CHAPTER 3

IT SERVICES INDUSTRY AND INDIAN ECONOMY

The main aim of this chapter is to provide 1) An overview of IT Sector. Various aspects of IT industry like 2) Composition, 3) IT Services Sector, 4) Impact of IT Sector on Indian economy, 5) Evolution, and 6) Revenue share and employment opportunities are covered in this chapter. Lastly, it culminates with 7) Overview of Pune city.

3.1 Overview of IT Sector

Indian economy is classified into three sectors — Agriculture and Allied, Industry, and Services. Services sector is the largest sector in India.

“Sector-wise contribution of GDP of India, Statistic Times” reports that in the Services Sector India’s world rank is 11th and GDP (Gross Domestic Product) is $1,185.79 Billion. Sector wise Indian GDP composition in 2014 was as follows:

a) Agriculture and Allied Sector (17.9%),
b) Industry Sector (24.2%)
c) Services Sector (57.9%)

Information technology (IT) Sector belongs to Services Sector category, has made critical contribution to bring India on global map and has also become one of the most noteworthy growth contributors for Indian economy (NASSCOM, Indian IT-BPO Industry – Impact on India’s Growth). It is further growing due to differentiated service offerings, its increased penetration into different verticals (i.e. travel technology, entertainment industry, retail and distribution, e-commerce, healthcare, logistics and transportation etc.), and expansion into different geographies.
3.2 Composition of IT Sector

According to IBEF’s report on “IT & ITeS Industry in India” and PWC’s report on “Changing landscape and emerging trends - Indian IT/ITeS Industry” the Information Technology industry is classified into 4 broader segments:

1. IT services
2. IT enabled services - Business Process Outsourcing (ITeS-BPO) or Business Process Management
3. Software products and engineering services
4. Hardware

Figure 3.1 Segments of India's IT Sector FY 2013

Source: IBEF - IT and IITES Sector in India
Figure 3.2 Segments of India's IT Sector FY 2015E

Source: IBEF - IT & ITeS Industry in India

Figure 3.1 and 3.2 reveal the overall market size, export revenue details for each IT Sector category (i.e. IT Services, BPM, Software product and Engineering Services, Hardware) during the FY 2013 and FY2015 (Estimated). Data reveals that out of all four categories IT Services Sector dominates Indian market in terms of total market size which is followed by BPM, Software product and Engineering Services, and lastly Hardware.

3.3 IT Services Sector

Information technology (IT) Services Sector refers to Firms who cater to the specific software outsourcing or off-shoring or near-shoring related requirements of the clients by harnessing the superior project and quality management skills.

The services offered include software engineering, software testing, software consulting, system integration, network consulting and integration, software re-engineering, software maintenance, ad-hoc technical support, technical documentation, user interface design etc.
As per NASSCOM’s report on “Indian IT-BPO Industry: Impact on India’s Growth”, following is the current **snapshot of IT Services Sector**:

- India’s share in global sourcing: 67%
- Total Revenue USD 75 Billion (Export USD 61 Billion and Domestic USD 14 Billion)
- By 2025 it is expected to grow to USD 175-190 Billion at CAGR 10-11%

3.4 Impact of IT Sector on Indian Economy

India being a leading outsourcing destination, IT sector in India has become a lucrative segment for investment with its large readily hireable talent (IBEF, IT & ITeS Industry in India).


According to PWC’s report on “Changing landscape and emerging trends - Indian IT/ITeS Industry”, IT industry has become prominent growth engine during the past decade for the country by setting milestones in terms of generation of employment, growth in revenue thereby becoming global brand ambassador for India. According to FICCI’s report on “Sector Profile: Information Technology”, IT industry has prudently assisted India in transforming its image from a rural, agriculture based economy to a progressive knowledge based economy.
IT Industry has shown unparallel contribution to Indian economy. As per NASSCOM’s report on “Indian IT-BPO Industry – Impact on India’s Growth”, IT-BPO Sector exhibits some appealing differentiating features:

- Highest relative share in national GDP (9.3%)
- Largest private sector employer (3.7 million employees)
- Largest share in total services export (>45%)

It also reports India to be perceived as a leading preferred global sourcing destination.

According to “Information technology in India, Wikipedia”, IT sector is a big contributor in generating direct employment for millions of people in India. Now, India is one of the biggest IT capitals in the world and has all major IT Sector players of the world based in the country. IT Services and BPM the two major components of IT Sector has increased its contribution to India's GDP from 1.2% in 1998 to 7.5% in 2012. It also reports NASSCOM’s report that the sector’s aggregated revenues of USD147 Billion in 2015 (where export revenue stood at USD 99 Billion and domestic at USD48 Billion) is growing by over 13%.

3.5 Evolution of IT Sector in India

With beginning during the early 80's, IT segment has now grown into a full fledged industry gaining recognition all over the world. Following are the four phases of evolution of IT industry in India as reported by Siddharth (2012) in the whitepaper on IT industry.

3.5.1 Phase I: Prior to 1980

Until 1960, software industry in India was non-existent. Hardware industry was protected through high tariff barriers and licensing by Indian government. When “West” started realising the need of software development as the in-built system were insufficient to perform all operations, Government of India realised this as an
opportunity to earn foreign exchange. Hence, in 1972 Government formulated Software Export Scheme to make hardware import in exchange of software export. TCS (Tata Consultancy Services) agreed to this condition and year 1974 marked the beginning software exports in India.

3.5.2 Phase II: 1980 to 1990

In spite of the initiatives by the government the software exports didn't pick up as there was lack of infrastructural facilities for software development and export of software was heavily dependent on import of hardware. To overcome this “New Computer Policy” in 1984 was launched which simplified import procedures by reducing import duty on hardware. To make software industry independent of hardware industry, in 1986 government formulated Software Policy to liberalize IT industry via which the hardware import was de-licensed and made duty free for exporters. This was followed by establishment of Software Technology Parks in 1990's to further increase exports of software, services.

3.5.3 Phase III: 1990 to 2000

Trade liberalisation, devaluation of rupee and relaxation of entry barriers made way for Indian economy to become open to foreign investment. This in-turn attracted many foreign entities, MNC's to India who later introduced “Offshore model” followed by “Global Delivery Model - combination of Offshore-Onsite model” to provide better services from India itself to global clientele.

3.5.4 Phase IV: Post 2000

Dotcom Crash, Y2K, recession in US economy paved way for Indian IT industry to boon and placed it on the global map. Post 2002-03, a robust growth was registered in IT industry with strong global delivery model, large size contracts and large clientele.
3.6 IT Sector – Revenue Share and Employment Opportunities

Presence of IT sector has played a prominent role in branding India's identity as "knowledge economy", also contributed substantially to the overall growth of "Services" industry in India by generating employment, increasing GDP and exports. IT Services and ITES-BPO Sector's contribution to India's GDP has increased from 1.2% in 1998 to 7.5% in 2012 (Information Technology in India, Wikipedia).

The Sector’s aggregated revenues of USD100.8 Billion in 2012 i.e. Export revenue being USD 69.1 Billion and domestic revenue being USD 31.7 Billion, growing by over 9% and predominantly dominated by exports, reports the NASSCOM findings (Information Technology in India, Wikipedia).

Table 3.1 India’s IT Industry (in USD Billion)

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Source: Information Technology in India, Wikipedia; Changing landscape and emerging trends - Indian IT/ITeS Industry, PWC Report

Table 3.1 showcases the increasing share of IT industry in India from the year 2004 to 2010.
Figure 3.3 Market Size of IT Industry in India (in USD Billion)

![Market size of IT industry in India (US$ billion)](image)

*Source: Nasscom, TechSci Research  
Note: E - Estimates  
*Source: IBEF – Indian IT and ITeS Industry*

Figure 3.3 showcases the increasing share of IT industry in India from the year 2010 to 2015.

Figure 3.4 Revenue Contributions by IT Industry Segments (in USD Billion)

![Revenue Contributions by IT Industry Segments](image)

*Source: PWC - Changing landscape and emerging trends - Indian IT/ITeS Industry*

From the figure 3.4 it is clear that contribution of IT Services is highest among all segments of IT industry and it kept on increasing year on year from 2004 to 2010.
“India’s IT Sector at the crossroads, Livemint” article reports that the Indian IT industry has grown at a CAGR (compound annual growth rate) of 13.1% during FY 2008-2013 and this “Knowledge-based capital” will be playing a key role in determining India’s future in the world economy. The net result has been that through the years India has dominated as one of the fastest growing IT Services markets in the world and has accounted for more than 50% of the $124 Billion market. IT industry accounted for 7% of GDP (gross domestic product) up from 1.2% in 1998. This contribution comes from mere 10 million people who are employed directly or indirectly makes it a vital driver for the economy.

“India's IT spending to grow 10% to $73.3 billion in 2015: Gartner, The Economic Times” article reports that according to Gartner, IT spending in India by 2015 is expected to reach $73.3 billion i.e. 9.4% increase from $67.1 billion in the 2014. Also, the IT services will record the revenue growth at 15.7% in 2015.

As per IBEF’s report on “IT & ITeS Industry in India”, the Indian IT sector is expected to be growing at rate of 12-14 per cent for FY2016 in constant currency terms. The sector is also expected triple its current annual revenue to reach USD 350 Billion by FY 2025. India has become world's biggest sourcing destination accounting for approximately 67% of the USD 124-130 Billion market employing about 10 million people thereby contributing significantly to country's socio-economic transformation. India provides cost competitive IT services (approximately 3 to 4 times cheaper than US) to the global sourcing market.

3.7 Overview of Pune City

According to Global Service - Tholon study (2009) on “Top 50 Global Outsourcing Cities”, Pune is also known as The Oxford of the East due to massive presence of educational institutes and universities. It is also known for its centre of excellence in engineering services and availability of high quality talent, skilled workforce. Therefore, many global Firms have established their software engineering setup here.
According to Tholon's online map depicting “Top 100 Outsourcing Destinations”, Pune has consistently been listed in the top 100 outsourcing destinations of the world. During the year 2007 it was an Emerging 3 city followed by year 2008, and 2009 where it got entry into Top 8. Pune took the rank 8th in 2009 and it has set benchmark by holding rank 7th consecutively during the years 2012, 2013, 2014, 2015.

Pune also grabs top 10 position in the list of major Information Technology hub in India and currently holds 5th position. It is also known as “tech city” as it has many multinational organisations, also C-DAC headquarter is in Pune (Information Technology in India, Wikipedia).