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India – A destination for sourcing of services

PwC perspective

2014

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Contents

Global sourcing of services and India

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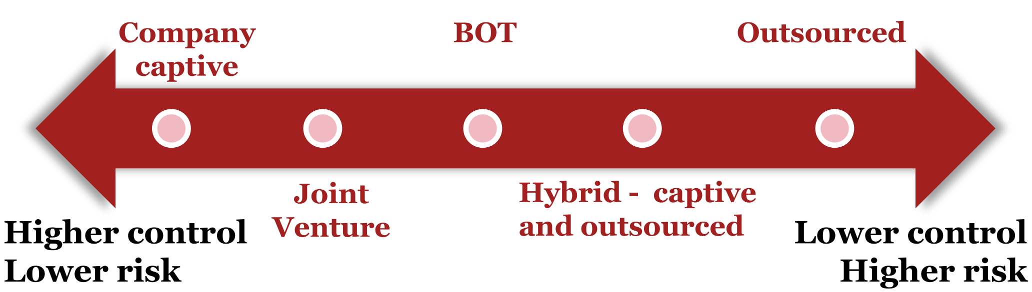
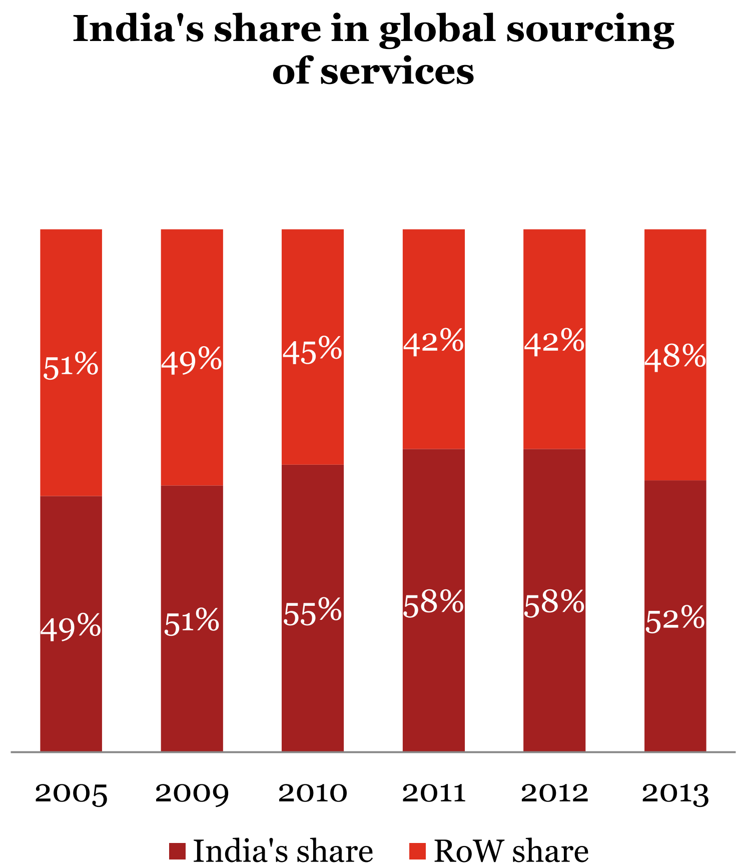
India is one of the most mature global sourcing destination with the widest range of options

- India's offshoring story began in 1985 when Texas Instruments set up its office in Bangalore. In the 1990s, many airlines and technology companies started their India operations.
- India has maintained its dominance in global sourcing of services since then, owing to its mature ecosystem.
- With time, the Indian offshoring industry has evolved to cater to varied needs of its client base.
- India provides the widest array of services (IT, BPO, KPO, R&D, Engineering services etc) and the most mature service providers.
- India also has the widest range of options for ownership models for sourcing of services.





RoW – Rest of the World

Source: Nasscom

Indian global sourcing ecosystem

2

This export oriented industry has significant impact on the Indian economy

- The IT BPM industry is expected to register revenues of USD 118 billion in FY14 which is a ~9% growth over FY13 with the IT software and services sector accounting for 88%.
- Exports contribute to 73% of the industry revenues and is expected to grow at ~13% over FY 2013.
- With the industry being primarily export driven, its performance is largely dependent on the global economic factors than domestic factors.
- Rupee depreciation adversely affected domestic revenues and boosted share of exports.
- Increased traction in APAC , UK and Europe, differentiated growth and divergence in performance redefining the industry

	Past	FY13
Share in India's GDP:	1% (2000)	8%
Share in total exports:	5% (1997)	23-25%
Global delivery centres:	340 (2007)	580
India's share in global offshore revenue:	43% (2004)	52%

Highest impact sector for India

- Direct employment of 3.13 million and an additional 10 million through indirect employment.
- 4th in India's total FDI share, highest attractor of PE/VC investments in India, over 60 cross border acquisitions.

Exports

- 14% growth in IT services exports is driven by higher uptake of IS outsourcing and software testing.
- BPO exports recorded a growth of ~11.4% over FY13, with increasing share knowledge services.
- Engineering and R&D exports at USD 11.2 B and YoY 9% growth driven by convergence, efficiency, localisation, mobility, digitisation.
- Software products achieved a double digit growth rate of ~11% driven by emerging technologies.

Domestic

- IT services is the fastest growing segment at 14.5% with key drivers being IS outsourcing and cloud services
- BPO registered USD 3 billion revenues driven by demand for hosted services and higher uptake by emerging verticals
- Software products registered USD 3.7 billion driven by need to streamline operations of large firms and SMBs
- Hardware registered USD 12.7 billion driven by demand from consumers, governments and data centres

India has maintained its leadership position despite constant challenges from emerging destinations

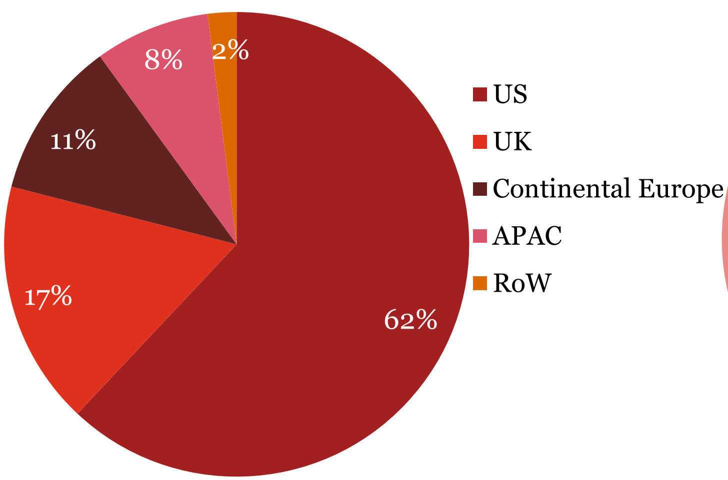
The Indian IT/ITeS industry has a strong and established customer footprint in North America and Europe and is in the process of establishing itself in Latin America.

Industry coverage is extensive, with clients from Manufacturing, Telecom/Hi-tech, Retail, BFSI, Healthcare, travel, transportation and media.

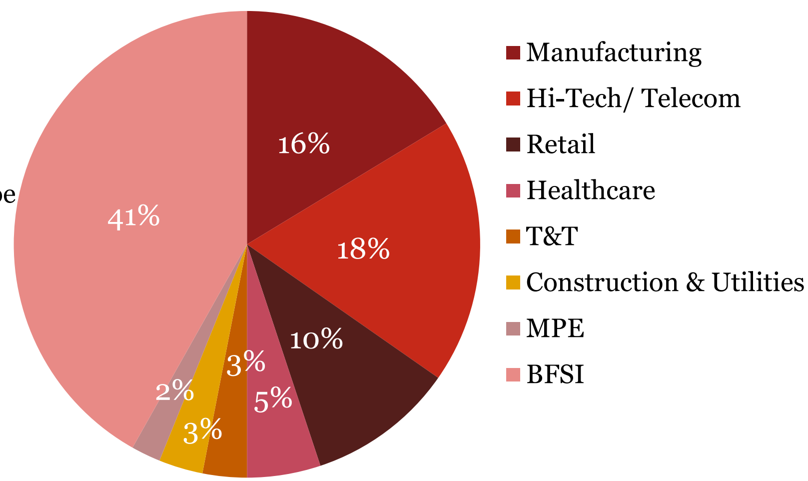
Emerging destinations across low cost clusters such as Eastern Europe, North Africa, South East Asia pose a strong challenge to India. Philippines has been able to topple India's leadership position in 2013, but only in voice BPO segment.

55%
India's share in global offshore revenue

Geographic Diversification



Industry Diversification



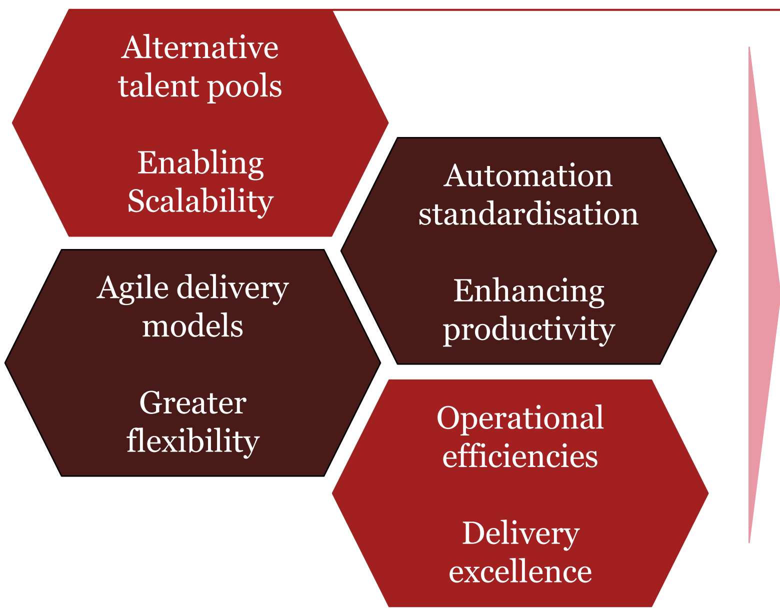
Source: Nasscom, 2014

However, our study indicates, India still stands out in terms of size, breadth and quality of talent pool, cost of operations, lower business risk and ability to scale up.

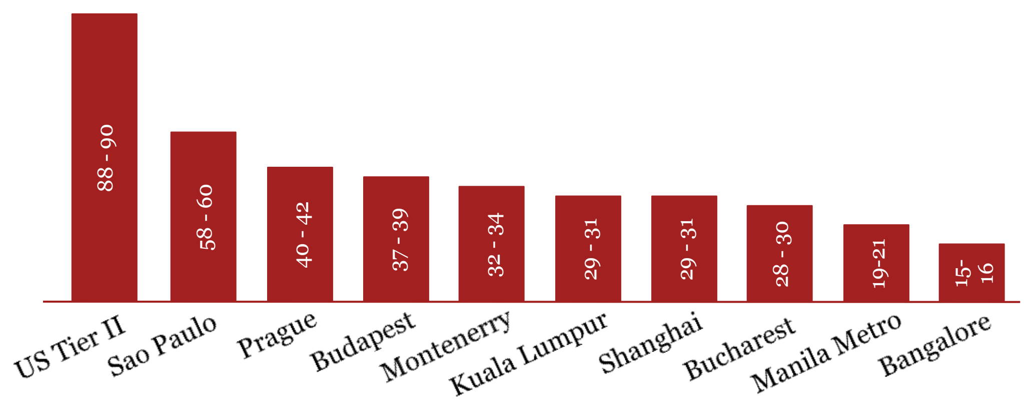
Infrastructure in India has room for development, however when compared to countries similar in cost of operations, India offers better facilities on ground.

The cost-value proposition still holds strong for India

- Established IT outsourcing destinations that offer variety and high end skills such as Bangalore and Hyderabad are still less expensive than similar destinations across the world
- Emerging tier 2 offshoring destinations such as Kochi, Indore offer 20-30% cost arbitrage compared to Bangalore and with sufficient talent pool and quality in these emerging destinations, the cost-value proposition is strong
- Entry level salary in these emerging destinations is around USD 3000 per annum and office rental USD 0.65 per sqft per month. Loaded costs per FTE could be as low as USD 8000, thus offering significant cost advantage
- India has a strong network of government recognised IT/ITeS promotion bodies and special tax incentives for the sector



Operating Cost per FTE for BPO Services: Transactional F&A 2012, USD '000/per annum

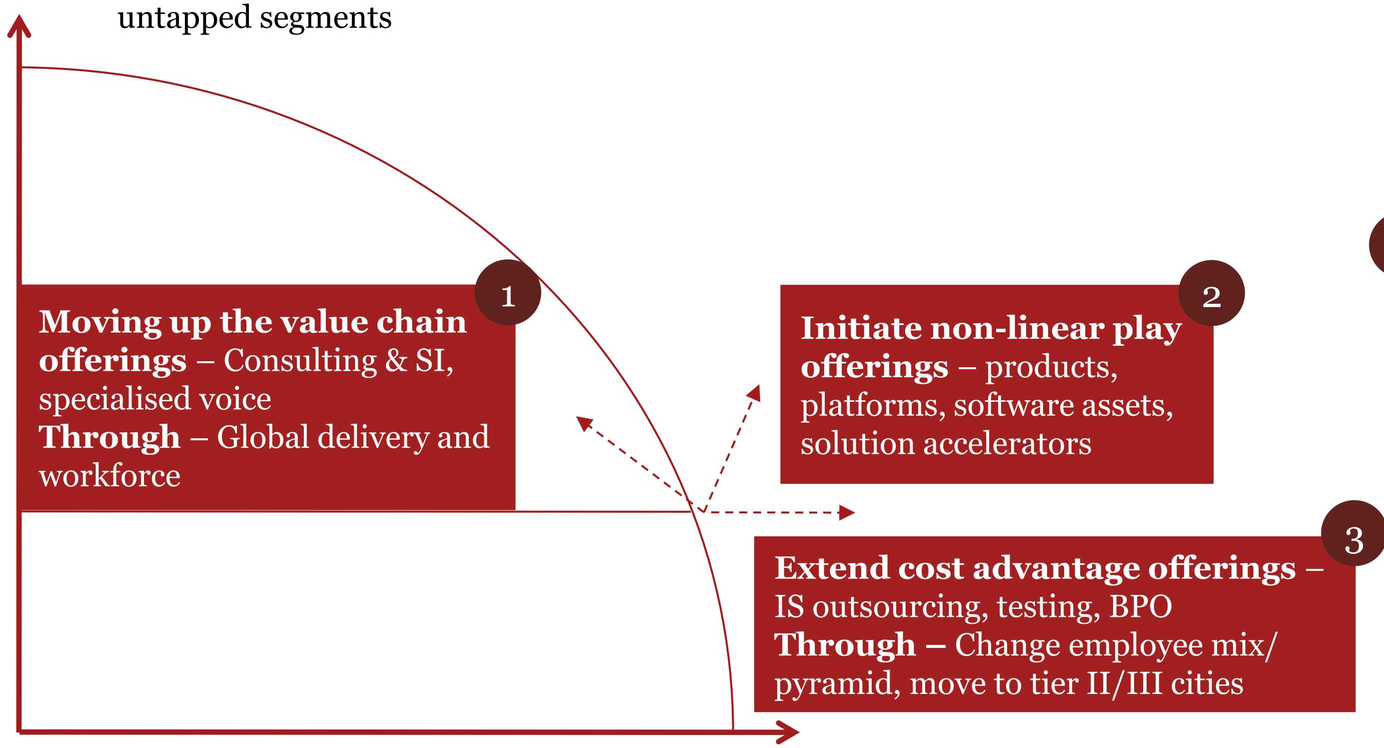


Source: Nasscom, 2013

The Indian IT/ITeS industry is now moving along three paths to offer more value

The Indian IT/ITeS industry is at a critical juncture with changing customer requirements from low cost to high value-cost. In their process of evolution and meeting current and future needs, companies in this industry are broadly taking three paths to reinvent themselves.

1 There are certain segments and service offerings that could not be served only through the offshore model. Hence companies now offer a mix of onshore-offshore services, this increasing billing rates and footprint in previously untapped segments

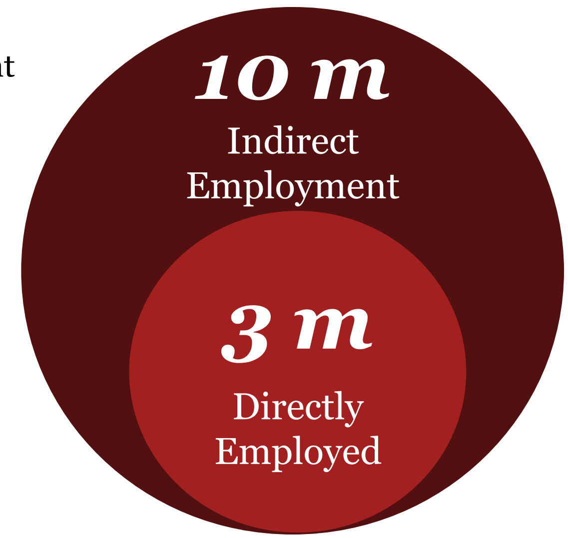


2 These are steps taken to provide more value for the same cost and can be achieved through offerings around products, platforms, software assets and solution accelerators which are inherently reusable creating a non-linearity play.

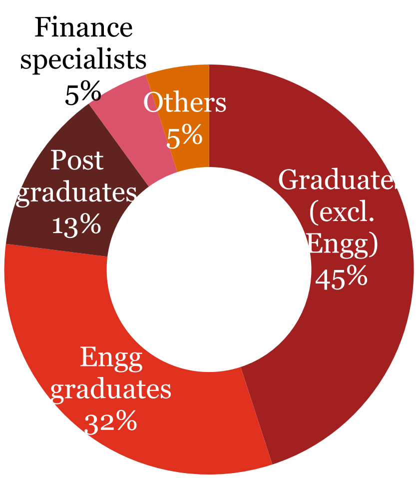
3 There is a continuous process of looking out for lower cost destinations within the country by Indian companies. Emerging IT/ITeS destinations such as Kochi, Indore offer significant cost arbitrage thus offering greater value-cost for customers. IS outsourcing, testing, customer interaction are typically relocated to these destinations.

India offers a large talent pool for easy scale up, though industry readiness remains a concern

- India today boasts of a large talent pool for IT/ITeS industry with more than 100 million English speaking people – the second largest in the world after USA. India has an existing talent pool of IT employees with the outsourcing industry providing direct employment to 3 million people and indirect employment to 10 million people. Every year more than 200,000 engineering graduates are joining the IT industry.
- IT/ITeS industry in India has very diverse skill base to support the business across different verticals such as banking and finance, manufacturing, healthcare, retail, government and utilities.
- The skill base constitutes graduates from engineering and non-engineering background, finance specialists (CAs), doctors, lawyers and many others.



Industry skill base estimate for 2014



- However, in recent years companies have been finding it little more difficult to get the right talent. A decade ago an outsourcing job was considered prestigious and financially beneficial, but lately candidates have opted for jobs in more traditional sectors such as banking, engineering, and manufacturing.
- With out of sync curriculum and lack of vocational training, readiness of fresh available talent is a concern. It is reported that companies are currently investing ~US$ 1.6bn annually in training in order to make graduates industry ready.
- Skill reports on IT and engineering graduates indicate only 25% of technical graduates and 15% of other graduates are considered employable. Another study indicates that 67% of Indian employers are finding skill gaps among new recruits. The companies are meeting these challenges through collaboration with engineering colleges and providing extensive training to new recruits.

Data security and privacy regulations are in place, but needs implementation rigour

- **Information Technology Act, 2000 deals with issues relating to data security and privacy protection.**
- **There are sections which impose imprisonment and financial penalty to concerned people / corporate body in case of breach of law.**
- **Police department lacks competent and efficient people to tackle these types of crimes.**
- **Certain preventive measures have been taken by NASSCOM.**

- The Information Technology Act, 2000 and The Contract Act, 1872 deals with data protection or privacy.
- The Information Technology Act, 2000 deals with the issues relating to payment of compensation (civil) and punishment (criminal) in case of wrongful disclosure and misuse of personal data and violation of contractual terms in respect of personal data.
- The Information Technology Amendment Act, 2008 provides for protection of data within the territory of India. Data outsourced to India gets protection but data outsourced from India has no protection. India has no jurisdiction in such cases. The Data Protection Act of UK as well as HIPAA of US ensures data protection even when outsourced beyond the nation's shores.
- India stands at 186 in the ranking of 189 economies on the ease of enforcing contracts. This highlights that judicial system is inefficient in resolving the commercial disputes.
- There is also no reform measure in this direction by the government. However the process is more efficient in some states.
- There have been instances where employees have given away the personal information of customers to third parties without prior consent. In 2005, a leading English daily claimed that its journalist bought personal details including passwords from an Indian BPO worker for 4.25 pound each.
- In the last three years there has been a rise in number of cyber crime and data theft cases. Gurgaon city has reported 98 cases in first four months of 2011.
- In the wake of these concerns, NASSCOM has put in place several measures to address data security concerns regarding service provider employees.

- **India ranks poorly on 'ease of enforcing' contracts.**
- **There is lack of reform measure to enable enforcement of contract.**
- **In the last year corporates received more tax related notices from government authority .**
- **It takes more time to settle the commercial dispute in Bangalore and Chandigarh as compared with Mumbai.**

The Union Government has supported the industry through policies around taxation, investments

1. To build delivery centres outside India, Indian providers are allowed to make outbound investments to the tune of 200% of their net worth.
2. 30% of value of onsite contracts and 100% value of offshore contracts needs to be repatriated to India.
3. Overseas offices of Indian IT companies are not allowed to create liabilities for their Indian HO.
4. Depreciation of 100% can be availed over 5 years for computer and peripherals in EOUs, SEZ, EHTOPs.
5. EOU/STP can import all goods including capital goods without any duties.
6. Up to 15 years tax holiday scheme for SEZ units
7. Customs duty exemption on almost all capital goods in SEZ units
8. Exemption from service tax for input services procured and consumed by the SEZ units
9. No service tax levied on export of taxable services exported out of India by SEZ units
10. Nil rate of excise duty on manufacture of IT software
11. Central sales tax exemption for inter-state sales made by SEZ units
12. Up to 84% of cost of computer, software can be depreciated in the first 2 years

Captive / SSC scenario

3

Captives in India – timeline and key statistics

1985: Initiation

- Texas Instruments establishes the first captive center in India, heralding the era of offshoring.

1990-98: Early adoption

- Many companies established and ramped up captives in India. Most of these were from Hi-tech, Telecom, and IT.
- Business process captives were still in very less numbers.

1998-2006 – Explosive growth

- The global financial services sector rapidly adopts the captive model.
- BPO captives appear more regularly. Many global technology firms add IT captives as well.
- Captives deliver $8 B worth of services in 2006.

2006-2009 – Introspection

- Many captives face the dilemma of their relevance and cost. Some of them are monetised.
- However, the growth continues and new captives are added.
- Captives deliver $ 10.6 B worth of services in 2009.

After 2009 – Coming of age

- Many captives reorient their business model. Increasingly seen as business partners than back office.
- Experiencing increased end-to-end product ownership and offer flexibility in global operating platforms.
- Healthy growth in scale and numbers continue for captives.

$15.5 Bn	Indian captive market size
18%	Contribution to Indian IT-BPO exports
44%	ER&D/SPD share in total captives revenue
825+	Number of captives in India
76%	Captives in India with headquarters in North America
530K	Number of employees in captives in India

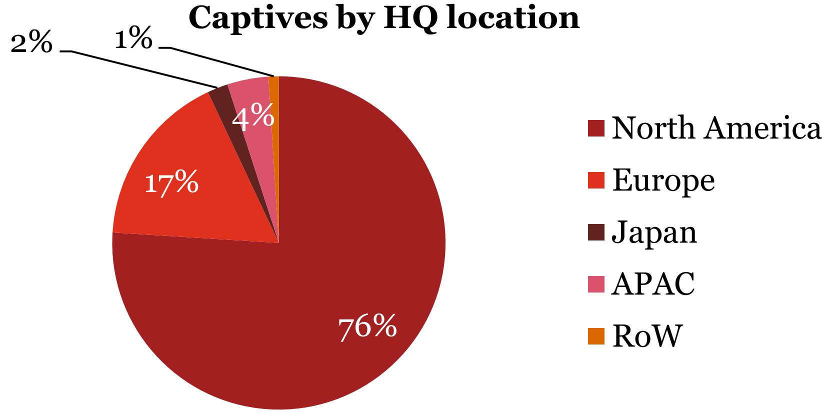
ER&D – Engineering and R&D, SPD – Software Product Development

Source: Nasscom, 2014

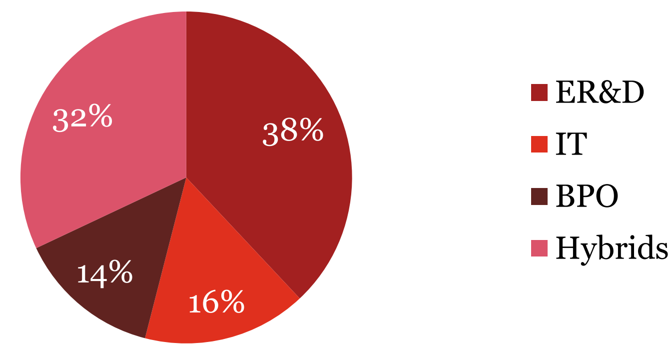
Snap shot of captives in India (1 of 2)

Total number of captives in India: 825+

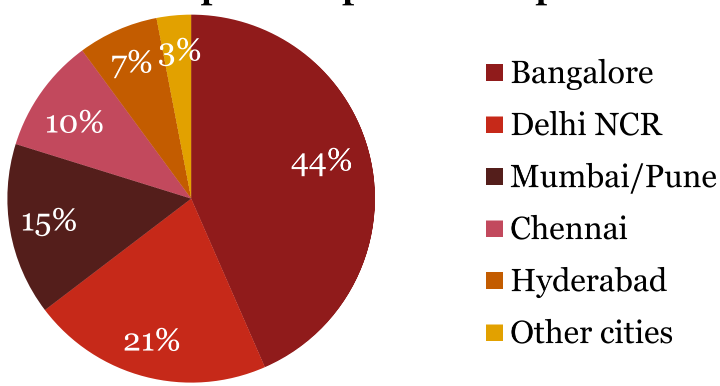
Captives by HQ location



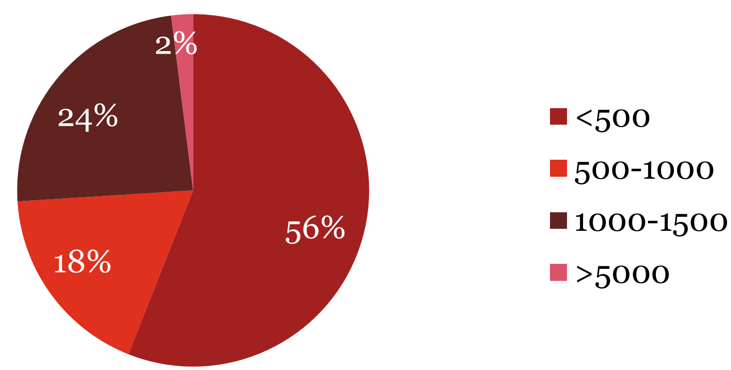
No of captives by category



Location wise split of captive talent pool



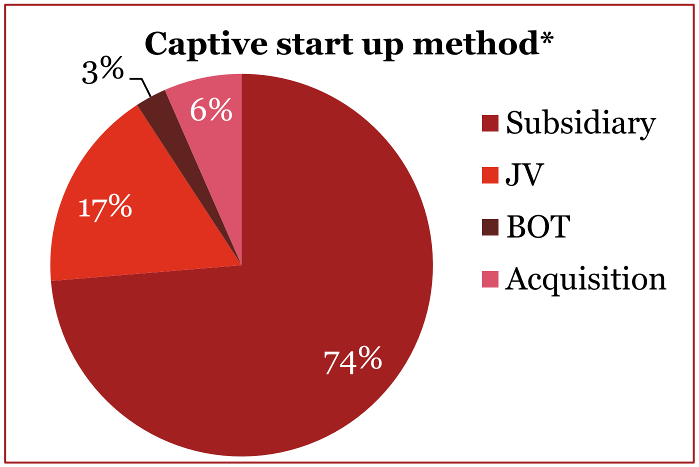
No of captives by headcount range



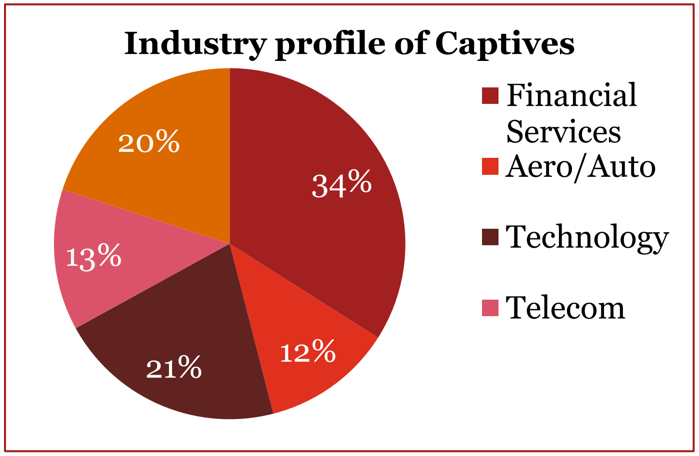
Source: Nasscom, 2014

Snap shot of captives in India (2 of 2)

- There are many ownership model options available for setting up a captive. Setting up the captive as a subsidiary is the most preferred route by parent firms.
- There are many funding routes available. Apart from parent country, companies have option of routing the fund through tax friendly destinations like Singapore, Netherlands, Mauritius and Cyprus.
- The charge back model has predominantly remained 'cost plus' till date (usually in the range of 10-15%). More advanced charge back models are being adopted slowly due to change in business model.
- Bangalore, Delhi NCR, and Mumbai/Pune region have attracted the most number of captives.



Source: Infosys research
** Based on survey*



Source: TPI survey

Continuous movement up the maturity curve has made India home to captives of diverse set of companies

Evolution of Captives in India

	Before 2004	2004-2009	After 2009
Industry adoption	Hi-tech, Airlines, Financial services, Telecom	Ecommerce, Internet, Professional services	Broad based adoption by all major industry verticals
IT services	ADM, Technical support	SI, Testing, Package implementation	IS outsourcing, Consulting, Platform based solutions
BPO	Data processing, Document management, Customer care	F&A, Procurement, HRO	LPO, Analytics, KPO, Platform based solutions
Engineering and R&D	Product support	Product design and modelling	Engineering analysis Product conceptualisation

Some of the leading MNCs that have captive centres in India are…

ABN Amro	AOL	Continental	Honeywell	Mercedes Benz	Prudential	Thomson
Accenture	AT&T	Dell	HSBC	Microsoft	RBS	Reuters
AIA	Axa	Dow Chemical	IBM	Motorola	Shell	Volvo
Airbus	Barclays	Exxon Mobil	Intel	Nokia	Siemens	World Bank
Amazon	British Telecom	Ford	JP Morgan	Oracle	Target	Yahoo
Amex	Caterpillar	GM	Marriott	Pfizer	Telstra	3M
ANZ	Cisco	HP	McKinsey	Philips	Tesco	

Captives are under constant scrutiny from the parent firms on their relevance

1 Maintaining relevance for the parent firm

The conditions under which the captives were set up has gone through a sea change over the years. In these trying times, many captives are waking up to the new realities of the market place. Parent organisations are constantly evaluating the relevance of the captives for them.

Drivers for captive	Previously	More recently
Risk	Transferring control, mission critical process and critical data outside was perceived risky.	Very healthy data protection and security track record by 3rd party providers. Risk-reward arrangements possible with suppliers.
Supplier maturity	Specific domain and process knowledge not available / immature with 3rd party providers.	Increasing supplier maturity and domain expertise provides options outside the firm.
Control	Firms yearned for direct control and ownership of business processes or IT.	Mostly seen as a management overhead if alternatives are available. Specific arrangements allow desired control even when business functions are outsourced.
Management attitude	Outsourcing not favourable to the management ideology.	Outsourcing seen as a proven and much adopted model, especially in trying times.
Value proposition	Seen as options for saving operational expense.	Many captives stagnate to showcase value proposition beyond a few years.
Regulatory	Restriction to outsource specific functions.	Possibilities are explored to outsource within restrictions.

The captives at the cross roads have to carefully choose their options

Captives at cross roads

Evolve

Captives are evolving to be attain scale or specialisation. By attaining scale they will attain cost and operational efficiencies comparable to the 3rd party providers. Mostly, these captives become the global hub for the parent company and drive standardisation, consolidation and continuous improvement.
By attaining specialisation (high value added and strategic work) they will maintain relevance to the parent firm.

Monetise

Captives that are sub-optimal performers, run the risk of being put on the block. They can be taken up by 3rd party providers who want to develop competency an/or market. These captives run the risk of being valued below expectation.
Captives that are healthy performers (cost and operating metrics) may transfer people and assets at a premium. They can also start operating as 3rd party providers to generate revenue.

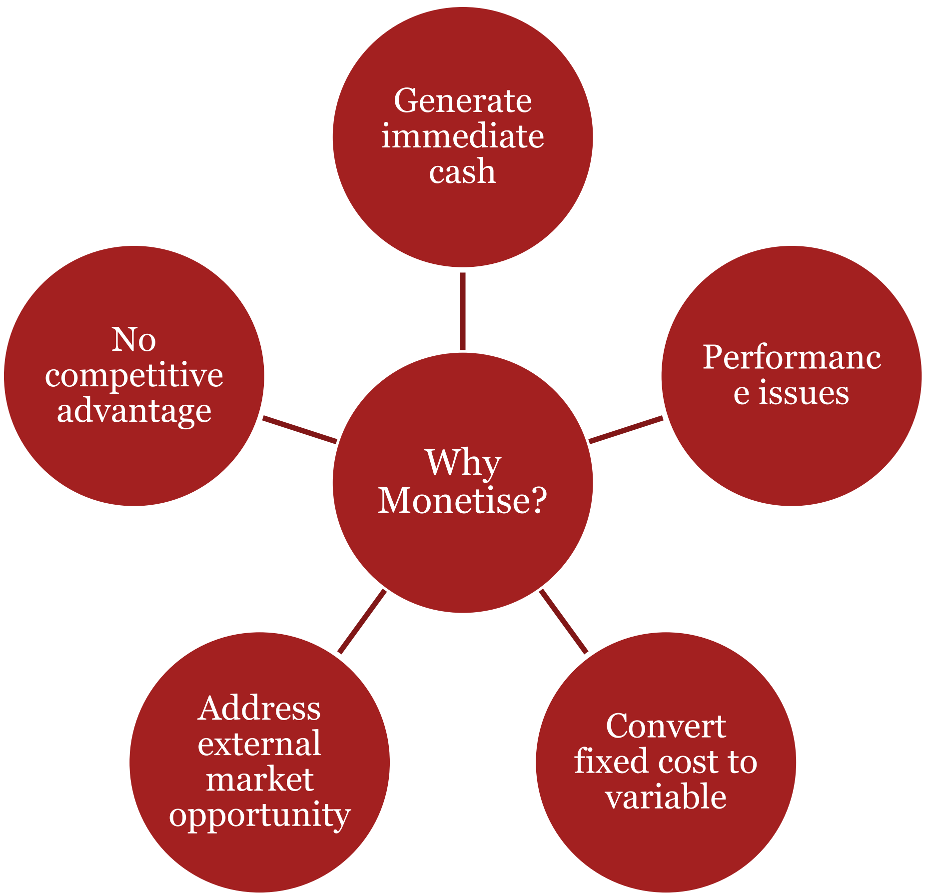
Relocate

Captives that face operating cost pressures and/or talent crunch, can opt to move to another destination - inside or outside India.
The location strategy can evolve into multiple location depending on the cost, quality, talent availability, risk equilibrium.

Go hybrid

Captives that operate in both transactional and strategic part of the parent firm, can split into two operating units. The strategic/specialised part can be retained, while the entity performing transactional work can be monetised/transferred to a 3rd party provider. The retained entity can take up the vendor management role for the transferred entity.

In the past, captives have been monetised for a variety of reasons and at different points in their life cycle



Why?	Description	Example
Generate immediate cash	This has helped the parent during the downturn	Citibank captive sale to TCS
Performance issues	The efficiency and associated costs have continued to remain higher than market benchmarks	UBS captive sale to Cognizant
Convert fixed cost to variable	This helps take costs out of books	Alcatel Lucent captives sale to Wipro
No competitive advantage	Services offered by the captive have become commodity	Unilever captive sale to Capgemini
Address external market opportunity	This helps create an additional source of revenue for the captive, parent	Bosch captive servicing external market

Many captives have successfully enhanced their relevance to their parent firm

Initiatives to improve relevance to parent firm

Collaboration and leading innovation

Many captives are focussing on developing new solutions with global relevance. The Centres of Excellence (CoE) and incubation centres in captives are at the forefront of such initiatives. The availability of mixed talent pool (IT, BPO, engineering functions) and increasing awareness about client/market needs is enabling the captives to take such initiatives. This allows the captives to host the headquarters of such new initiatives from India.

Many captives are also at the forefront of collaborative initiatives cutting across various stakeholders (parent firm, vendors, other captives). These centres take the lead in conceptualising, developing, and going to the market with new solutions/platforms.

Breadth and depth of work

There is an increased tendency towards improving the depth and breadth of the work carried out from India based captives. Captives are not only taking up end to end processes , but also delivering more value added and strategic work like analytics, KPO, product development. BPO captives account for almost 50% of India's total knowledge based services. Functionally, the captives are expanding into all support functions like HR, procurement, and SG&A.

I2I (India to India) sourcing

India based captives are also taking up additional responsibility of managing other service providers based out of India. They are increasingly taking up program management, contract negotiation/management, and governance of other 3rd party providers.

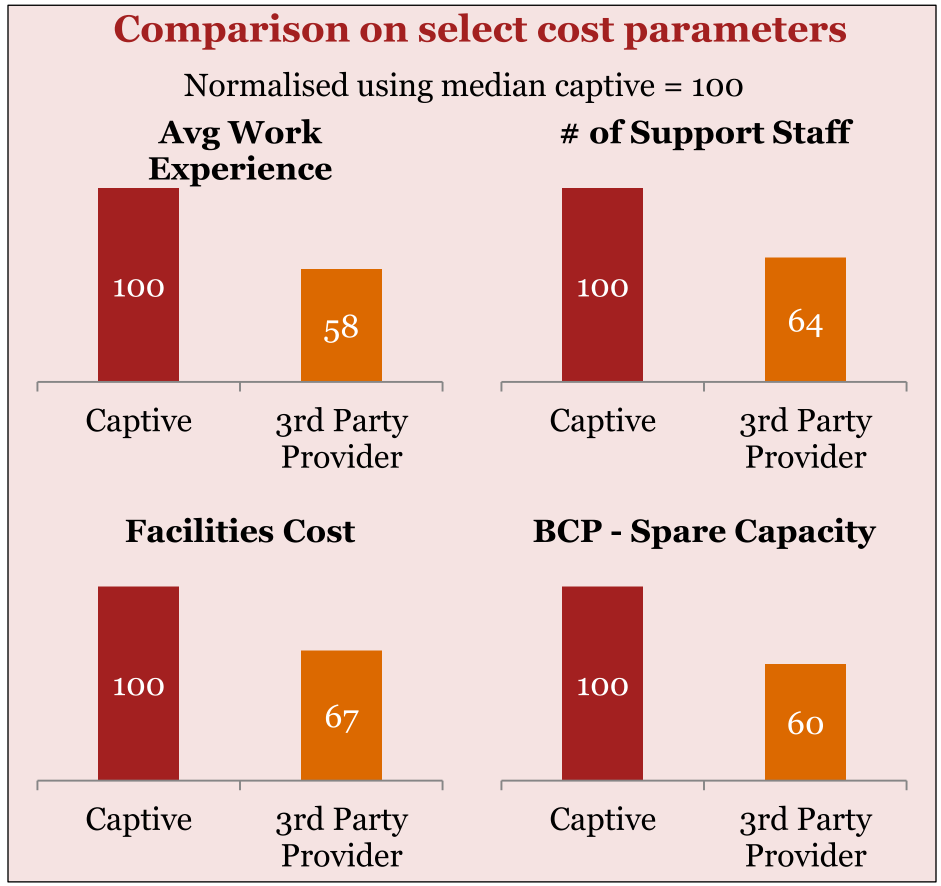
Increased coverage

India based captives are also increasingly supporting locations other than their head quarters. Their role is shifting from being a spoke in the globalisation model to that of a hub.

Third party providers tend to fare better on operating metrics due to scale and optimal resource management

2 Maintaining cost competitiveness

- The initial benefits around cost arbitrage for captives diminish within first few years.
- The captives are constantly compared to 3rd party providers for cost competitiveness. This is done more so for captives that do not provide strategic of differentiated services.
- Owing to scale and prudent management of resources, 3rd party providers generally score over the captives on operating cost parameters.



Source: TPI/ISG

However, best-in-class captives have comparable cost metrics vis-à-vis their 3rd party provider counterparts

Initiatives to manage cost of operations

Efficiency improvement

Many captives are adopting the best practices to improve their efficiency and productivity. There are many instances of captives using six sigma and lean methodologies more vigorously. Service level management and continuous improvements are seriously followed. Many of these captives have also started leveraging automation to a great extent.

Utilisation and employee cost

Lot of focus on improving the employee utilisation by cross training and flexible staffing. There is also focus on improving seat utilisation parameters by optimising shifts. In many cases the employee pyramid has been optimised by an increase of entry level employees. Moreover, extreme care is being undertaken to reduce attrition through talent management practices. Gradual adoption of new technologies like cloud computing has also helped reduce manpower cost.

SG&A expenses

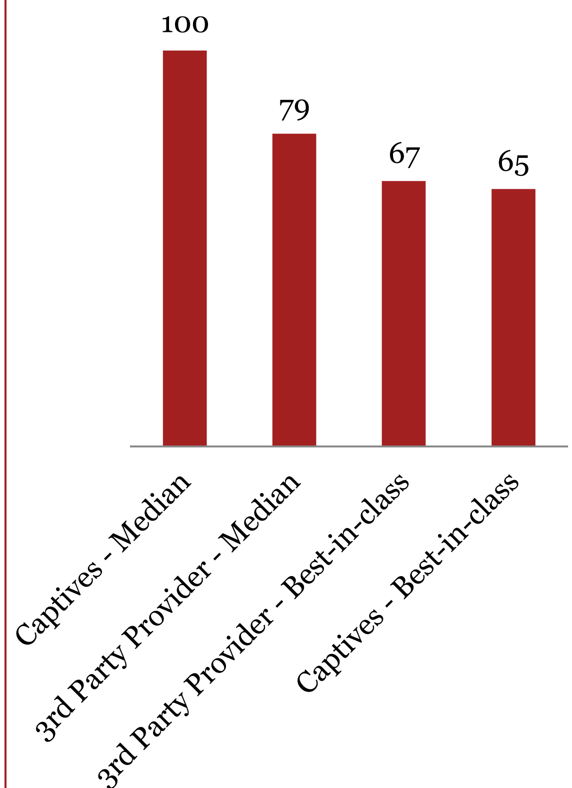
There has been rationalisation of transport costs, canteen expenses, communication cost and other employee amenities.

Low cost location

Many of the captives have spread their delivery centres to tier 2 cities, which generally offer 15-20% operating cost reduction within India.

Captive and 3rd provider cost/FTE

Normalised using median captive = 100

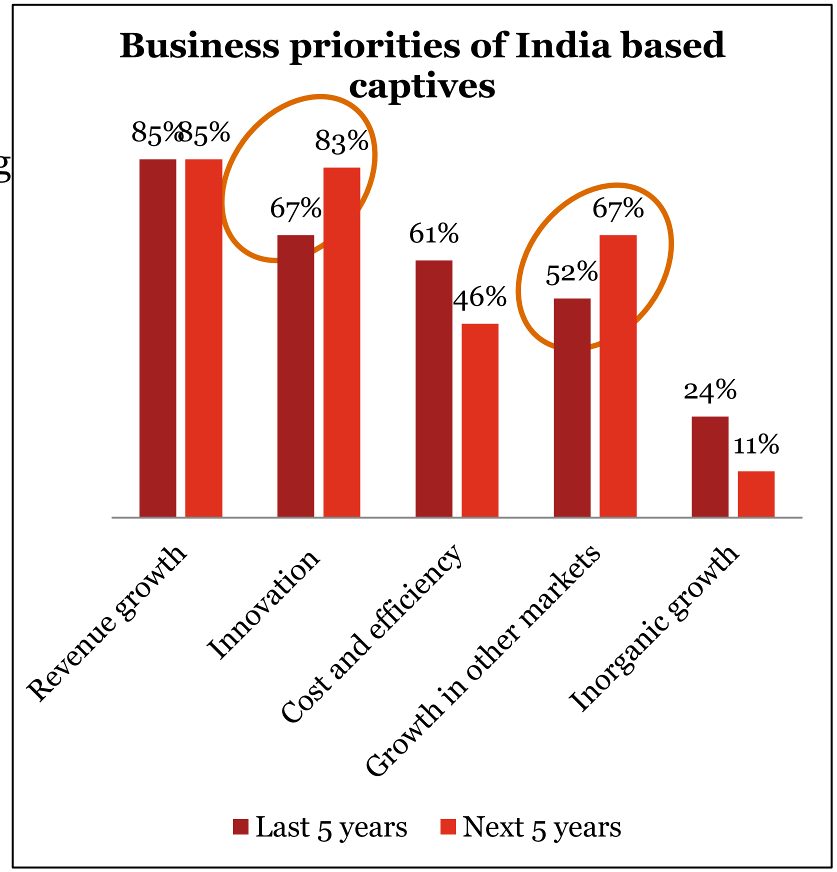


Source: TPI/ISG

Changed business environment necessitates new talent and leadership agenda

3 Nurturing the next generation of talent and leadership

- The captives in India are going through a phase of evolution. From 'back office' operations they are moving to product innovation centres which take responsibility of product development and go to market initiatives. They are also taking care of end-to-end processes for all offices of the parent firm.
- With the enhanced scope and complexity, the talent and leadership agenda for captives is also evolving.
- The transformation of captives to value delivery centres necessitates its resources to develop higher end skills and domain expertise in a short span of time.
- The changed scenario also necessitates the need of leadership style; from operations and efficiency focussed to entrepreneurial and commercial acumen focussed.
- The captives generally have been facing issues in attracting and retaining talent. This issue is pronounced in smaller captives which have not been able to create a brand name as employers.



Source: Deloitte/Nasscom survey

Shift in the focus of talent programs beyond recruitment to engagement, career growth and opportunities

Progressive captives are adopting some of the following initiatives for talent and leadership development

For talent development

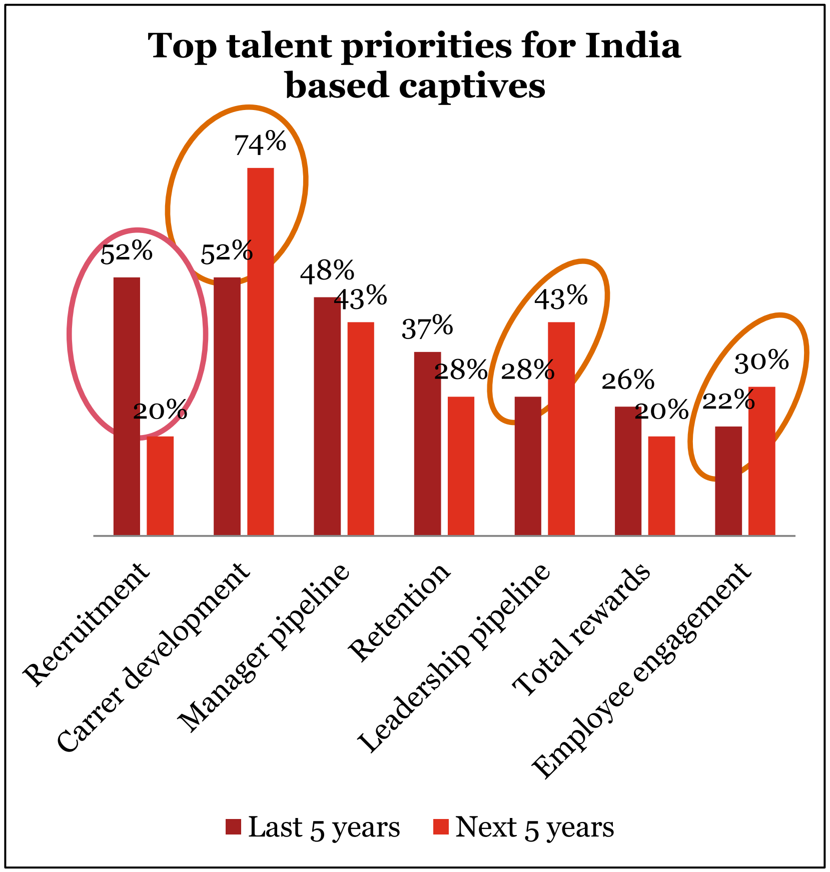
- Expat program
- Partnership with universities
- Internal/external training programs (domain and skills)
- Cross centre mentorship programs

For attracting and retaining talent

- Increased brand value as employer
- Focus on job enrichment
- Career growth opportunity at all levels
- Constant employee communication
- Work-life balance

For leadership development

- Role rotation
- Global assignments
- Succession planning



Source: Deloitte/Nasscom survey

Many progressive captives have made the transition to next generation captives

	Captives – previous generation	Captives – new generation
Engagement Model	• Service provider	• Mix of services, vendor management and program management. Focus on becoming business partners.
Capability	• Transactional services • Solutions specific to business unit, geography, and function • Point solutions	• Capabilities beyond back office • Standard solutions for business units, geography, and function • End to end solution - focus on end customer needs and value creation
P&L impact	• Cost centre	• Run it like a business
Talent	• Create a talent pool	• Uplift the skill set for value added work
Operations	• Focus on maintaining business as usual	• Focus on service levels, continuous improvement, automation and innovation
Location	• Mostly in a single established offshoring locations	• Expanding into multiple and/or low cost locations
Leadership	• With high acumen on operations and people management	• High on entrepreneurial skills and commercial acumen

Third party provider scenario

4

Category and classification of India based third party providers

The category of third party service providers can be done through revenue classification of these companies. The below chart indicates the number of players in different segments as per revenue classification.

The categorisation of the firms is as per revenue generation:

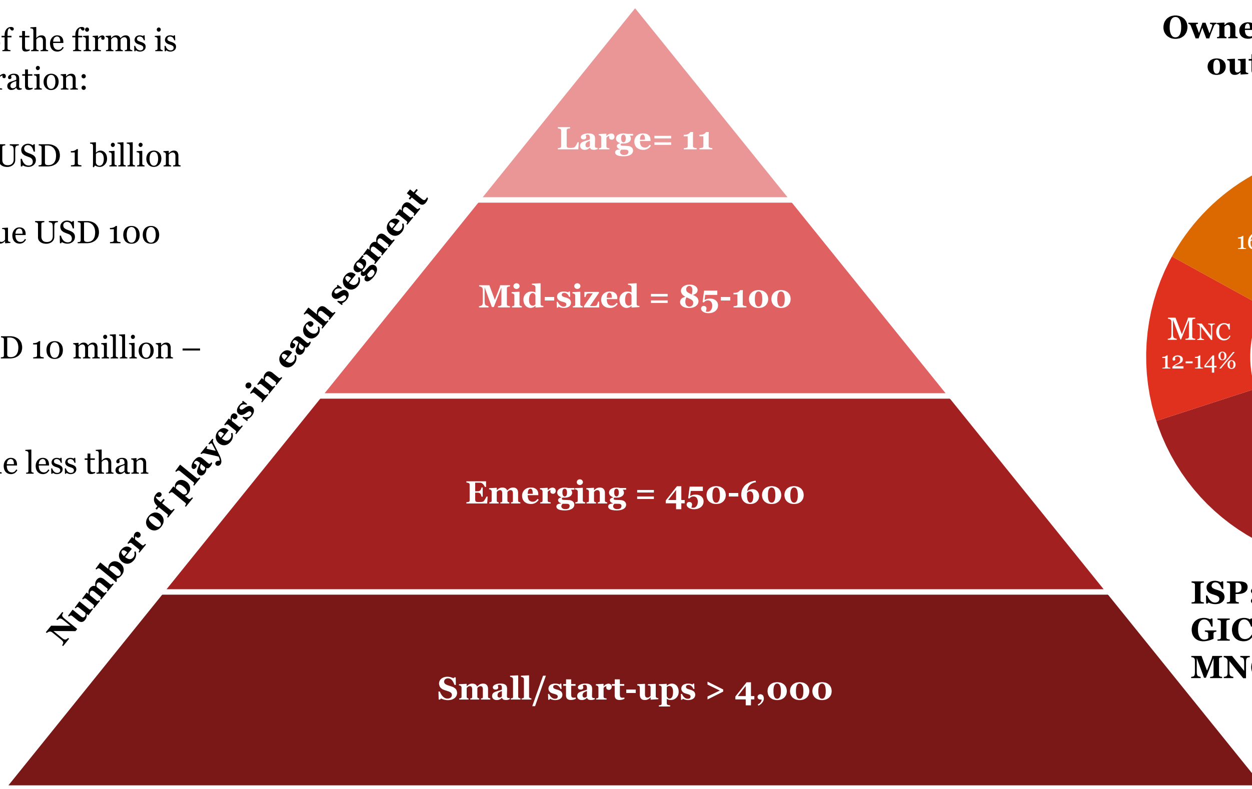
Large : Revenue > USD 1 billion

Mid-sized : Revenue USD 100 million – 1 Billion

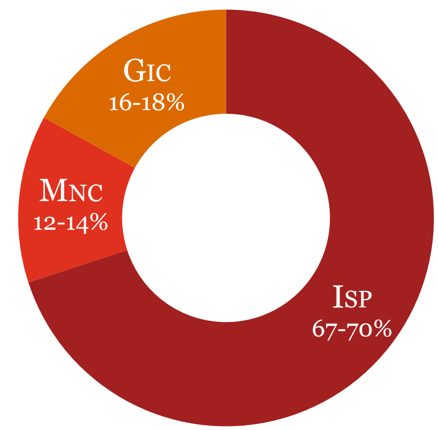
Emerging: Rev USD 10 million – 100 million

Start-ups : Revenue less than USD 10 million

FY2012



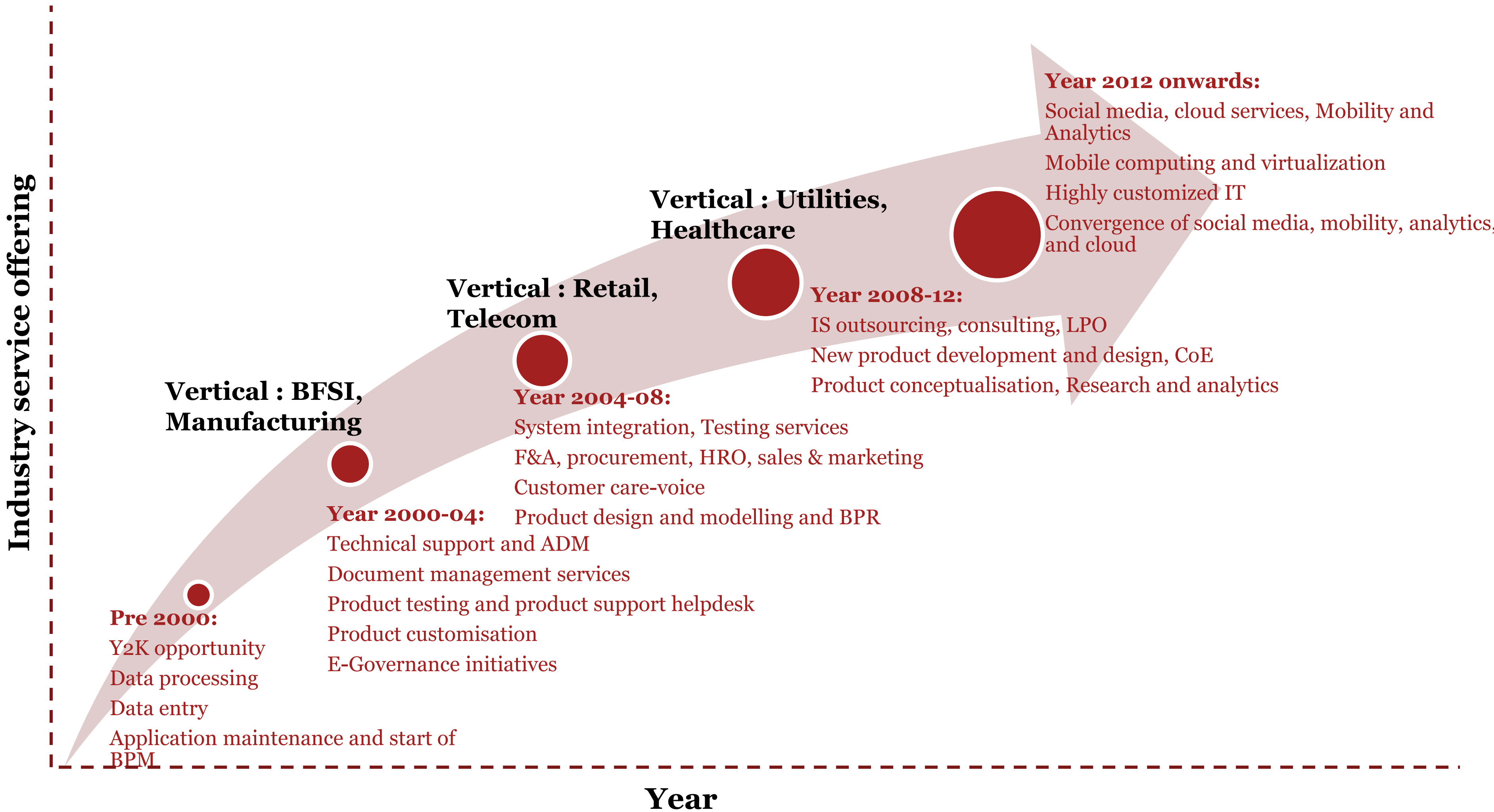
Ownership structure of outsourcing firms



ISP: Indian service provider
GIC: Captive centre
MNC: Multinational firm

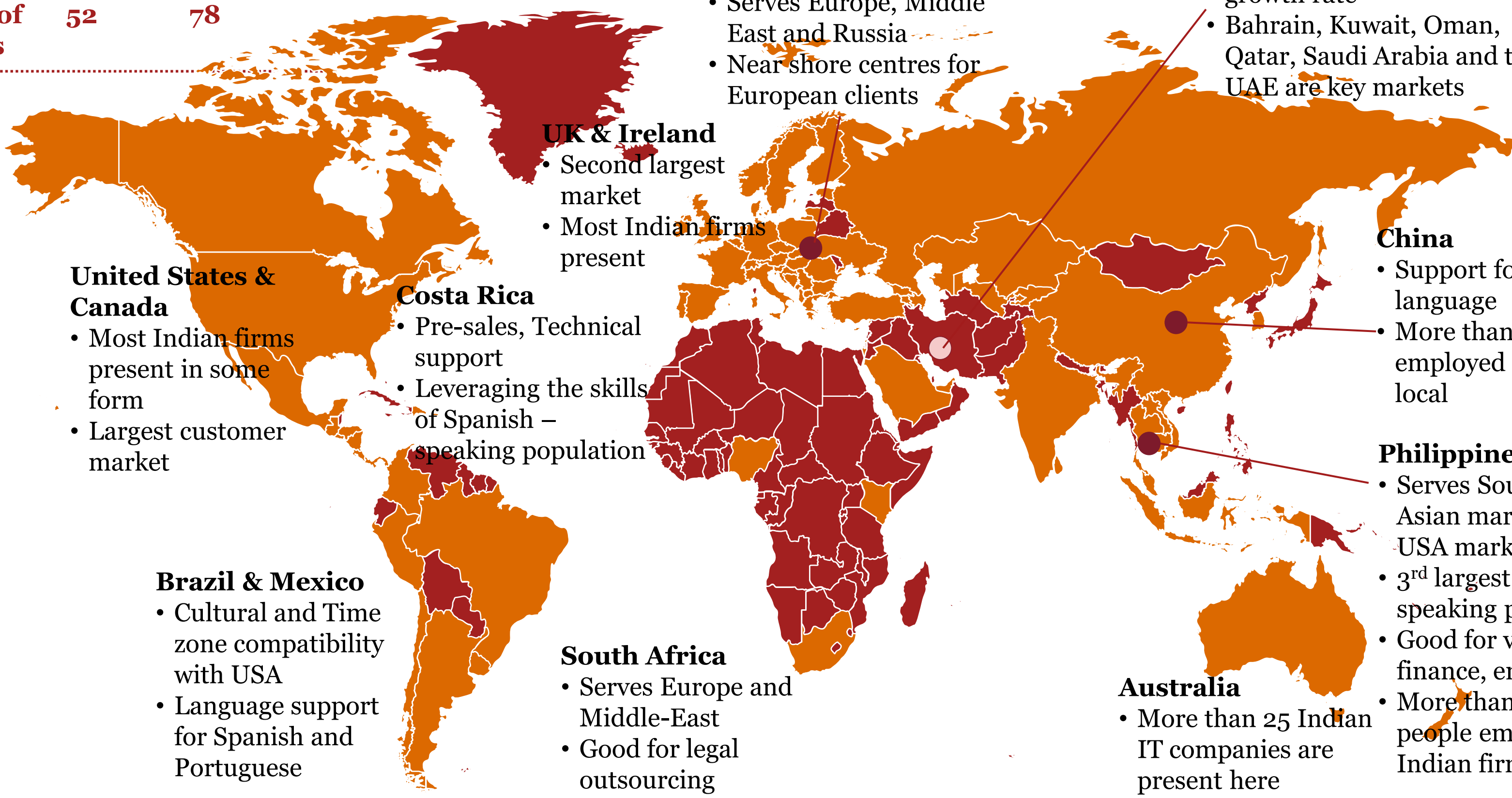
Source: Nasscom

Indian 3rd party providers – Depth and breadth of services performed



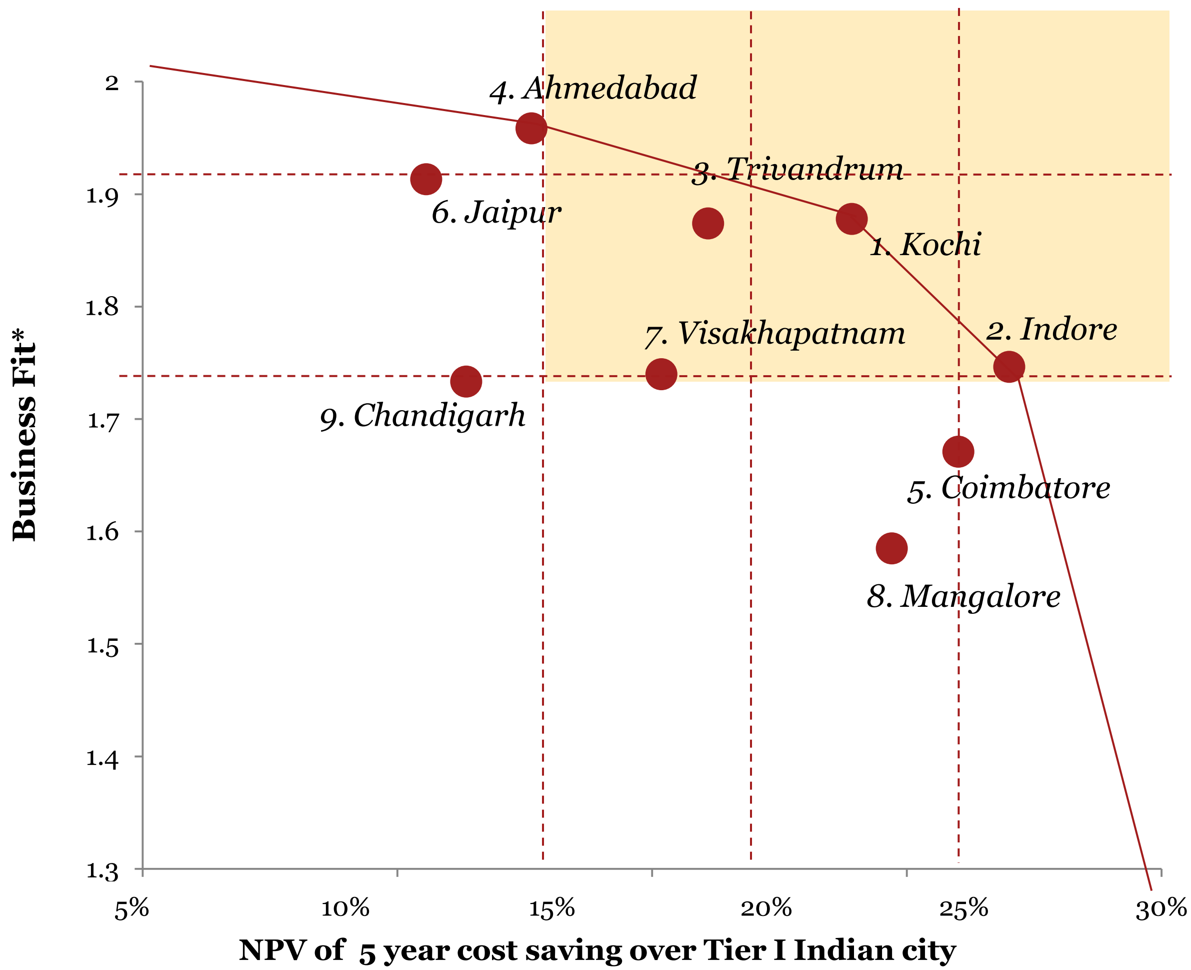
Indian 3rd party providers are expanding their footprint globally to attain true global delivery capabilities….

Global Footprint	2008	2013
Number of countries	52	78



Source: Nasscom

….and into tier 2 cities in India to sustain cost advantage



Source: PwC analysis

- Certain Tier II and Tier III cities in India are emerging as hot destinations for IT/ITeS industry.
- These emerging destinations not only provide significant cost arbitrage, as shown in the chart, but also possess strong talent pool in specific domains e.g. Finance & Accounts skills in Ahmedabad, English Language skills in Kochi, Shipbuilding in Visakhapatnam etc.
- Most of these emerging destinations have fast improving infrastructure and developed IT parks with ready to operate offices and strong industry promotion bodies to ensure ease of doing business.
- Attrition levels are much lower in these cities where an outsourcing job is still considered attractive. With lower cost of living, quality of life is good and there is provision for expat standards of living.
- Key concern in these destinations is the scale of doing operations with the size of talent pool and ready office space not being very large.

*Comprises of Talent, Infrastructure, Business Environment, Location Stability

Emerging issues for Indian 3rd party providers – Managing falling growth and margins

1	**Managing profitability**	Indian service providers are exploring various cost control strategies to maintain the profitability. Some of these initiatives are mentioned as below: ▪Setting up the delivery networks in Tier II/III cities ▪Offset wage inflation through operational gains ▪Productivity improvement
2	**Service mix**	The IT-BPO industry has moved from IT service centric delivery to provider of services in the new areas to keep the growth momentum. Some of new services are detailed below: ▪IT consulting services ▪Big data analytics ▪Social media analytics ▪Cloud services ▪Enterprise mobility (Smartphone/Tab based solutions) ▪Legal process outsourcing ▪Social media, Mobility, Analytics and cloud convergence
3	**Commercials/contract structure**	Contract structures are also evolving with the time through firming up the relationship between customer and service provider. Service providers have started to offer outcome-based pricing models to client in which pricings are linked to service performance.

Emerging issues for Indian 3rd party providers – Managing falling growth and margins

4	**Rationalising employee pyramid**	Indian IT industry has enjoyed the benefit of labour cost arbitrage. Today the efforts are being made to further extend this cost advantage. The employee pyramid is being widened through the mix of employee skill base and expansion to Tier II/III cities. For example selection of science graduates in place of engineering graduates is helping company in achieving the cost advantage.
5	**SG&A rationalisation**	The Indian service providers are revisiting the different expense heads under administrative expense and steps have been taken to control the same. Some of the action items are mentioned below: ▪ Travel cost optimisation (Local travel) ▪ Air travel cost optimisation (No business class travel, More usage of video conferencing facilities) ▪ Telecom and Network cost optimisation ▪ Freezing the company contribution to food and other expenses ▪ Strict control on other general expenses ▪ Print and stationary expenses

Emerging issues for Indian 3rd party providers – Managing falling growth and margins

6	**FOREX management**	There has been a constant fluctuation in the exchange rate of US Dollar (USD), Euro and Pound versus the Indian Rupee INR in the last two years. Indian Rupee has experienced a lot of Volatility in the range of Rs 40/USD to Rs 61/USD. The volatility has been area of concern for Indian IT firms such as TCS, Wipro etc who earn most of their revenues in USD. Indian IT companies such as TCS hedged its exposure to the US dollar through Options. The strategy was then adopted by other IT firms to handle the volatility of the currency. In the short term weak rupee helps Indian IT companies as more rupee is realised. However this kind of uncertainty is not preferred by the Industry leaders.
7	**Employee mobility (Visa issues)**	The challenging labour market conditions in America and Europe is forcing these countries towards protectionism to boost the local labour market. Changes in these policies are impacting the availability of visas and work permits. The Current proposal in the form of five fold visa fee hike, putting cap on H1B visas will further impact the profitability of third party service providers.

Commonly perceived myths on third party providers vis-à-vis captives

	Perception	Reality
1	Third party providers are significantly gaining share compared to captives	Both models continue to grow particularly in those areas that align with their strengths
2	Captives are always more expensive than third party providers	In some cases captives provide lower costs and significant benefits to parent firms
3	Third party providers are best suited for transactional processes	Third party providers have also built capabilities around judgement-oriented processes
4	Clear segmentation between both models is always the optimal sourcing model design	Not necessary. There could be other sourcing model designs which are more appropriate

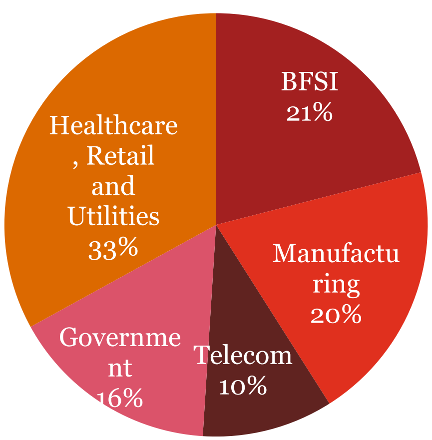
Source: Everest Group

Developing domain expertise

As a response to client needs Indian IT players started creation of verticals in the industry to create domain specific knowledge. Now the focus is more on hiring people with domain expertise. These are generally resources with significant industry domain knowledge. This has resulted in the following advantages :

- Greater focus on problem solving and consulting services
- Offering higher value services
- Domain building through mergers and acquisition
- Hiring of doctors and lawyers to build the competency in law and healthcare area
- Industry revenue has diversified into new areas like telecom, healthcare, retail etc in last few years. Earlier the industry was highly dependent on revenue from BFSI and manufacturing sector.

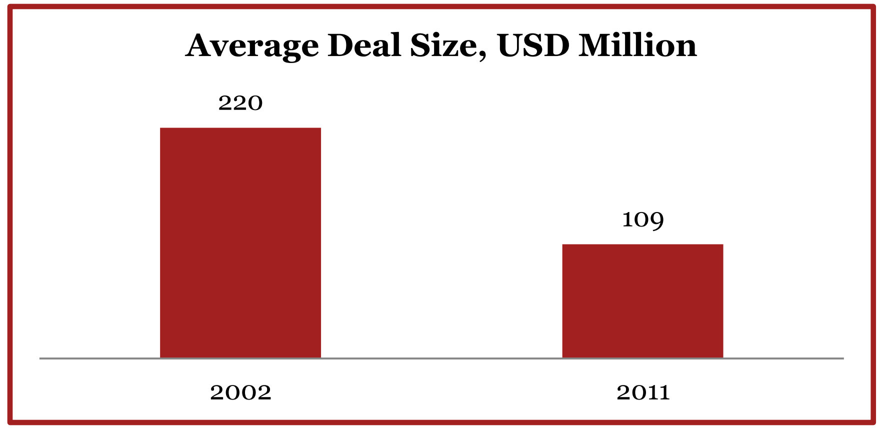
Vertical breakdown spend 2012

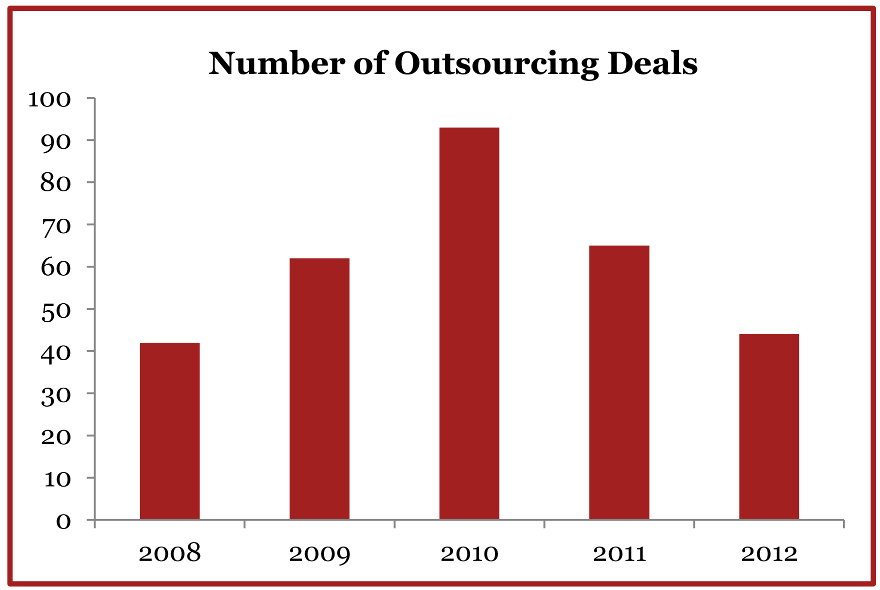


- BFSI and manufacturing is still the leading contributor with more than 40% market share of IT outsourcing spend
- Emerging verticals Healthcare, Retail and utilities form more than 30% of spend
- Emerging verticals exhibiting 2X average industry growth
- Knowledge services outsourcing and Infrastructure services outsourcing are new growth segments

Leadership capabilities to take up challenges of changed business environment

- The number of outsourcing deals has fallen in the last year and this has impacted the growth of outsourcing industry
- The average deal size has also fallen and it has become half from 2002 levels
- These two factors have overall impacted the top line growth of these companies. The poor guidance on the future growth has resulted in fall in share price of leading Indian IT players
- There is greater pressure on the business development team and in the recent months industry has witnessed many top level attrition in leading Indian IT companies like Wipro and Infosys.
- The companies are realising the good times of 2003-2010 are over and there is new focus on creating a strong business development team across all geographies to maintain the double digit top line growth.
- Leadership is being developed to take the growth of business in new verticals and new service offerings.





Aligning with technological advances

Mobility	Mobility is setting new boundaries for customer engagement The growing popularity of smart phones and tablets is creating the market and it is estimated to be USD 140 billion by 2020 TCS, Wipro and iGATE have already established enterprise mobility capabilities
Big data/Analytics	Big data analytics is helping in innovative decision making, efficiency in business operation and customer -centric outcome, Organisations are quickly ramping up to acquire complete set of capabilities to service clients.
Social Media Analytics	Social media analytics have emerged as a powerful tool for analyzing customer The enterprise social software market is growing at more than 30% Various Indian firms like Mu Sigma, Wipro are building capabilities to offer social media analytics
Adoption of cloud	Cloud has transformational impact - Scalability and reduction of fixed IT costs , Market is expected to reach USD 650-700 billion globally Indian IT players like TCS are reinventing their existing products and services and are leveraging cloud to cater to new customer segments

What to expect in India

5

If treaded carefully, India can be a rewarding experience

- Most mature destination and widest spectrum of services and capabilities exist.
- Cost benefits are likely to exist for foreseeable future.
- Scaling up is easy – can lead to quick benefits realisation.
- People are willing to learn and innovate – can provide frugal innovation.

Benefits aplenty

However

- It is important to have a realistic view of benefits. The cost of transactions and governance can be high.
- Top management may need to spend considerable amount of time in early days of sourcing to India.
- It is prudent to start small and increase the scope/scale.
- Finding a cultural middle path quickly will make way for amicable ways of working.
- There is talent surplus, but leadership deficit. Industry readiness of fresh talent is a challenge.
- Employee loyalty/Attrition can be a challenge. Job enrichment and career progression opportunities need to be in place to address this.
- Arbitration should be preferred over litigation.

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