

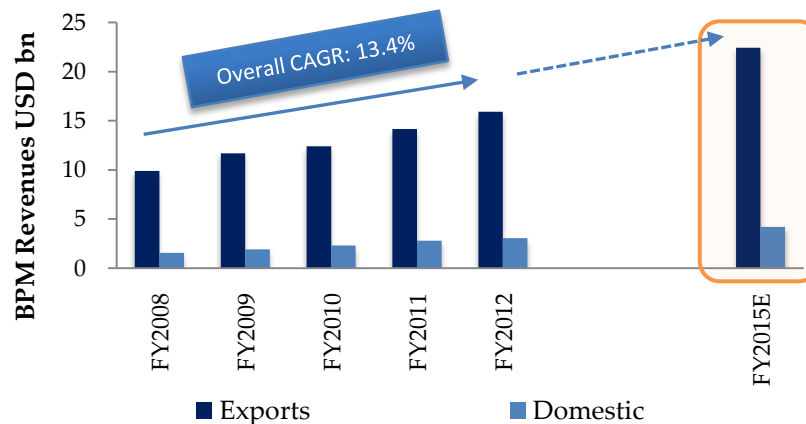
Indian Business Process Management (BPM) Industry – Transition along the value chain to keep the industry buoyant...

India has come a long way from handling offshoring of mere call centre and data entry type non-critical work to high-value added work, employing professionals like CAs, lawyers, doctors etc, partnering with clients in cost reduction and process optimization. This transition, to some extent, was also pushed by the BPM industry's worries over higher attrition rates, wage inflation, increasing other operating costs like rentals, language and accent related issues, competition from other emerging nations, making the low value-added work, like voice-based based services, unsustainable.

BPM export is the fastest growing segment within Indian IT-BPM space, growing at a CAGR of around 13% over last 5-years constituting around 23% of total IT-BPM exports (including hardware). India is at the top position in the global BPM sourcing landscape with 36% market share. More than 500 companies offer BPM services as a part of Indian BPM industry, serving more than 66 countries across the globe in more than 35 languages. MNC BPM companies and Global In-House Centres (GICs), commonly known as captives, constitute more than 50% of BPM revenue. The industry is not only vital as exports revenue generator but also contributes tremendously by providing employment to ~4.4 million people (~0.88 million directly and ~3.5 million indirectly). It has also played a big role in empowering women in India with 45% of workforce being women.

BPM Growth Story to remain intact in the near future

Indian BPM Revenue (Total FY12 BPM Revenue = US\$ 18.98 Bn)



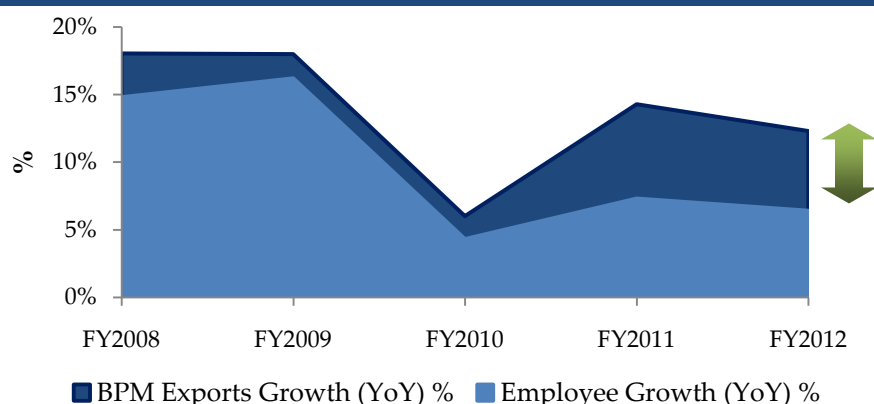
Source: NASSCOM and CARE Research

The BPM exports have grown at a CAGR of 12.5% from FY08-FY12 whereas during the same period domestic revenues have grown at a higher CAGR of 18%. CARE Research believes both the BPM exports and domestic revenues would grow at low double digit CAGR from FY12 to FY15E, aided by higher global offshoring spend with revival expected in leading economies compared to last couple of years and expected weakness in rupee against dollar over next couple of years. Indian BPM industry has evolved over the years from delivering voice-based, low value services to providing entire gamut of high value BPM services. Whereas the path forward for industry is not going to be easy with newly emerging competitors seem game to snatch market share and the internal problems of industry like attrition rates and wage inflation eroding the competitiveness in the low-value services. Also, the key competencies like talent availability, wage arbitrage, government support through tax incentives, lower infrastructure costs etc on which Indian BPM industry flourished for years are running out of flavour. However, the Indian BPM industry is not leaving any stone unturned to maintain its number one position in offshoring and keep its relevance to clients intact and growing. Indian BPM players have started opening centres in competing geographies like Philippines and Sri Lanka or acquiring existing businesses and following Global Delivery Model to provide services to clients who are showing preferences for these locations. This way though India as a nation could lose but BPM service providers would carry on. The industry is handling the changing dynamics within the nation by slowly moving to Tier-II cities, bringing in more automation, increasing efficiency in processes etc. Also, it is focusing on domestic market, new geographies for incremental business along with new technologies.

Breaking the Shackles of Linear Growth...

For years, BPM industry growth could be easily traced by simply gauging the expected number of employees to be hired. The formula was straightforward - more the number of employees, more the revenue. With employee cost in the industry constituting 50% of revenue or more and attrition rates touching 40s, the BPM players were not left with many choices but to go the non-linear way.

Non- Linear Growth in BPM



Source: NASSCOM and CARE Research

Until FY10 the trajectory was linear with YoY Growth in export revenues being 18%, 18% and 6% during FY08, 09 and 10 respectively. During the same period, the YoY growth in headcount was ~15%, 16% and 4% as shown by the parallel lines in the graph. The divergence between revenue and headcount growth post FY10 is evident by revenue growth of 14% and 12% in FY11 and FY12 with 7% and 6% employee growth respectively for the same period. This transformation is the result of more and more automation in processes, use of platform solutions, move to transaction and outcome based pricing models from FTE model and move up the value chain for delivery of high value work like analytics etc.

Global Economic Growth to revive in the near future

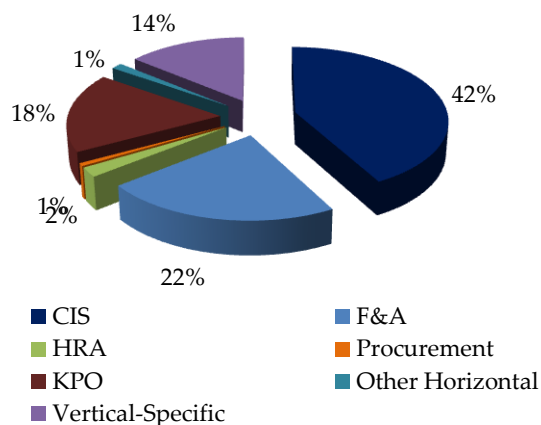
Global economy is forecasted to grow at a moderate rate of 3.5% and 4.1% in 2013 and 2014 respectively. However, the GDP growth of the major contributor to BPM revenues i.e. US is expected to come down to 2% in 2013 from 2.3% in 2012, and then expected to rise to 3% in 2014. GDP of UK is expected to grow at 1% and 1.9% in 2013 and 2014 respectively.

Global BPM Industry will continue to outpace global GDP growth

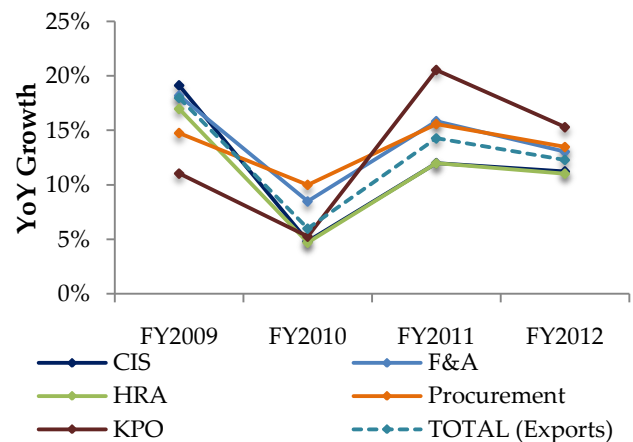
Global BPM spend grew by 4.9% YoY to \$164 billion in 2012, faster than the global GDP growth of 3.2%. Less than a third of the global BPM spend i.e. \$48-50 billion in CY 2012 was offshored. CARE Research believes that the offshored BPM services will increase its share in the global BPM pie rapidly as the offshored BPM services are growing at double the rate of Global BPM industry. India stands to benefit from this phenomenon as it leads the global BPM offshore spend with 36% share, which is just 10% of the Global BPM spend, implying a huge opportunity for India to capture.

KPO to outshine among the BPM export service segments

Segmentation of BPM Exports (FY12)



Growth of Key BPM Exports Segments Over FY08-12



Source: NASSCOM and CARE Research

Customer Interaction and Support (CIS) continues to be the largest segment within the BPM services with 42% share though it witnessed a gradual fall from 46.5% in FY2007. CARE Research believes that KPO, though contributes 17.5% of BPM exports, will outperform other services like Financial & Accounting or F&A (which contributes 22.4%), riding on the back of India's dominant position with 70% share in the global KPO market.

Voice based services will see flight to other destinations like Philippines

India has lost its top ranking in BPM voice revenue share to Philippines recently. This happened due to Philippines' high proximity to US culturally, support from its government, low attrition rates etc. India is now shifting its focus to non-voice, high growth, value based work. Share of voice based revenue has gone down from 48% in FY2006 to 41% in FY2012. The down trend is expected to continue in future with India losing its market share to competition.

Big Data – The Goldmine of opportunity

As the world sits on the mines of data with zettabytes of data being created every day, mining this data has become imperative for businesses to stay ahead of competition. Big Data is nothing but the process of deriving meaning from a large quantity of structured and unstructured data in a very short period of time. The biggest reason for the interest in big data has been the availability of big data. 90% of the data in the world today has been created in the last 2 years as the world produces around 2.5 quintillions of data every day. Rise of internet, digitization of processes like e-commerce, social media, devices connected to internet and machines with memory cards (e.g. medical devices) are some of the primary sources of data.

As India is on the forefront of BPM evolution, Big Data has become an opportunity as well as a necessity to provide end-to-end service to the clients. In 2012, the Indian big data market stood at USD 200 million whereas the World big data market is USD 5 billion. Indian players are likely to build capabilities across the entire spectrum of the big data ecosystem. Big Data offers opportunity to IT-BPM integrated service providers on big data technology implementation, including data collection, integration, and designing of big data architecture and data analytical tools, accounting for more than 70-80% of the Big Data market whereas Big Data Analytics services constitutes rest and offers opportunity for pure-play analytics providers. Telecom, BFSI, Healthcare, Retail and Energy are going to be some of the largest drivers of Big Data globally. A thriving Venture Capital funding and partnerships with foreign players will help Indian players to create capabilities in the niche Big Data ecosystem driven by innovation from start-ups as well as capitalizing the capabilities of existing players.



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