



Confederation of Indian Industry

# **CII Southern Region**

## **Industry and Economic Update**

### **IT and IT Enabled Services**

January-March 2010

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## EXECUTIVE SUMMARY

- ❑ The contribution of the IT/ITeS sector to the national GDP has grown from 1.2% in 1998 to around 5.8% in 2009 and the sector's share of total Indian exports has increased from less than 4% in 1998 to almost 16% in 2008.
- ❑ Domestic market expected to witness 12% growth in FY09-10; to reach Rs. 662 billion<sup>1</sup>.
- ❑ Software and Services exports revenues are expected to grow by 13-15 percent and domestic revenues to grow by 15-17% by FY 10-11.
- ❑ Net sales of the industry reported a single digit growth for the third quarter. It grew by just 2% during Q3FY2010. However, the profit performance remained strong as the industry combated with the slowdown by curtailing the expenses. Wage expenses declined by about 3% during this quarter.
- ❑ Companies have posted a healthy 15% growth in PBDIT because of tighter cost management. The companies registered a PAT growth of 14% during this quarter due to an increase in depreciation and tax expenses.
- ❑ Of the top five IT companies, accounting for 70% of sales, two companies reported a fall in sales and three registered a fall in profits at the net level during this quarter.
- ❑ The IT industry is expected to perform well during Q1FY2011. Net sales that have witnessed single digit growth in the last three quarters are likely to grow by 10% during Q1FY2011. Thereafter, the sales growth will pick up in 2010-11 because of an improvement in the global economic scenario and also due to the low base in the previous year. During 2010-11, the profits growth is expected to remain well above 20% on account of tight cost management.
- ❑ The ITeS companies displayed a healthy financial performance during Q3FY2010. Net sales grew by 23%. 12 of the 15 companies that declared their quarterly results reported a healthy sales performance. Total expenses grew by around 16% during this quarter. The industry's profits grew at a faster pace of over 40% as sales growth exceeded the pace at which expenses grew.
- ❑ In the emerging environment, there is also a growing trend among consumers of IT services towards consolidation of technology service providers in order to improve efficiency and reduce costs. Thus success in the competitive bidding process for new consolidation projects or in retaining existing projects would continue to be dependent on a company's ability to fulfil client expectations relating to staffing, efficient off shoring of services, absorption of transition costs, deferment of billing and more stringent service levels.
- ❑ The contribution of the IT and ITeS industry to India's economy and society is significant. As the industry grows in size, it is expected to play a larger role, especially in the marginalised and vulnerable sections of the community. The industry should have at its call – the two essential tools for making this impact – a young motivated work force and technology.
- ❑ The coming years are going to represent a significant shift in terms of business models, service lines, customers and talent structure. There will be increased focus on higher end offerings such as system integration, consulting, business intelligence, knowledge services and vertical specific BPO services.

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<sup>1</sup> NASSCOM

## INDUSTRY UPDATE

### Estimates for India's Domestic IT and ITeS Market from NASSCOM:-

- ❑ Export revenues for the Indian IT-BPO industry are expected to record a growth of 5.5%, to reach US\$ 49.7 billion in FY 09-10.
- ❑ Domestic market is expected to witness 12% growth in FY09-10; to reach Rs. 662 billion.
- ❑ Industry will continue to be a net hirer; direct employment expected to grow by 4% and cross 2.3 million with over 90,000 jobs added in FY09-10.
- ❑ Software and Services exports revenues to grow by 13-15% and domestic revenues to grow by 15-17% by FY 10-11.
- ❑ Government IT spends estimated at Rs. 150 billion in 2009; expected to reach Rs. 250 billion by 2011.
- ❑ US\$ 9 billion business opportunity exists in e-Governance.
- ❑ Asia-Pacific region is the fastest growing geography with an estimated growth of 10%.
- ❑ Indian IT-BPO industry continues to dominate the global market place with 51% market share
- ❑ Growth in emerging verticals such as retail and healthcare three times faster than core verticals
- ❑ Infrastructure services are expected to be a key growth driver for the industry with an estimated growth of 10.5%.

### Impact of IT-BPO Industry:-

- ❑ Contributes over 25% of total India exports, 5.9% of GDP in FY09.
- ❑ Contributes 10.5% to the services sector.
- ❑ Revenues from IT-BPO intensive states contributed 14% to state GDPs.
- ❑ IT-BPO Tier 2/3 employment increased by 50% in FY07-09.
- ❑ 22x growth in patents granted to the sector between FY05-08.
- ❑ The sector accounted for over 10% of total FDI investment in the last decade.

Source: NASSCOM

### Key highlights of the industry

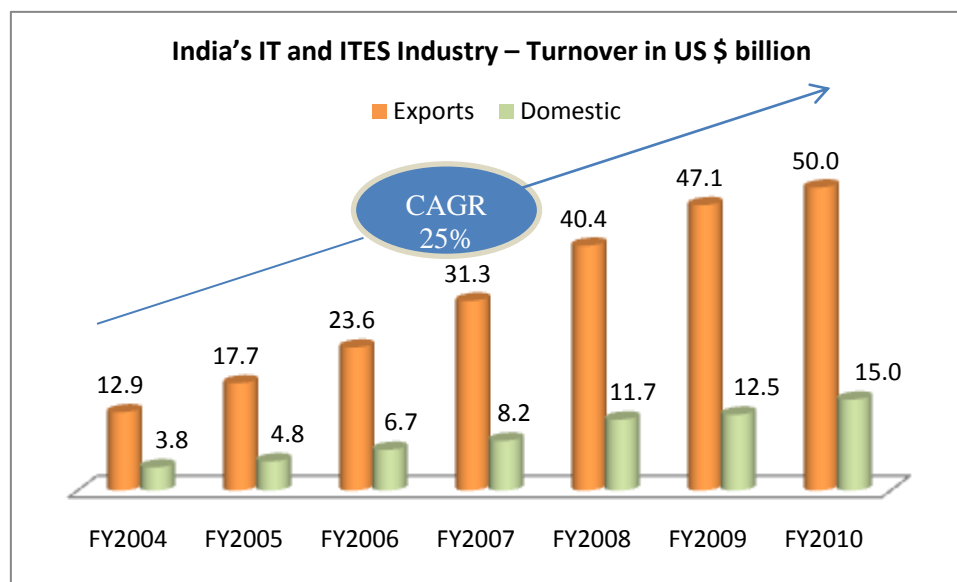
Financial Year	Exports (US\$ billion)	Domestic (Rs. billion)
FY 08-09	47.1	590
FY 09-10	49.7	662
FY 10-11 (Outlook)	56-67	761-775

Source: NASSCOM

## 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)

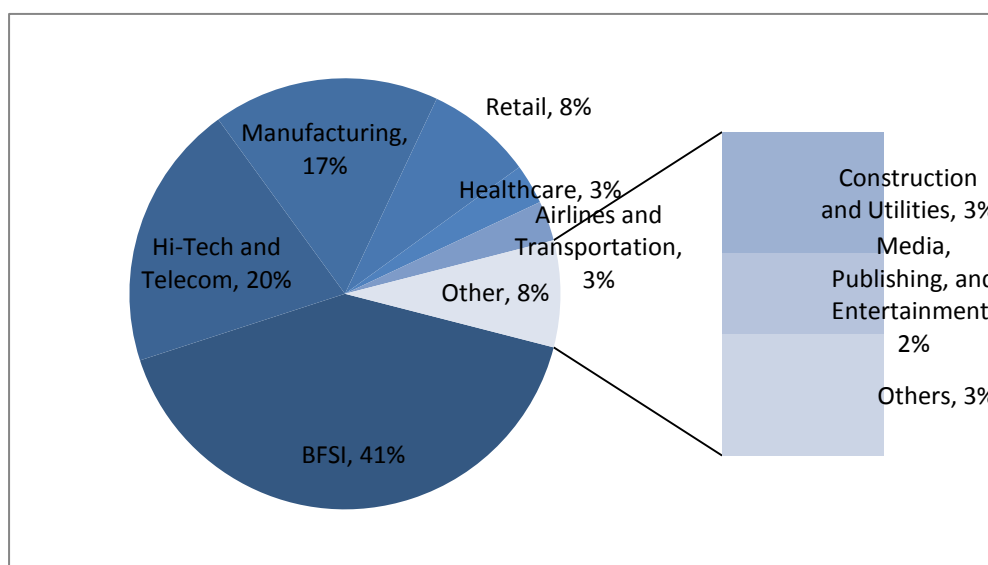
Market Segment	2008	2009	2010	2013	Growth 2009 over 2008	Growth 2010 over 2009
Software	10,147	11,454	13,064	21,065	12.9%	14.1%
Services	24,322	27,888	32,190	52,071	14.7%	15.4%
Hardware + Others	58,248	55,926	62,401	94,173	- 4.0%	11.6%
<b>Total Domestic IT Market</b>	<b>92,718</b>	<b>95,268</b>	<b>1,07,655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

Source: IDC

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.

### Industry verticals in the IT and ITeS Sector - 2010

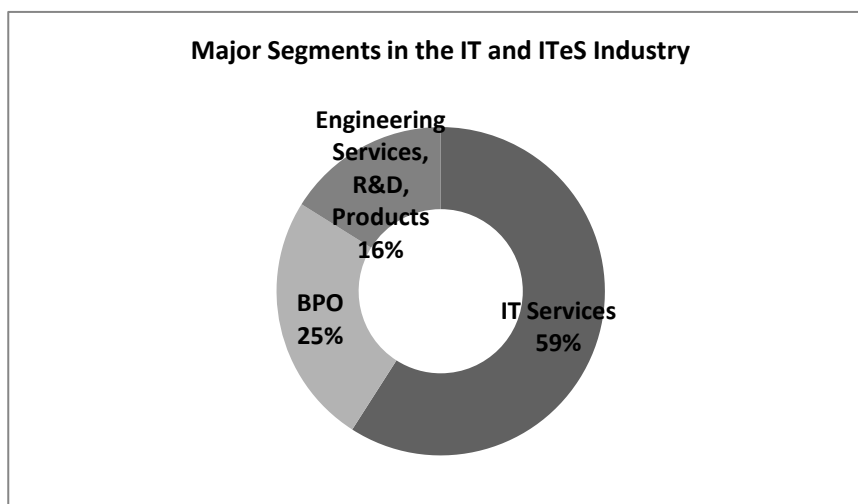


Source: NASSCOM Factsheet 2009 and IMAcS analysis

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 terms<sup>2</sup>.

### Major Segments of IT Services Exports

IT Services - Exports	Contribution (%)
<i>Project Oriented</i>	<b>58%</b>
IT Consulting	3%
Systems Integration	3%

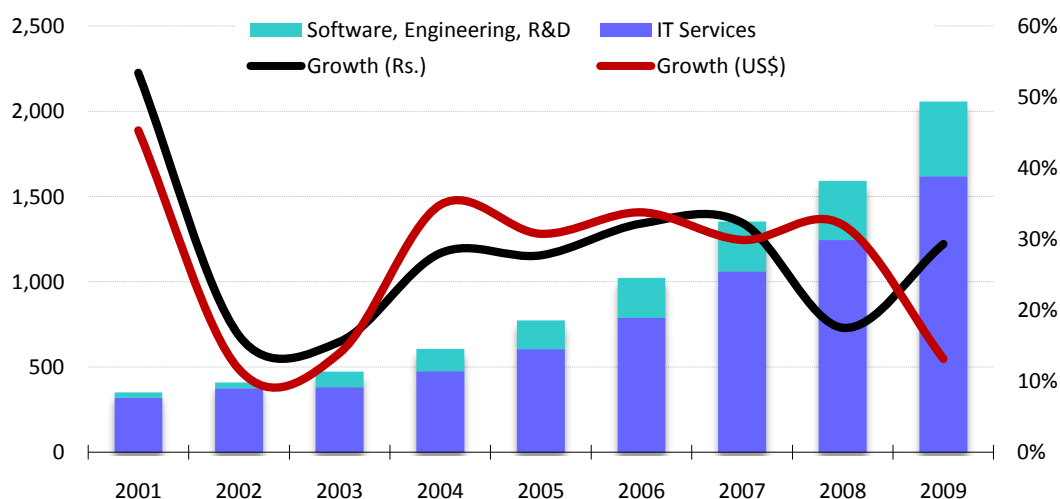
<sup>2</sup> NASSCOM and ImaCS analysis

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

Source: 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
<b>IT Services</b>	<b>23.50</b>	<b>31.00</b>	<b>35.20</b>	<b>25.5%</b>	<b>1,061</b>	<b>1,246</b>	<b>1,619</b>	<b>27.1%</b>
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%
<b>Software Products</b>	<b>3.10</b>	<b>4.00</b>	<b>4.30</b>	<b>19.8%</b>	<b>140</b>	<b>161</b>	<b>198</b>	<b>21.3%</b>
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%
<b>Engineering/R&amp;D</b>	<b>3.40</b>	<b>4.60</b>	<b>5.30</b>	<b>23.7%</b>	<b>154</b>	<b>185</b>	<b>242</b>	<b>24.8%</b>
Exports	3.40	4.60	5.25	23.3%	154	185	242	24.8%
<b>Total</b>	<b>30.00</b>	<b>39.60</b>	<b>44.80</b>	<b>24.7%</b>	<b>1,355</b>	<b>1,592</b>	<b>2,059</b>	<b>26.2%</b>
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

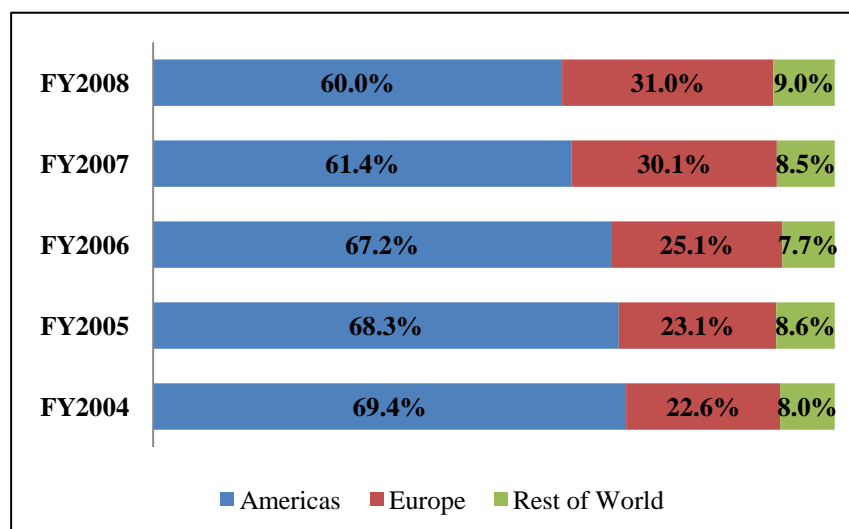
In the largest segment of IT services, growth in recent years has been driven by high growth in project oriented engagements, and in particular custom application development. However, IT outsourcing has also increased at a high rate during FY2005-09. In addition to the growth in scale, the portfolio 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 2009<sup>3</sup>. 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.

The software products segment achieved turnover of Rs. 198 billion or US\$4.3 billion during 2009<sup>4</sup>. 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

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<sup>3</sup> NASSCOM and IMAcS analysis

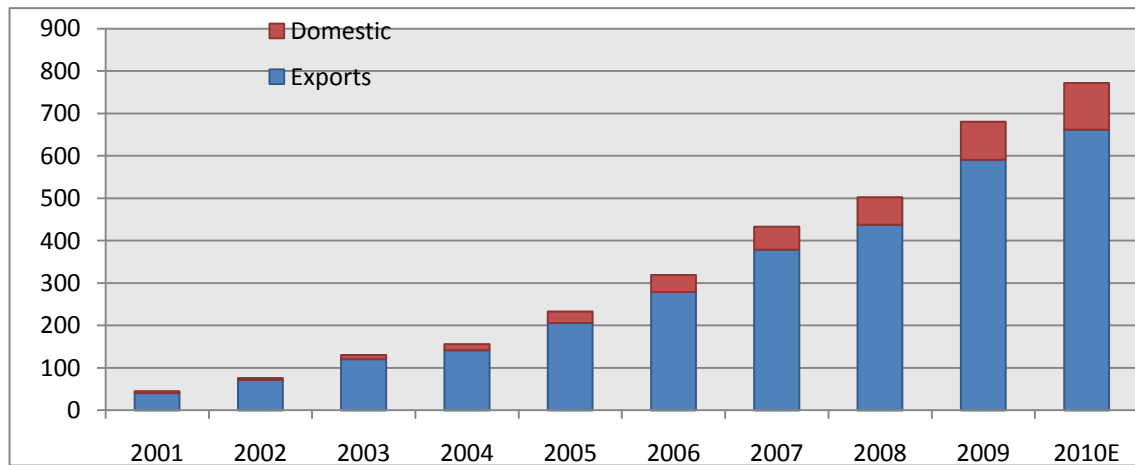
<sup>4</sup> NASSCOM and IMAcS analysis

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.

### Revenue Trends in the Indian ITeS Industry

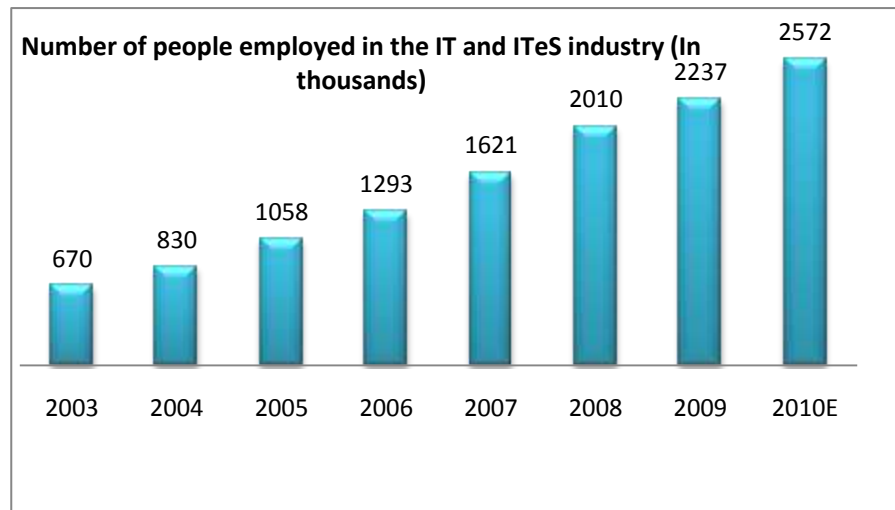


Rs. billion

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

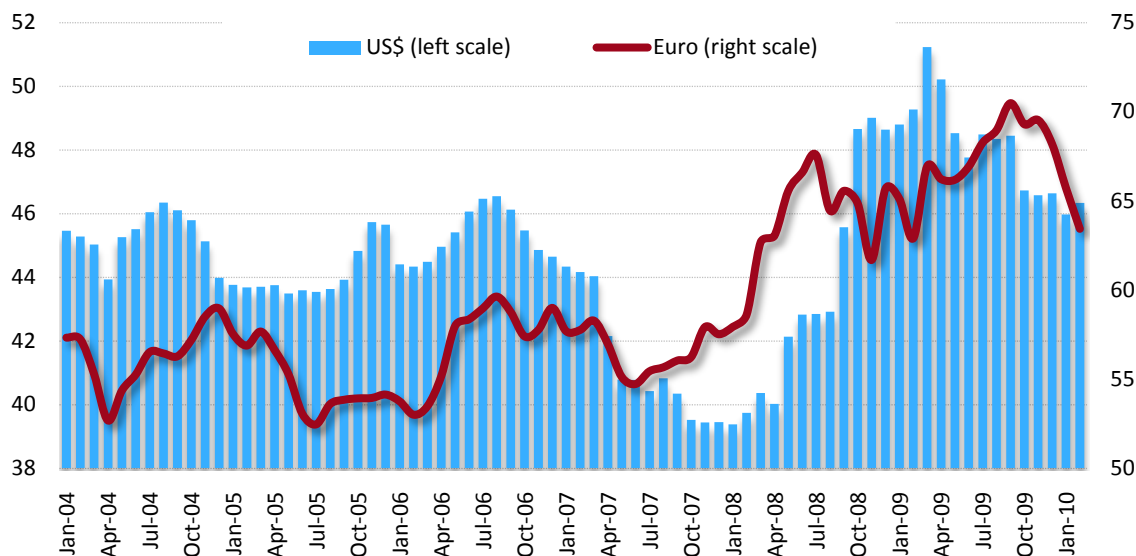
India's software services and ITeS now contribute a small but growing share of trade in invisibles. The major market for software and services remains the Americas (primarily USA), accounting for about 60% of revenues. However, recognising the need to diversify their client base, companies in this industry 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 FY2009<sup>5</sup>.

NASSCOM estimates Software and Services exports revenues to grow by 13-15% and domestic revenues to grow by 15-17% by FY 10-11. 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 and to Rs. 46.3 during February 2010. This implies an over 10% rise from its lows of over Rs. 52 to a Dollar in

<sup>5</sup> NASSCOM

March 2009. The rupee averaged 46.6 against the US\$ in Q2FY2010, against 49.83 in Q4FY2009.

### IT Revenues show slightly improved revenue growth in Q3FY2010

Net sales of the industry reported a single digit growth for the third quarter. It grew by just 2% during Q3FY2010. However, the profit performance remained strong as the industry combated with the slowdown by curtailing the expenses. Wage expenses declined by about 3% during this quarter. Thus, the salary cost as a percentage of sales has declined to 36.3% from a high 38.5% in the quarter a year ago. This is in spite of the improvement in the hiring scenario and pay hikes during this quarter.

Companies have posted a healthy 15% growth in PBDIT because of tighter cost management. The companies registered a PAT growth of 14% during this quarter due to an increase in depreciation and tax expenses.

Of the top five IT companies, accounting for 70% of sales, two companies reported a fall in sales and three registered a fall in profits at the net level during this quarter.

### Performance of top IT companies in India during Q3FY2010

	Income (Rs. Cr.)	Sales (Rs. Cr.)	PBDIT/Income (%)		PAT/Income (%)	
			Q3FY2009	Q3FY2010	Q3FY2009	Q3FY2010
TCS	5,959.2	5,883.4	24.0	31.7	18.4	25.3
Infosys	5,558.0	5,335.0	35.3	38.1	28.2	26.5
Wipro	5,995.5	5,892.9	21.2	26.4	13.2	20.5
HCL	1,259.2	1,213.7	37.9	29.6	27.8	20.3
Tech Mahindra	1,155.8	1,149.9	24.0	23.2	19.5	14.3

### IT industry sales expected to improve during Q4FY2010

The IT industry is expected to perform well during Q1FY2011. Net sales that have witnessed single digit growth in the last three quarters are likely to grow by 10% during Q1FY2011. Thereafter, the sales growth will pick up in 2010-11 because of an improvement in the global economic scenario and also due to the low base in the previous year. During 2010-11, the profits growth is expected to remain well above 20% on account of tight cost management.

## ITeS industry reports healthy revenue and sales growth during Q3FY2010

The ITeS companies displayed a healthy financial performance during Q3FY2010. Net sales grew by 23%. 12 of the 15 companies that declared their quarterly results reported a healthy sales performance. Total expenses grew by around 16% during this quarter. The industry's profits grew at a faster pace of over 40% as sales growth exceeded the pace at which expenses grew.

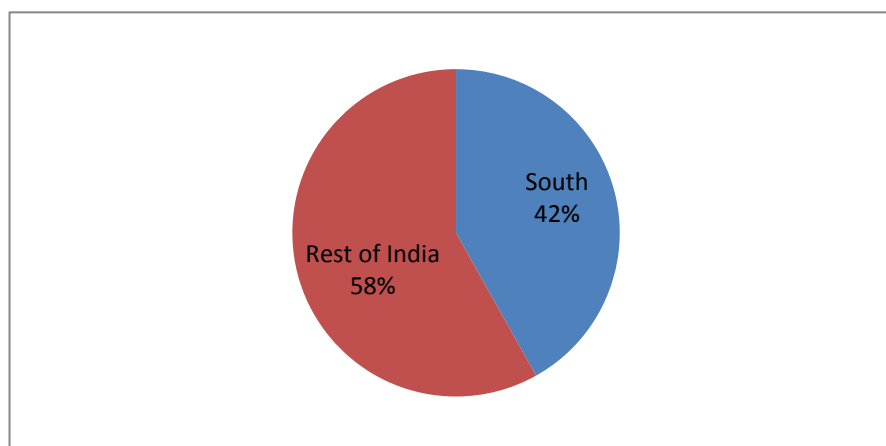
### Performance of top ITeS companies in India during Q3FY2010

	Income (Rs. Cr.)	Sales (Rs. Cr.)	PBDIT/Income (%)		PAT/Income (%)	
			Q3FY2009	Q3FY2010	Q3FY2009	Q3FY2010
Firstsource Solutions	168.7	166.4	8.3	16.8	-2.0	4.8
Hinduja Global Solutions	122.8	122.8	22.5	28.1	10.0	15.6
Allied Digital Services	124.0	122.4	24.9	28.2	19.3	21.6

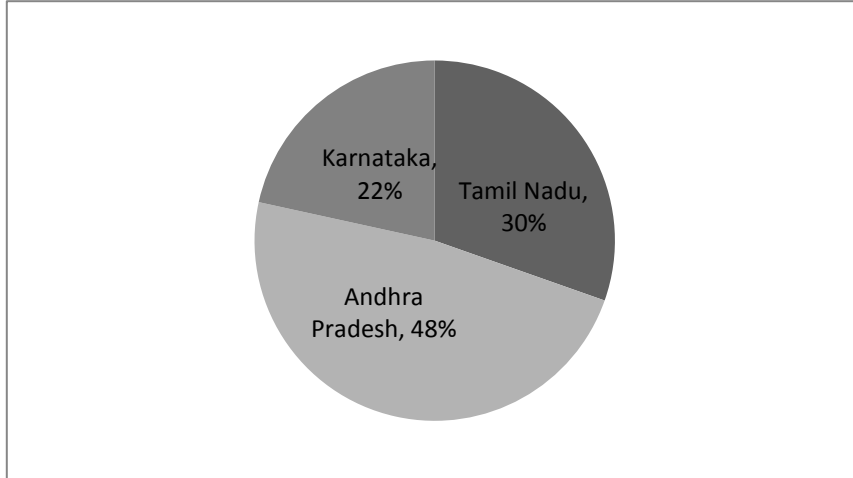
## Southern Region

There are over 215 companies operating in India in the IT and ITeS sector. There are 92 companies which have registered office in the southern region.

### Regional Distribution of IT and ITeS Companies (%)



**Distribution of companies registered in Southern States (%)**



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.

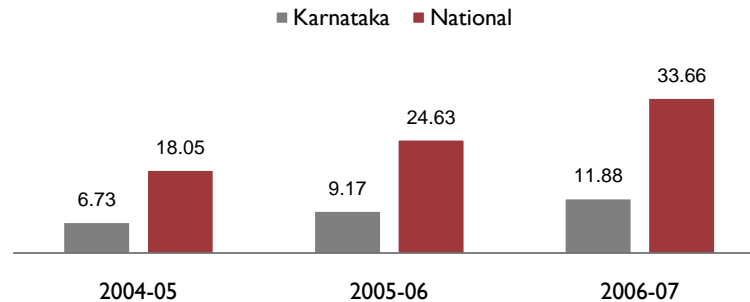
Mangalore: 24 STPI registered companies with exports of US\$ 166 million during 2006-07.

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%.

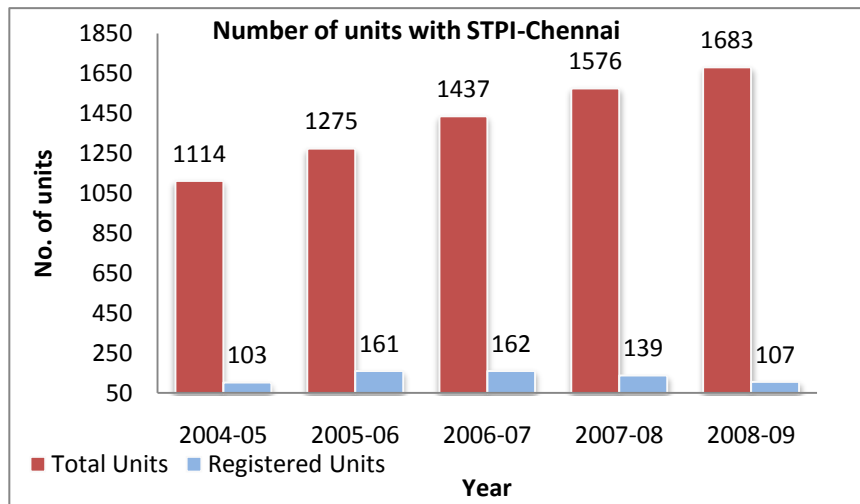
Key players
• CTS
• Computer Associates
• Xansa
• Polaris
• Mahindra Satyam
• Tata Consultancy Services (TCS)
• Infosys
• CSC
• i-Gate
• Patni
• Ajuba
• HCL
• DSRCL
• Virtusa

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.

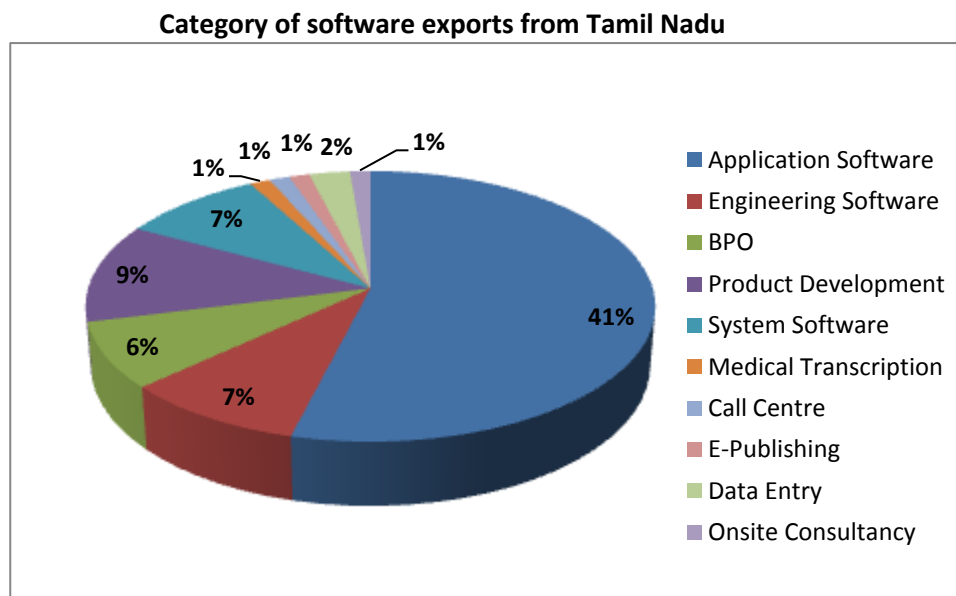
Software Technology Parks of India (STPI) Chennai was established in 1995. As of today, STPI Chennai has established its sub-centres at Trichy, Madurai, Tirunelveli, Coimbatore and Pondicherry.

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.

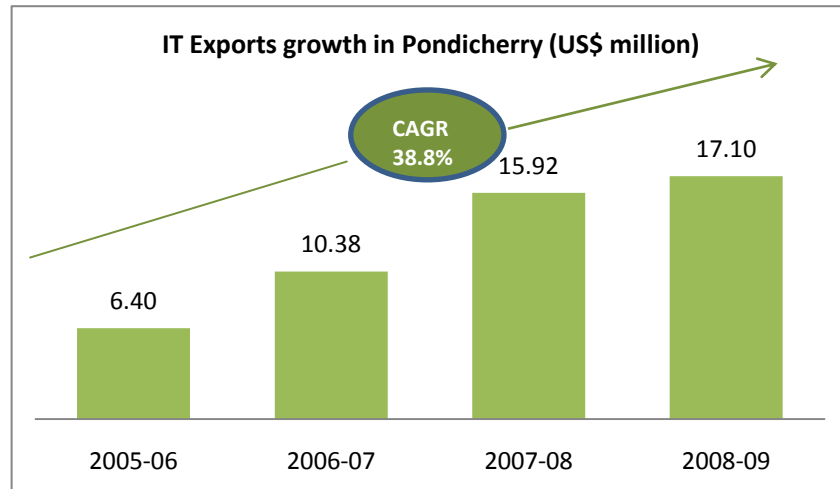


Source: STPI-Chennai

### 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 billion<sup>6</sup>.
- 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.

<sup>6</sup> Business Standard dated 2<sup>nd</sup> 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-Dec'09)	Cumulative Inflows (Apr'00- Dec'09)
Computer Software and Hardware	117.9	56.2	73.3	28.6	423.5

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.

Government of Andhra Pradesh is planning to set up an information technology investment region in Hyderabad. This project is expected to come up at Gachibowli, Mamidiapalli and Maheshwaram areas of Hyderabad.

## Number of IT and ITeS Projects in Southern India

	Completed	Deferred	Planning	Stalled	Under Execution	Total
AP	13	3	13	-	17	46
Kerala	6	2	8	-	18	34
TN & Pondy	44	2	14	3	23	86
Karnataka	15	6	20	-	19	60
<b>Total</b>	<b>78</b>	<b>13</b>	<b>55</b>	<b>3</b>	<b>77</b>	<b>226</b>

As can be seen from the above table, about 34% of the investments are under execution. About 33% of the projects have been completed and 24% of the investments are under planning stage. The numbers of deferred and stalled investments are very less at 7%.

## Major IT/ITeS Projects in Southern States

Project Name :	Promoter :	Cost (Rs. Million) :	Ownership :	Implementation Stage :
<b>Karnataka</b>				
Software Park (Kadabisanahalli-Oracle Technology Park)	Oracle India Pvt. Ltd.	6,000.0	Private (Indian)	Deferred
IT Park (Doddaballapur)	Puravankara Projects Ltd.	3,770.0	Private (Indian)	Planning
IT Park (Bellandur-Pritech Park-II)	Primal Projects Pvt. Ltd.	3,750.0	Private (Indian)	Under Execution
IT Park (Whitefield-Bhoruka Tech Park)	Bhoruka Park Pvt. Ltd.	2,560.0	Private (Indian)	Under Execution
Global Tech Park (Deverabisanahalli)	Supreme Build Cap Pvt. Ltd. Divyasree Developers Pvt. Ltd.	2,220.0	Private (Indian)	Under Execution
Software Parks (Bangalore-Salarpuria GR Tech Park)	Salarpuria Properties Pvt. Ltd.	2,110.0	Private (Indian)	Completed
Software Technology Park (Bannergatta Road)	IBC Knowledge Park Pvt. Ltd.	1,100.0	Private (Indian)	Under Execution
IT/ BT Park (Rajajinagar)	Karnataka State Industrial Investment & Devp. Corpn. Ltd.	822.2	State Government	Completed
Software Park (Hubli)	Karnataka State Electronics Devp. Corpn. Ltd.	500.0	State Government	Completed
Software Campus (Bangalore)	Planetasia.Com Ltd.	360.0	Private (Indian)	Deferred
Software Park (Electronic City)	Mysore Intercontinental Hotels Pvt. Ltd.	240.0	Jaypee Group	Under Execution

Source: Compiled by IMaCS

Project Name :	Promoter :	Cost (Rs. Million) :	Ownership :	Implementation Stage :
<b>Tamil Nadu and Pondicherry</b>				
IT Park (Ambattur-India Land Techpark)	India Land & Properties Ltd.	5,000.0	Private (Indian)	Completed
IT Park (Vilankurichi)	Tidel Park Coimbatore Ltd.	3,700.0	Joint Sector	Under Execution
Mini Tidel Park (Coimbatore)	Electronics Corpn. of Tamil Nadu Ltd.	3,700.0	State Government	Under Execution
Software Park (Taramani) Phase I	Tidel Park Ltd.	3,200.0	State Government	Completed
Tidel Park-II Phase II	Tidel Park Ltd.	3,000.0	State Government	Completed
Software Park (Sholinganallur)	XS Real Properties Pvt. Ltd.	2,000.0	Private (Indian) State	Completed
IT Park (Ambattur)	Tamil Nadu Newsprint & Papers Ltd.	1,850.0	State Government	Under Execution
IT Park (Navalur-Alpha City)	SSPDL Ltd.	1,500.0	Private (Indian)	Completed
Tidel Park-II Phase I	Ascendas (India) Pvt. Ltd.	1,500.0	Private (Foreign)	Completed
IT Park (Kalapet) - Phase II	Pondicherry Industrial Promotion Devp. & Investment Corpn. Ltd.	800.0	State Government	Planning
Software Parks (Chennai)	Lancor GESCO Properties Ltd.	650.0	Private (Indian)	Completed
Software Technology Park (Chennai)	Mascon Global Ltd.	600.0	Private (Indian)	Abandoned
Software Park (Guindy)	R R Industries Ltd.	600.0	Private (Indian)	Completed
Software Technology Park (Madurai)	Electronics Corpn. of Tamil Nadu Ltd.	435.6	State Government	Planning
IT Park (Chennai-Egate)	Appaswamy Real Estates Ltd.	400.0	Private (Indian)	Completed
Software Park (Kandanchavadi)	Prince Foundations Pvt. Ltd.	400.0	Private (Indian)	Completed
IT Park (Thoraipakkam-Prince Infotech)	Prince Foundations Pvt. Ltd.	300.0	Private (Indian)	Completed
Software Park (Semmanchery-Techno Creek)	Maan Sarovar Software Pvt. Ltd.	250.0	Private (Indian)	Completed
Technology Centre (Chennai)	Software Technology Parks of India	250.0	Central Government	Completed
Software Park (Ambattur-Prince Info Park)	Prince Foundations Pvt. Ltd.	200.0	Private (Indian)	Completed
IT Park (Jagir Ammapalayam)	Electronics Corpn. of Tamil Nadu Ltd.	140.0	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
Pondy Technipolis IT Park (Pillaichavady) Phase II	Pondicherry Industrial Promotion Devp. & Investment Corpn. Ltd.	70.5	State Government	Completed
IT Park (Karapakkam-Marg Square-II)	Marg Ltd.	65.0	Private (Indian)	Completed

Source: Compiled by IMaCS

Project Name :	Promoter :	Cost (Rs. Million) :	Ownership :	Implementation Stage :
<b>Andhra Pradesh</b>				
IT Park (Hyderabad-Synergy Park)	Tata Consultancy Services Ltd.	7,500.0	Tata Group	Completed
Software Park (Madhapur)	K Raheja IT Park (Hyderabad) Pvt. Ltd.	4,000.0	Private (Indian)	Under Execution
Infocity (Madhapur) Project Phase II	L&T Infocity Ltd.	2,620.0	Larsen & Toubro Group	Completed
IT Park (Nacharam - Prajay Techno Park)	Prajay Engineers Syndicate Ltd.	2,250.0	Private (Indian)	Planning
Infocity (Madhapur) Project Phase I	L&T Infocity Ltd.	1,200.0	Larsen & Toubro Group	Completed
IT Park (Hyderabad-Vijay's Technopark)	Vijay Textiles Ltd.	1,012.5	Private (Indian)	Completed
IT Park (Hyderabad) [Arena]	Topnotch Infrastructure Pvt. Ltd.	870.8	Private (Indian)	Under Execution
IT Incubator & IT Park (Madhapur) Phase II	Vanenberg IT Park Pvt. Ltd.	750.0	Private (Foreign)	Completed
IT Park (Visakhapatnam)	Color Chip New Media Ltd.	110.0	Private (Indian)	Under Execution
IT Park (Vijayawada) Project	Vijayawada Municipal Corpn.	50.0	Government Local Bodies	Deferred

Source: Compiled by IMaCS

Project Name :	Promoter :	Cost (Rs. Million) :	Ownership :	Implementation Stage :
<b>Kerala</b>				
IT Parks (Alappuzha)	Infopark	10,000.0	State Government	Under Execution
Integrated IT Township (Kalamaserry-Cyber City)	Blue Star Realtors Pvt. Ltd.	5,000.0	Private (Indian)	Under Execution
Technopark (Trivandrum) Phase II	Kerala State IT Mission	1,560.0	State Government	Completed
IT Park (Thiruvananthapuram) - Phase III	Technopark	1,311.2	State Government	Under Execution
Information Technology Park (Kochi)	Cochin Shipyard Ltd.	800.0	Central Government	Deferred
Infopark (Kochi)	Infopark Kerala State IT Mission	600.0	State Government	Partially Completed
Technopark (Kerala) Project	Mission	500.0	State Government	Completed
IT Complex (Kollam)	Technopark	324.5	State Government	Planning
IT Park (Koratty) - Phase I	Infopark Kerala Dinesh Beedi	100.0	State Government Co-Operative	Under Execution
IT Park (Kannur)	Co-op. Society	80.0	Sector	Completed

Source: Compiled by IMaCS

## COMPANY NEWS AND DEVELOPMENTS

### Company News

- ❑ Consist Software Solutions will standardise its applications on IBM's DB2 database, WebSphere middleware and other software systems. Consist also will resell IBM's software under the alliance. Consist, based in Sao Paulo, Brazil, is a major solutions supplier in Latin America, developing general-purpose applications such as human resource management and project management, as well as applications for such vertical industries as financial services, health care, insurance and telecommunications.
- ❑ IBM is acquiring Lombardi, a privately held firm that sells business process management software and services.
- ❑ TCS has bagged a £600 million outsourcing contract from the UK Government for managing a state-sponsored pension scheme that is still in the works.
- ❑ The Passport Sewa Kendra (PSK) initiative – getting a passport in three days is being implemented by Government of India in partnership with TCS.
- ❑ Infosys is seen expanding its telecom tie-ups for its flagship app platform – 'Flypp'. It earlier tied-up exclusively with Aircel to implement app platform on Telco's behalf and is now seen attracting new domestic telecom operators for the same.
- ❑ Infosys has opened a US\$ 8 million datacentre in Melbourne, Australia.
- ❑ HCL and Motorola have inked an agreement to jointly bid for next-generation secured radio connectivity projects in India. This comes in the wake of the HCL-Motorola combine winning the Rs 100-crore contract to implement a secured radio network for the Delhi government ahead of the up-coming Commonwealth Games.
- ❑ HCL plans to commence operations in Punjab from June 2010.
- ❑ HCL has received the QCI-DL Shah National award on Economics of Quality.
- ❑ The ministry of financial intelligence unit (FIU) has awarded an IT contract to Wipro Infotech to develop an IT network to track all irregular financial transactions.
- ❑ Wipro has entered into a seven-year strategic agreement with the US-based insurance firm Main Street America Group for software solutions.
- ❑ Wipro has won a 10-year contract from Punjab and Sind Bank for outsourcing services.
- ❑ Wipro has applied for 50 acres of land near the Bangalore international airport for setting up an IT park.
- ❑ Sify Technologies has launched an on-demand storage service in partnership with Hitachi Data Systems, to manage the complete life-cycle of enterprise information, from its inception to its final disposal.
- ❑ Mahindra Satyam has won two multi-million dollar contracts in South America to deploy enterprise business systems technology.
- ❑ HP has announced a comprehensive security services portfolio for organisations to more effectively manage risk, protect critical infrastructure, safeguard the continuity of operations and maintain regulatory compliance.
- ❑ HP has come out with the first multi-touch tablet for business users and notebook PCs for both enterprise and small and midsize businesses.

## REVIEW OF FINANCIAL PERFORMANCE

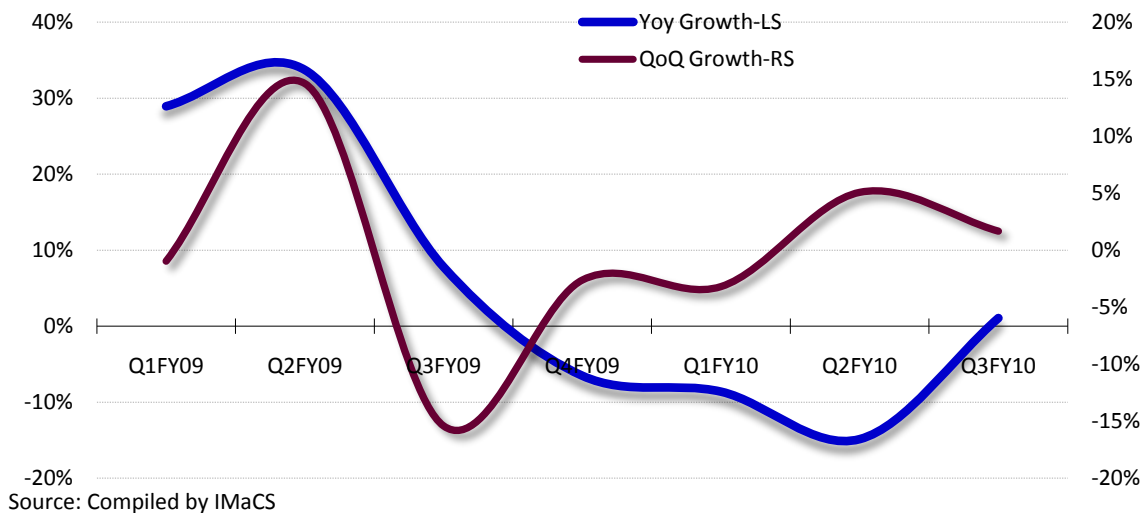
Overall, the IT and ITeS industry has reported deteriorating financial performance during FY2008 and FY2009. During FY2008, financial performance was adversely impacted by the rupee appreciation which made Indian IT and ITES exports uncompetitive. During FY2009, while the rupee depreciation has made 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 Q3FY2010, attributable to a decline in employee wage costs.

### Southern Region

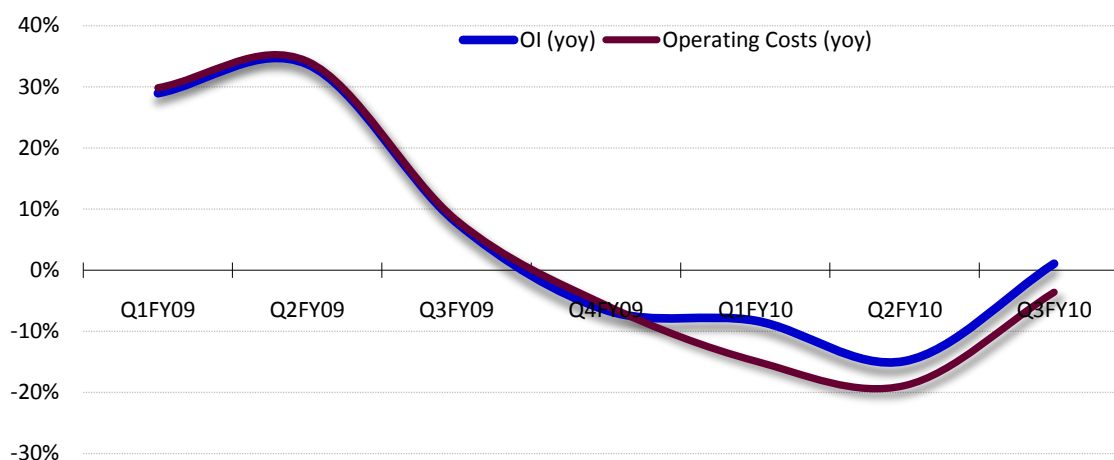
During Q3FY2010, 92 listed companies with registered offices in the Southern Region reported a 1.7% qoq growth in the operating income (OI) to reach Rs. 146 billion.

OI (yoy) growth was 1.1% during Q3FY2010, which was an improvement over a negative growth of 14.9% during the previous quarter, 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 and 1.7% during Q3FY2010 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



## 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

Q3FY	Rs. Million		Change (%)	% of OI	
	2010	2009		2010	2009
<b>Net Sales/OI</b>	<b>146,403</b>	<b>144,858</b>	<b>1.1</b>	<b>100.0</b>	<b>100.0</b>
Employee Costs	59,936	63,528	-5.7	40.9	43.9
Other Operating Costs	45,420	45,765	-0.8	31.0	31.6
<b>Cost of Sales</b>	<b>105,356</b>	<b>109,293</b>	<b>-3.6</b>	<b>72.0</b>	<b>75.4</b>
<b>OPBDIT</b>	<b>41,046</b>	<b>35,564</b>	<b>15.4</b>	<b>28.0</b>	<b>24.6</b>
Interest	302	2,372	-87.3	0.2	1.6
Depreciation	5,008	4,620	8.4	3.4	3.2
<b>OPBT</b>	<b>35,736</b>	<b>28,572</b>	<b>25.1</b>	<b>24.4</b>	<b>19.7</b>
Other Income	4,183	2,731	53.2	2.9	1.9
<b>PBT</b>	<b>39,920</b>	<b>31,302</b>	<b>27.5</b>	<b>27.3</b>	<b>21.6</b>
Tax	7,227	4,142	74.5	4.9	2.9
<b>PAT</b>	<b>32,693</b>	<b>27,160</b>	<b>20.4</b>	<b>22.3</b>	<b>18.7</b>

Source: Compiled by IMAcS

## Financial Performance—Southern Region

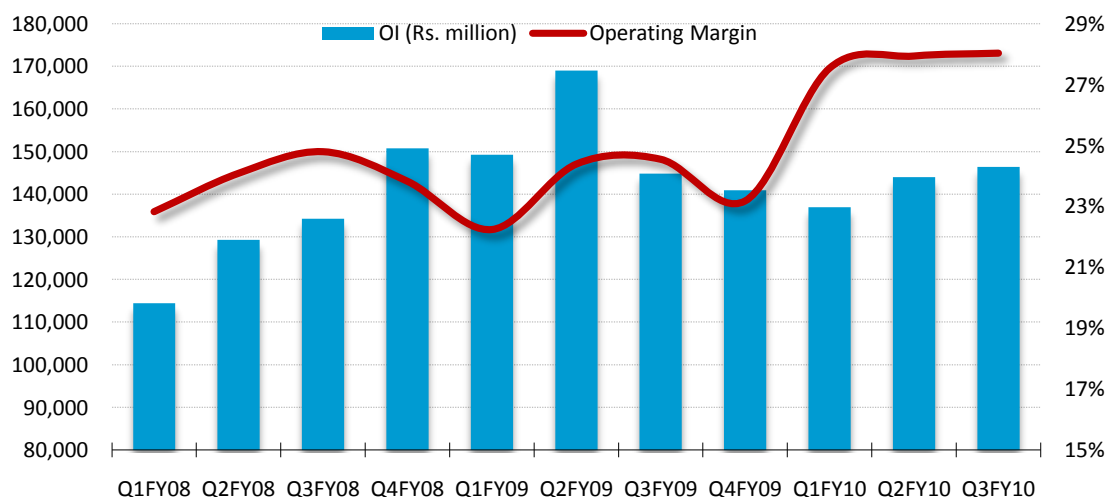
Rs. Million

	FY2008				FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Net</b>											
<b>Sales/OI</b>	<b>114,467</b>	<b>129,292</b>	<b>134,281</b>	<b>150,767</b>	<b>149,315</b>	<b>169,063</b>	<b>144,858</b>	<b>140,931</b>	<b>136,982</b>	<b>144,004</b>	<b>146,403</b>
Employee											
Costs	35,792	58,724	59,353	66,310	69,972	75,515	63,528	61,455	59,011	64,880	59,936
Other											
Operating											
Costs	52,543	39,420	41,626	48,532	46,128	52,307	45,765	46,804	40,242	38,885	45,420
<b>Cost of</b>											
<b>Sales</b>	<b>88,334</b>	<b>98,143</b>	<b>100,978</b>	<b>114,842</b>	<b>116,101</b>	<b>127,823</b>	<b>109,293</b>	<b>108,259</b>	<b>99,252</b>	<b>103,765</b>	<b>105,356</b>
<b>OPBDIT</b>	<b>26,133</b>	<b>31,149</b>	<b>33,302</b>	<b>35,925</b>	<b>33,214</b>	<b>41,240</b>	<b>35,564</b>	<b>32,673</b>	<b>37,730</b>	<b>40,239</b>	<b>41,046</b>
Interest	424	693	943	821	1,141	1,675	2,372	2,046	205	920	302
Depreciati											
on	3,981	3,982	4,179	4,645	4,646	5,130	4,620	5,258	4,975	5,245	5,008
<b>OPBT</b>	<b>21,728</b>	<b>26,474</b>	<b>28,181</b>	<b>30,459</b>	<b>27,427</b>	<b>34,436</b>	<b>28,572</b>	<b>25,370</b>	<b>32,550</b>	<b>34,075</b>	<b>35,736</b>
Other											
Income	5,918	8,593	10,753	3,547	5,509	4,258	2,731	4,985	5,265	6,492	4,183
<b>PBT</b>	<b>27,645</b>	<b>35,067</b>	<b>38,934</b>	<b>34,006</b>	<b>32,936</b>	<b>38,694</b>	<b>31,302</b>	<b>30,355</b>	<b>37,815</b>	<b>40,567</b>	<b>39,920</b>
Tax	3,015	4,802	4,971	4,386	4,059	5,267	4,142	5,134	5,934	6,887	7,227

Source: Compiled by IMaCS

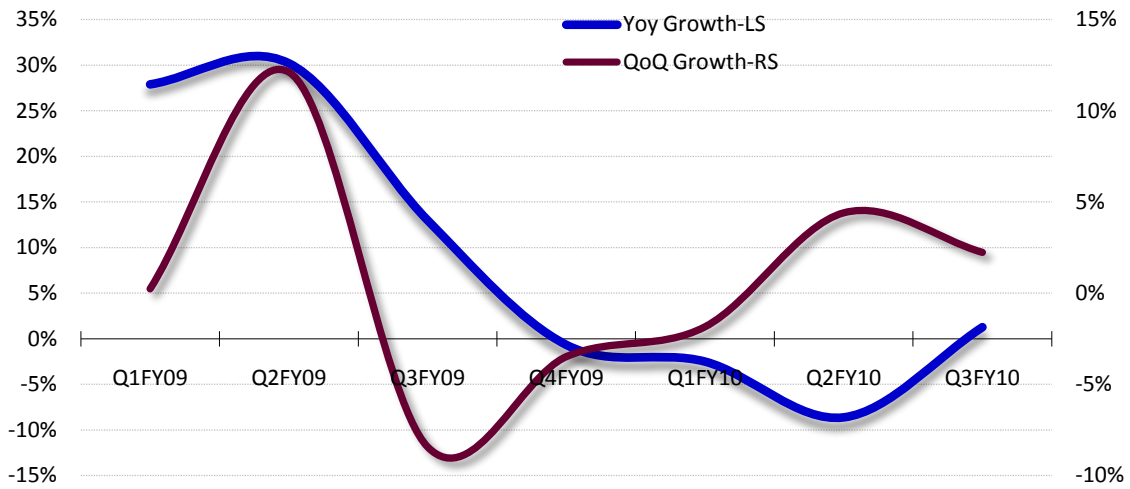
As can be seen from the table above, the sharp increase in operating costs resulted in a steep decline in operating margins during FY2009. During Q1FY2010, the operating costs have come down but the operating margin has also substantially come down. During Q3FY2010, an improvement in the operating margin can be noticed but the increase in the net sales has offset the profit.

### Trends in Operating Income and Operating Margins (Southern India)



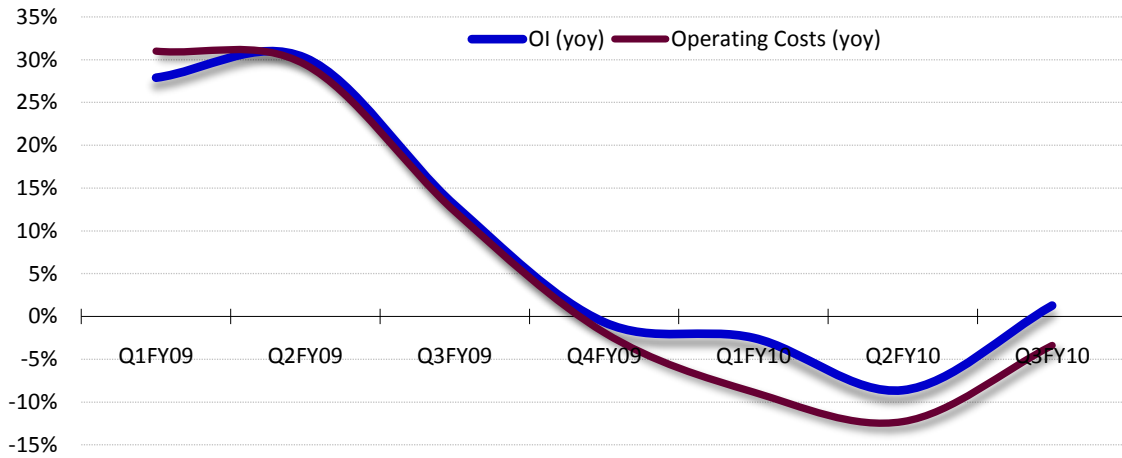
**India**

**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

Q3FY	Rs. Million		Change (%)	% of OI	
	2010	2009		2010	2009
<b>Net Sales/OI</b>	<b>269,423</b>	<b>266,043</b>	<b>1.3</b>	<b>100.0</b>	<b>100.0</b>
Employee Costs	103,109	106,283	-3.0	38.3	39.9
Other Operating Costs	88,466	92,012	-3.9	32.8	34.6
<b>Cost of Sales</b>	<b>191,576</b>	<b>198,295</b>	<b>-3.4</b>	<b>71.1</b>	<b>74.5</b>
<b>OPBDIT</b>	<b>77,847</b>	<b>67,748</b>	<b>14.9</b>	<b>28.9</b>	<b>25.5</b>
Interest	2,205	3,149	-30.0	0.8	1.2
Depreciation	10,028	9,077	10.5	3.7	3.4
<b>OPBT</b>	<b>65,614</b>	<b>55,522</b>	<b>18.2</b>	<b>24.4</b>	<b>20.9</b>
Other Income	5,711	3,079	85.5	2.1	1.2
<b>PBT</b>	<b>71,325</b>	<b>58,601</b>	<b>21.7</b>	<b>26.5</b>	<b>22.0</b>
Tax	10,053	7,430	35.3	3.7	2.8
<b>PAT</b>	<b>61,272</b>	<b>51,171</b>	<b>19.7</b>	<b>22.7</b>	<b>19.2</b>

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

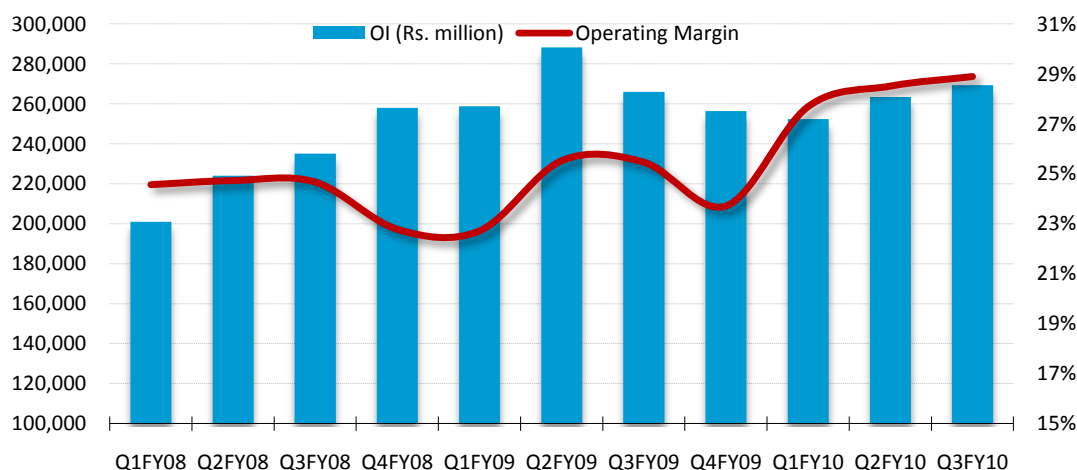
	FY2008				FY2009				FY2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Net</b>											
<b>Sales/OI</b>	<b>200,967</b>	<b>224,097</b>	<b>235,069</b>	<b>258,084</b>	<b>258,768</b>	<b>288,277</b>	<b>266,043</b>	<b>256,357</b>	<b>252,327</b>	<b>263,534</b>	<b>269,423</b>
Employee Costs											
Other Operating Costs	68,237	91,962	94,052	101,476	108,902	116,908	106,283	102,007	101,223	107,853	103,109
<b>Cost of Sales</b>	<b>151,588</b>	<b>168,678</b>	<b>177,077</b>	<b>199,297</b>	<b>199,985</b>	<b>214,693</b>	<b>198,295</b>	<b>195,565</b>	<b>182,449</b>	<b>188,395</b>	<b>191,576</b>
<b>OPBDIT</b>	<b>49,379</b>	<b>55,419</b>	<b>57,992</b>	<b>58,787</b>	<b>58,784</b>	<b>73,584</b>	<b>67,748</b>	<b>60,792</b>	<b>69,878</b>	<b>75,140</b>	<b>77,847</b>
Interest	719	962	1,353	1,003	1,942	2,206	3,149	2,891	1,915	2,497	2,205
Depreciation	7,321	7,580	8,014	8,799	8,453	9,281	9,077	9,919	9,907	10,215	10,028
<b>OPBT</b>	<b>41,340</b>	<b>46,877</b>	<b>48,625</b>	<b>48,985</b>	<b>48,389</b>	<b>62,098</b>	<b>55,522</b>	<b>47,982</b>	<b>58,057</b>	<b>62,429</b>	<b>65,614</b>
Other Income	10,554	12,567	14,589	6,881	7,849	4,482	3,079	8,106	7,526	8,234	5,711
<b>PBT</b>	<b>51,894</b>	<b>59,444</b>	<b>63,214</b>	<b>55,866</b>	<b>56,238</b>	<b>66,579</b>	<b>58,601</b>	<b>56,088</b>	<b>65,582</b>	<b>70,663</b>	<b>71,325</b>
Tax	5,236	7,332	7,215	6,839	6,751	7,877	7,430	7,128	9,410	10,235	10,053
<b>PAT</b>	<b>46,658</b>	<b>52,111</b>	<b>55,998</b>	<b>49,027</b>	<b>49,487</b>	<b>58,702</b>	<b>51,171</b>	<b>48,960</b>	<b>56,172</b>	<b>60,428</b>	<b>61,272</b>

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 Q3FY2010, the interest and depreciation costs have started to increase.

### Trends in Operating Income and Operating Margins (India)



### SHORT-TERM OUTLOOK

TCS added 32 new clients during Q3FY2010 as against 30 clients in the previous quarter. Infosys added 32 new clients during Q3FY2010 against 35 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 having picked up during the quarters of Q3FY2010 and the same trend are expected to continue during 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 stop by next quarter.

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

The short-term outlook looks positive with revenues expected to pick up during Q3FY2010 and Q4FY2010.

## FUTURE OUTLOOK

- ❑ 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 opportunities<sup>7</sup>.

## 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.

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<sup>7</sup> NASSCOM future outlook