properties Ltd. | 5,000.00 | Private (Indian) | Completed |
| IT Park (Coimbatore) | Tidel Park Coimbatore Ltd. | 3,700.00 | Joint Sector | Under Execution |
| Mini Tidel Park (Coimbatore) | Electronics Corpn. of Tamil Nadu Ltd. | 3,700.00 | State Government | Under Execution |
| Software Park (Chennai) Phase I | Tidel Park Ltd. | 3,200.00 | State Government | Completed |
| Tidel Park-II Phase II | Tidel Park Ltd. | 3,000.00 | State Government | Completed |
| Software Park (Sholinganallur) | XS Real Properties Pvt. Ltd. | 2,000.00 | Private (Indian) | Completed |
| IT Park (Ambattur) | Tamil Nadu Newsprint & Papers Ltd. | 1,850.00 | State Government | Under Execution |
| IT Park (Navalur) Project [Alpha City] | SSPDL Ltd. | 1,500.00 | Private (Indian) | Completed |
| Tidel Park-II Phase I | Ascendas (India) Pvt. Ltd. | 1,500.00 | Private (Foreign) | Completed |
| IT Park (Kalapet) - Phase II | Pondicherry Industrial Promotion Devp. & Investment Corpn. Ltd. | 800.00 | State Government | Planning |
| Software Parks (Chennai) | Lancor GESCO Properties Ltd. | 650.00 | Private (Indian) | Completed |
| Software Technology Park (Chennai) | Mascon Global Ltd. | 600.00 | Private (Indian) | Abandoned |
| Software Park (Guindy) | R R Industries Ltd. | 600.00 | Private (Indian) | Completed |
| Software Technology Park (Madurai) | Electronics Corpn. of Tamil Nadu Ltd. | 435.6 | Private (Indian) | Completed |

| Project Name : | Promoter : | Cost (Rs. Million) : | Ownership : | Implementation Stage : |
|---|---------------------------------------|----------------------|--------------------|------------------------|
| IT Park (Chennai) [Egate] | Appaswamy Real Estates Ltd. | 400.00 | Private (Indian) | Completed |
| Software Park (Kandanchavadi) | Prince Foundations Pvt. Ltd. | 400.00 | Private (Indian) | Completed |
| IT Park (Chennai) [Prince Infotech] | Prince Foundations Pvt. Ltd. | 300.00 | Private (Indian) | Completed |
| Software Park (Semmanchery) [Techno Creek] | Maan Sarovar Software Pvt. Ltd. | 250.00 | Private (Indian) | Completed |
| Technology Centre (Chennai) | Software Technology Parks of India | 250.00 | Central Government | Completed |
| Software Park (Ambattur) [Prince Info Park] | Prince Foundations Pvt. Ltd. | 200.00 | Private (Indian) | Completed |
| IT Park (Jagir Ammapalayam) | Electronics Corpn. of Tamil Nadu Ltd. | 140.00 | State Government | Planning |
| IT Park (Viswanathapuram) | Electronics Corpn. of Tamil Nadu Ltd. | 137.3 | State Government | Planning |
| IT Park (Gangaikondan) | Electronics Corpn. of Tamil Nadu Ltd. | 133.7 | State Government | Planning |
| IT Park (Karapakkam) [Marg Square-II] | Marg Ltd. | 65.00 | Private (Indian) | Completed |

Source: Compiled by IMaCS

Andhra Pradesh

| | | | | |
|---|--|----------|-----------------------|-----------------|
| IT Park (Hyderabad) [Synergy Park] | Tata Consultancy Services Ltd. | 7,500.00 | Tata Group | Completed |
| Software Park (Madhapur) | K Raheja IT Park (Hyderabad) Pvt. Ltd. | 4,000.00 | Private (Indian) | Under Execution |
| Infocity (Madhapur) Project Phase II | L&T Infocity Ltd. | 2,620.00 | Larsen & Toubro Group | Completed |
| IT Park (Nacharam) [Prajay Techno Park] | Prajay Engineers Syndicate Ltd. | 2,250.00 | Private (Indian) | Planning |

| Project Name : | Promoter : | Cost (Rs. Million) : | Ownership : | Implementation Stage : |
|-------------------------------------|-------------------|-----------------------------|-----------------------|-------------------------------|
| Infocity (Madhapur) Project Phase I | L&T Infocity Ltd. | 1,200.00 | Larsen & Toubro Group | Completed |

| Project Name : | Promoter : | Cost (Rs. Million) : | Ownership : | Implementation Stage : |
|--|--|-----------------------------|---------------------------------------|-------------------------------|
| IT Park (Hyderabad) [Vijay's Technopark] | Vijay Textiles Ltd. | 1012.5 | Private (Indian) | Under Execution |
| IT Park (Hyderabad) [Arena] IT Incubator & IT Park (Madhapur) Phase II | Topnotch Infrastructure Pvt. Ltd. Vanenberg IT Park Pvt. Ltd. | 870.80 750.00 | Private (Indian) Private (Foreign) | Under Execution Completed |
| IT Park (Visakhapatnam) | Color Chip New Media Ltd. | 110.00 | Private (Indian) | Under Execution |
| IT Park (Vijayawada) Project | Vijayawada Municipal Corpn. | 50.00 | Government Local Bodies | Deferred |

Source: Compiled by IMAcS

Kerala

| | | | | |
|--|------------------------------------|-----------|---------------------|---------------------|
| IT Parks (Alappuzha) | Infopark | 10,000.00 | State Government | Planning |
| Technopark (Trivandrum) Phase II | Kerala State IT Mission | 1,560.00 | State Government | Completed |
| IT Park (Thiruvananthapuram) - Phase III | Technopark | 1,311.2 | State Government | Under Execution |
| Information Technology Park (Kochi) | Cochin Shipyard Ltd. | 800.00 | Central Government | Deferred |
| Infopark (Kochi) | Infopark | 600.00 | State Government | Partially Completed |
| Technopark (Kerala) Project | Kerala State IT Mission | 500.00 | State Government | Completed |
| IT Complex (Kollam) | Technopark | 324.5 | State Government | Planning |
| IT Park (Koratty) - Phase I | Infopark | 100.00 | State Government | Under Execution |
| IT Park (Kannur) | Kerala Dinesh Beedi Co-op. Society | 80.00 | Co-Operative Sector | Completed |

Source: Compiled by IMAcS

COMPANY NEWS AND DEVELOPMENTS

Company News

- Wipro is planning a brand overhaul for taking a relook at the different elements of the brand.
- Infosys Technologies plans to open a software development and back office centre in Brazil later this year to serve its US customers better by establishing a near-shore presence. GE India has

IT and IT-Enabled Services

become the first company to be awarded Validated End User authorization in India by the US department of commerce. This programme allows for license-free exports of US export-controlled technology.

- Infosys Technologies has set up the Global Education Centre II for education and training of its student trainees.
- Aegis Ltd, the BPO services arm of the Essar Group has made its 14th acquisition in five years by buying an 80% stake in Sri Lankan BPO firm iSmart Timex Pvt. Ltd for an undisclosed amount.
- Infosys bags ten-year govt e-biz project. The ten-year 'e-biz project' calls for the development and maintenance of a one-stop portal and is the third of 27 government mission-mode projects.
- TCS has opened its third global delivery centre in Queretaro, Mexico and seventh in Latin America. The Company also expects to hire 500 professionals during the current financial year for its new centre. With over 1,000 people in Mexico alone, TCS plans to take the headcount to 5,000 by 2012.
- HCL Technologies has entered into a strategic partnership with South Africa's UCS Group. As part of the all-cash deal, HCL will acquire UCS's enterprise solutions SAP practice focused on the retail sector for US\$7.7 million.
- Mindtree, the IT and R&D services company, has signed an agreement with Kyocera Wireless Corp (KWC) to acquire its Indian subsidiary, Kyocera Wireless (India).
- Microsoft has launched its latest operating system Windows 7.
- HP announced telecom software that can help service providers to tap Web 2.0 to spark growth in wireless revenue.

POLICY DEVELOPMENTS

The Union Minister for Communications and Information Technology has decided to constitute a Task Force to suggest measures to stimulate the growth of IT, ITES and Electronics Hardware Manufacturing Industry in the country. It was decided after the consultations held with various industry associations in the IT, Communications and Electronics Hardware.

The Task Force is to make recommendations on the following issues:-

- Strategies to augment the growth of the IT software and IT enabled services sector in the context of global developments.
- Steps needed to accelerate domestic demand for Electronics hardware products, IT & IT enabled services.
- Steps needed to boost domestic manufacturing in Electronics hardware sector.

Ajai Chowdhry, Chairman & CEO, HCL Infosystems Ltd., is the Chairman and Kiran Karnik is the Co-Chairman of the task force apart from other members from the industry.

For getting wider participation from different sectors of Industry, R&D laboratories, e-governance applications, experts and other intellectuals, the Task Force may co-opt other members and create sub-groups, as deemed necessary.

REVIEW OF FINANCIAL PERFORMANCE

Overall, the IT and ITES industry has reported deteriorating financial performance during FY2008 and FY2009. During FY2008, financial performance was adversely impacted by the rupee appreciation which made Indian IT and ITES exports uncompetitive. During FY2009, while the rupee depreciation has made exports more competition, the sharp slowdown in domestic and export demand has resulted in significant deterioration in financial performance. Although performance has been weak throughout FY2009, there seems to be a marginal improvement during Q1FY2010, attributable to a decline in employee wage costs.

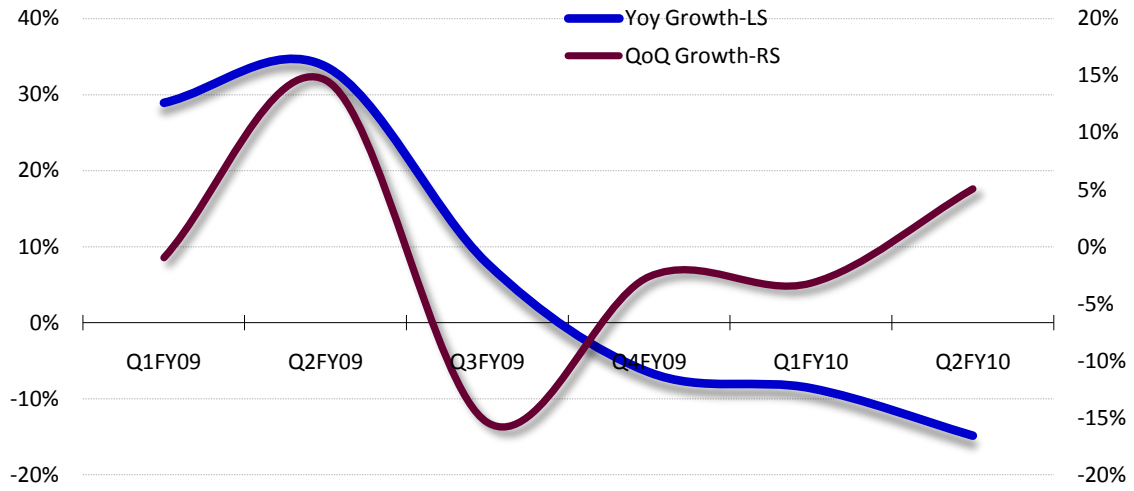
Southern Region

During Q2FY2010, 94 **listed companies with registered offices in the Southern Region** reported a 5.1% qoq growth in the operating income (OI) to reach Rs. 144 billion.

OI (yoy) growth reduced to a negative growth of 14.9% during Q2FY2010, while it had reduced to a negative growth of 8.3% during Q1FY2010 and to a negative growth of 6.5% during Q4FY2009 as signs of recession became evident. The OI (yoy) had increased drastically to 34.1% in Q2FY2009, but reduced to 7.8% in Q3FY2009. On a qoq basis however, OI growth was negative at 1% in Q1FY2009, improved to 14.6% and reduced to negative 15.4% in Q3FY2009, OI (qoq) growth was at negative 3.2% during Q1FY2010 and registered a positive growth of 5.1% during Q2FY2010 showing signs of recovery. Even on a yoy basis, OI growth seems to have followed a decline and keep reducing every quarter after peaking in Q2FY2009.

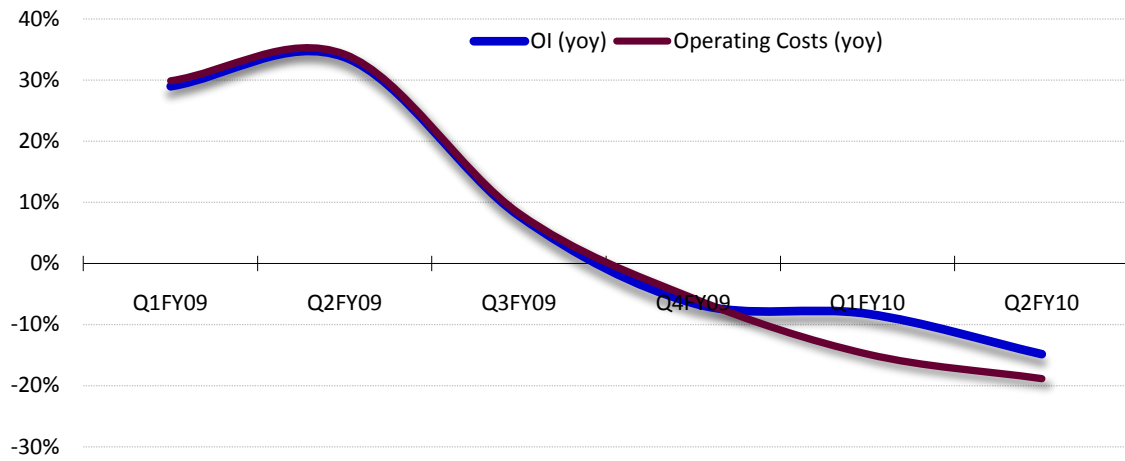


Trends in Operating Income Growth—Southern Region



Source: Compiled by IMaCS

Trends in Operating Income and Operating Costs Growth—Southern Region



Source: Compiled by IMaCS

Financial Performance of the IT and ITES Industry (Southern India)

Rs. Million, except percentages

| FY | Rs. Million | | Change (%) | % of OI | |
|-----------------------|----------------|----------------|-------------|--------------|--------------|
| | 2009 | 2008 | | 2009 | 2008 |
| Net Sales/OI | 604,030 | 528,807 | 14.2 | 100.0 | 100.0 |
| Employee Costs | 269,358 | 220,178 | 22.3 | 44.6 | 41.6 |
| Other Operating Costs | 192,035 | 182,120 | 5.4 | 31.8 | 34.4 |
| Cost of Sales | 461,393 | 402,298 | 14.7 | 76.4 | 76.1 |
| OPBDIT | 142,638 | 126,509 | 12.7 | 23.6 | 23.9 |
| Interest | 7,214 | 2,881 | 150.4 | 1.2 | 0.5 |
| Depreciation | 19,639 | 16,787 | 17.0 | 3.3 | 3.2 |
| OPBT | 115,785 | 106,842 | 8.4 | 19.2 | 20.2 |
| Other Income | 17,055 | 28,811 | -40.8 | 2.8 | 5.4 |
| PBT | 132,839 | 135,652 | -2.1 | 22.0 | 25.7 |
| Tax | 18,611 | 17,174 | 8.4 | 3.1 | 3.2 |
| PAT | 114,229 | 118,479 | -3.6 | 18.9 | 22.4 |

Source: Compiled by IMaCS

Financial Performance—Southern Region

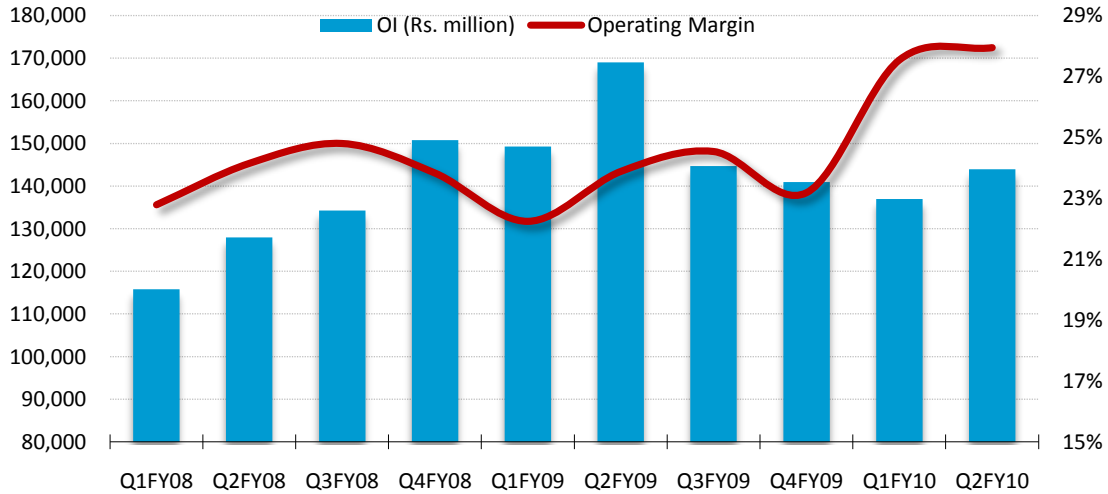
Rs. Million

| | FY2008 | | | | FY2009 | | | | FY2010 | |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Net Sales/OI | 115,786 | 127,973 | 134,281 | 150,767 | 149,315 | 169,060 | 144,725 | 140,931 | 136,982 | 143,929 |
| Employee Costs | 35,792 | 58,724 | 59,353 | 66,310 | 69,972 | 75,515 | 62,415 | 61,455 | 59,011 | 64,865 |
| Other Operating Costs | 53,614 | 38,348 | 41,626 | 48,532 | 46,128 | 52,305 | 46,798 | 46,804 | 40,242 | 38,838 |
| Cost of Sales | 89,406 | 97,072 | 100,978 | 114,842 | 116,101 | 127,820 | 109,214 | 108,259 | 99,252 | 103,703 |
| OPBDIT | 26,380 | 30,902 | 33,302 | 35,925 | 33,214 | 41,240 | 35,511 | 32,673 | 37,730 | 40,226 |
| Interest | 437 | 681 | 943 | 821 | 1,141 | 1,675 | 2,353 | 2,046 | 205 | 919 |
| Depreciation | 4,002 | 3,961 | 4,179 | 4,645 | 4,646 | 5,130 | 4,605 | 5,258 | 4,975 | 5,240 |
| OPBT | 21,942 | 26,260 | 28,181 | 30,459 | 27,427 | 34,435 | 28,553 | 25,370 | 32,550 | 34,067 |
| Other Income | 5,923 | 8,588 | 10,753 | 3,547 | 5,509 | 4,258 | 2,302 | 4,985 | 5,265 | 6,492 |
| PBT | 27,864 | 34,848 | 38,934 | 34,006 | 32,936 | 38,693 | 30,855 | 30,355 | 37,815 | 40,559 |
| Tax | 3,039 | 4,778 | 4,971 | 4,386 | 4,059 | 5,266 | 4,151 | 5,134 | 5,934 | 6,886 |

Source: Compiled by IMaCS

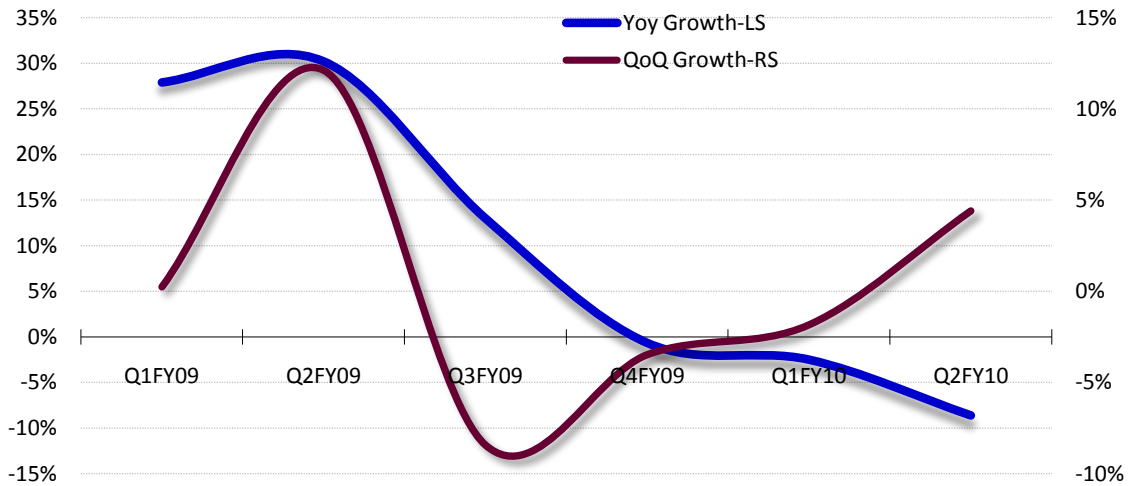
As can be seen from the table above, the sharp increase in operating costs resulted in a steep decline in operating margins during FY2009. During Q1FY2010, the operating costs have come down but the operating margin has also substantially come down. During Q2FY2010, a slight increase in the operating margin can be noticed but the increase in the net sales has offset the profit.

Trends in Operating Income and Operating Margins (Southern India)



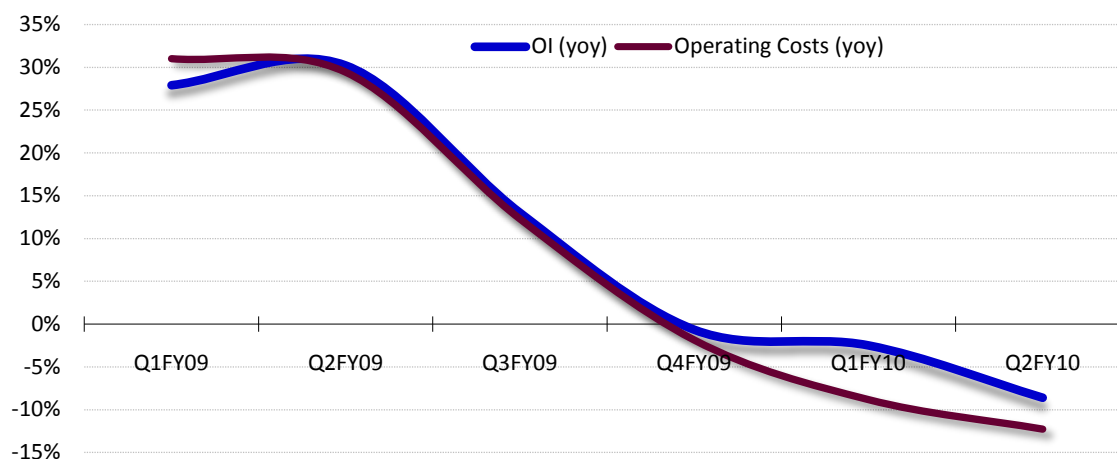
India

Trends in Operating Income Growth—All India



Source: Compiled by IMaCS

Trends in Operating Income and Operating Costs Growth—All India



Source: Compiled by IMaCS

Financial Performance of the IT and ITES Industry (All India)

Rs. Million, except percentages

| FY | Rs. Million | | Change (%) | % of OI | |
|-----------------------|------------------|----------------|-------------|--------------|--------------|
| | 2009 | 2008 | | 2009 | 2008 |
| Net Sales/OI | 1,069,053 | 918,217 | 16.4 | 100.0 | 100.0 |
| Employee Costs | 431,915 | 355,727 | 21.4 | 40.4 | 38.7 |
| Other Operating Costs | 377,302 | 340,912 | 10.7 | 35.3 | 37.1 |
| Cost of Sales | 809,217 | 696,639 | 16.2 | 75.7 | 75.9 |
| OPBDIT | 259,836 | 221,578 | 17.3 | 24.3 | 24.1 |
| Interest | 10,169 | 4,037 | 151.9 | 1.0 | 0.4 |
| Depreciation | 36,709 | 31,714 | 15.7 | 3.4 | 3.5 |
| OPBT | 212,958 | 185,827 | 14.6 | 19.9 | 20.2 |
| Other Income | 23,317 | 44,590 | -47.7 | 2.2 | 4.9 |
| PBT | 236,275 | 230,417 | 2.5 | 22.1 | 25.1 |
| Tax | 29,188 | 26,622 | 9.6 | 2.7 | 2.9 |
| PAT | 207,087 | 203,795 | 1.6 | 19.4 | 22.2 |

Source: Compiled by IMaCS

The following tables provide a quarterly performance comparison of listed IT and ITES companies in India.

Financial Performance—India

Rs. million

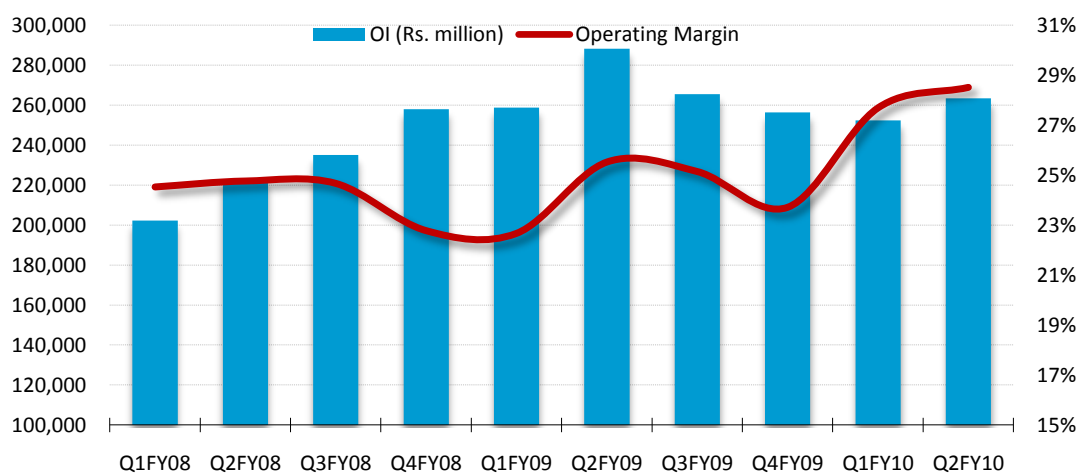
| | FY2008 | | | | FY2009 | | | | FY2010 | |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Net Sales/OI | 202,285 | 222,779 | 235,069 | 258,084 | 258,814 | 290,842 | 265,599 | 256,357 | 252,331 | 263,440 |
| Employee Costs | 68,237 | 91,962 | 94,052 | 101,476 | 108,905 | 116,912 | 104,092 | 102,007 | 101,223 | 107,838 |
| Other Operating Costs | 84,422 | 75,644 | 83,025 | 97,821 | 91,234 | 97,786 | 94,723 | 93,558 | 81,230 | 80,481 |
| Cost of Sales | 152,659 | 167,606 | 177,077 | 199,297 | 200,139 | 214,698 | 198,815 | 195,565 | 182,453 | 188,319 |
| OPBDIT | 49,626 | 55,172 | 57,992 | 58,787 | 58,675 | 73,585 | 66,784 | 60,792 | 69,878 | 75,121 |
| Interest | 731 | 949 | 1,353 | 1,003 | 1,942 | 2,207 | 3,129 | 2,891 | 1,915 | 2,496 |
| Depreciation | 7,341 | 7,560 | 8,014 | 8,799 | 8,456 | 9,281 | 9,054 | 9,919 | 9,908 | 10,211 |
| OPBT | 41,553 | 46,663 | 48,625 | 48,985 | 48,277 | 62,098 | 54,602 | 47,982 | 58,055 | 62,414 |
| Other Income | 10,559 | 12,562 | 14,589 | 6,881 | 7,833 | 4,482 | 2,896 | 8,106 | 7,522 | 8,234 |
| PBT | 52,113 | 59,225 | 63,214 | 55,866 | 56,110 | 66,579 | 57,498 | 56,088 | 65,577 | 70,648 |
| Tax | 5,260 | 7,308 | 7,215 | 6,839 | 6,749 | 7,877 | 7,433 | 7,128 | 9,410 | 10,233 |
| PAT | 46,853 | 51,917 | 55,998 | 49,027 | 49,361 | 58,702 | 50,064 | 48,960 | 56,167 | 60,415 |

Source: Compiled by IMAcS

As can be seen from the above table, operating profits have improved on a yoy basis during FY2009, but the highest improvement was during Q2FY2009. During FY2010, the operating profits have improved over the previous quarter.

However, interest and depreciation costs have continued to increase at a high rate, resulting in a decline in net profits during FY2009. But this trend seems to be coming down during Q1FY2010 with companies focussing on cost reduction. During Q2FY2010, the interest and depreciation costs have started to increase.

Trends in Operating Income and Operating Margins (India)



SHORT-TERM OUTLOOK

TCS added 30 new clients during Q2FY2010 as against 26 clients in the previous quarter. Infosys added 35 new clients during Q2FY2010 against 27 new clients during the previous quarter.

The aggregate revenues of the industry have grown at a much slower pace of 10% during Q4FY2009 and Q1FY2010. Q2FY2010 also witnessed pressure where the revenues grew only by 3%. However, revenues are expected to pick-up during the quarters of Q3FY2010 and Q4FY2010.

The aggregate growth revenues are likely to grow by a mere 9% in 2009-10. But the average profits are expected to remain well above 20% because of tight cost management by the IT companies. The revenues have been pulled down due to a cut-down in IT budgets, severe price negotiations and delays in decision making by the clients at the major export destinations, being the US and the UK. The poor billing rates are expected to continue till the next quarter.

The pressure on billing rates is likely to soften and the revenue growth is expected to improve to around 15% during Q4FY2010.

Predictions for India's Domestic IT and ITES Market from IDC:-

- Indian IT-ITeS sector, with a growth rate of 15%, is expected to remain the fastest growing IT-ITeS market in the Asia/Pacific excluding Japan (APEJ) region in 2010.
- PC market is to witness a generational shift, notably to the mini notebook PC or 'net-book' as Solid State Disk (SSD) ensembles reach a new threshold of usage in mobile computing.
- Smart handheld devices (SHDs) running new applications and services to become popular and reach high levels of penetration and wider acceptance.
- "Consolidation" is likely to take place in many technology markets as enterprises aim for higher efficiencies from existing IT infrastructure resources to reduce business overheads and capex to the minimum. In 2010, virtualisation to gather momentum and grow along the key infrastructure technology products and solutions such as servers and storage, networking and desktops.
- Business Intelligence (BI) and Advanced Analytics are to witness increased adoption as a part of the industry transformation in the post-slowdown economy.
- More organizations are expected to outsource as the industry moves closer to an era of "Technology-enabled Business Outsourcing" (TEBO) services.
- Acceptance and adoption of the "Cloud" to grow as the post-economic slowdown scenario drives more organisations towards it, to harness its power in accelerating business recovery and growth.
- 'Power Management and Cooling Efficiencies are expected to get increased attention from large enterprise and BPO industry top managements; introduction of unconventional ('battery-less') and solar UPS systems for the Indian market by major international vendors expected.
- E-Governance and 'Economic Stimulus Spending' will continue to invigorate Government/Public Sector IT spending to new levels in 2010. Large scale e-government and e-governance projects to witness increased adoption of Document Management Services (DMS) and digital imaging technologies, notably scanners.

Source: IDC

FUTURE OUTLOOK

FY2010 trends/estimates according to NASSCOM are as follows:-

- ❑ FY2010 export revenue projected to grow at ~4-7% to reach ~US\$ 48-50 billion
 - ❑ Domestic IT-BPO market to reach ~Rs. 650-670 billion growing at ~ 15 – 18 %.
 - ❑ Core markets, North America and BFSI have started to stabilize.
 - ❑ Decision making starting to happen – but buyers remain cautious; large deals missing.
 - ❑ Analysts continue to downgrade IT spending for 2009.
- Q1 result of FY2010 demonstrate sustained focus with growth in operating margins and high utilization

- ❑ Despite the unprecedented economic downturn the industry will witness sustainable growth.
- ❑ The global technology related spending is expected to grow from 2010 onwards led by growth in outsourcing adoption.
- ❑ Greater focus on cost and operational efficiencies in the recessionary environment is expected to enhance global sourcing.
- ❑ India Inc would remain focused on tactical measures to achieve cost savings and greater productivity.
- ❑ The industry will continue to diversify in terms of geographies, verticals and service lines.
- ❑ SMBs are expected to emerge as a significant opportunity due to lower IT adoption currently.
- ❑ Lack of working age population in the developed economies and a significant long term cost arbitrage indicates India's sustained cost competitiveness.
- ❑ Service providers are expected to enhance focus to domestic market to de-risk business and tap into the local growth opportunities⁷.

PRIMARY SURVEY CONCLUSIONS

Following are the conclusions from the primary survey of IT and ITES companies with emphasis on the situation during Q2FY2010:-

- The overall demand situation has begun to improve and clients are willing to spend, while some clients are more impacted than others as a result of the downturn.
- There has been no significant change when compared to the previous quarter on impact on factors such as access to bank credit, shortage of skilled labour and operating cost has been positive, insufficient demand for services, capital cost, access to market, and employee costs.
- Compared to the preceding two quarters, the overall business situation has improved during this quarter.
- There has been a reduction this quarter in the on-shore and off-shore billing rates compared to the last two quarters.
- The manpower utilisation (number of employees allocated to projects) has almost remained the same during Q2FY2010 when compared to the previous quarter.
- Quantitative analysis
 - Expenditure pattern over the last three quarters (Q4FY2009, Q1FY2010, and Q2FY2010):- Software development and business process management costs have increased by over 1.5% during Q2FY2010 over the previous quarter; Selling and Marketing costs have almost remained the same during all the three quarters; General and administration expenses have come down during this quarter by a small percentage.
 - Total costs have increased by one per cent.
 - The qoq operating profit has increased by about 3.5% during Q2FY2010 when compared to Q1FY2010.
- Companies are looking into expanding beyond their core markets. They are launching new services as well as increasing focus on services that have been launched in the recent past. Companies have indicated that they have a number of on-going initiatives.
- Companies continue to upgrade and develop skills required for their business, both for short and long term. Companies continue to implement tight control to provide confidence to clients and continue to develop services and products that are relevant to client's needs.

⁷ NASSCOM future outlook

- Companies expect some steps to be taken by the Government to support the industry. These are as follows:-
 - Export incentives to be made available beyond 2010-11
 - Removal of infrastructure bottlenecks
 - Focus of government on education to improve quality of institutions and graduates
- The short-term outlook for companies looks positive with regard to new orders and overall financial situation where the situation is expected to vary from remaining the same to slight improvement.

CONCLUSION

The primary drivers of growth in India are expected to be sustained technology spending globally, and increasing GDP growth and spending in India. Post 2020, growth drivers in addition to traditional IT and BPO services large companies (in the Fortune 500) in US and EU will arise from Small and Medium Businesses (SMBs), public sector, healthcare, media, and utilities. A significant portion of the growth would be driven by markets in BRIC countries, APAC, Japan, and Rest of the world. A shift would occur in terms of customer expectations, led by innovation, end-to-end offerings, risk management, and compliance. It is expected that the 'outsourcable' market would expand from the current US\$500 billion to about US\$1.5 to 1.6 trillion by 2020. The growth of the domestic companies would be fuelled by sustained GDP growth, increased public sector spends, and adoption of IT.

The Indian domestic industry, too, is expected to experience growth and record a four-fold increase in revenues from \$12 billion in 2008 to \$50 billion by 2020.

Industry and Economic Update has been prepared by ICRA Management Consulting Services Limited (IMaCS) for the Confederation of Indian Industry (CII).

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