



A ZDNet Asia Special Report

Insight India: Riding the outsourcing wave

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Editor's Foreword

India is on the technology fast track.

According to the National Association of Software and Service Companies (Nasscom), India's IT and IT Enabled Services sector--including the domestic and exports segments--is expected to exceed US\$47.8 billion in annual revenue in fiscal 2007. That represents an increase of nearly 28 percent over the previous year.

The country's success has been nothing short of extraordinary, and Nasscom is confident India will hit its target of US\$60 billion in IT software and services exports by 2010.

The world's second most populous nation continues to grab headlines as the preferred offshore outsourcing location, repeatedly beating other emerging markets.

A September 2006 survey jointly conducted by KPMG International and Economist Intelligence Unit ranked India as the most popular outsourcing destination, followed by China, Singapore, Hong Kong and Malaysia.

A poll by ZDNet Asia's sister site Silicon.com also reached the same conclusion: India remains the most attractive country for businesses looking to outsource in the next decade. Respondents picked India over Brazil, Russia and China.

But India is not without its challenges. While its leadership in outsourcing is undisputed today, the country faces several challenges which, some observers say, could threaten its growth ambitions.

According to Technology Business Research, the main issues affecting the Indian IT market include scarcity of top talent, an appreciating currency, wage inflation, higher investments for workforce training, and the threat of globalization.

In this special *Insight India* report, ZDNet Asia traces India's remarkable transformation and looks at what is in store for Asia's IT services powerhouse. *Insight India* is the first in a series of special reports on Asia's hottest IT markets which include China, Malaysia and Singapore. Each country report encompasses industry facts and figures, as well as basic IT adoption indicators.

On behalf of the ZDNet Asia team, thank you for your interest and we hope you find this report useful.



Isabelle Chan
Senior Editor, Special Reports
ZDNet Asia

India in a class of its own

By Aaron Tan, ZDNet Asia

While India's IT prowess is undisputable today, the country is also a victim of its own success as it faces wage inflation and competition from Eastern Europe and China.

According to a recent industry report by India's National Association of Software and Service Companies (Nasscom), maturing socio-political attitudes and an appreciation of the proactive efforts by key stakeholders to further strengthen India's value proposition are helping to reinforce its position as the IT outsourcing destination of choice.

Nasscom is confident that India will remain an integral part of any major global sourcing strategy even as businesses around the world are exploring alternate destinations such as Eastern Europe to enhance their multi-country delivery capability.

The reasons for Nasscom's optimism: the growing impact of technology-led innovation, and the increasing demand for global sourcing as more companies choose to focus on their core competencies. And it is confident that India will achieve its target of US\$60 billion in IT exports by 2010.

While India is uniquely advantaged to best address these opportunities, they are not lost to others. Timely, coherent and continued action is needed to ensure that India makes the most of these opportunities and maintains its lead, Nasscom noted.

In an interview with ZDNet Asia, Kiran Karnik, president of Nasscom, noted that the availability of well-educated engineers has been instrumental to India's IT success. "The large number of smart people educated in the right discipline has been the single most critical factor."

Nasscom estimates that about 19 million students are currently enrolled in high schools and 10 million students in pre-graduate degree courses across India. While nearly 3 percent of them find jobs in other fields, the rest opt for employment in the IT industry. By 2008, there will be an estimated 17 million people available to the IT industry.

More importantly, India's high level of English proficiency has helped the country open doors to outsourcing deals from English-speaking countries. In addition, Karnik said in the 1990s, the Indian diaspora in the United States and the United Kingdom has also "acted as a very good bridge between those countries' markets and India".

Fast Facts
Population: About 1.1 billion
Capital: New Delhi
Language: Hindi is the national language, but English is the preferred language for business.
Demographic profile: 60% of population aged between 15-59 years, more than half are below 25 years
Currency: Indian Rupees
GDP per capita: US\$797 (estimate for 2006 made after 2004)
IT industry target: US\$60 billion in exports by 2010
Mobile phone subscribers in 2006: 149.6 million
Mobile phones shipped in 2006: 60 million
Internet users in 2005: 60 million
Broadband households in 2006: 2.3 million
Projected IT spending for 2007: US\$16.6 billion
Sources: Nasscom, Business-in-Asia.com, Wikipedia, Springboard Research, ITU, eMarketer, IDC Correct as at May 21, 2007

Strong government support in the form of policies that encourage the growth of the Indian IT sector has also been a key push driver, Karnik said. This includes easing foreign ownership restrictions for local companies, a move that has helped India attract key IT investments.

"The government also had a good long-term vision by putting in place a 10-year plan in 1999, where tax relief is given to export profits," Karnik added. "This gives companies assurances in planning their cash flow and business models."

Eroding cost advantage?

India has always enjoyed a strong track record of delivering a significant cost advantage, with clients regularly reporting savings of between 25 percent and 50 percent over the original cost base.

Nasscom's Karnik believes this cost advantage--achievable by outsourcing to India--is unlikely to go away for a long time, and he cited several reasons.



Kiran Karnik, president of Nasscom

First, the absolute cost advantage vis-à-vis other key markets is actually increasing. According to Nasscom, the current 10 percent to 15 percent wage inflation in India amounts to a lower dollar-value increase in the wage bill, compared to the 3 percent to 4 percent average wage inflation in the developed countries.

Secondly, there is still scope to further lower infrastructure and overhead costs among Indian IT companies. "Despite the reduction in telecoms costs by 30 to 40 percent in the last two years, depending on how much bandwidth you consume, we still have higher costs for telecoms than other countries," Karnik explained. "So, there is still scope for further reduction there."

Also, Karnik said because of India's inefficient infrastructure, Indian IT companies are incurring at least a few percent more in extra cost. "This can't get worse, and will only get better, so there's some scope there for further savings," he said.

Finally, there is scope for further leveraging operational levers to drive efficiencies in the Indian IT organization.

According to an industry benchmarking exercise conducted by Nasscom since 2005, the adoption of internal practices varies across the industry. This suggests that the adoption of industry best practices can further enhance operational excellence in Indian IT companies.

Contrary to concerns of rising wage inflation eroding the sustainability of India's cost-advantage, especially over the past two years, leading players such as Mumbai-based Tata Consultancy Services (TCS) have managed to grow at an above average rate--while sustaining their high levels of profitability, Karnik noted.

"Clearly, this indicates that they have been able to manage their internal resources, including human resources, very efficiently," Karnik said. "They're spending less time on projects and getting more out of their human resources for higher productivity."

TCS' revenues crossed US\$4 billion for the first time, for its latest financial year ended Mar. 31, 2007. The company reported a 41 percent year-on-year revenue increase to US\$4.3 billion on net income of US\$950 million.

S. Mahalingam, chief financial officer of TCS, attributed the sterling performance to "several levers in terms of pricing, offshore leverage and cost controls" to boost its profit margins against the fluctuating Indian rupee.

Currency fluctuations are often not within the control of any company, and this will naturally affect bottom lines.

As Infosys' president, COO and joint managing director Kris Gopalakrishnan alluded, the company's profitability is impacted "not by wage inflation per se, but by wage inflation coupled with an appreciating rupee".

Michael Guilbault, senior analyst at research company Technology Business Research (TBR), agreed. He noted that a 1 percent increase in the value of the Indian rupee versus the U.S. dollar or sterling pound, socks some Indian firms' gross margins with a 5 percent hit because they pay most of their staff in rupees.

Thursday , May 24 2007

Overcoming India's talent crunch

By Aaron Tan, ZDNet Asia

To address India's rising wage costs and IT manpower shortages, Tata Consultancy Services (TCS) has, among other measures, established an academic program with more than 300 local institutions.

Signed, sealed, delivered

Snapshot of several outsourcing deals that use TCS' Indian delivery centers.

GlaxoSmithKline

Headquarters: USA

Date signed/announced: Mar. 27, 2007

Contract value: N.A.

Nature of contract: TCS to provide KPO (knowledge process outsourcing) services in clinical research, including clinical data management and clinical submissions support.

Kimberly-Clark

Headquarters: U.S.A.

Date signed/announced: Jan. 16, 2007

Contract value: N.A.

Nature of contract: TCS to provide IT infrastructure support to Kimberly-Clark's operations in the United States, Europe, South America and the Asia-Pacific region.

Somerfield

Headquarters: U.K.

Date signed/announced: Nov. 29, 2006

Contract value: US\$65 million

Nature of contract: TCS takes over the entire IT operations, asset management and planning for Somerfield and provides a fully managed IT infrastructure and applications service within Somerfield. As part of the agreement, TCS manages third-party hardware, software and services contracts.

According to S. Padmanabhan, executive vice president for global human resources at Indian IT services company TCS, there is now a rising demand for IT workers as technology and IT services companies establish operations in India. The IT giant has 70,000 employees in over 30 countries.

"India is producing 400,000 IT engineers a year, and IT companies hire about 250,000 of them," Padmanabhan told ZDNet Asia. "So, there's now pressure on the universities to produce more graduates."

Padmanabhan noted that while tier-one universities such as the Indian Institutes of Technology located across the country have the resources to produce high-quality engineering graduates with little difficulty, lesser-known colleges have their challenges.

To address the talent crunch, Padmanabhan said, TCS will establish faculty development programs, student internships, seminars and workshops at the tier-two and tier-three universities. "The whole idea is to bring up the capability of the students, thereby increasing our talent pool," he explained.

Part of the strategy to expand the talent pool is to target not only engineering students but those in other majors, too. Padmanabhan said: "We've identified and experimented with a few institutions, handpicked some of their Math and Science students, and put them through a rigorous six-month training program."

"An engineering course is usually four years long, while Math and Science courses take only three years to complete."

Noting that more still needs to be done, Padmanabhan said TCS is expected to hire an additional 3,000 non-engineering graduates in 2008.

Apart from hiring from its own backyard, TCS is also eyeing talent outside Indian shores, particularly in China.

"If 400,000 engineers come out of India every year, the equivalent in China is 1.2 million--and they're all of very high

Qantas**Headquarters:** Australia**Date signed/announced:** Nov. 9, 2006**Contract value:** US\$90 million**Nature of contract:** TCS signed a seven-year deal with Qantas to provide a range of IT application, transformation and maintenance services. The Qantas contract is the largest single agreement awarded to an Indian outsourcing company in Australia to date.**Temasek Holdings****Headquarters:** Singapore**Date signed/announced:** Mar. 15, 2007**Contract value:** S\$5 million (US\$3.3 million)**Nature of contract:** TCS to provide services around the Hyperion product suite, including data acquisition, data storage, financial consolidation and modeling, as well as reporting capabilities.**Parkway Hospitals****Headquarters:** Singapore**Date signed/announced:** Jan. 30, 2007**Contract value:** S\$6 million (US\$3.9 million)**Nature of contract:** TCS to customize and enhance its Hospital Management Solution (HMS), as well as implement the Oracle E-Business Suite for Parkway Hospitals.*-- compiled by Isabelle Chan, ZDNet Asia*

quality," Padmanabhan said, adding that TCS will step up its operations in China to take advantage of the abundant talent pool there.

"In this industry, it doesn't matter where you do work, whether it's in India, Eastern Europe or China, because we're all well-connected through our global delivery model," he explained.

Once TCS expands its talent pool and hires the right people, the next step would be to ensure that the new workers can be deployed to their job scopes immediately.

"For that, we'll put them through a 42-day training program, which is replicated across our global development centers in China, Brazil and Eastern Europe."

Padmanabhan said a uniform staff induction program across its global offices will address the company's business needs.

"We'll make sure that everyone has sound engineering principles derived through our experience by working with many international customers," he said. "Then, we'll also make sure they understand the technology required to service our customers in future."

Padmanabhan noted that about five years ago, much of the company's work was done on mainframes and Unix boxes, and using the C++ programming language. Today, most of TCS' development work is done on the Java platform, he noted.

"Technology's always changing, and we have to keep on upgrading our technology caliber to stay relevant," Padmanabhan said.

In addition to hard coding skills, Padmanabhan noted that TCS places emphasis on people and language skills to ensure its pool of quality talent meets the needs of the globalized IT and outsourcing industry. "We'll send them to different parts of the world and expose them to different customers," he added.

TCS' efforts have paid off. The company now enjoys the lowest attrition rate of about 10.6 percent in the industry, Padmanabhan claimed. IT job attrition among big Indian

companies, he said, is around 14 percent but the rate may be higher in business process outsourcing.

Being able to retain talent "is not something that can be achieved overnight", he added. "It has to be well thought through systematically, where we address three aspects of an individual's career: good technology capability, international exposure and opportunities to exhibit their talent, such as music, on campus."

TCS has also gained recognition for its human resource development. For example, the company received the 'Investors in People' award for setting standards of good working practices in the U.K. It also won the Dataquest-IDC Best Employer in IT Services in 2005.

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Incredible India by the numbers

By Isabelle Chan, ZDNet Asia

India's IT services success story has been an inspiration to emerging economies, with many looking to emulate its success.

A September 2006 survey report jointly written by KPMG and the Economist Intelligence Unit validated the view of India as "a world apart in outsourcing".

For example, companies in India appear to be more open to outsourcing all kinds of business functions compared to their peers in the region. While the rest of Asia cited "cost savings" as the No. 1 benefit of outsourcing, India respondents said "allowing the company to focus on its core competencies" was the main driver.

Dane Anderson, CEO of Springboard Research, offered an explanation for this divergent view. "I think a lot of Indian companies are having a hard time keeping up with [the country's] growth.

"For example, the latest outsourcing deal between IBM and a large wireless operator indicated that [the latter was] trying to grow with the market but to develop the IT operations to do that was a little hard, so I think that if they can plug in an outsourcing solution, they probably can benefit from that growth a bit faster," said Anderson.

But he also pointed to other reasons such as the success of the Indian IT industry in offshoring. Anderson said: "The fact that India has shown the power of outsourcing and offshoring...percolates throughout the country a little better.

"And there are also the HR challenges--to keep people and pay people. It's really tough in India now, and if they can even outsource that challenge to a provider, I think that makes it easier for them to cope," he added.

According to the World Economic Forum's Global Competitiveness Index (GCI) for 2006, India ranked 43rd among 125 countries covered, achieving "remarkably high scores in capacity for innovation and sophistication of firm operations".

"This is especially true of the quality of scientific research and the number of scientists and engineers, which are increasingly supplying highly skilled professionals to the private sector," stated the report.

Authors of the GCI report also noted that although India was found to have made good use of technology, penetration levels of the latest technologies remain "quite low by international standards, reflecting India's still low levels of per capita income and high incidence of poverty".

Here is a quick look at India's IT profile

Mobile phones shipped in 2006:	60 million
Mobile phone subscribers in 2006:	149.6 million
Projected mobile phone subscribers in 2007:	220 million
SMS text messages sent in 2006:	59.8 billion; SMS contributed about 6% of service revenues to Indian mobile network operators
Internet users in 2005:	60 million
Internet hosts in 2005:	143,654
Projected broadband penetration in 2007:	3.2 million households, or 1.6 percent of total households
PCs shipped in 2006:	5 million, 25% year-on-year growth from 2005
Notebook PCs shipped in 2006:	1 million
Average annual salary of IT professionals:	662,310 Indian rupees (US\$16,209)
Per capita public sector IT spending in 2006:	US\$1.29
Projected IT spending for 2007:	US\$16.6 billion, 24 percent increase over 2006. Figure to grow to US\$32.6 billion by 2011
Projected SMB IT spending for 2007:	US\$8 billion, 24 percent increase over 2006
Number of IT workers in software and services in 2006:	1.3 million, 23 percent increase over 2005
Industry revenue growth:	The Indian IT and IT Enabled Services (ITES) sector, including domestic and exports segments, is expected to exceed US\$47.8 billion in annual revenue in fiscal 2007, an increase of almost 28 percent over 2006
Domestic demand for IT and BPO:	Financial services and telecommunications account for over 70 percent of demand in 2004
Revenue from business process outsourcing (BPO):	US\$148 million in 2000, US\$3.5 billion in 2004
Number of graduates every year:	More than 400,000 technical graduates, 2.3 million graduates in other disciplines, and over 300,000 post-graduates
Total revenue of top 5 Indian providers for fiscal 2006:	US\$11.34 billion. As a combined entity, this places them--Wipro, Infosys, TCS, HCL Technologies, and Satyam--as the seventh largest services provider globally, behind CSC's US\$4.68 billion in revenue

Sources: Nasscom, Business-in-Asia.com, Wikipedia, ITU, eMarketer, AMI-Partners, Gartner, Springboard Research, ZDNet Asia IT Salary Survey 2006

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