

## INFORMATION TECHNOLOGY AND INFORMATION TECHNOLOGY ENABLED SERVICES



### SECTOR OVERVIEW

India is the world's largest sourcing destination for the Information Technology (IT) industry, accounting for approximately 67 per cent of the USD 124-130 billion market. The industry employs about 10 million workforce. This large pool of qualified skilled workforce has enabled Indian IT companies to help clients to save USD 200 billion in the last five years. India's cost competitiveness in providing IT services, which is approximately 3-4 times cheaper than the US, continues to be the mainstay of its Unique Selling Proposition (USP) in the global sourcing market and several global IT companies are setting up their innovation Centres in India.

The Indian IT and Information Technology enabled Services (ITeS) industry is divided into four major segments – IT services, Business Process Management (BPM), software products, engineering services and hardware. India's IT industry amounts to 12.3 per cent of the global market, largely due to exports. Export of IT services accounted for 56.12 per cent of total IT exports (including hardware) from India. The Business Process Management (BPM) segment accounted for 23.46 per

cent of total IT exports during FY15. The IT-BPM sector is estimated to expand at a Compound Annual Growth Rate (CAGR) of 9.5 per cent to USD 300 billion by 2020.

## REASONS TO INVEST

- India's IT – BPM industry amounts for 56% of the global outsourcing market size.
- Rapidly growing urban infrastructure has fostered several IT centers in the country.
- Favorable Government policies and incentives to facilitate investments in IT sector.
- Presence of skilled manpower, India is home to a large number of IT professionals.

## STATISTICS

- IT BPM industry revenues (excluding hardware) is estimated at around USD 130 billion (2015-16).
- Exports from the IT-BPM industry stands at USD 107.8 billion for Financial Year 2015-16 (Segment wise breakup is as under):
  - IT services - USD 61.0 billion
  - The BPM industry exports - USD 24.4 billion
  - ER and D and Software Product Development - USD 22.4 billion
- The IT industry has more than 16000 firms; of which 1000+ are large firms with over 50 delivery locations in India.
- The IT-BPM industry is the largest private sector employer – delivering 7 million jobs.

The sector accounts for 45% share in total services export from the country.

India is ranked as the 3rd largest tech based start-up hub in the world with over 4200 start-ups in the country.

## AGENCIES INVOLVED

- Department of Electronics and Information Technology, Ministry of Communications and Information Technology, Government of India
- National Association of Software and Services Companies
- Indian Software Product Industry Round Table
- Other Service Providers Association of India
- Data Security Council of India

## GOVERNMENT INITIATIVES

### DIGITAL INDIA:

Government of India is planning to develop five incubation centres for Internet of Things (IoT) start-ups, as a part of Prime Minister Mr. Narendra Modi's Digital India and Startup India campaign, with at least two centres to be set up in rural areas to develop solutions for smart agriculture.

The Government of India has launched the Digital India program to provide several Government services to the people using IT and to integrate the Government departments and the people of India. The adoption of key technologies across sectors spurred by the 'Digital India Initiative' could help boost India's Gross Domestic Product (GDP) by USD 550 billion to USD 1 trillion by 2025.

India and the US have agreed to jointly explore opportunities for collaboration on implementing India's ambitious Rs 1.13 trillion (USD 16.58 billion) 'Digital India Initiative'. The two sides also agreed to hold the US-India Information and Communication Technology (ICT) Working Group in India later this year.

## **SECTOR POLICY AND PROMOTION**

### FOREIGN DIRECT INVESTMENT POLICY

In the electronics and IT sector, 100% FDI is permitted under the automatic route. The major fiscal incentives provided by the Government of India in this sector have been for export-oriented units (EOU), Software Technology Parks (STP) and Special Economic Zones (SEZ).

These are detailed below:

1. SOFTWARE TECHNOLOGY PARKS (STPs) were set up as autonomous societies under the Department of Electronics and Information Technology in 1991 to promote software exports from the country. The most important incentive available is 100% exemption from income tax of export profits; the STPs have been instrumental in boosting India's IT and ITeS exports.
2. SPECIAL ECONOMIC ZONES (SEZ) scheme was enacted by the Government of India in 2005 with an objective of providing an international competitive and hassle-free environment for exports. It provides drastic simplification of procedures and a single-window clearance policy on matters relating to Central and State Governments. The scheme provides subsidy for investments in capital expenditure — 20% for investments in SEZs and 25% in non-SEZs. It also provides for reimbursement of CVD/excise for capital equipment for non-SEZ units. For high Technology and high capital investment units, such as fabrication, reimbursement of Central taxes and duties is also provided.
3. INFORMATION TECHNOLOGY INVESTMENT REGIONS (ITIRs): were notified in 2008 in order to address the sector's infrastructure needs. As per plans, these regions will be endowed with excellent infrastructure that will allow companies to reap the benefits of co-siting, networking and greater efficiency through use of common infrastructure and support services.

Over and above these, the Government has been taking steps to bring down the total taxation level on electronics hardware. The general rate of excise duty (CENVAT) has been reduced to 8% and Central Sales Tax (CST) has been reduced from 3% to 2%. VAT on IT products is at 4%, as per Ministry of Communication ("MoC") and IT.

Salient features of the existing Foreign Trade Policy applicable to the electronics hardware industry are:

- Import of capital goods at 3% customs duty, subject to an export obligation equivalent to eight times of duty saved on capital goods imported under the EPCG scheme, to be fulfilled in eight years reckoned from authorization issue-date. However, a 0% duty EPCG scheme allows import of capital goods at 0% customs duty, subject to an export obligation equivalent to six times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in six years reckoned from authorization issue date.
- SEZs are being set up to enable hassle-free manufacturing for export purposes. Sales from domestic tariff areas (DTA) to SEZs are being treated as physical exports. This entitles domestic suppliers to drawback/DEPB benefits, CST exemption and service tax exemption. 100% income tax exemption on export profits is available to SEZ units for five years, 50% for next five years and 50% of ploughed back profits for five years thereafter.

## INVESTMENT OPPORTUNITIES AND DEVELOPMENTS IN THE IT-ITES SECTOR



### INVESTMENT OPPORTUNITIES:

- The setting up of IT services, BPM, software product companies, shared service centres.
- Fast-growing sectors within the BPM domain – knowledge services, data analytics, legal services, Business Process as a Service (BPaaS), cloud-based services.
- IT Services and fast-growing sectors within it such as solutions and services around SMAC, IS outsourcing, IT consulting, software testing.
- Engineering and R and D within which the fastest growing sectors are – telecom and semiconductors.
- Indian IT's core competencies and strengths have attracted significant investments from major countries. The computer software and hardware sector in India attracted cumulative

Foreign Direct Investment (FDI) inflows worth USD 22.83 billion between April 2000 and December 2016, according to data released by the Department of Industrial Policy and Promotion (DIPP).

SOME OF THE MAJOR DEVELOPMENTS IN THE INDIAN IT AND ITES SECTOR ARE AS FOLLOWS:

- Bengaluru-based fintech company ZestMoney, owned by Camden Town Technologies Pvt. Ltd, has raised USD 6.5 million in a series A round of funding led by Naspers-owned PayU; and will invest the funds in Technology and product development.
- Google plans to set up its first data Centre in India in the city of Mumbai by 2017, to improve its services to local customers wanting to host their applications on the internet, and to compete effectively with the likes of Amazon and Microsoft,
- Sagoo Inc, a social network and e-commerce start-up, has filed mini-initial public offering (IPO) papers with the US Securities and Exchange Commission (SEC), to raise around USD 20 million, which will be used to set up a campus in India, expand its team in India, the US and Nepal, and support marketing and branding and other general purposes.
- SAP SE, in partnership with the Associated Chambers of Commerce of India (ASSOCHAM), has rolled out a knowledge sharing resource Centre which will serve as a one-stop portal for businesses looking to adopt or migrate to Technology that will make them future ready for the biggest taxation reform of Goods and Services Tax (GST).
- Freshdesk, one of the first companies from India to offer Software-as-a-Service (SaaS) to global companies, has raised USD 55 million in the latest round of funding led by Sequoia Capital India and existing investor Accel Partners, estimating to value the company at USD 700 million.
- Warburg Pincus LLC, the US-based private equity firm, plans to invest around USD 75 million in series C round of funding to buy a significant stake in Capital Float, an online credit platform.
- Helpshift Inc, which makes customer support software for mobile apps, announced raising USD 2 million from Cisco Investments, in addition to working with Cisco to integrate its in-app customer support with Cisco's contact Centre solutions.
- Knowlarity Communications Pvt. Ltd., a cloud telephony provider, has announced raising USD 20 million from multiple investors such as Dubai-based private equity investor Delta Partners, existing investors Sequoia Capital Funds and Mayfield Fund, apart from venture-debt from Blacksoil and Trifecta Capital.
- Flipkart, India's largest e-commerce marketplace, has re-entered the private label business by launching Smart Buy, the first of two new private labels, with a view to boost earnings and fill gaps in its product selection.
- Fitpass, a Delhi-based revolutionary app which offers access to gyms and health clubs membership, has raised USD 1 million in seed funding from investors in Mumbai, Delhi and Bengaluru.
- Apple's supplier and assembler, Taiwan-based Winstron, will set up an iPhone assembly facility in Peenya, Bengaluru's industrial hub, thus making India the third country across the world to have an assembly unit for Apple's iPhone.

- Kratikal Tech Pvt Ltd, a cyber-security start-up, has raised around USD 500,000 in seed round of funding led by Mr. Amajit Gupta, former director of Microsoft India, which will be used for product development and building training modules.
- International Finance Corporation (IFC) plans to invest USD 10 million as equity in Bengaluru-based Zinka Logistics Pvt Ltd, which provides a Technology platform called Blackbuck for long-haul trucking market in India, estimated at USD 70 billion.
- Paytm's online marketplace unit raised USD 200 million in a funding round led by a USD 177 million investment to be made by Alibaba Group Holding Ltd, and balance by SAIF Partners.
- Intel Corporation plans to invest in Digital India related solutions such as India stack, Unique Identification (UID), e-government 2.0 and other Government initiatives, and scale up operations of its Data Centre Group (DCG), as per Mr. Prakash Mallya, Director DCG, Asia, for Intel Corporation.
- Reliance Industries Ltd (RIL) plans to set up entrepreneurship hubs in key cities and towns, and a Rs 5,000 crore (USD 748 million) fund, under the name of Jio Digital India Startup Fund, to invest in Technology based startups.
- Gurgaon-based digital wallet start-up MobiKwik, which is owned and operated by One MobiKwik Systems Private Limited, has raised USD 40 million from Nasdaq-listed firm Net1, a South African payments Technology Company.
- Orange Business Services, the business services arm of Orange Group, has launched a State data Centre for Himachal Pradesh Government, which will be the first data Centre in India to be designed using 'green' data Centre concepts that minimise power requirements and increase power utilisation efficiency.
- PurpleTalk Inc, a US based mobile solutions company, has invested USD 1 million in Nukkad Shops, a Hyderabad based uber-local commerce platform that helps neighbourhood retail stores take their businesses online through a mobile app.
- KartRocket, a Delhi based e-commerce enabler has completed its USD 8 million funding round by raising USD 2 million from a Japanese investor, which will be used to enhance Kraftly, a mobile-first online-to-offline marketplace targeting small sellers, individuals and home-based entrepreneurs in India in product categories such as apparel and accessories.
- Xpressbees, an e-commerce logistics firm operated by Busybees Logistics Solutions Private Limited, has raised USD 12.5 million in a Series A funding, led by its existing investors SAIF Partners, IDG Ventures, Vertex Ventures and Valiant Capital, which will be used to strengthen Technology initiatives and processes of the firm.
- Housejoy, an online home services provider, has raised Rs 150 crore (USD 22 million) in a Series B round of funding led by Amazon, and which also includes new investors such as Vertex Ventures, Qualcomm and Ru-Net Technology Partners.
- Nasscom Foundation, a non-profit organisation which is a part of Nasscom, has partnered with SAP India to establish 25 National Digital Literacy Mission (NDLM) Centres in 12 cities across India, as a part of Government of India's Digital India initiative.

## FOREIGN INVESTORS

- Accenture (Ireland)
- Cognizant (USA)
- Google (USA)
- HP (USA)
- Capgemini (France)
- IBM (USA)
- Atos (France)
- Microsoft (USA)
- CDNS (USA)
- Intel (USA)
- Dell International (USA)
- Agilent Technologies (USA)
- Mentor Graphics (USA)
- Oracle Corporation (USA)
- Qualcomm (USA)
- Steria (France)
- Ricoh (Japan)
- SAP (Germany)
- TIBCO (USA)
- Philips (Netherlands)
- Cisco Systems Incorporation (USA)



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