INDIAN IT COMPANIES NOW TURN TO DOMESTIC MARKET

SWATI GARG
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Nasscom attributes the trend to demand from voice-based services, in addition to adoption from emerging verticals, new customer segments and value-based transformational outsourcing platforms. PHOTO: BLOOMBERG

Many Indian information technology (IT) companies are turning to the domestic market for growth and new business opportunities.

"From less than one per cent four years earlier, IT spends in India and China now contribute seven per cent to our revenues. We expect this to go up to 15 per cent within the next five years, on the back of spends by the government in health, e-governance and education sectors," said Ganesh Natarajan, vice-chairman and CEO, Zensar Technologies.

Bombay Stock Exchange-listed Zensar grew 23 per cent sequentially last quarter. Natarajan says a lot of growth will come from the increasing use of IT within Indian companies.

India's largest IT service provider, Tata Consultancy Services (TCS), recently announced the launch of iON-a cloud computing system aimed specifically at domestic small and medium businesses (SMBs). TCS expects iON to become a $1 billion business within the next five years.

The trend resonates in the findings of the National Association of Software and Services Companies (Nasscom), the apex IT industry body. "Domestic IT spends, excluding hardware, are expected to grow at 16 per cent to reach ₹78,700 crore in 2010-11. Domestic BPO spends are expected to grow 16.9 per cent to reach ₹12,700 crore," says the Nasscom strategic review for 2010-11.

It attributes the trend to demand from voice-based services, in addition to adoption from emerging verticals, new customer segments and value based-transformational outsourcing platforms.

"The Indian software product segment will grow 14 per cent to reach ₹15,700 crore in 2010-11, fuelled by replacement of in-house software applications to standardised products from large organisations and innovative start-ups," the review states.

GROWTH SOURCES

Analysts say the Indian subcontinent is on an overdrive on transparency enforcing projects such as e-governance. This will mean government IT spends in India will grow from the current $1bn (₹4,500 crore) to $3.5 billion annually, within the next three years.

Nasscom has also identified projects such as the national eGovernance programmes and the Unique Identification Development Authority of India (UIDAI) as catalysts to this growth.

The UIDAI is slated to allocate contracts worth ₹40,000 crore over the next three to five years. Most of these, say analysts, will be won by mid-cap companies such as Mahindra Satyam, MindTree, Geodesic, Mastek, and Infinite Computer Solutions.

"Each one of us now has an independent vertical that looks at business from government contracts.Its big business now; many require special purpose vehicles or consortiums to get bids. While the size varies, a small central government contract could be worth ₹1,000 crore," said Bala Mahadevan, CEO, Orange Business Services (OBS), India.

OBS has already implemented emergency response system solutions in 14 states and is trying to capture bids in three others, Mahadevan told *Business Standard*.

On the corporate end, most companies are looking at overall growth, including geographic, vertical and horizontal factors. This might take the share of joint ventures or acquisitions.

Also, many are looking at foraying into tier-II and tier-III cities, convinced by the cost-effectiveness of doing business there. Mid-cap firms Firstsource Solutions and Hinduja Global Solutions, for example, boast of a strong base in cities like Duragpur (West Bengal), Hubli (Karnataka), and Madurai (Tamil Nadu), among others.

"We see multidimensional growth in India, driven by the fact that most government departments dealing with citizens on a day-to-day basis will have to increasingly deploy use of technology, including use of voice-based services," said Sanjay Venkataraman, executive vice president and head of Asia business, Firstsource Solutions.

In May, Firstsource began a joint venture with a Sri Lankan telecom service provider, Dialog Axiata, in a bid to expand in the Sri Lankan market.

"IT companies will have to employ greater discretion, given that there is a shift from cost arbitrage to value-based work. This also means new verticals and opportunities need to be explored. Telecom and BFSI (banking, financial services and insurance) within the new geographies are now critical," Venkataraman said.