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India`s IT Industry : The SME Story

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Presentation by :

Vipul Kant Upadhyay

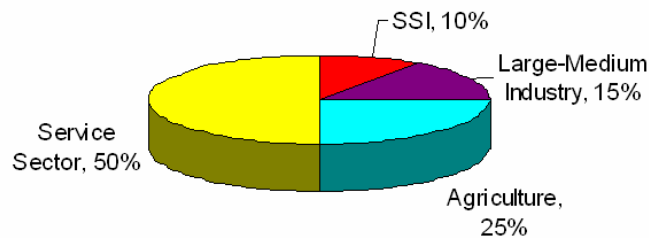
Chief Executive Officer

IAP Company Limited

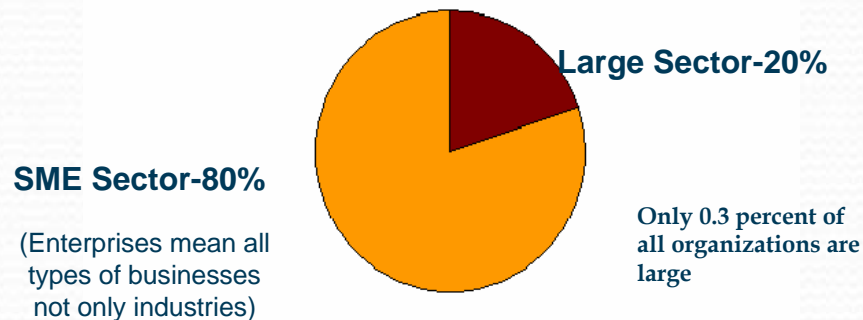
(An Indo Japanese Software Solutions Company)

India : An Economic Snapshot

GDP Break-up of the Indian Economy:
Services,Agriculture,Large and Medium
Industry & SSI



GDP Break-up of Indian Economy:
Large Sector and SME's(Small and Medium Enterprises)



SMEs account for
nearly 99.7 percent of
all industries

- Population 1,112 Million
 - GDP 800 billion US\$ (est. in FY06-07)
 - Economic Growth Rate 9.2 %
 - Industrial Growth 11.3 %
 - Reserve for Foreign Exchange and Gold \$165 billion
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SME definition?

SME = Small Scale Industry(SSI) + Medium Enterprises

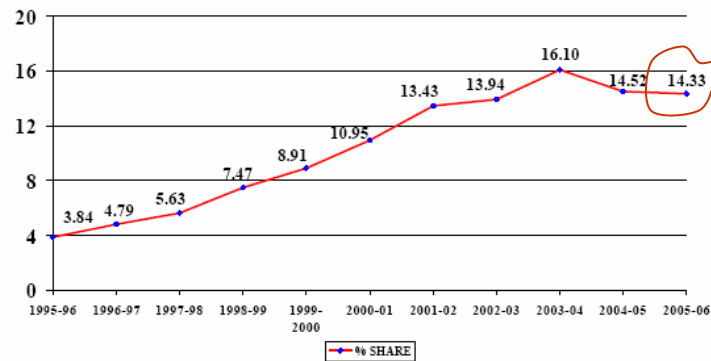
- ◎ **SSI: Industrial undertaking in which the investment in fixed assets in plant and machinery, excluding land and building, whether held on ownership terms or on lease or on hire purchase, does not exceed 10 million INR. In certain exceptional cases it could go as high as 50 million INR.**
- ◎ **No proper technical or legal definition for Medium Scale Industries**
- ◎ **Institutions, banks and trade bodies have created their own definitions based on turnover, staff strength and capital etc.**

A Typical Indian Software SME would have

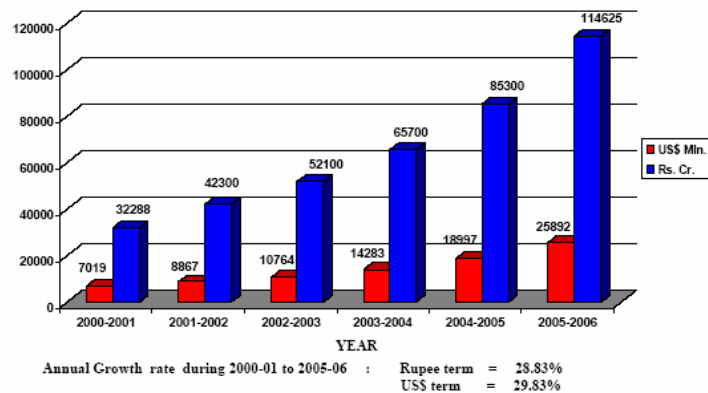
Turnover <1000.million INR ; Staff Strength < 500

Information Technology Industry

SHARE OF ELECTRONICS, COMPUTER SOFTWARE / SERVICES IN INDIA'S TOTAL EXPORT 1995-1996 TO 2005-2006



GROWTH IN EXPORTS OF ELECTRONICS & COMPUTER SOFTWARE / SERVICES 2000-2001 TO 2005-2006



IT Industry contribution to GDP: 5.4 %

Employment to reach 1.7 million (est. in 07)

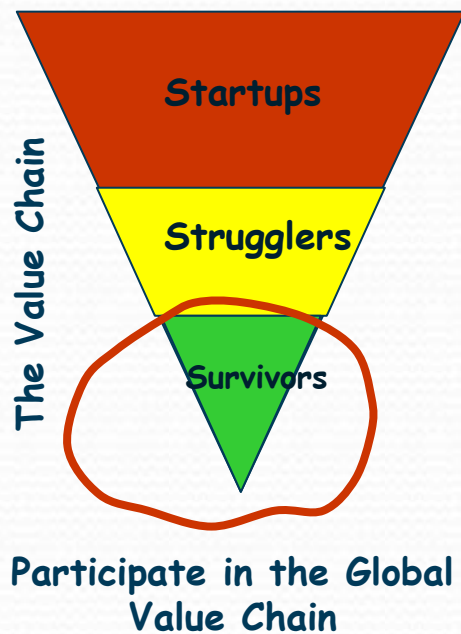
Growth rate of over 30% (est.)

India's IT export and its contribution to GDP has increased over the past years but SMEs' share in the entire IT export in India is only 30 percent

Over 80% of IT companies in India are SME

IT SME Characteristics

- Thriving on single contract or client.
- More in numbers though contribution to the IT industry's revenue bases is very low
- Focus on outsourcing led growth
- Missing entrepreneurial mindset.
- Desire to go global, but lack the vision or/ and adequate exposure
- Go alone approach.
- Mostly followers of the successful models set forth by the likes of Infosys, WIPRO etc.



Startups	Manpower Strength: Very Less	Act as a sub-vendor to another sub-vendor. No direct interaction with the end client	Very small capital. Do not even qualify for most of VC funds	Mostly resellers.
Strugglers	Manpower Strength: Medium	Act as a sub-vendor to the main vendor. But no direct interaction with the end client	Moderate capital. Qualifies for some VC funds. Yet most of the VCs ignore them	Service provider/Reseller
Survivors	Manpower Strength: Medium to High	May have direct access / dealing with end user. Multiple client base..	Beneficiary of most VC funds and policies implemented for SMEs	Customized Service Provider/ Integrator/Reseller, Product companies. Global presence/ operations

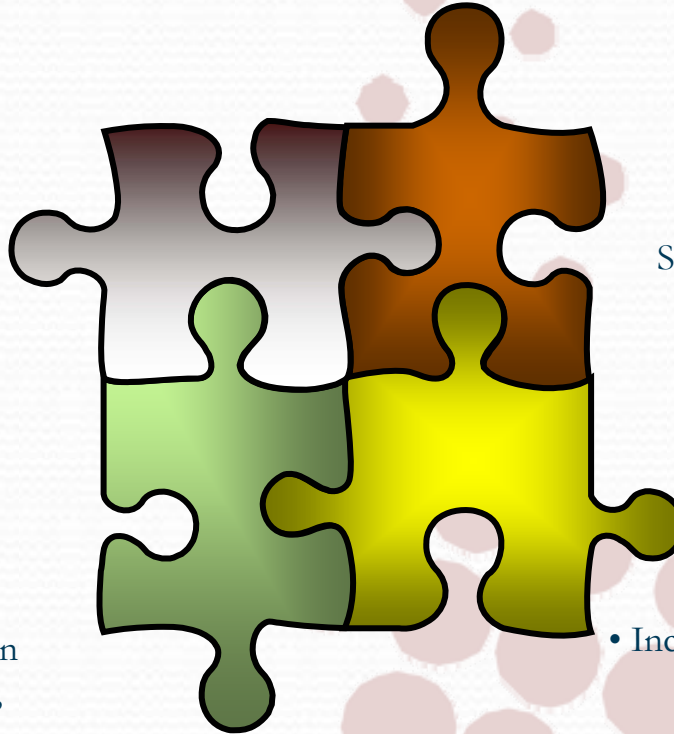
Looming Problems

Large Dependency on Exports

- Indian Rupee appreciating
- lack of means and information to hedge export risks.
- New competition from China, East Europe etc.

Lack of Market Intelligence

- Limited ability to gather information regarding the market opportunities, upcoming changes and competitors
- Limitations to get client /prospective partner, employee verifications in new territories



Lack of financial patronage

- Very few Venture Capitalist are interested in the lower segment of SMEs which require more support
- Lack of proper infrastructure for SMEs to go for public issues in order to collect money for further investment.

Cost of Operations going up

- Increasing Recruitment and Training Costs
- High employee attrition rate
- The SME sector has become a headhunting ground for the big companies.
- Inflation is at all time high

The rising hope : opportunities ahead

- ⦿ Growing domestic market. Healthcare, Retail, E-commerce etc.
- ⦿ Potential for technology led growth
- ⦿ Collaborations for reduced cost of operations
- ⦿ Focused growth
Market ; Domain ; Technology ; Vertical
- ⦿ Booming economy has already roped in many VC and Angle funds
- ⦿ Reverse brain drain : Brings in the global mindset – help creating the much needed environment.
- ⦿ Entrepreneurship is on the rise.
- ⦿ Specific emphasis by trade bodies like NASSCOM, FICCI, CII and Government agencies to support IT SME
- ⦿ Emergence of tier 2 cities with IT infrastructure

Potential Action Areas

**E-commerce ; Content ; Embedded Software ; Communication ; Gaming & Animation ;
Mobile Devices ; Open source Solutions**

Facilitation bodies & resource center

- **SIDBI – (www.sidbi.com)** Small Industries Development Bank of India - only large size dedicated organization for the promotion of Small Scale Industries and Medium Enterprises.
- **NASSCOM– (www.nasscom.in)** National Association of Software & Service Companies. Shedding the image of being the “BIG BOY`s” organization, NASSCOM has chartered a strong focus to help and promote IT SME in India.
- **CII – (www.ciionline.org)** Confederation of Indian Industries. CII has created a special cell for assisting and promoting SMEs.
- **FICCI – (www.ficci.com)** Federation of Indian Chambers of Commerce & Industries is one of the premier trade body.
- **STPI – (www.stpn.soft.net)** Software Technology Parks of India. A government initiative to promote clusters of IT companies through out India. STPIs across India lay special emphasis on the promotion of SME IT companies.
- **Others – PHDCC, ASSOCHAM, SIDO etc.**

Information & Resource Center

www.bseindia.com/about/IndoNext.asp ; www.smenetwork.net ; www.crisil.com ; www.sme.in ; www.smallindustryindia.com

Nurturing IT SME : SIDBI

Problems faced by SMEs	Schemes Operated by SIDBI to address the Problem		
Delayed Payment of Bills	Direct discounting of bills scheme	Invoice discounting scheme	Bills rediscounting scheme
Obsolescence of Technology	Technology development and modernization fund scheme	ISO 9000 Scheme: Subsidy on Quality Consultation	
Working Capital availability	Single window composite loan scheme	Working capital term loan	Short term loan

National Venture Fund For Software and IT Industry (NFSIT)
 At the national level a INR1000 million (US\$ 22.22 million) National Venture Capital Fund for Software and IT industry (NFSIT) has been set up by SIDBI and is being managed by SIDBI Venture Capital Ltd.

Entrepreneurship Development Programme (EDP) : SIDBI has been supporting suitable agencies to train and guide potential entrepreneurs to set up enterprises.

Nurturing IT SMEs : NASSCOM

- Increase networking and face-to-face meetings between SME companies and potential customers in the developed markets.
- Facilitating SMEs for bidding for contracts in a transparent manner.
- Organize SME Focused delegations to and from India
- Cross industry tie – up for SME-SME interaction.
- Creating SME oriented CIO forum from developed markets to facilitate B2B interactions.
- A fund for marketing SMEs will be created. To help SMEs identify new market segments
- Promoting the cause of IT SMEs with various trade commissions across the globe.
- To promote the SME participation by pitching at the policy level for Government contracts
- Nasscom is likely to form a formal SME forum both for meetings as well as on the Web.
- Initiating mentoring programs in association with large companies
- Creating detailed directory containing capability statements and service offerings for ready reference by potential clients.

Nurturing IT SME : STPI

⦿ Infrastructure Support

- ⦿ Incubation Facility
- ⦿ Data Com Facility
- ⦿ Non Built Area

⦿ Association with State Government

- ⦿ Help in Policy making
- ⦿ E-governance
- ⦿ Research

⦿ Collaboration with Educational institutes

- ⦿ Technology Incubators
- ⦿ Provide domain expertise
- ⦿ Enable Industry Interaction

• STPI has 47 centers across the country

• More than 6000 units are operational in STPI campuses

• More than 4000 units are exporting from STPI campuses

• STPI software export for the year 2005-06 was more than \$ 21 million (INR 950 million)

Nurturing IT SME : Others

- CII plans 100 clusters across the country only for SMEs
- GoI , directive to promote SME participation in Government projects, e-governance implementation.
- UN supply cell set up to promote and develop business of IT sector with various United Nations procurement agencies like UNIDO.
- Special division by CRISIL(S&P Company) to rate the SME sectors.
- Various initiatives by Small Industries Development Organization (SIDO) targeted at developing Small Scale Industries (SSI) through credit guarantee schemes, bill discounting etc.

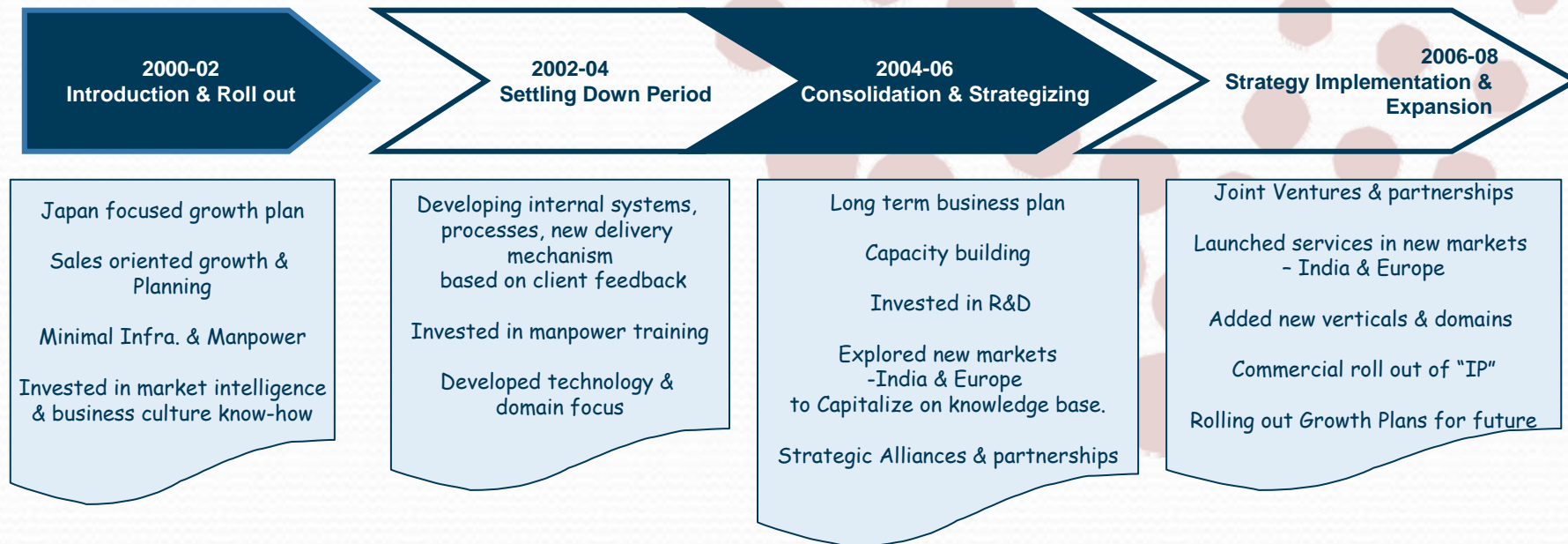
Case Study : An IT SME from India

IAP Company Limited

(AN INDO JAPANESE SOFTWARE SOLUTIONS COMPANY)

Operations : Japan, India, Europe
Staff Strength : ~ 400
Revenue : ~ 1000 million yen¥ (est. FY 06-07)
Business Offerings : System Integration & Software Solutions; Software Products
Official Website : www.iap-online.com

THE FOUR PHASE APPROACH



Bolstering SME Growth : Suggestions

1. B2B exchange – developing virtual clusters.

Formation of an B2B exchange for information sharing. This will help in finding out new opportunities in terms of business and partnerships. The exchange can be run as a participatory platform where registered SME members can put forward & share information/requirement(s).

2. Market Intelligence Support

A strong support of market intelligence is required to make the SMEs aware of the upcoming changes in the market in terms of economic policies, technology, competition, opportunities etc. The report can be in terms of weekly newsletter or research reports at subsidized rates.

3. Back ground Check agency

OECD through its network should help the SMEs across the world to do a background check of its probable partner/business associate in terms of the manpower employed, quality standards implemented etc

*The SME within
efficiently
organized clusters
have
demonstrated to
be
particularly
innovative and
able to compete
successfully in the
global economy*

Thank You

Q & A

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