

CONSULATE GENERAL OF INDIA SAN FRANCISCO

COMMUNICATIONS AND IT

A. OVERVIEW

TELECOMMUNICATIONS

For over a decade, the telecom sector in India has been delivering strong returns on investments and steady subscriber additions. Multiple factors including low tariffs, low handset prices, effective government regulations, higher incomes and changes in customer behavior are the key drivers for growth. Telecom sector is one of the highest FDI attracting sectors in India, and has recorded FDI inflows worth over US\$ 8.8 billion between 2000 and 2010. India is one of the biggest telecom markets in the world with 581.81 million subscribers as of January 31, 2010, which are estimated to reach approximately 700 million by 2012. The Department of Telecommunications (DoT) of India has well-defined regulations for the Indian telecom sector.

The telecom sector in India has witnessed unparalleled growth by global standards in the last decade and continues to be one of India's biggest success stories. This growth has been built on the wireless revolution. At the end of January last year, the overall tele-density was recorded at 49.5% with a total telephone subscriber base of 581.81 million. By 2012 the total telecom subscriber base is expected to reach approx. 700 million to include about 650 million wireless users and approx. 50 million fixed line users, driven by a rise in the demand for communications from semi-urban and rural India. Revenues of the Indian telecom industry are projected to reach US\$ 45 billion by 2012 as compared to US\$ 26 billion in 2008.

The key players in the Indian telecom market are Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Limited (MTNL), Bharti Airtel Limited, Reliance Communication, Vodafone, Idea Cellular, Aircel and Tata Teleservices.

The Indian telecom industry can be primarily divided into basic, cellular and internet services. It also has smaller segments such as radio

paging services, Very Small aperture Terminals (VSATs), Public Mobile Radio Trunked Services (PMRTS) and Global Mobile Personal Communications by Satellite (GMPCS). The subscriber base of wireline services stood at 36.76 million as of January 2010 with a teledensity of 3.13. Public sector undertakings – BSNL and MTNL – have a major share of the wireline market covering about 85 per cent. MTNL is present in Delhi and Mumbai, while BSNL covers the rest of the country. Though private players such as Tata Teleservices, Bharti Airtel and Reliance have registered significant growth, BSNL still dominates the segment in terms of wireline subscriber base.

The wireless segment includes GSM and CDMA services and is much larger than the wireline segment in India. The segment is growing steadily because of the convenience and utility that it offers. The subscriber base of wireless services stood at 545.05 million as of November 2009 with a tele-density of 46.37 per cent. During 2008-09, the cellular market recorded 328.83 million GSM subscribers accounting for 77% of the market and 98.46 million CDMA subscribers accounting for the remaining 23 per cent. A major share of the wireless market is being held by private players such as Bharti Airtel Limited, Reliance Communication, Vodafone, Idea Cellular, Aircel and Tata Indicom. High growth in broadband penetration is expected to be the driver for the next phase of growth in the telecom industry.

While the broadband connections are increasing rapidly, penetration in India is still at 0.3% against the global average of 6.1 per cent. As of January 31, 2010 the subscription base of broadband is recorded at 8.03 million. Broadband subscribers are expected to grow to 30 million, while Internet subscribers are expected to grow to 45 million by 2012. Key players in the segment are BSNL, MTNL, Bharti, Tata Communication, Reliance Communication, Sify Technologies, YOU Telecom, Data Infosys and Hathway Cables. The launch of 3G services is expected to drive data revenues.

India's data revolution is expected to be fuelled by 3G and WiMax.

There are 8 VSAT service providers in India including BSNL, Bharti Airtel, Hughes Communications India Ltd. and HCL Comnet Ltd. The number of VSAT subscribers services grew by 6,108 to 108,328 for the quarter ending June 2009. The market for VSAT services registered a 5.98% growth in the quarter ending June 2009. Hughes Communications India Ltd. is the market leader, with a market share of 29.4 per cent, followed by Bharti Airtel with 25.9 per cent.

Radio paging services were launched in India in 1995. This service, however, could not compete well with cellular services in general and SMS technology in particular, and is shrinking continuously. At present all but four radio paging service providers have been marginalized in the Indian market. As for Public Mobile Radio Trunked Services (PMRTS) is concerned, in India, 12 operators are offering this service to a total of more than 30,951 subscribers. Other service, Global Mobile Personal Communication by Satellite (GMPCS) services were launched in India in 1999. These services allow a subscriber to communicate with others from any point on earth through a hand-held terminal. Moreover, the telephone number remains unchanged, irrespective of the subscriber's location. Iridium India Telecom Limited is the pioneer in GMPCS services in India. The Indian Government has restricted foreign equity participation in this segment to 74 per cent.

Investments

Despite the global economic slowdown in 2008-2009, the telecom sector is one of the highest FDI attracting sectors in India. At present 74 to 100 per cent FDI is permitted for various telecom services. The telecom market is witnessing several M&A activities. This trend has helped companies expand their presence in the Indian telecom market to offer better services to customers.

Policy and regulatory framework

The Department of Telecommunications (DoT) governs the Indian telecom industry. The DoT, in coordination with the Telecom Commission,

looks after licensing, policy formulation, frequency management, administrative monitoring, research and development, equipment standardization and validation along with private investments. The Telecom Regulatory Authority of India (TRAI) was established in 1997 by the DoT to streamline policy reforms and safeguard consumer interests. The Telecom Disputes Settlement and Appellate Tribunal (TDSAT) was also established in the same year.

Opportunities

By 2012, total telecom penetration in the largely untapped potential rural markets of India is expected to reach about 40% as compared to the current tele-density of about 16.61% as of June 2009. WiMax has been one of the most significant developments in wireless communication in the recent past. WiMax is expected to attract about 8 to 10 million subscribers and account for about US\$ 1 to 1.5 billion by 2012 assuming that low cost devices and data cards are available and services are affordable. As for the Internet Services, despite the low penetration of internet services in the Indian market, it is expected to grow in the next decade in terms of number of subscribers. India is expected to feature among the top 10 broadband markets by 2013.

The expansion of wireless networks and growth in subscriber base, both in urban and rural areas, has led to a boost in the sale of mobile handsets across the India. The mobile handsets sale grew by 7.9% in 2008-2009.

Telecom infrastructure is being considered as critical factor in India's economic development. Telecom infrastructure includes towers and the fibre network; demand for telecom towers is expected to continue to rise due to increasing penetration in rural areas, upcoming 3G service, expanding internet market and an increase in number of operators with pan-India operations.¹

¹ Telecommunications section above is from India Brand Equity Foundation (IBEF) report on "Telecommunications", April 2010. www.ibef.org

INFORMATION TECHNOLOGY (IT) AND ITES

The Indian software and services exports including ITeS-BPO exports is estimated at US \$ 49.7 billion in 2009-10, as compared to US \$47.1 billion in 2008-09, an increase of 5.5%. The IT services exports is estimated to be US \$27.3 billion in 2009-10 as compared to US \$25.8 billion in 2008-09, showing a growth of 5.8%. ITeS-BPO exports is estimated to grow from US \$11.7 billion in 2008-09 to US \$12.4 billion in 2009-10, a year-on-year (Y-o-Y) growth of 6%.

The US & UK remained the largest export markets (accounting for about 61% and 18% respectively) in 2009-10. Over the past few years, revenue growth from US has lagged other geographies, but in 2009-10, the trend has reversed, with this geographic region driving revenue growth. Historically, US has displayed increased IT spending. The impact of the



recession has been felt the most in the US, and consequently cutting costs and increasing competitiveness through outsourcing is once again the focus here. The Continental Europe and the UK have lagged overall revenue growth as companies based out of these regions are yet to firm up growth plans post recession. Indian vendors are actively developing the Asia Pacific region with a growth rate of 10% in 2009-10. Japan and Middle east offer significant untapped potential. Though the IT-BPO sector is export driven, the domestic market is also significant. The revenue from the domestic market (IT

Services and ITeS-BPO) is also expected to grow to US\$14 billion in the year 2009-2010 as compared to US\$ 12.8 billion in 2008-2009, an anticipated growth of about 9 per cent. BPO demand in the domestic market has witnessed noticeable growth over the past few years. The IT-BPO sector has showcased India's ability to build global firms with world-class business practices that are capable of catering to the most sophisticated and demanding customers.

The industry has been a front-runner in practicing good corporate business practices as well as maintaining high quality standards, which has helped position the country as a trusted business partner. This is corroborated by the fact that approx. 75 per cent of Fortune 500 companies are engaged with the industry currently. A continuous emphasis on quality has been a key factor driving the success of the Indian IT-BPO sector. Companies have aligned their internal processes and practices to international standards and have built robust quality processes that deliver essential benefits such as increased productivity and efficiency. An increasing number of IT-BPO companies continue to adopt global standards such as ISO 9001 (for Quality Management) and ISO-27000 (for Information Security). India-based centers (both Indian firms as well as MNC-owned captives) account for the largest number of quality certifications achieved by any single country. India has a 51 per cent market share of the offshoring market. There is tremendous headroom for growth as current offshoring market is still a small part of the outsourcing industry. Significant opportunities exist in core verticals (BFSI) and geographic (Asia Pacific) and verticals markets such as retail, healthcare and Government. Development of these opportunities can triple the current addressable market and can lead to Indian IT-BPO revenues of US\$ 225 billion in 2020. The Industry also has the potential to transform India by harnessing information technology for inclusive growth.²

² Information Technology section above taken from Annual Report of Department of Information Technology, Government of India, 2009-10, http://www.mit.gov.in/sites/upload_files/dit/files/documents/annualreport2009-10%281%29.pdf

B. Bilateral Developments

US-based companies have grown the most in the Indian technology sector. Of the top 20 IT companies operating in India, 9 are from the US. Adobe, Accenture, Cognizant, CSC, EXL, HP, IBM, Intel, Microsoft, Oracle and Sun Microsystems are among the leading US IT companies operating in India. Most of these companies have set up their delivery operations and R&D centers in India to capitalize on the country's large talent pool to either service customers across the globe or to help them to introduce new software products more quickly³.

US based Information Technology company iGate, located in Fremont, California, agreed on 10th January 2011 to acquire a 63% stake in Indian outsourcing firm Patni Computer Systems Ltd. The deal could be worth as much as \$1.2 billion in total for the whole company. Scale is very important in the IT service industry and this acquisition would allow the combined company to compete for larger deals in more industry verticals. This would also mean more efficiencies in operations and delivery of services. The transaction is expected to be completed by June 2011⁴.

TCS and SEI, a leading provider of outsourced asset management, join forces to present Global Wealth Services at Sibos Conference, Amsterdam on 25-29 October 2010. SEI administers \$402 billion in mutual fund and pooled assets and manages \$164 billion in assets. SEI selected TCS as one of their strategic partners to support the ongoing development of its Global Wealth Platform. The platform lies at the center of SEI's Global Wealth Services and provides end-to-end investment and processing capabilities. Their main objective is to simplify operating models, thereby allowing wealth managers to have more time to focus on what matters most – building richer client relationships and increasing the capital value of their business. TCS focus on reshaping models and processes for their customers through their products and services has delivered tangible results and which enables them to transform the

technology landscape of the wealth management industry⁵.

TCS Vice Chairman S Ramadorai was awarded with the Corporate Citizen Award by the Vijay Amritraj Foundation (VAF) in Beverly Hills in November 2010⁶.

India based KPIT Cummins Infosystems in September 2010 agreed to acquire US based CPG Solutions, located in Florida, a provider of Oracle consulting services to manufacturing and supply chain companies, for Rs 60 crore. This would enable KPIT Cummins to deepen its Oracle consulting portfolio. This is in addition to KPIT Cummins acquisition in October 2009 of US based SAP solutions provider Sparta Consulting Inc for \$38 million, which gave KPIT Cummins access to a higher revenue-generating platform in the US⁷.

Mid-size IT service company of India, Zensar Technologies in November 2010 agreed to acquire US-based PSI Holdings' unit Akibia for \$66 million in order to increase its delivery presence in the US and Europe. Akibia, a key player in the infrastructure management space counts companies like HP, IBM, Verizon, and Goldman Sachs as customers. This deal puts Zensar in a sound position for dealing with large clients looking for companies like Zensar Technologies which has significant offshore delivery capabilities⁸.

The 3rd Microsoft Research India Computer Vision and Graphics gathering was held in Bangalore, India on December 16-17, 2010. This was a meeting of researchers working in a

³ <http://ficci.com/SPdocument/20086/direct-investments.pdf>

⁴ <http://www.indianexpress.com/news/igate-buys-63-in-patni-computer-for-1.22-b/735851/>

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http://www.tcs.com/news_events/press_releases/Pages/TCS-SEI-join-present-innovative-Global-Wealth-Services-Sibos-Conference.aspx

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http://www.tcs.com/news_events/press_releases/Pages/Vijay-Amritraj-Foundation-honors-SRamadorai-with-Corporate-Citizen-Award.aspx

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<http://www.thehindubusinessline.in/2010/09/28/stories/2010092850210700.htm>

⁸

<http://www.thehindubusinessline.in/2010/11/23/stories/2010112350660700.htm>

particular area to share ideas and discuss future research directions. Speakers came from Oxford, UK, University of Southern California, Stanford, Maryland and others places⁹.

C. Recent Developments

TechVista 2011 is Microsoft Research India's annual research symposium held in Pune, India on 21st January 2011. It brought together the best minds from the scientific and academic worlds onto a common platform. The program provided an opportunity for the research community, government and students to interact and exchange ideas on research and its future directions. A number of leading computer scientists and thought leaders from India and overseas attended the event¹⁰.

D. Upcoming Events

A. ITPO is organizing IT India Fair 2011 on Hardware and Software for computing and communications technology during 26-29 March, 2011 to be held at New Delhi. IT India Fair 2011 will provide an opportunity for marketing of products, import/export trade investment and joint ventures in the IT field. Software development and IT Enabled Services (ITES) /BPO are areas where India has substantial advantages¹¹.

B. Convergence India 2011 is an International Exhibition and Conference on ICT to be held on 24-26 March, 2011 at Bangalore, India. The next big challenge and opportunity for the countries of the Indian sub-continent is rural connectivity – this event aims to provide a platform for stakeholders to come together by making possible e-Governance, e-Health, e-Learning, e-Industry, e-Innovation, e-Education and e-Security¹².

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⁹ <http://research.microsoft.com/en-us/events/visionshindi2010/>

¹⁰ <http://research.microsoft.com/en-us/events/techvista2011/>

¹¹ <http://www.biztradeshows.com/trade-events/it-india-fair.html>

¹² <http://www.convergenceindia.org/index11.html>