

**torino**wireless

ICT and Innovation in Piemonte

Marco Ramella Votta

## Asia Invest II - Riding the Waves of Innovation

Torino, January 2007

India overview

SWOT Analysis

Market

Forecast

Company Profiles

*Speaker*  
**Marco  
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# Executive Summary

- With just under **1.1 billion people** and a burgeoning middle class, **India** is the world's second most populous country and **is fast becoming one of the world's most significant consumers of goods and services**. The **number of Internet users** relative to the size of the population is small at an estimated 35.5 millions this year (2006), but it is growing fast and the total **will nearly double by 2010**. **Broadband penetration** is also rising rapidly, with the number of broadband subscribers **increasing 70%** in the first seven months of 2006. Along with increased Internet use, **online spending** is seeing strong growth and is projected to **increase by close to 90%** over the next year.

Source: eMarketer

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# Country briefing

- **LAND AREA:** 3,287,263 sq km (including Indian-administered Kashmir); including 57% agricultural land and 16% forest
- **POPULATION:** 1.07bn (mid-2003)
- **MAIN TOWNS:** Population in millions, 2001 census Mumbai (Bombay) 16.4; Kolkata (Calcutta) 13.2; Delhi 12.8; Chennai (Madras) 6.4; Hyderabad 5.5; Bangalore 5.7
- **CLIMATE:** Varied; humid subtropical in Ganges basin, semi-arid in north-west, tropical humid in north-east and most of peninsula, tundra in Himalayas; all areas receive rain from the south-west monsoon in June-September; the south is also served by the north-east monsoon in January-March
- **WEATHER:** IN NEW DELHI (ALTITUDE 218 METRES): Hottest month, May, 26-41 C (average daily minimum and maximum); coldest month, January, 7-21 C; driest month, November, 4 mm average rainfall; wettest month, July, 180 mm average rainfall
- **LANGUAGES:** Numerous languages, including Tamil and Hindi, are used; English is widespread in business circles and as a second language
- **MEASURES:** Metric system. Numbers are often written in lakhs (100,000) and crores (10m)
- **TIME:** 5 hours 30 minutes ahead of GMT
- **CURRENCY:** Rupee (Rs)=100 paise. Average exchange rate in 2004: Rs45.30:US\$1. Exchange rate on July 29th 2005: Rs43.44:US\$1



## India: Key Indicators, 2005

### The Economy (1)

Population (millions)	1,095
GDP (billions)	\$797.8
Real GDP growth	8.5%

### The Internet

Internet users (millions) (2)	27.7
Broadband subscribers (millions) (2)	2.5

### Advertising (3)

Online advertising spending (millions)	\$36.7*
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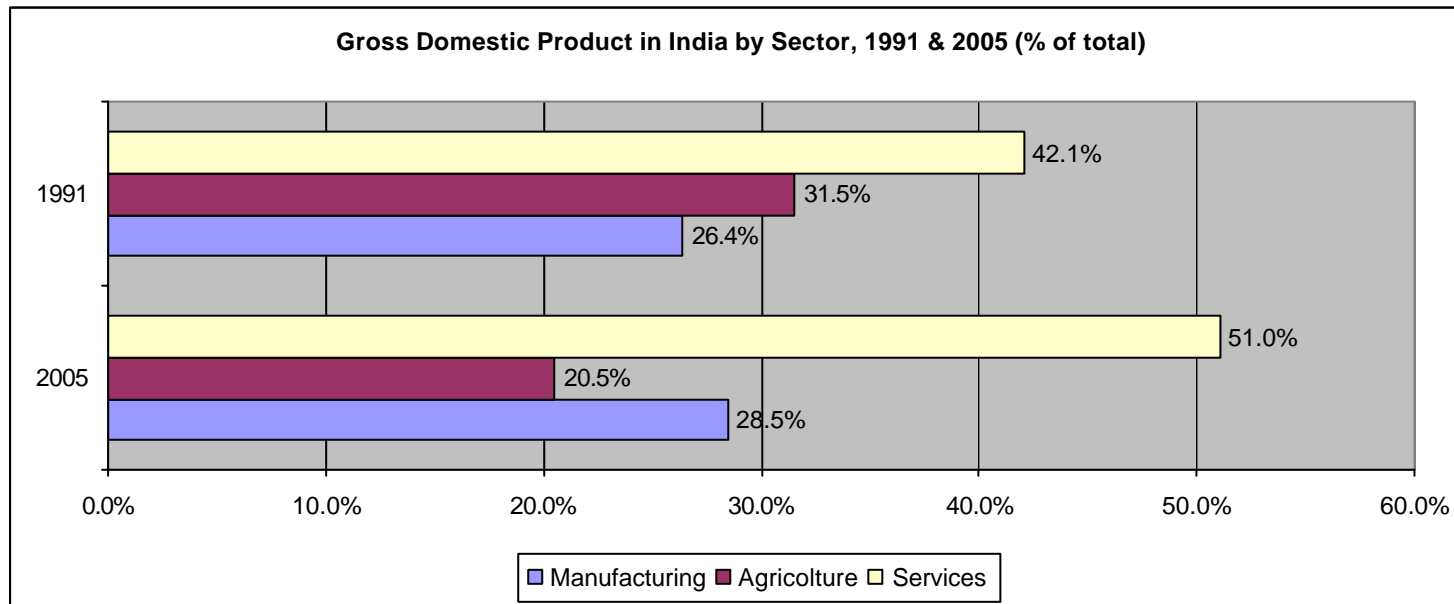
*Note: \*Converted at annual average exchange rates (projected for future years); financial year begins on April 1st and ends on March 31st of the next year*

*Source: (1) Economist Intelligence Unit, June 2006; (2) eMarketer, May 2006; (3) Internet & Mobile Association of India (IAMAI), August 2006*

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# Gross Domestic Product

In 1991 the Indian government moved to allow market forces to control the service-dominated economy. The approach has been successful: in the decade since 1994, India has enjoyed an average real GDP growth rate of more than 7%.



Source: Economist Intelligence Unit , 2005; Accenture, August 2006

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India overview

**SWOT Analysis**

Market

Forecast

Company Profiles

*Speaker*  
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# SWOT Analysis - India IT Sector

Source: Business Monitor International Ltd

## Strengths

- Abundant availability of skilled and technically qualified manpower with English proficiency
- India emerging as a major centre for outsourcing
- Project sizes increasing

## Opportunities

- Hardware sector set to grow fast after government relaxation of duties
- Recovery in demand for research and development (R&D) services

## Weaknesses

- Multinationals dominate. Still no global Indian IT software or hardware brands.
- Red tape, rigid labour laws.

## Threats

- Competition from China and other countries in the region
- Multinational companies (MNCs) growing faster in local market than local companies

# SWOT Analysis - India Business Environment

Source: Business Monitor International Ltd

## Strengths

- A cheap but skilled English-speaking labour force can do the jobs of Western workers for a fraction of the wages paid in North America or Europe.

## Opportunities

- India could enhance the competitiveness of local industry through further liberalisation and deregulation.

## Weaknesses

- The competitiveness of local firms is undermined by reams of official red tape, from foreign investment restrictions to inflexible labour laws.
- Intellectual property rights are poorly protected in India. India is one of 15 countries on the 'priority watch list' compiled by the Office of the US Trade Representative.

## Threats

- The arrival of Western players, including management consultants Accenture and technology giant IBM, is bidding up local wages in the outsourcing sector.

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# SWOT Analysis - India Telecoms Business Environment

Source: Business Monitor International Ltd

## Strengths

- Multiple operators in fixed, mobile and internet sub-sectors.
- Independent regulator (TRAI)
- Cellular market showing signs of impressive growth
- Nokia and Motorola looking to invest in India as a production centre
- Cheap but high-skilled labour force has led many Western telecoms firms to relocate call centres to India

## Opportunities

- Mobile subscriber base expected to reach 200mn by the end of 2007.
- Broadband subscriber base is expected to reach about 30mn by end of 2009
- Possible lifting of FDI cap in medium term has allowed greater scope for key players such as Hutchison, SingTel, Telekom Malaysia and Maxis

## Weaknesses

- Uncertainty over future of state-controlled fixed operators MTNL and BSNL
- High level of bureaucracy and perceived high level of corruption
- Low tariffs leading to falling ARPU rates.

## Threats

- Low GDP per capita means take-up of 3G services likely to be slow
- Cost of handsets could slow potential growth in rural areas

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Ramella Votta**

India overview

SWOT Analysis

**Market**

Forecast

Company Profiles

*Speaker*  
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## The potential of India's IT market is plain:

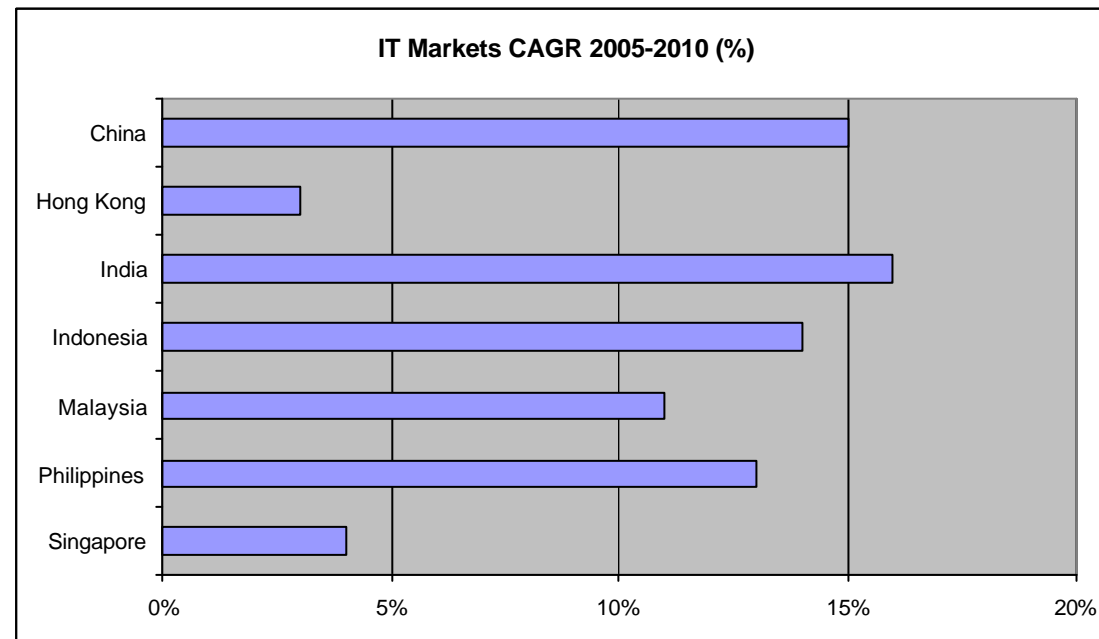
- only 1.3% of people in India own a computer, one-fifth of the China level. The ambitious Indian government goal is to increase PC penetration up to 6.5%
- 45% of India's population is under 25, which should boost PC and IT usage
- a number of federal and local government initiatives have been designed to attract some of the soaring investment in the India IT sector
- The total size of the IT market is forecast by **BMI** to increase from US\$8.8bn in 2005 to around US\$18.1bn in 2010

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# Market growth

The fastest growing IT markets over the forecast period is set to be India with a 2005-2010 CAGR (Compound Annual Growth Rate) of 16%, taking first place in the growth stakes mainly due to the hardware tariff reform boost.

For India, the government's ambitions to connect the vast rural areas to the outside world should also stimulate growth through 2006 and beyond, together with a hardware market growing faster than China's, increasing business IT budgets, and the growing popularity of outsourcing.

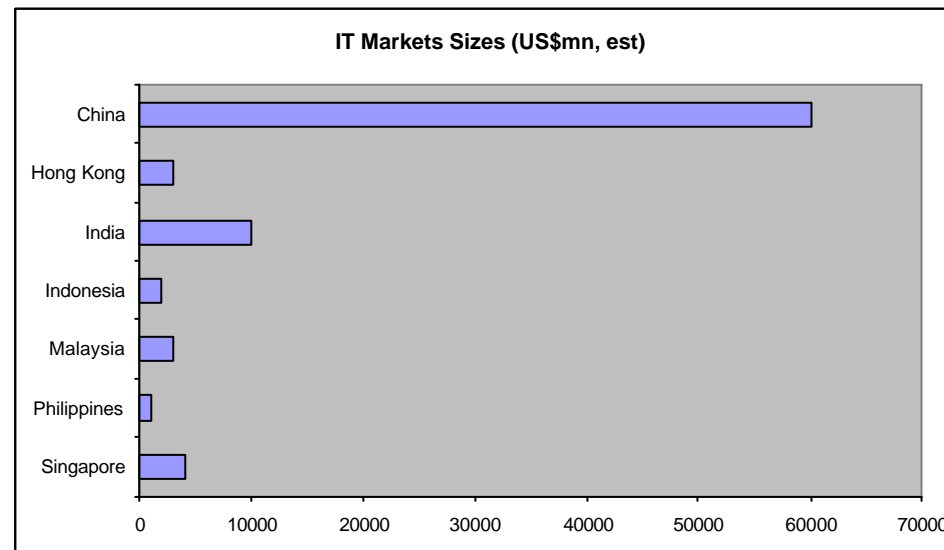
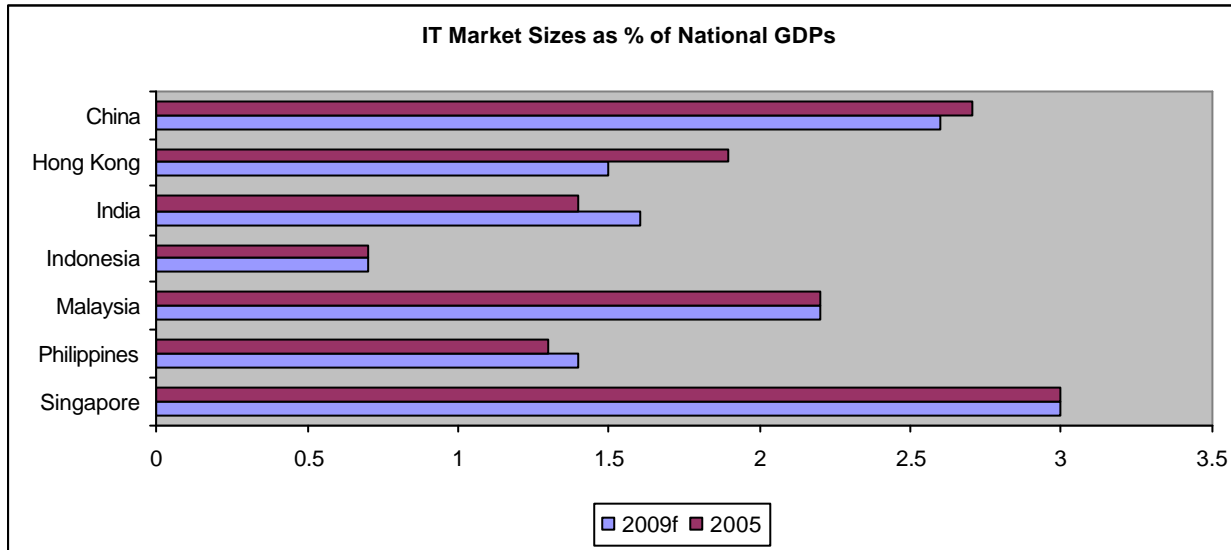


Source: Business Monitor International Ltd

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# Market size



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India overview

SWOT Analysis

Market

Forecast

Company Profiles

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The Indian IT sector is expected to show robust growth through 2006 and beyond, with drivers including:

- the government's ambitions to connect the vast rural areas to the outside world;
- a hardware market growing faster than China's;
- increasing business IT budgets;
- and the growing popularity of outsourcing.

The total size of the IT market is forecast by BMI to increase from US\$8.8bn in 2005 to around US\$18.1bn in 2010. From an economic perspective, the overall growth outlook is positive, with inflation-adjusted GDP growth set to recover during the next two years. BMI forecasts IT-market growth during the next two years of our forecast period of 14-17%, in line with the government's target of 7-8% growth, as part of its bid to reduce widespread poverty and create jobs for unemployed urban and rural workers.

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Looking at the wider **domestic software** market, telecoms, government, manufacturing and retail are key verticals driving demand, with enterprises looking to improve customer service experience and improve efficiency and decision support. The software and services industry should continue to show robust growth, with **BMI** forecasting domestic sales of US\$4.1bn in 2006.

The second group of drivers is related to a paradigm shift in the character of the Indian IT industry, with India gradually moving up the value chain from low-cost service provider status into an integrated higher value service global IT services vendor.

A third factor is the growing recovery in demand for R&D services, particularly related to the telecoms and semiconductor sectors.

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According to the National Association of Software & Service Companies, India is likely to capture **more than half of the US\$110bn offshoring market by the year 2010**. India's offshore industries grew three-fold from US\$4bn in 2000 to US\$12.8bn in 2004, according to new government figures.

Looking at the domestic IT services market, a current trend is that **average project size**, typically below the US\$1mn mark, is now **increasing**, resulting in **several multi-million dollar projects**, some even exceeding the US\$100mn mark. This trend is being accompanied by a conscious move on the part of large players to migrate from just 'cost plus' advantage to that of **value added service provider**.

Traditionally, domestic IT service companies have concentrated on exports, which still account for around 80% of revenues, but **demand is now growing within the domestic market** too, including for facilities management and even managed services.

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Business confidence is also beginning to react to higher inflation and the increasing cost of capital. This was the first fall in four years. The NCAER (National Council of Applied Economic Research) has also stressed the effect that the stalling in the reform process has had on investor confidence. India's take-off dependent upon a consistently improving business environment, the medium term success of the economy is threatened by Prime Minister Manmohan Singh's apparent weakness, and this naturally worries investors looking to undertake new projects. These factors explain why we expect a slowdown in the Indian economy in FY06-07 from 8.4% last year to 8.1% this year.

This forecast is still, however, **reasonably strong**. The Indian economy is essentially retaining **macroeconomic stability**.

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India's economic growth accelerated to 9.3% year-over-year in the fourth quarter (Jan-Mar) of FY05-06, from 7.5% in the previous quarter, taking average growth for the fiscal year to an **impressive 8.4%**. This was the third straight year in which growth was 7.5% or above, and we expect it remain above 7.0% for the duration of our forecast period (2005-2010).

The **services sector** was the **main driver** of economic activity.

Early indications for FY06-07 are strong, with industry growth at 9.8% y-o-y for April-May. Indicators for the services sector are also positive.

Speaker  
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Ramella Votta**

India overview

SWOT Analysis

Market

Forecast

**Company Profiles**

*Speaker*  
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# Company Profiles - IBM India



Services	Local Market Performance
<p>Manufacturer, distributor and provider of advanced IT solutions including hardware, software, peripherals and data processing equipment.</p>	<p>IBM's on-demand strategy is catching on in India with India-based clients for the company's on-demand solutions including Bharti Tele-Ventures, IndusInd Bank, Yes Bank, Tata Motors, and Bajaj Auto. IBM takes care of Bharti's <b>hardware and software requirements</b> and has a mandate to consolidate the company's <b>data centres and IT help-desks</b>. The outsourcing contract includes all customer facing IT applications such as billing, CRM, and data warehousing. IBM is also servicing Bharti's internal applications such as <b>intranet, email and online collaboration</b>, and was responsible for setting up <b>disaster recovery (DR)</b>.</p>
Recent Developments	Presence
<p>IBM Global Services has been developing a program to <b>promote IT education</b> at a grassroots level in India. The program is named INVITE (Initiative to Nurture a Vibrant IT Ecosystem). Recently, IBM <b>set up a new global delivery centre in Hyderabad</b>, which will eventually hire 1,000 people. The focus will be on developing application management services. The Hyderabad global delivery centre is the fifth such centre IBM has in India, following <b>Bangalore</b>, Gurgaon, Kolkata and Pune.</p>	<p>IBM has a significant presence in India with a presence of <b>20,000 employees</b>. Indeed, Samuel J. Palmisano, chairman of IBM, has announced plans to make India its hub for its South Asian operations and has made major investments in the country.</p>
Future Plans	Sectors
<p>IBM revealed in June that it is to <b>invest a further US\$6bn</b> over the next few years in developing India as a hub for its software and IT services. IBM is <b>aggressively targeting the SME segment in India</b>, and has launched the super opportunity identifier program (SOIP) for the sales and pre-sales executives of its business partners.</p>	<p>Traditional sectors for IBM India include <b>manufacturing and government</b>, but recently the company has been enjoying success in some new areas such as <b>telecoms</b>. Most major sales, for products and services, are now presented as 'e-business on demand'.</p>

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# Company Profiles - WIPRO India

<h2>Services</h2>	<h2>Local Market Performance</h2>
<p>Wipro Infotech, the IT Services, Solutions &amp; Products division of Wipro Limited, is a provider of info tech services globally, with computer software as its main business currently.</p>	<p>Wipro is one of the most successful firms in the outsourcing sector, and like Infosys has benefited from a boom in back-office services such as <b>handling customer calls for companies abroad</b>, and claims to have done work for more than half of the companies on the Fortune 500 list. <b>Revenues broke through the US\$1bn mark in 2003.</b></p>
<h2>Recent Developments</h2>	<h2>Presence</h2>
<p>In Bangalore, Wipro recently announced the opening of its dedicated 'Global Command Centre' for Aviva, the UK's leading insurer, at Pune.</p>	<p>In the Indian market, Wipro provides integration, software solutions, and IT services. Headquartered in <b>Bangalore</b>, the company also has profitable presence in some consumer products market segments. Wipro has around <b>25,000 employees</b> in India. The company serves customers in India through a network of 22 offices and 170 service locations across the country. It has eight call centres.</p>
<h2>Future Plans</h2>	<h2>Sectors</h2>
<p>Wipro is planning to <b>add 18,200 employees</b> over the next year to its current base of <b>48,835 employees.</b></p>	<p>Wipro Infotech has four divisions. The <b>Infrastructure Solutions</b> team has alliances with global technology leaders, which include Sun Microsystems, Microsoft, Intel, Computer Associates and Cisco among others, to offer enterprise servers and storage, networking and software platforms to its customers. The <b>Professional Services</b> division provides Application, Platform &amp; Network Integration Services and Enterprise Management services. The <b>Business Solutions</b> division offers solutions in e-commerce, esecurity and Business Applications. The <b>Communication Services</b> team offers Data Centre services, Connectivity services, Managed Services and Call Centre services.</p>

# Company Profiles - Microsoft India

<b>Services</b>	<b>Local Market Performance</b>
Software + consulting and support services.	N/A
<b>Recent Development</b>	<b>Presence</b>
Microsoft is to spend around US\$850mn to upgrade and expand R&D facilities in the country. The company's first India-based innovation centre will be established in Bangalore and will enhance the efforts of a local team already working on areas like local language computing solution and affordable access to technology.	Fully owned subsidiary.
<b>Future Plant</b>	<b>Sectors</b>
In March 2006, Microsoft launched Windows XP Starter Edition for India - the latest version of the local language operating system introduced in India last year. The product has been launched with a Hindi interface.	Microsoft appears to be taking a dual-track approach to the market, promoting its mature business, while also seeking to reach those who traditionally have not been able to afford computing.

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# Company Profiles - TATA Consultancy Services

<b>Services</b>	<b>Local Market Performance</b>
Technology services, consulting & integration.	Tata Consultancy Services (TCS) was the first Indian IT company to reach the billion dollar league, in 2004, and achieved a new landmark with its revenues crossing the one billion dollar mark only half-way in fiscal year 2005
<b>Recent Development</b>	<b>Presence</b>
TCS reported US\$622.71mn total revenues from the quarter ended June 30 2005, compared to US\$492.92mn for the corresponding quarter the last fiscal year. At the same time, it mentioned securing a US\$100mn contact with 'a leading global US based financial services firm'. In addition to North America, TCS generally appears to be gaining momentum in continental Europe, the Middle East and Japan.	India's largest IT company.
<b>Future Plant</b>	<b>Sectors</b>
TCS is looking to add around 30,000 employees over the next year, as a result of its current rate of around 30% annual growth.	TCS's achievement was the highlight of a generally impressive series of wins with domestic companies, not merely for industry leaders like Infosys, Wipro and TCS, but with strong growth also from tier 2 companies like Satyam, Mphasis, Mind Tree and Sasken.

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# Thank you for your attention

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