

# IT AND ITeS INDUSTRY



**THE INSTITUTE OF  
Company Secretaries of India**

**भारतीय कम्पनी सचिव संस्थान**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**

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ICSI House, 22, Institutional Area, Lodi Road, New Delhi - 110 003

**Phones** : 41504444, 45341000, **Fax** : 24626727

**Website** : [www.icsi.edu](http://www.icsi.edu), **E-mail** : [info@icsi.edu](mailto:info@icsi.edu)

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## PREFACE

In the liberalized economic policy regime, the corporate sector has been assigned a major role as the driver of growth and development of the Indian economy. This has resulted in a number of changes, especially in the regulatory framework applicable to specific industry sectors. As an economy is consist of different industries like agriculture, service, engineering, manufacturing etc., it provides impetus to the economy i.e. employment generation, production of goods and services, income distribution in the whole economy.

With the intent to further enhance the competitiveness of India's services sector and to boost productivity with the creation of new employment opportunities, the Central Government has focused attention on 12 sectors in the economy as 'Champion Sectors' i.e., IT & ITeS, Tourism and Hospitality, Financial, Accounting and Finance, Transport and Logistics, Construction and Related Engineering, Communication, Education, Medical Value Travel, Audio Visual, Legal and Environmental.

As part of its support to government's policy initiatives, the Institute has started an initiative by projecting Company Secretary as 'Corporate Saviour'- a person who can be relied upon by stakeholders i.e., Corporates, Promoters, Shareholders, Government and Regulators.

With this basic objective, the institute has initiated the process of developing industry specific knowledge through research, creating awareness among the members about the contribution the Company Secretary can make in specific industry, capacity building of members in the specific industry, securing recognitions for members in specific industry sector, and sensitisation of regulatory authorities about the contribution the Company Secretaries can make in specific industry.

For conducting the detailed analysis in a structured manner, a format is designed with four sections, Section-I covering the industry profile, Section-II Business Scenario, Section-III legal framework and Section-IV Contribution of Company Secretary in employment and in practice. The research publications in all the industry sector are based on exploratory research.

I wish to express my sincere thanks and gratitude to CS Ahalada Rao V, Vice-President, the ICSI for his efforts in guiding and finalizing industry specific publications.

I also appreciate Dr. Prasant Sarangi, Director (Research), and Dr. Neelesh Neelmani-Research Associate, the ICSI-Research Cell for doing in-depth study of IT & ITeS Industry and bringing out this research publication, under the guidance of CS Sonia Bajjal, Director, Professional Development, Prospective Planning and Studies and Dr. S.K. Dixit, Mentor, Research Cell.

I am sure this research publication will prove to be of immense value to professionals, corporates and researchers. The research is an ongoing process, and I welcome the readers to give suggestions to make this research publication more comprehensive.

I wish all the readers a happy reading

New Delhi

Date: August 23, 2018

**CS Makarand Lele**

*President*

The Institute of Company Secretaries of India

## TABLE OF CONTENTS

Section No.	Title of the Section / Sub Topics	Page Number
<b>1</b>	1.1 Introduction	<b>1</b>
	1.2 Composition	<b>2</b>
	1.3 Scope of the Industry	<b>3</b>
<b>2</b>	Business Scenario	<b>5</b>
	2.1 History	<b>5</b>
	2.3 Business Scenario	<b>6</b>
	2.3 Scale of Operations of Organizations	<b>13</b>
	2.4 Diversity and Inclusion	<b>20</b>
<b>3</b>	Legal Framework	<b>32</b>
	3.1 Sector Type	<b>32</b>
	3.2 Applicable Laws	<b>32</b>
	3.3 Concerned Ministries	<b>33</b>
	3.4 Tribunal	<b>34</b>
	3.5 Regulators	<b>35</b>
<b>4</b>	Contribution of Company Secretary	<b>38</b>
	4.1 Introduction	<b>38</b>
	4.2 Role of Company Secretary	<b>38</b>
	BIBLIOGRAPHY	<b>43</b>



# SECTION 1

## INTRODUCTION

### 1.1 INTRODUCTION

It has been noted that IT Services and ITeS-BPO segments have been responsible for impacts on the growth of Indian economy. The Indian IT / ITeS industry has made one of the great success stories on modern India putting the country on the global map as the leader in the Information Technology (IT) and Business Process Outsourcing (BPO). The Indian Information Technology (IT) and Information Technology Enabled Services (ITeS) sectors go hand-in-hand, in every aspect. The industry has not only transformed India's image on the global scenario, but also fuelled economic growth and has contributed a lot to social transformation in the country. India has the opportunity to tap a market that is growing day by day with its cost advantage, huge resource pool and expertise. This sector has evolved over the past few years with main focus on the execution of Business Processes and Information/ data Security, End User Privacy, Business Contingency, Technology, People Management and above all efficiency, productivity and customer satisfaction.

Business Process outsourcing (BPO) implies the outsourcing of a specific set of business process activities and the knowledge that is required by outsourcing service provider for carrying out these activities for a division, a process or a function on behalf of a client organization. Business Process Outsourcing focuses on the performance of the outsourced business processes rather than on the performance of the Information System. ITeS-BPO is different from IT Services. A detailed analysis is presented in Table 1.

**Table 1: Differences between IT Services and Business Process Services**

<b>Major Differences between IT Services and ITES Business Process Services</b>	<b>ITeS BP Services</b>	<b>IT Services</b>
Customer Stakeholders	CEO, CFO, COO Business/ Functional Heads	CIO/CTO

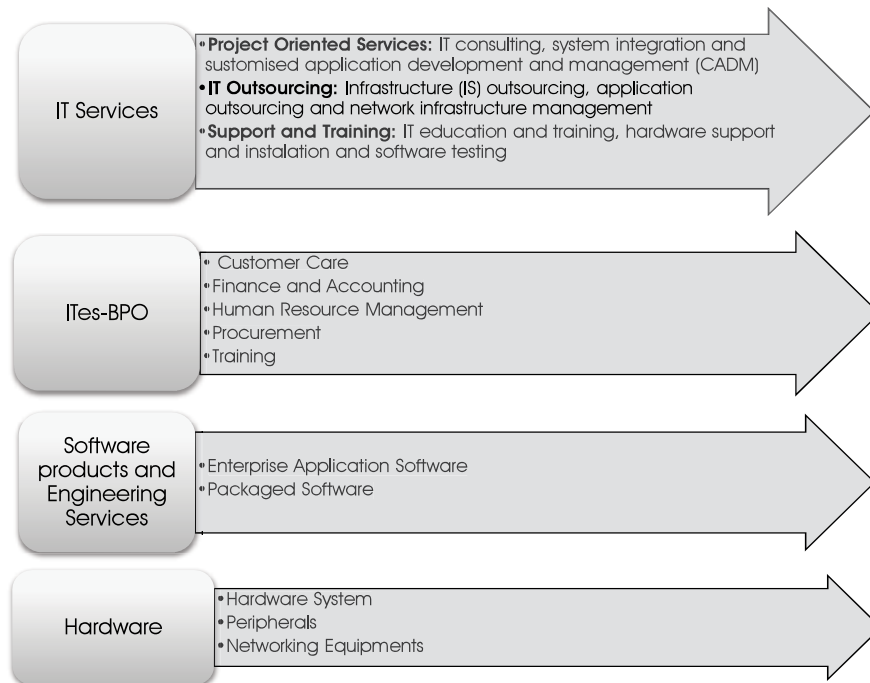
People	Operational	Technical
Process	Minimal onshore presence; Domain Knowledge Centric	Combination of onsite and offshore Technology Centric
Technology	Mostly driven by customer preference	Service provider has major stake

Source: Compiled from different sources

## 1.2 COMPOSITION

In fact, it is not easy to categorize the Indian IT and ITeS Industry separately. Mainly due to the wide variety of ways the terms IT, IT Services, ITeS and BPO are in use and also these words are often used interchangeably. The definition of IT (Information Technology) is the common term for the entire spectrum of technologies for information processing, including software, hardware, communication technologies and related services. The simple composition of the segment is analysed in the figure derived below:

**Figure-1: Composition of IT & ITeS Industry**





ITeS-BPO is moving up the value chain and the industry now caters to the requirements of high end BPO services. In India, the industry has now been renamed as “Business Process Management” considering the complexities and nature of work carried out by the Indian Service Providers in IT enabled Business Process Services. The ITeS BPO services now cover transformation not only in the bottom-line of the customer organization but it also deals with the Top-line improvements. The BPS industry has gone beyond transactional Business Process Services. The scope for BPS now includes Knowledge Process Services (examples: Pharmacovigilance, Legal Process Outsourcing, etc.) Analytical & Insight Services (examples: Market/Customer Analytics, Financial Analytics, etc.) Platform Based Services (BPaaS), etc.

The drivers for outsourcing have moved beyond cost-saving to include other key influencers such as need for sustained performance improvement, access to the global talent pool, need for a flexible and scalable organization, prompting organizations to re-evaluate and restructure their outsourcing strategies.

The demand dynamics and the drivers of global-sourcing of services continue to evolve rapidly across the globe. Moving much beyond cost savings, there is a greater focus on sustained performance improvement, multishore operating model and creation of a flexible and scalable organization.

### 1.3 SCOPE OF THE INDUSTRY

Some important scope of the industry includes:

- Customer Interaction & Support (CIS) - It includes all forms of IT-enabled customer contact; inbound or outbound, voice or non-voice based support used to provide customer services, sales and marketing, technical support and help desk services.
- Finance & Accounting (F&A) - It includes activities such as general accounting, transaction management, account receivables and payables management, corporate finance (e.g. treasury and risk management, and tax management); compliance management and statutory reporting, etc.)
- Horizontal-Specific BPM Services - Services that are reasonably similar across industries. Horizontal BPM services include Customer Interaction and Support (CIS), Finance and Accounting (F&A) and other related processing services, Knowledge Services, Human Resource Management (HRM), Procurement BPM, etc.
- Human Resources Processing - HR processing services include services that support the core HR activities plus talent management activities and associated business processes, such as benefits, payroll and talent management.

- Knowledge Services- Business research, Market research, Data management & reporting, Data analytics, Social media research, risk management.

**Central Board of Direct Taxes (CBDT)** notification No. 890E dated 26.09.2000, the list of eligible IT enabled services under BPO operations considered in IBPS are as under:

- Back Office Operations
- Call Centres
- Content Development or Animation
- Data Processing
- Geographic information System Services
- Human Resource Services
- Insurance Claim processing
- Legal Databases
- Medical Transcription
- Payroll
- Remote Maintenance
- Revenue Accounting
- Support Centres
- Website Services

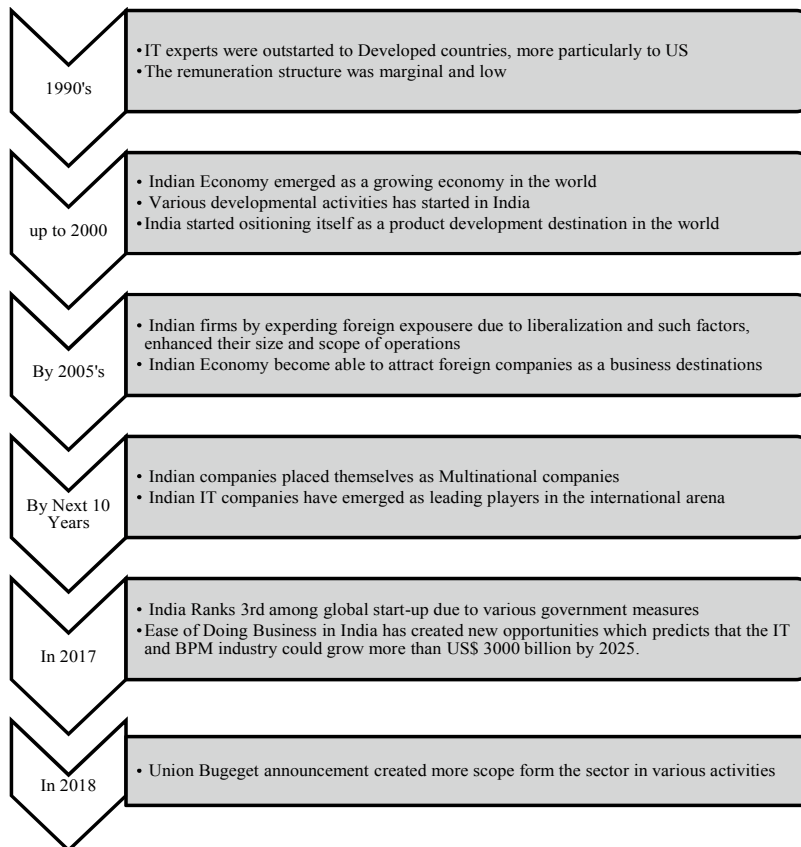
## SECTION 2

# BUSINESS SCENARIO

### 2.1 HISTORY

The Indian IT industry is not an old industry. It evolved as a sector in India during the 1990's. But because of a galloping growth, presently it has become one of the leading contributors to the economy. The growth phase of the industry is outlined below:

**Figure-2: Growth of the Industry**



## 2.2 BUSINESS SCENARIO

IT/ITeS industry has been continuously evolving since the economic reforms of 1990. The industry played a subtle role in the initial years as the supplier of manpower and processes. Gradually the Indian IT/ITeS industry started to make a formidable in the Global presence. They were marketed by competitively bidding for turnkey projects and winning them from world leaders in the industry. The Indian IT/ITeS industry shifted its position in the value chain with horizontal and vertical integrations. Process delivery and human capital at a competitive price with specified quality helped the Indian IT/ITeS industry to flourish and make a mark in the global IT/ITeS industry.

### (a) Business Quantum and Segments

The domestic revenue growth of IT and ITeS industry in India with CAGR of circa 10.7 %, has been performing on a promising growth trajectory in the last five years. The domestic IT – ITeS industry has been strengthened by government support through initiatives to lead India to be a digitally enabled economy.

BFSI, manufacturing, telecom and retail amount to around 80 percent of the exports for the IT –ITeS Industry. BFSI alone contributes around 53 percent of the IT-ITeS exports. NASSCOM Strategic Review for 2018 indicates the revenue generation indicated in Table-2 below:

**Table 2: Segment wise Revenue Generation in ITeS**  
(All figures in INR billion)

Year/ Segment	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	CAGR % (2013- 18)
IT Service	72721.6	81662	89562	100500	113600	11.37
ITeS-BPO	19593.8	21490	23364	26800	26800	8.90
Software Products Engineering Services	22468.8	25788	27907	33500	33500	10.32
Total IT-ITeS	114784.2	128940	140833	160800	173800	10.75

Source: <http://meity.gov.in/content/statistics>

IT Services has been the most promising segment for the IT-ITeS sector in India. Export of services continues to be the mainstay of this segment. The competitive cost advantage estimated to be one third to one fourth of the US contributes towards creating its Unique Selling Proposition (USP).

ITeS/BPO segment can be observed to growing with CAGR of 8.9% . This segment has focus on creating new paradigms by offering time bound quality services.

Engineering R&D and Product Development can be observed to be growing with the rate of 10.32 % CAGR. This segment has got attention of the international market by bringing new enterprise solutions meeting the benchmarks of the global requirements.

### Contribution to Economy

IT sector contributes to around 7.5 percent to the GDP of India. The sector ranks 3rd in India's total Foreign Direct Investment (FDI) share and has received US\$ 29.825 billion of FDI inflows between April, 2000 and December, 2017. The following table provides the comparative figures of Exports and Domestic in USD Billion.

**Table 3: Revenue from Exports and Domestic business**

Year	Exports	Domestic	Total
2013-2014	87.3	19	106.3
2014-2015	97.8	21	118.8
2015-2016	107.8	21.7	129.5
2016-2017	117	24	141
2017-2018	126	25	151

Source: <http://meity.gov.in/content/performance-contribution-towards-exports-it-ITeS-industry>

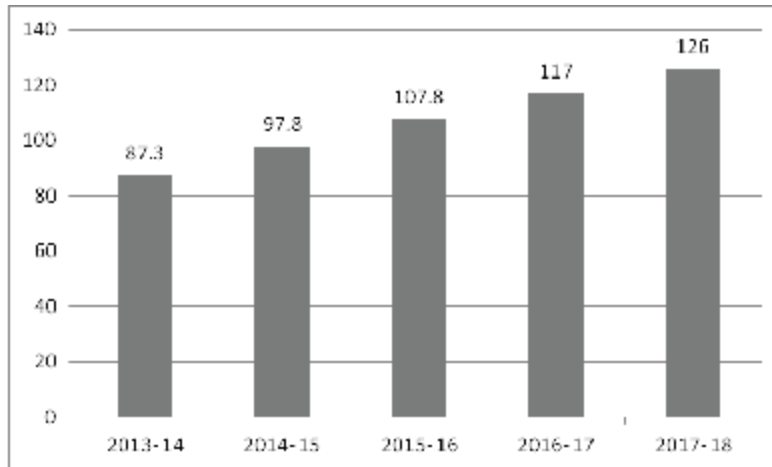
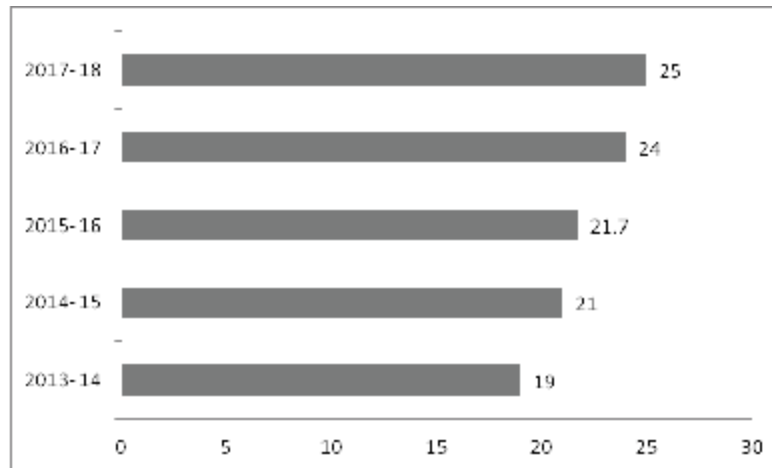
### Market Size

IT/ITES has got recognition as a separate division under the ministry. One of the compelling factors is the increasing volume of the business. Revenue from Indian IT-ITeS industry revenue is circa USD 151.0 billion in FY2017-18 over USD 141.0 billion in FY2016-17. It can be further established that an approximate growth of 7.0% is registered. Industry growth and absolute contribution (USD billion) over the last five years is presented in the Table 4 given below.

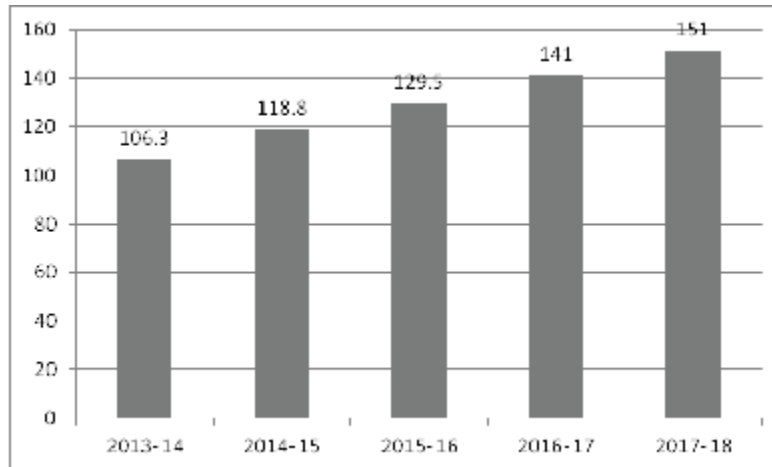
**Table 4: Performance & Contribution towards Exports by IT-ITeS Industry**

Year/ Description	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR % (2013-18)
Exports	87.3	97.8	107.8	117.0	126.0	10.49
Domestic	19.0	21.0	21.7	24.0	25.0	5.42
Total	106.3	118.8	129.5	141.0	151.0	9.55

Source: <http://meity.gov.in/content/performance-contribution-towards-exports-it-ITeS-industry>

**Figure3 : Exports Market share of the Industry (in US\$ Billion)****Figure 4 :Domestic Share of the Industry by the year 2018**

The total Market share of the industry is reached to 151 US\$ billion by the year 2018. Figure-5 derived below shows the trend of growth of total market share which is calculated by totaling domestic and export share.

**Figure 5: Total Market Share of the industry by the year 2018.****Exports Revenue share of various segments in IT/ITeS Sector**

Exports of IT services have the largest contribution of around 57 % which amounts to USD 86 billion approximately. The Engineering Research and Development and product development contribute 21.8 % of the total exports. The ITES segment which mainly comprise the Business process outsourcing has a share of 21.2 %. The data has been presented in the figure given below. The table given below reflects the quantum of contribution (USD billion) from each segment.

**Table 5: Quantum of Contribution from each segment of ITeS in (USD billion)**

Year/ Segment	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR % (2013-18)
IT Service	49.2	55.3	61.0	66.0	69.3	10.07
ITeS-BPO	20.4	22.5	24.4	26.0	28.4	9.19
Software Products, Engineering Services, R&D	17.7	20.0	22.4	25.0	28.3	13.09
Total IT-ITeS	87.3	97.8	107.8	117.0	126.0	10.32

Source: <http://meity.gov.in/content/performance-contribution-towards-exports-it-ITeS-industry>

It can be established from the above table that IT-ITeS exports' contribution is at US\$ 126.0 billion for FY2017-18. The growth over last year is at 7.5 %. Cumulative growth rate of last five years stands at 10.32. Disruptive technologies like AI (Artificial Intelligence), SMAC

(Social Media, Mobility, Analytics and Cloud), embedded systems etc. are the emerging trends of the industry to create new paradigms.

As is evident from table below IT Services manage to have the largest share as a segment, i.e., as compared to other segments. The exports revenue generated stands at US\$ 69.3 billion for 2017-18. The growth over last year is at 5%, however cumulative growth rate for the last five years stands at 10.07. ITeS/BPO segment has been a moderate performer with contribution of US\$ 28.4 billion in year 2017-18. However the growth over last year was at 9.2%, and the cumulative growth rate for the last five years stands at 9.19%.

Engineering R&D and Product Development contribution is pegged at US\$ 28.3 billion for the years 2017-18. The growth over last year is at 13.2% and the cumulative growth rate of the last five years stands at 13.09%. Such high growth rate is being registered due to increase in demand of innovative products in the global economy.

### Domestic Market Revenue share of various segments in IT/ITeS Sector

IT/ITeS Sector is export-oriented, however the domestic market has also been rising and has now become a significant contributor to the sector. The performance of IT-ITeS (excluding hardware) on yardstick of revenue (INR 100 crores/ billion) is presented in the Table 6 given below.

**Table 6: Domestic Market Revenue Share**

Year/ Segment	2013- 14	2014- 15	2015- 16	2016- 17	2017-18	CAGR %(2013-18)
IT Service	72721.6	81662	89562	100500	113600	11.37
ITeS-BPO	19593.8	21490	23364	26800	26800	8.90
Software Products Engineering Services	22468.8	25788	27907	33500	33500	10.32
Total IT-ITeS	114784.2	128940	140833	160800	173800	10.75

Source: <http://meity.gov.in/content/performance-contribution-towards-exports-it-ITeS-industry>

As evident from the above table the revenue contribution from Domestic operations of IT-ITeS (excluding hardware) is around INR 1738 billion for FY2017-18. The growth over last years is at 8.7 %. Cumulative growth rate for the last five years stands at 10.75%. E-Commerce growth fuelled by investors from across the world is going to intensify the operation of the domestic market of IT-ITeS. The latest development of acquisition of majority stake of



Flipkart by Walmart will take the operations to next level and it will require a regulator to guide the overall operations in ethical manner. Corporate Governance and Compliance at highly level will be required to safeguard the interest of various stakeholders in the industry. The government of India's emphasis on leading India to a new digital paradigm may invigorate the growth of the Domestic IT/ITeS operations.

Growth in the last five years of domestic revenue for each segment (INR crore) of IT-ITeS industry is represented below:

**Table 7: Segment Wise Growth of Last Five Financial Year**

Year	IT-Service	ITeS-BPO	Software Product & Engineering Services	Total
2013-2014	72721.6	19593.8	22468.8	114784.2
2014-2015	81662	21490	25788	128940
2015-2016	89562	23364	27907	140833
2016-2017	100500	26800	33500	160800
2017-2018	113600	26800	33500	173800

Source: <http://meity.gov.in/content/performance-contribution-towards-exports-it-ITeS-industry>

### Export Destinations

The USA, UK and EU remain the major markets for the IT software and services exports, accounting for ~90% of the total IT-ITeS exports, however, there are new challenges surfacing in these traditional geographies. Demands from Asia Pacific (APAC), Latin America and Middle East Asia is growing and new opportunities are emerging for expanding in continental Europe, Japan, China and Africa. The share of export markets in FY2017-18 is given below in Table 8.

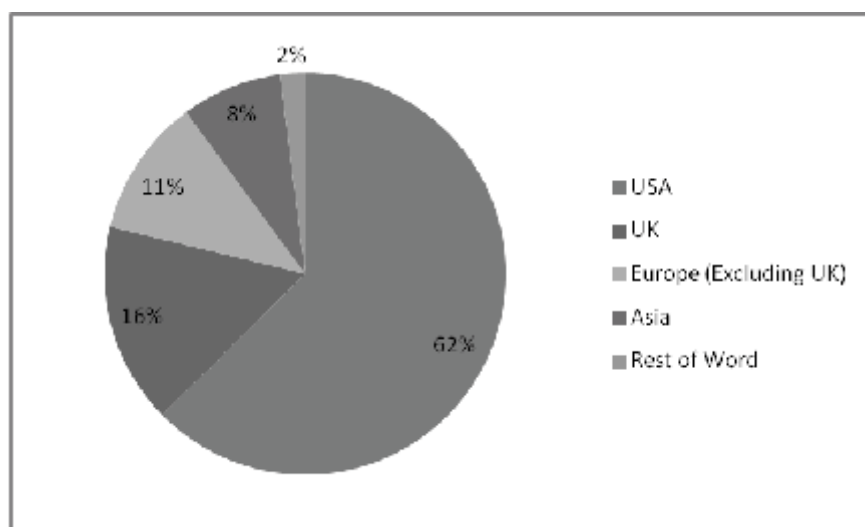
**Table 8: Share of Exports of it Software and Services Exports**

USA	62%
UK	16%
Europe (Excluding UK)	11%
Asia	8%
Rest of World	2%

Source: Compiled from various sources

Figure-6 shows country-wise contribution to the industry in India. It can be seen that the USA is the largest contributor with 62 per cent of share to total export.

**Figure 6 : Country-Wise Contribution of Export in the Industry**



## Employment

The IT/ITeS workforce is becoming increasingly diverse in terms of socio-economic, linguistic, multinational and regional backgrounds. The direct employment in the IT services and BPO/ITeS segment is expected to grow by about 4.0 % reaching and add around 1,05,000 employees during the year 2017-18 reaching a total of 3.96 million, which is a significant achievement for the sector. The details of direct employment by the sector for both, the exports segment and domestic market segment, over the last five years are given below (in Millions):

**Table 9: Direct Employment Over the Last Five Years in ITeS Segments**

Year/ Segment	2013-14	2014-15	2015-16	2016-17	2017-18(E)
IT Services & Exports	1.6	1.74	1.846	1.921	1.984
BPO Exports	0.989	1.03	1.086	1.152	1.191
Domestic Market	0.699	0.745	0.758	0.790	0.793
Total Employment	3.267	3.485	3.690	3.863	3.968
Net Addition	0.301	0.218	0.203	0.173	0.105

Source: <http://meity.gov.in/content/employment>

In addition to being one of the largest job provider and creator in the organized industry segment, this sector also plays a key role in enabling higher levels of indirect employment in other verticals such as transportation, real estate and hospitality, security services, and house-keeping.

### 2.3 SCALE OF OPERATIONS OF ORGANIZATIONS

IT/ITeS follow the global trend and large players dominate the industry. Captive technology centers and medium organizations are contributing around 35 percent of the total exports. The organizations in this domain are shifting from economies of scale to economies of scope and finding new possibilities to become an integrated service provider. The emerging and small organizations are contributing 20 percent and 18 percent respectively towards the total exports revenue. These organizations are working in specialized services and verticals. The challenge for these organizations however is immense as they always have to carve a niche with a differentiating service. Maintaining their growth rate along with creating sustainable development is a great challenge being faced by these organizations.

**Table 10: Scale of Operations of Organization in the ITeS Industry**

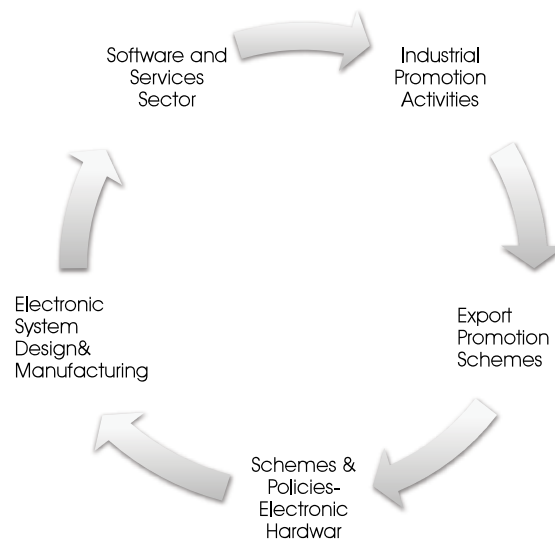
Category	Number of players	Percentage of total export revenue	Percentage of total employees	Work focus
Large	11	47-50%	35-38%	*Range of Services by completely equipped players *Huge Infrastructure and operations
Medium	120-150	32-35%	28-30%	Services across number of verticals being offered captive technology centers main contributor On-site and off-site operation in 40 countries

Emerging	1,000-1,200	9-10%	15-20%	Players offering specialized services Focused Setup for specialized services
Small	15,000	9-10%	15-18%	*Players with focus in particular services or verticals *Indian firms mostly

Source: Compiled from various sources

### Initiatives of Government of India

The ministry has classified the industries activities in following broad categories:



- Software and Services Sector
- Industrial Promotion Activities
- Export Promotion Schemes
- Schemes & Policies - Electronic Hardware
- Electronic System Design & Manufacturing

The Ministry is working upon various dimensions and expecting a rapid growth in all its activities. Incorporation and growth of many IT/ITES organizations is expected as an outcome of all these activities. The opportunities and avenues for Company Secretaries can be identified in collaboration with the Ministry. At this juncture each of the identified activities is being elaborated.

- **Software and Services Sector**

Information Technology Enabled Services (IT/ITES) industry in India has made India a global powerhouse today. It has made an unparalleled contribution in positioning the country to become a high preference investment destination in the eyes of the global investors. The contribution of IT/ITES in creating job opportunities has been incomparable in India. Performance of the industry in the last decade has been quite impressive with increased share in the GDP of India peaked at 7.9 percent for the FY 2017-18. Across the world India is credited with being one of the most preferred off-shoring destinations. IT/ITES organizations in India have performed with dominance in services to global clients for on-shore and off-shore services as well. The changing and evolving technologies present plethora of opportunities for all the companies operating at different scale in the IT domain. Strategic differentiation with a low-cost advantage gives IT firms in India to have the upper hand in maximizing the profits with quality output and high reliability. The investments made by Indian IT firms in up scaling the infrastructure and establishing state-of-the-art technology centers has resulted in facilitating deliverables to meet the predefined timelines within international norms. These competitive advantages have enabled the Indian firms to outperform the growth of global industry growth.

The Ministry of Electronics and Information Technology has been emphasizing on activities to promote programmes for skill development and uplifting infrastructure capabilities. Research and Development programmes are being encouraged at every possible level to maintain India's strategic advantage in IT and IT-enabled Services in the global market.

The government of India envisions a digitally equipped India. One of the great initiatives in this context is carving out Ministry of Electronic and Information Technology from the Ministry of Communications and Information Technology. The ministry was earlier functioning as The Department of Electronics and Information Technology (DeitY). Some organizations working towards the growth and development of the IT/ITES industry need a mention here.

- **Electronic and Computer Software Export Promotion Council (ESC)**

Electronics and Computer Software Export Promotion Council (ESC) represents the interests of Indian electronics and IT sector at numerous forums including international trading arena of the Electronic and Computer Software, Joint Trade Committees of Ministry of Commerce, as well as at Joint Business Councils of various countries. Under the aegis of

the Council, the IT services exports have reached the shores of more than 200 countries across the world establishing India's leadership in quality and competitiveness. ESC has a strong membership base across the country covering the entire gamut of Electronics and Software Industry. ESC offers a basket of services to its members for boosting exports.

- **National Association of Software and Services Companies (NASSCOM)**

NASSCOM is the premier trade body and the chamber of commerce of the IT-BPM industry in India. The global trade body has over 2000 members from both Indian and multinational companies that have a presence in India. NASSCOM members currently account for over 95% of the industry revenues in India, employing about 3.5 million professionals. It is a platform where industry leaders collaborate to determine strategies – both short term and long term that will impact the industry's growth. NASSCOM has created 7 dedicated industry councils representing the different industry segments – IT Services, BPM, Software Products, Engineering R&D, Global in-house centers, Domestic market, Internet and Mobile. In addition, the 10,000 start-ups initiative by NASSCOM, aims to build and support 10,000 companies over the decade.

NASSCOM is implementing projects for making efforts to further strengthen existing markets, and simultaneously diversify and increase presence in the new and emerging markets. These participative efforts have helped the government and industry to address policy and administrative issues and challenges in the developed markets of the USA, Canada, the UK and EU; especially the Government could address the turbulent issue of movement of IT professionals in the USA and UK. The Indian IT industry has also been able to make new pathways in the emerging markets in China and Japan.

NASSCOM has founded many institutions including Data Security Council of India (DSCI) that focuses on data and cyber security; NASSCOM Foundation that focuses on sustainability and CSR; National Institute of Smart Governance (NISG) – a partnership with government to build capability and capacity for e-governance; IT-ITeS Sector Skill Council under the NSDC initiative to focus on skill building

- **Software Technology Parks of India (STPI)**

Software Technology Parks of India were set up in 1991 as an autonomous society under the ministry. STPI's main objective has been the promotion of software exports from the country. STPI acts as 'single-window' in providing services to the software exporters. STPI has set-up a total of 57 STPI operational centres/sub-centres across the country, out of which 49 centres are in Tier II and Tier III cities. During the FY 2016-17, estimated IT/ ITeS export made by STPI registered units are 350679.7 crore which annually account for about 50% of total software exports.

The services rendered by STPI for the software exporting community have been statutory services, data communications services, incubation facilities, training and value added

services. STPI has played a key developmental role in the promotion of software exports with a special focus on SMEs and start up units.

STPI is working closely with respective state governments/local authorities for creation of more space, equipped with the state-of-the-art infrastructure facilities, for development of the software industry and increasing exports.

#### • **Export Promotion Schemes**

The IT and ITeS sector employs 34% women, out of total 39.68 lakhs employees for FY 2017-18. After the economic reforms of 1991-92, liberalization of external trade, elimination of duties on imports of information technology products, relaxation of controls on both inward and outward investments and foreign exchange and the fiscal measures taken by the Government of India and the individual State Governments specifically for IT and ITeS have been major contributory factors for the sector to flourish in India, and for the country to be able to acquire a dominant position in offshore services in the world. The major fiscal incentives provided by the Government of India have been for the Export Oriented Units (EOU), Software Technology Parks (STP), and Special Economic Zones (SEZ).

#### **Software Technology Parks (STPs)**

For the promotion of Software exports from the country, the Software Technology Parks of India was set up in 1991 as an Autonomous Society under the Ministry of Electronics and Information Technology. The services rendered by STPI for the Software exporting community have been statutory services, data communications servers, incubation facilities, training and value-added services. STPI has played a key developmental role in the promotion of software exports with a special focus on SMEs and start up units. The STP Scheme which is a 100% export-oriented scheme has been successful in fostering the growth of the software industry. The exports made by STP Units have grown over the years. The STP scheme allows software companies to set up operations in convenient and inexpensive locations and plan their investment and growth driven by business needs. More than 4000 units are registered with STPI.

#### **(a) Benefits under STP Scheme:**

- Customs Duty Exemption in full on imports.
- Central Excise Duty Exemption in full on indigenous procurement.
- All relevant equipment / goods including second hand equipment can be imported (except prohibited items).
- Equipment can also be imported on loan basis/lease.

- 100% FDI is permitted through automatic route.
- Sales in the DTA up to 50% of the FOB value of exports permissible.
- Use of computer imported for training permissible subject to certain conditions.
- Depreciation on computers at accelerated rates up to 100% over 5 years is permissible.

• **Special Economic Zones (SEZ) Scheme**

In 2005, the Department of Commerce, Ministry of Commerce & Industry, Government of India has enacted the Special Economic Zone (SEZ) Act, with an objective of providing an internationally competitive and hassle free environment for exports. A SEZ is defined as a “specifically demarked duty-free enclave and shall deemed to be foreign territory (out of Customs jurisdiction) for the purpose of trade operations and duties and tariffs”. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006.

It provides drastic simplification of procedures and a single window clearance policy on matters relating to central and state governments. The scheme is ideal for bigger Industries and has a significant impact on future Exports and employment.

The SEZ policy aims at creating competitive, convenient and integrated Zones offering World class infrastructure, utilities and services for globally-oriented businesses. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure.

**(b) Salient features of SEZ scheme are as under:**

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State Sales Tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
- Other levies as imposed by the respective State Governments
- Single window clearance for Central and State level approvals.
- This scheme has a significant impact on future exports & employment. About 230 IT-ITeS specific SEZs have been notified by the Department of Commerce.



**• BPO Promotion Schemes**

As per NASSCOM, BPO includes following processes that are IT-enabled, but they do not necessitate on-shore presence, hence, they are meant for offshore.

- Customer Interaction & Support (CIS) - CIS includes all forms of IT-enabled customer contact; inbound or outbound, voice or non-voice based support used to provide customer services, sales and marketing, technical support and help desk services.
- Finance & Accounting (F&A)- F&A includes activities such as general accounting, transaction management (account receivables and payables management), corporate finance (e.g. treasury and risk management, and tax management); compliance management and statutory reporting, etc.
- Horizontal-Specific BPM Services - Services that are reasonably similar across industries. Horizontal BPM services include Customer Interaction and Support (CIS), Finance and Accounting (F&A) and other related processing services, Knowledge Services, Human Resource Management (HRM), Procurement BPM, etc.
- Human Resources Processing - HR processing services includes services that support the core HR activities plus talent management activities and associated business processes such as benefits, payroll and talent management.
- Knowledge Services - Business research, Market research, Data management & reporting, Data analytics, Social media research, risk management.

The BPO promotion Schemes has been branched into India BPO Promotion Scheme (IBPS) and North-East BPO Promotion Scheme (NEBPS).

**India BPO Promotion Scheme (IBPS)**

The India BPO Promotion Scheme (IBPS) has been approved under Digital India Programme, to incentivize BPO/ITES Operations across the country [excluding certain cities and the States in North-East Region (NER)], for the creation of employment opportunities for the youth and growth of IT-ITES Industry. IBPS aims to incentivize establishment of 48,300 seats distributed among each state in proportion of state's population, with financial support up to Rs. 1 lakh/seat in the form of Viability Gap Funding (VGF), with an outlay of Rs. 493 crores up to 31.03.2019.

The objectives of IBPS are as under:

- Creation of employment opportunities for the youth, by promoting the IT/ITES Industry particularly by setting up the BPO/ITES operations.

- Promotion of investment in IT/ITES Sector in order to expand the base of IT Industry and secure balanced regional growth.

## 2.4 DIVERSITY AND INCLUSION

Special incentives will be provided within the ceiling of total financial support i.e. Rs. 1 Lakh/seat. Special incentive (% of eligible financial support) for Units providing employment to women, and to persons with disability will be provided as mentioned in Table 11.

**Table 11: Incentive for Diversity and Inclusion**

Inclusion & Diversity	Special Incentive (% of eligible financial support)
50% women employment	5%
4% Employment of persons with Disability	2%

Source: <http://meity.gov.in/content/industrial-promotion-activities>

- Incentive for providing employment beyond target: Special incentive (% of eligible capital support) for units providing employment beyond their employment target (1.5 times the number of seats) will be provided as indicated on Table 12.

**Table 12: Special Incentive for Employment beyond Target**

Employment generation	Special Incentive (% of eligible financial support)
2 X no. of seats	5%
2.5 X no. of seats	7.5%
3 X no. of seats	10%

Source: <http://meity.gov.in/content/industrial-promotion-activities>

- Incentive for wider dispersal within State including rural areas : Special Incentive (5% of eligible financial support) for units setting up BPO/ITeS operations at locations other than the State Capital.
- Incentive for promoting local entrepreneur : Special Incentive (5% of eligible financial support) for units setting up BPO/ITeS operations as a consortium with local entrepreneur (Domicile of State/UT).
- Special Package for Hilly Region (Himachal Pradesh, Uttarakhand and Jammu & Kashmir): The eligible entities can participate in the scheme with minimum 50 seats with average annual turnover of last 3 FYs as Rs. 1 Crore instead of minimum 100 seats with average annual turnover of last 3 FYs as Rs. 2 Crore.

A Company, availing financial support under IBPS, can also avail support under any other Scheme of the Central/State Government concerned other than similar financial support availed under IBPS.

Under the IBPS, the quantum of financial support shall be determined through an open bid system, subject to overall ceiling of Rs. 1 lakh per seat. This Scheme seeks to incentivize establishment of 48,300 seats in respect of BPO/ITeS operations, at an outlay of about Rs. 493 crores, providing employment opportunities to about 1,45,000 persons considering three shifts BPO operations.

- **North-East BPO Promotion Scheme (NEBPS).**

The North-East BPO Promotion Scheme (NEBPS) has most of the provision similar to IBPS mentioned above. Few incentives and provision which differ are being mentioned below.

- Training Incentive:

Up to 50% of training expenditure with cap of 6,000/employee for total regular employees up to the 1.5 times (employment target) the number of approved seats of BPO/ITeS operation (e.g. For 100 seats BPO/ITeS operation, training incentive can be availed for max.  $1.5 \times 100 = 150$  regular employees).

- **Incentive for diversity & inclusion:**

Special incentive (% of eligible financial support) for Units providing employment to women, and to persons with disability will be provided as under:

**Table 13: NEBPS Incentive for Diversity and Inclusion**

Inclusion & Diversity	Special Incentive (% of eligible capital support)
50% women employment	5%
75% women employment	7.5%
4% employment for persons with disability	2%

Source: <http://meity.gov.in/content/industrial-promotion-activities>

- Incentive for promoting local entrepreneur:

Special Incentive (5% of eligible financial support) for units setting up BPO/ITeS operations as a consortium with local entrepreneur (Domicile of the State where BPO/ITeS operations are being established).

- (c) Under the NEBPS, the quantum of financial support shall be determined through an open bid system, subject to overall ceiling Rs. 1 lakh/seat. The bids would be

invited from eligible companies in each State in the N.E.R, through a Request For Proposal (RFP), to determine the lowest amount of financial support to be provided as Viability Gap Funding.

- (d) A company, seeking to avail financial support under this scheme, shall be under obligation not to claim the similar financial support from any other Scheme of the Central/State Government concerned. However, other supports not claimed under NEBPS may be availed from other Scheme of the Central/State Government.

Based on the types of operations carried out classification as indicated in Table 14 can be done.

**Table 14: Types of Operations in ITeS industry**

Scale of Service	Nature of Service
Solution Providers	Well structures business lines with integrated enterprise solutions.
Consolidators	Business integration to enhance scale of operations.
Multi-Domain Players	Distinct capability for number of verticals
Niche Service Providers	Providing specialized services for a large business player

*Source: Compiled from various sources*

#### • Geography of Operations and Government Initiatives

Major cities which are important for IT/ITeS within India include Bangalore, Chennai, Hyderabad, Pune and NCT. The government of India under the The India BPO Promotion Scheme (IBPS) has been attempting to increase the reach of the IT/ITeS by setting up state of art Software Technology Parks (STP) in India. At present most state governments are expressing interest to set up STPs and making IT/ITeS industry widespread in India. Details of the scheme are shared in the next section of Government Initiatives.

#### • Industrial Promotion Activities

Ministry of Electronics and Information Technology (MeitY) has been putting its best foot forward for promotion programmes to boost the IT and Electronic Hardware sector. Emphasis has been laid on developing adequate infrastructure enabling research and development to promote growth of the market size.

Training plays vital role in drawing optimum development of business management capacity by utilizing the existing infrastructure and giving the organisations the competitive advantage. Ministry through its flagship India BPO promotion scheme has designed a

mechanism to encourage participation which is evenly spread across the contours of the nations. Special endeavour is being unleashed through dedicated task force which will enable professionals to sharpen their skills in technologies which will help the industry to move ahead and make new benchmarks.

Some of the major promotional activities in the field of Information Technology and Electronics Hardware Manufacturing include the following : creating the right infrastructure in the country that is conducive to growth, broaden the markets and create a level playing field, provide R&D expertise and training programmes, assist in building a better and strong competitiveness among organizations. Providing latest information on industry trends, management models, market and advanced technologies.

The broad categories in which such initiatives exist are as follows:

- Infrastructure Support
- R&D Promotion
- Tax Provisions
- Prioritization of Electronics Hardware Manufacturing
- Task Force

The initiatives of the Ministry are being discussed in this section.

#### ➤ **Infrastructure Support**

Information Technology Investment Regions (ITIRs) in Information Technology (IT), Information Technology Enabled Services (ITES) and Electronic Hardware Manufacturing (EHM) have been established to boost the overall growth of the sector in an integrated manner.

The State Governments have been entrusted to establish and empower the ITIRs. The ITIRs have a provision of State Level Empowered Committee to carry out the following functions:

- i) Monitor, Review and Appraise the functions of and performance of ITIRs
- ii) Deal with issues relating to disputes between the stakeholders, and
- iii) Other functions which may include liaison with in order to obtain security clearance in respect to ITIR proposals of foreign origin and sensitive areas.

The above roles are suitable for governance professionals

#### ➤ **R&D Promotion**

Support International Patent Protection in Electronics & IT (SIP-EIT) scheme has been aimed

to support MSMEs and Technology Startup with seed capital and finance. It is anticipated that research and development activities can be strengthened by encouraging innovation and processing international patents related to them. Value creation by identifying global capabilities and nurturing them to bloom and become trend setter is the objective of these activities. The Ministry has decided that expenditures on such activities shall be reimbursed to the tune of INR 15 lakhs for each invention.

Multiplier Grants Scheme (MGS) is aimed at encouraging combined R&D activities from industry and academics. Such collaborative efforts of R&D institutions result in development of innovative products and packages. It shall be in effect till 31<sup>st</sup> March, 2020 with total outlay of Rs. 36 crores. Technology Development Council (TDC) has been authorized to allocate and disburse budget for various R&D activities to ensure effective implementation of this scheme. The scheme has a clause that institutions can commercialize products which are outcome of the R&D activities and seek financial support for same. The proposals shall be submitted jointly by the industry and institutions in order to get financial support under the scheme. The quantum of such financial support is twice the expenditure borne by the industry to facilitate such research.

#### ➤ **Tax Incentives**

GST rate for all kinds of IT Software supply which may include services, products, and supply on media, electronic download and temporary transfer of Intellectual Property (IP) has been ascertained at 18% with full Input Tax Credit (ITC).

Delivering services from various locations and integrated pricing for the contract as a whole is the norm in IT/ITES industry. Normally the contract or agreement with the recipient is entered into by one of the branches (say "Principal Branch"). Therefore, in such cases of service delivery from multiple locations of the supplier to the recipient, the supply could be visualized as consisting of two distinct supplies. First supply- the different branches of the supplier located across different States are making the supply to the main branch which entered into a contract or an agreement with the recipient for the supply of such service. Second supply- main branch is making a supply to the customer. GST is to be levied accordingly. In such a scenario, the main branch would get input tax credit of GST paid by the other branches on supplies made by them to the main branch.

#### ➤ **Prioritizing Electronics Hardware Manufacturing**

Electronics and IT Hardware manufacturing are also expected to grow immensely and therefore it is being focused through Initiatives in the Foreign Trade Policy, as a result of which:

1. Provisions has been made by DGFT for expediting clearance of approvals required

2. Exporters/Associations would be entitled to utilize Market Access Initiative (MAI) & Market Development Assistance (MDA) Schemes of the Department of Commerce for promoting Electronics and IT Hardware Manufacturing Industry exports

Under the above mentioned schemes, assistance to reverse visits from prominent buyers, journalists/editors of trade journals and representatives of leading buying houses from the identified countries for visiting trade fairs/exhibitions/Seminars and to visit selected units in India shall be provided to the Eligible Agencies.

Level of assistance provided is to a tune of 65% of the total approved expenditure including Venue Cost, Publicity cost for the event, Cost of the catalogues and other material, Translation and Interpreters charges etc.

➤ **Task Force to Stimulate Growth**

A Task Force was set up by the Department of Electronics and Information Technology through Office Order dated 11th August, 2009 to make recommendations on the following issues:

1. Strategies to augment the growth of the IT software and IT enabled services sector in the context of global developments.
2. Steps needed to accelerate domestic demand for (i) Electronics Hardware products and (ii) IT & IT enabled services.

Concerted action is required to capture the opportunities and mitigate the risks to achieve the vision for 2020. In doing so, stakeholders (industry, NASSCOM and the government) will need to act together in an unprecedented manner. Industry and NASSCOM have already started working on the key enablers mentioned below:

- a. Developing a high caliber talent pool providing higher level training to the recruits, focus on building specialization and language skills Industry academia partnerships on curriculum, faculty development Introduced Common assessment program to identify skill gaps and build programmes for the gaps in education system
- b. Establishing India as a trusted global hub for professional services, Industry building business continuity/disaster recovery implementation strategy India to become leader in setting standards in data security/data privacy NASSCOM working with government to enhance enactment and enforcement
- c. Harnessing technology for inclusive growth : Industry leveraging PPP models and building applications for e-health, e-education, e-financial services and e-skills Balanced regional growth through setting up in tier 2/3 cities by the industry; rural BPOs to provide employment

- d. Fostering a Sustainable Ecosystem for Innovation and R&D Carrying out Research and IP development both internal and sponsored Thrust on PhD programmes and research partnership with academic institutions
- e. Catalyzing growth beyond today's core markets : Industry concentrating on developing new markets; building global viewpoint Industry leveraging Global workforce through offshore delivery centers – hiring best talent and participating in local ecosystem development NASSCOM facilitating Policy Advocacy, building coalition partners at a global level NASSCOM acting as the brand ambassador for global services in global forums to champion globalization of the industry and relevant imperatives.

• **Schemes & Policies - Electronic Hardware**

Special schemes are available for setting up Export Oriented Units for the Electronics Hardware Sector. Various incentives and concessions are available under these schemes. The salient features of EOU, EHTP, STP and SEZ schemes are tabulated here.

**Table 15: Salient Features of EOU, EHTP, STP and SEZ schemes**

<b>Benefits</b>	<b>EHTP/STP/EOU Unit</b>	<b>SEZ Unit</b>
Foreign Equity permissible	100% FDI investment permitted through automatic route	100% FDI investment permitted through automatic route
Duty free imports/ domestic procurement permissible	Capital goods, Raw materials, Components and other inputs	All goods for development, operation and maintenance
Income Tax Benefit	Export profits 100% tax-exempt under Sections 10A/10B of the Income Tax Act, 1961 (up to 31st March 2011)	100% Income Tax exemption on export profits under Section 10AA of the Income Tax Act, 1961 for 5 years, 50% for next 5 years thereafter and 50% of ploughed back export profit for next 5 years
Export Obligation	Unit shall be a positive Net Foreign Exchange (NFE) Earner. Supplies of ITA-1 items manufactured by these units in the Domestic Tariff Area (DTA) shall be counted towards fulfillment of export obligation	Unit shall be a positive Net Foreign Exchange (NFE) Earner. Supplies of ITA-1 items manufactured by these units in the Domestic Tariff Area (DTA) shall be counted towards fulfillment of export obligation



DTA Sales	DTA sales permissible up to 50% of FOB value of exports, subject to fulfillment of positive NFE, on payment of concessional duties (50% of basic customs duty and full excise duty). DTA sales beyond this entitlement are permissible against payment of full duties provided the unit has achieved positive NFE.	DTA sales permissible on payment of full duties. However, the unit is required to be a positive Net Foreign Exchange (NFE) Earner over the five year period of its operation.
Central Sales Tax	Refundable	Exempted
Supplies from DTA	Deemed Export	Physical Export

*Source: Compiled from various sources*

#### ➤ **Export Promotion Capital Goods (EPCG) Scheme**

The Zero duty EPCG Scheme is available to exporters of electronic products. It allows import of capital goods for pre-production, production and post-production (including CKD/SKD thereof as well as computer software systems) at zero% customs duty, subject to an export obligation equivalent to 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorization issue-date.

The concessional 3% duty EPCG Scheme allows import of capital goods for pre-production, production and post-production (including CKD/SKD thereof as well as computer software systems) at 3% customs duty, subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorization issue-date. The capital goods shall include spares (including refurbished/reconditioned spares), tools, jigs, fixtures, dies and moulds. Second hand capital goods, without any restriction on age, may also be imported under the EPCG Scheme. The export obligation can also be fulfilled by the supply of ITA-1 items to the DTA, provided the realization is in free foreign exchange.

#### ➤ **Duty Exemption and Remission Schemes**

Duty exemption schemes enable duty free import of inputs required for export production. Duty exemption schemes consist of:

**1. Advance Authorization Scheme**

Advance Authorization is issued to allow duty free import of inputs, which are physically incorporated in export product.

**2. Duty Free Import Authorization (DFIA) scheme**

DFIA is issued to allow duty free import of inputs which are required for the production of an export product

A duty remission scheme enables post export replenishment / remission of duty on inputs used in export product. Duty Remission Schemes consist of:

**1. Duty Entitlement Passbook (DEPB) Scheme**

Duty Entitlement Pass Book Scheme (DEPB) is an export incentive scheme. It has been conceptualized with the objective to neutralize the impact of custom's duty in international transactions. The neutralization is provided as credit against the export product.

**2. Duty Drawback (DBK) Scheme**

DBK scheme has provisions to refund duty of customs and duty of central excise that are levied on imported and indigenous materials used in the manufacture of exported goods.

**➤ Deemed Exports**

"Deemed Exports" refer to those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange. The following categories of supply of goods by the main/ sub-contractors are regarded as "Deemed Exports" under the Foreign Trade Policy, provided the goods are manufactured in India:

- a. Supply of goods against Advance Authorization/Advance Authorization for annual requirement/DFIA;
- b. Supply of goods to Export Oriented Units (EOUs) / Software Technology Park (STP) units / Electronic Hardware Technology Park (EHTP) units / Bio Technology Park (BTP) units;
- c. Supply of capital goods to Export Promotion Capital Goods (EPCG) Authorization holders;
- d. Supply of goods to projects financed by multilateral or bilateral Agencies/Funds as notified by the Department of Economic Affairs, Ministry of Finance under International Competitive Bidding (ICB) in accordance with the procedures of

those Agencies/Funds, where the legal agreements provide for tender evaluation without including customs duty;

- e. Supply of capital goods, including in unassembled/disassembled condition as well as plants, machinery, accessories, tools, dies and such goods which are used for installation purposes till the stage of commercial production, and spares to the extent of 10% of the FOR value to fertilizer plants;
- f. Supply of goods to any project or purpose in respect of which the Ministry of Finance, by a notification, permits the import of such goods at zero customs duty;
- g. Supply of goods to the power projects and refineries not covered in (f) above;
- h. Supply of marine freight containers by 100% EOU (Domestic freight containers - manufacturers) provided the said containers are exported out of India within 6 months or such further period as permitted by the customs;
- i. Supply to projects funded by UN agencies; and
- j. Supply of goods to nuclear power projects through competitive bidding as opposed to ICB.

The benefits of deemed exports shall be available under paragraph (d), (e), (f) and (g) only if the supply is made under the procedure of International Competitive Bidding.

### **Benefits for Deemed Exports**

Deemed exports shall be eligible for any/all of the following benefits in respect of manufacture and supply of goods qualifying as deemed exports subject to the terms and conditions as given in the Chapter-8 of Handbook of Procedures (Vol.I), 2009-2014 of the Department of Commerce, Ministry of Commerce & Industry:

- (a) Advance Authorization/Advance Authorization for annual requirement/DFIA
- (b) Deemed Export Drawback.
- (c) Exemption from terminal excise duty where supplies are made against ICB. In other cases, refund of terminal excise duty will be given.

#### **• Electronic System Design & Manufacturing**

Over the last couple of decades India has been the epicenter of consumer demand fuelled by a phenomenal GDP growth. While demand increased across all sectors, demand for high technology products, specifically electronic products has registered significant growth and going by current estimates, the demand for electronics hardware in the country is projected to increase from USD 45 billion in 2009 to USD400 billion by 2020 (*Source: Task Force Report*).

The estimated production will reach USD 104 billion by the year 2020, creating a gap of USD 296 billion in demand and production. This creates a unique opportunity for companies in the ESDM (Electronic System Design & Manufacturing) sector to look at India as their next destination to cater to the domestic Indian demand as well as act as an exports hub.

Accordingly, the Government has started several initiatives for the development of electronics sector in the country. The Government has recently approved National Policy on Electronics (NPE). One of the important objectives of the NPE is to achieve a turnover of about USD 400 Billion by 2020 involving investment of about USD 100 Billion and employment to around 28 million by 2020. It aims at achieving a turnover of USD 55 Billion of chip design and embedded software industry, USD 80 Billion of exports in the sector. Moreover, the policy also proposes setting up of over 200 Electronic Manufacturing Clusters. Another important objective of the policy is to significantly upscale high-end human resource creation to 2500 PhDs annually by 2020 in the sector. India has become the hub for semiconductor design with nearly 2000 chips being designed per year. Annually India is generating nearly USD 2 Billion in revenues for the chip design services.

Several other policy initiatives have been approved providing very attractive financial investment in electronics manufacturing and domestically manufactured electronic goods. The financial incentives are available not only for new units but also for units relocating from abroad. Besides, when we speak of electronics, apart from covering electronic hardware products in relation to IT and office automation, telecom, consumer electronics, electronic components, etc. We cover a wide range of products relating to verticals like solar photovoltaic, automotive electronics, medical electronics, avionics, LED etc. To address the issue of infrastructure, a scheme for Electronics Manufacturing Cluster provides 50% of the cost of upgrading infrastructure and logistics as grant in aid from Government.

India has a vast pool of innovative and talented human resource. Our human resource is our strength which we offer to an investor from abroad. We produce over 200,000 engineers every year. We also propose to enhance the number of post graduates and PhDs in Electronics so that abundant manpower is available for Electronics industry to grow and flourish.

➤ **Incentive Schemes : Modified Special Incentive Package Scheme (M-SIPS)**

To offset disability and attract investments in Electronic manufacturing, Modified Special Incentive Package Scheme (M-SIPS) was notified on 27.7.2012. The scheme is available for both new projects and expansion projects. The scheme provides capital subsidy of 20% in SEZ (25% in non-SEZ) for units engaged in electronics manufacturing. It also provides for reimbursements of CVD/ excise for capital equipment for the non-SEZ units. For some of the high capital investment projects it provides for reimbursement of Central Taxes and Duties.

The incentives are provided on reimbursement basis. The incentives were available for 29 electronic verticals. Units all across the manufacturing value chain are covered under the scheme. For each of the product category, an investment threshold is prescribed which an applicant has to incur for getting eligible for incentives. The investment threshold varies from Rs 1 Crore to Rs 5000 Crores depending upon a type of project. The incentives are available for 10 years from the date of approval. The scheme was initially opened for 3 years till 26-07-2015.

The scheme was amended on August 3, 2015. The salient amendments include (i) The term of the scheme has been extended upto 27-07-2020. (ii) The scope of the scheme has been extended to cover additional verticals. (iii) The procedure for grant of approval has been simplified and streamlined. The incentives are now available for investments made in a project within a period of 10 years from the date of application.

The M-SIPS require applicants to submit applications with Financial Closure (tied up funds) for the project they propose to execute. The Financial Closure for a project, however, can be given in phases.

## SECTION 3

# LEGAL FRAMEWORK

### 3.1 SECTOR TYPE

Proprietorship

Partnership

Companies- Private and Public

Foreign Companies Branch Offices

### 3.2 APPLICABLE LAWS

#### ***General Laws***

- The Payment of Wages (Amendment) Act, 2017
- Equal Remuneration Rules, 1976
- Employees Compensation (Amendment) Act, 2017
- Maternity Benefit (Amendment) Act, 2017
- The Payment of Gratuity Act, 1972
- The Essential Services Maintenance Act, 1968
- The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979

#### ***Specific Laws***

A) Information Technology Act, 2000

The legal enactment which governs the process and dissemination of information digitally in India is the Information Technology Act, 2000. The Act along with its rules legalizes the acceptance of electronic records and digital signatures providing a legal backbone to e-commerce. The Indian Information Technology Act addresses the following issues:

Legal Recognition of Electronic Documents;

Legal Recognition of Digital Signatures;

Offenses and Contraventions;

B) The Foreign Corrupt Practices Act of 1977 for US is important for lawful conduct of business even at off-shore locations.

### ***State Laws***

The Information Technology Act, 2000 remains at the centre of all activities carried out by various states in India. However, each state has the authority to incentivize the promotion of ITeS by relaxing provisions of related laws to the extent possible as per constitutional provisions.

## **3.3 CONCERNED MINISTRIES**

### **MINISTRY OF ELECTRONICS AND INFORMATION TECHNOLOGY**

The ministry has the mission to promote e-Governance for empowering citizens, promoting the inclusive and sustainable growth of the Electronics, IT & ITeS industries, enhancing India's role in Internet Governance, adopting a multipronged approach that includes development of human resources, promoting R&D and innovation, enhancing efficiency through digital services and ensuring a secure cyber space. The Functions of the ministry is mentioned below;

- Policy matters relating to information technology; Electronics; and Internet (all matters other than licensing of Internet Service Provider).
- Promotion of internet, IT and IT enabled services. Promotion of Digital Transactions including Digital Payments.
- Assistance to other departments in the promotion of E-Governance, E- Commerce, E- Medicine, E- Infrastructure, etc.
- Promotion of Information Technology education and Information Technology-based education.
- Matters relating to Cyber Laws, administration of the Information Technology Act. 2000 (21 of 2000) and other IT related laws.
- Matters relating to promotion and manufacturing of Semiconductor Devices in the country excluding all matters relating to Semiconductor Complex Limited (SCL).
- Interaction in IT related matters with international agencies and bodies e.g.

Internet for Business Limited (IFB), Institute for Education in Information Society (IBI) and International Code Council – on line (ICC).

- Initiative on bridging the Digital Divide: Matters relating to Digital India Corporation.
- Promotion of Standardization, Testing and Quality in IT and standardization of procedure for IT application and Tasks.
- Electronics Export and Computer Software Promotion Council (ESC).
- National Informatics Centre (NIC).
- Initiatives for development of Hardware/Software industry including knowledge-based enterprises, measures for promoting IT exports and competitiveness of the industry.
- All matters relating to personnel under the control of the Ministry.
- Unique Identification Authority of India (UIDAI).

### **3.4 TRIBUNAL**

#### **Cyber Regulations Appellate Tribunal**

(1) The Cyber Appellate Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 (5 of 1908), but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules, the Cyber Appellate Tribunal shall have powers to regulate its own procedure including the place at which it shall have its sittings.

(2) The Cyber Appellate Tribunal shall have, for the purposes of discharging its functions under this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely:

- summoning and enforcing the attendance of any person and examining him on oath;
- requiring the discovery and production of documents or other electronic records;
- receiving evidence on affidavits;
- issuing commissions for the examination of witnesses or documents;
- reviewing its decisions;
- dismissing an application for default or deciding it ex parte;
- any other matter which may be prescribed.



(3) Every proceeding before the Cyber Appellate Tribunal shall be deemed to be a judicial proceeding within the meaning of section 193 and 228, and for the purposes of section 196 of the Indian Penal Code (45 of 1860) and the Cyber Appellate Tribunal shall be deemed to be a civil court for the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973 (2 of 1974).

### 3.5 REGULATORS

#### A) Department of Information Technology (DIT)

This department which is under the Ministry of Communications and Information Technology is responsible for the formulation, implementation and review of national policies in the field of Information Technology including hardware and software, standardization of procedures, internet, e-commerce and information technology education and development of electronics. Initiatives for development of Hardware/ Software industry including knowledge based enterprises, measures for promoting IT exports and competitiveness of the industry are looked after by the Electronics Export and Computer Software Promotion Council (ESC) and National Informatics Centre (NIC) along with DIT. The Department of Information Technology undertakes the following functions:

- Policy matters relating to Information Technology; Electronics; and Internet (all matters other than licensing of Internet Service Provider).
- Promotion of Internet, IT and IT enabled services.
- Assistance to other departments in the promotion of E-Governance, ECommerce, E-Medicine, E-Infrastructure, etc.
- Promotion of Information Technology education and Information Technology-based education.
- Matters relating to Cyber Laws, administration of the Information Technology Act, 2000 (21 of 2000) and other IT related laws.
- Matters relating to promotion and manufacturing of Semiconductor Devices in the country; The Semiconductor Integrated Circuits Layout Design Act, 2000 (37 of 2000).
- Interaction in IT related matters with International agencies and bodies e.g. Internet for Business Limited (IFB), Institute for Education in Information Society (IBI) and International Code Council - on line (ICC).
- Initiative on bridging the Digital Divide: Matters relating to Media Lab Asia.
- Promotion of Standardization, Testing and Quality in IT and standardization of

procedure for IT application and Tasks.

- Electronics Export and Computer Software Promotion Council (ESC).
- National Informatics Centre (NIC).
- Initiatives for development of Hardware / Software industry including knowledge-based enterprises, measures for promoting IT exports and competitiveness of the industry.
- All matters relating to personnel under the control of the Department.

### **B) National Association of Software and Services Company (NASSCOM)**

NASSCOM acts as an advisor, consultant and coordinating body for the IT-BPO industry in India, and has played a key role in enabling the government in India to develop industry friendly policies. NASSCOM was set up in 1988 to facilitate business and trade in software and services and to encourage advancement of research in software technology. It is a not-for-profit organization, registered under the Indian Societies Act, 1860. NASSCOM has been proactive in pushing this cause for ensuring that the Indian Information Security environment benchmarks with the best across the globe.

### **C) Data Security Council of India (DSCI)**

It is a not-for-profit, industry body on data protection in India, setup by NASSCOM®, committed to the making of cyberspace safe, secure and trusted by establishing best practices, standards and initiatives in cyber security and privacy. To further its objectives, DSCI engages with governments and their agencies, regulators, industry sectors, industry associations and think tanks for policy advocacy, thought leadership, capacity building and outreach activities.

### **D) Regulatory Environment for IT Governance and Ethics**

Organizations face an ever-increasing list of statutory, regulatory, contractual and legal compliance obligations. Compliance issues concern the board, not just the IT department, and include issues of Data Governance, the Data Protection Act, Operational Risk, Information Security, Best Practice and Basel II/III.

The Government's IT/ITeS Sector Skill Council (SSC) is facilitating the expansion of the skill workforce with the help of National Association of Software and Services Companies (NASSCOM). A few of them include:

- "Policy on Adoption of Open Source Software for Government of India" by Department of Electronics & Information Technology under the Ministry of Communication & Information Technology.

- GST specific guidance for types of business in IT-ITeS domain.
- National Policy on Universal Electronic Accessibility.
- National Digital Communications Policy 2018.

International Centre for Information Systems and Audit (ICISA) is the International Training Centre of the Comptroller and Auditor General of India.

### **Compliance and Best Practices**

ISO 27001, ITIL® and COBIT are all potentially part of a best-practice approach to regulatory and corporate governance compliance.

The challenge for many organisations is to establish a coordinated, integrated framework that draws on all three of these standards. The Joint Framework, combining COBIT and ITIL, is a good starting place. COBIT is a globally recognised framework, developed by ISACA®, to help organisations govern and manage IT efficiently.

**COBIT 5** is based on five principles that are essential for the effective management and governance of enterprise IT:

- Principle 1: Meeting stakeholder needs
- Principle 2: Covering the enterprise end to end
- Principle 3: Applying a single integrated framework
- Principle 4: Enabling a holistic approach
- Principle 5: Separating governance from management

### **Australian Standard for Corporate Governance of Information and Communication Technology**

The standard provides a framework for “Directors”, those to whom they turn to for advice or those to whom they delegate to take responsibilities for managing the security, finances, IT strategy and operations of the organization, such as senior managers, technical specialists, vendors and service providers, to meet their obligations for the use of ICT in their organizations.

## SECTION 4

# CONTRIBUTION OF COMPANY SECRETARY

### 4.1 INTRODUCTION

The BPO sector seems to have opportunities which can be capitalized by the company secretaries as well. Apart from the work relating to the mergers & acquisition in BPO sector and Income Tax related matters, provisions of FEMA are also quite involved as more and more foreign multinational companies are entering into this sector, where role of the professionals like company secretaries comes in the picture. Besides, as far as practicing company secretaries are concerned, in the words of outsourcing they are out and out third party service providers. The services rendered by them e.g. consultancy services, secretarial audit, various certifications, reports, issuance of various certificates, etc. and other matters relating to corporate laws are generally outsourced by the corporate on a large scale.

### 4.2 ROLE OF COMPANY SECRETARY

Company Secretaries may play a vital role in the IT/ITeS industry in the areas of Drafting, Vetting of all types of Corporate Legal Agreements such as Supply Agreement, Non Disclosure Agreement, Service Level Agreement, Memorandum of Understanding, Lease Agreement, Sale Deed, Power of Attorney, Affidavit, Indemnity bonds and any other legal agreements required by a public company.

Some roles for CS are being presented below:

#### **A. General**

1. Leading, managing and inspiring a team of over contract review attorneys who are individually responsible for multiple client accounts and personnel
2. Guiding project managers with engagement set-up during the implementation stage, and retaining general oversight in the day-to-day functioning and management of engagements in a steady state
3. Working with senior subject matter experts on foundation level training programmes for new hires, and ongoing training and skill development of other team members

4. Train team members on processes including contract review and management

#### **B. Compliance with Standards**

Company Secretary can efficiently carry out compliance and oversee that the operations are being carried out with accepted standards. ISO/IEC 30105 Standard has five parts and each part has to undergo balloting process at every stage.

1. ISO/ IEC Standard Title ISO/IEC 30105-1 Information Technology – IT Enabled Services – Business Process Outsourcing (ITES-BPO) lifecycle processes – Part 1: Process reference model
2. ISO/IEC 30105-2 Information Technology – IT Enabled Services – Business Process Outsourcing (ITES-BPO) lifecycle processes – Part 2: Process assessment model
3. ISO/IEC 30105-3 Information Technology - IT Enabled Services – Business Process Outsourcing (ITES-BPO) lifecycle processes – Part 3: Measurement framework and organization maturity model
4. ISO/IEC 30105-4 Information Technology – IT Enabled Services – Business Process Outsourcing (ITES-BPO) lifecycle processes – Part 4: Terms and concepts
5. ISO/IEC 30105-5 Information Technology – IT Enabled Services – Business Process Outsourcing (ITES-BPO) lifecycle processes – Part 5: Guidelines

#### **C. Legal Processes Outsourcing**

1. Managing processes on drafting motions and petitions for the organization in-house attorneys based at foreign Headquarters
2. Managing processes on auditing Law firms hired by the organization at the client location to help collect debt in the US
3. Managing processes on providing Para-legal support to the Corporate Legal Team at the client location for litigation filed against it
4. Providing legal research support on related law and issues

#### **D. Strategic Decision-making**

1. Develop Request for information, Request for proposal , Request for quotation, Scope Of Work, KPIs and SLAs for all major areas of spend utilizing company procedures and templates.
2. Develop negotiation strategies and drive negotiations to achieve stated goals and objectives

3. Negotiate contracts with suppliers on price, lead time, quality and service for multiple services and commodities. Contracts may be Global/local/regional in nature and must meet established quality standards, availability requirements and price constraints as per corporate annual operating plan
4. Champion the continuous improvement activities within Contract Management and Purchasing by coordinating six sigma process methodologies to optimize the customers resources in the most effective manner.
5. Work closely with Technology team to ensure an understanding of program/project level SLAs, policies and procedures relative to the procurement activities at hand, and facilitates seamless communications with said parties before and during sourcing actions.
6. Lead all contract management/purchasing regulatory and compliance activities including development of policies and procedures; review and testing of control procedures to ensure their effectiveness; review and testing of compliance with Supply Chain department policies and procedures.
7. Ensure controls are effective relative to third party service providers through review of reports and other documents; and through development of other audit controls; and periodic testing to ensure all controls are effective.
8. Manage Internal and Statutory Audits with highest possible level of compliances.

**E. Role in Intellectual Property Rights, Patents and International Laws**

1. Preparing Shells for Amendment Replies to Office Actions of Patents and Trademark offices of the client location
2. Processing and getting through Patent Applications as Directed by Patents and Trademark offices of the client location
3. Preparing correspondence to sensitize and make the clients aware about the phases involved in Patents and IPRs
4. Preparing formal and finished documents for client approvals
5. Providing supportive back-ups from legal and compliance perspective or Patent Engineers
6. Imparting training to the unit on familiarity international data protection requirements, Patents and IPRs

7. Imparting training for incorporating & integrating new businesses into operations
8. Imparting training on International legislation pertaining to IT/ITeS. The Foreign Corrupt Practices ACT of 1977 for US is important for lawful conduct of business even at off-shore locations
9. Imparting training on compliances like Anti –Bribery/ Anti-Corruption Solutions through conduct of session of Corruption Perception Index which is an important facet of vendor management and third party contracts.

#### **F. Company Secretary for IT Governance**

A Company Secretary should ensure information technology issues make the boardroom agenda just like any other enterprise risk. When information technology items on the agenda require expertise that is not widespread on the board, the company secretary should suggest a pre-discussion takes place. That way, he adds, the boards knowledge can be brought up to a level in which an informed debate can take place or a decision can be made. A Company Secretary should seek ways to introduce a technology expert to the boardroom as a catalyst to support more meaningful discussions.

Information technology has increased the efficiency of corporate secretarial departments through the following:

1. Electronic statutory filing (e-filing)
2. Corporate information databases, and
3. Board portals.

Board portals provide company secretaries with a invaluable tool for secure distribution of information which, in the current climate, would otherwise be very difficult to achieve with a comparable level of security. A board portal is software that allows for secure digital communication between members of a board of directors including the corporate secretary. Board portals typically include messaging features, voting tools, meeting and agenda features and other tools to help make communication as seamless as possible. The company secretary can help boards to understand technology. There is a role in coordinating induction programmes and ongoing training and development for directors. It can ensure that directors are aware of and understand both new and emerging technology opportunities, as well as threats if the business doesn't adapt to take account of such technologies.

**Checklist of Activities for IT Governance**

- Defining the meaning of governance in organization and identify where IT Governance fits
- Achieving broad understanding of IT governance issues and benefits across all stakeholders
- Publish and gain initial acceptance of an IT Governance framework, tools and processes
- Completion of an initial gap analysis against best practice – to demonstrate where IT is.
- Governance is already in place and to highlight areas of focus for the roadmap
- Creation of a Project Initiation Document (PID) and/or Terms of Reference (ToR) that has the support of stakeholders
- Creation of a Project Plan with definition and prioritization of the initial IT Governance project deliverables
- Alignment of the IT Governance Initiative with business objectives/strategy

**G. Role in Government Initiatives**

IBPS scheme and NEBPS is going to see a number of new organizations being set up. All these organization will not only need governance consultancy but also managerial guidance as how to perform will in the ITeS domain. As the IBPS scheme is aimed at even distribution of ITeS work across India it will give opportunity for Company Secretaries across India to play a vital role by sharing professional acumen with the new organization which perhaps may be looking for guidance from governance professionals.



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