

Market

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India's increasing focus on IT in e-Governance, e-Healthcare, digital learning and e-Agriculture was showcased at eINDIA 2008

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Entertainment drives the VAS scene

Opportunities abound in the Mobile VAS segment for ISVs and Entertainment companies in this field

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COVER

Hardware is enjoying an upswing

The growth of Indian industry has rubbed off on IT consumption including that of hardware. While issues remain, things are looking up, writes Nivedan Prakash



India is the fastest growing IT hardware products market in the Asia Pacific region. Most of the prominent global as well as local vendors are operating in the com-

petitive Indian market. Although India is a diverse country with a huge population base and a significant number of businesses of all shapes and sizes, it has one of the

lowest PC penetration rates. What is heartening is that rather than seeing this as the downside, the Independent Hardware Vendor (IHV) community and its partners see this as a great opportunity.

While growth has taken a bit of a hit this year because of the Oil Shock and the growing unease about the specter of inflation, the economy continues to grow at a good clip and SMBs have emerged as a huge market for IT products, hardware in particular. The Indian computer hardware industry has been growing at a rate of over 30% annually for the past few years and this pace is expected to be maintained until 2012. As per MAIT, Indian consumers and businesses snapped up 7.34 million units during the previous fiscal and the industry association forecasts that they will consume 8.5 million in fiscal 2008-09. Even assuming an average realization of \$700 per unit, we are talking about a \$6 billion PC market in the current fiscal.

According to the Gartner, PC sales in H1 2008 stood at 4.7 million units, 11.25% higher than in H1 2007; notebook sales in H1 2008 stood at 1.25 million units, 94.5% higher than the figure for the corresponding period in the previous fiscal. Server shipments at 31,000 units in Q1 2008 were 4.5% over the Q1 2007 figure.

Server market revenues stand at \$850 million with a growth rate of 12-13%; Storage is worth approximately \$730 million with a slightly higher growth rate of around 16-17%. Hardware sales in India are \$11.6 billion at present; this includes strategic electronics with \$1.9 billion, consumer electronic with \$4.87 billion, computer electronic with \$4.87 billion, and communication and broadband equipment with \$2.32 billion.

Amit Aggarwal, Engagement Manager, Zinnov said, "This market is estimated to be \$11.5 billion for 2007-08, of which the SMB

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contribution is expected to be \$4.3 billion. At the same time, PCs, printers and peripherals will together account for more than 50% of SMB hardware revenues."

Meanwhile, as more MNCs come forward and set up shop in India, they are obviously doing so as the Indian market is one of the few that is still growing robustly along with China. The wave of MNC R&D centers coming up which has been going on for the past couple of years has not hurt. If a company is setting up a development center here in India, it definitely requires PCs, servers, storage, printers amongst others. This directly results in more demand for hardware.

The biggest demand driver remains the aam junta whose purchasing power is rising by the day. In an environment of growing dependence on IT by business, intense competition and hardware prices that have managed to stay constant for better products while prices of everything else have shot up, consumers are the winners.

Ganapathy V, Head-Business Intelligence Group, Micro Technologies, said, "As competition intensifies, challenges will increase and, in turn, the quality of products will also improve and people will have a wide range of options to choose from."

Suresh Pansari, Managing Director, Rashi Peripherals, commented, "Companies are setting up shop in India because the Indian economy is booming and the retail culture of IT has slowly been gripping the nation. MNCs only set up offices when they see long-term potential. The opening of these company offices is encouraging for the Indian economy."



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HEAD-BUSINESS INTELLIGENCE GROUP,
MICRO TECHNOLOGIES

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MANAGING DIRECTOR, RASHI PERIPHERALS

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Steve Chang
VICE-PRESIDENT, GLOBAL SALES AND MARKETING,
TRANSCEND

The Indian IT hardware market is prosperous and active. However, for some items, import duty is still a barrier and it adds to the price paid by the end-user for IT hardware

Global trends

About IT hardware, the global market is slowly shifting towards making products that consume less power and are also environmentally friendly. With people using more gadgets than before, portability and battery life have become key criteria in the purchase decision. The global market is also not very different from the Indian one. The trends are the same, except for the fact that telecom and the financial segments are more mature and growing faster. The other trends that we see are clearly in terms of system outsourcing, green data centers, and power-efficient technologies. Then there is also open standards computing that is picking up.

Steve Chang, Vice-president, Global Sales and Marketing, Transcend, said, "Simply speaking, you need to have both good branding and effective cost to sustain

continuous business growth. Either a strong brand or a low priced product on its own cannot ensure success in the long term."

Jyoti Satyanathan, VP-Platform Business, STG IBM India/SA, stated, "Earlier, India used to be late in adopting technologies but this scenario is also changing. So the gap in adoption is shrinking day-by-day."

Segment-wise growth

IHVs across segments are enjoying rapid growth. The communication sector is growing faster than the rest at about 22%.

Subashini Prabhakar, Chief Technology Manager, Dax Networks, commented, "There is a tremendous growth in telecom infrastructure equipment. The government's ambitious growth plans, to increase the country's teledensity in the next few years will help the telecom hardware market grow to \$13 billion."

Also growing at a rapid pace is the SMB segment. This segment has tremendous potential and it will continue to grow in the near future in both metros and upcountry markets. Another segment that has shown tremendous potential is the digital lifestyle products segment, which has matured in metros but has not yet picked up in tier I and II cities.

"Clearly the telecom segment is growing fast with regards to the enterprise sector. Then comes the financial segment, and finally if we look at it from the customer perspective, the SMB segment is growing at a fast pace," added Satyanathan.

Even the market for flash memory-based products, including flash cards and flash drives, has been growing extremely quickly as the average sale price has been dropping. Today a 4 GB flash drive is available for less than a



Jyoti Satyanathan
VP-PLATFORM BUSINESS, STG IBM INDIA/SA

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thousand rupees. Roughly, the price of flash memory is halving every year. The recent boom in cellular usage has also resulted in demand for flash-based memory cards going up. Besides, the market is noticing that due to the growing popularity of low-cost notebooks, the demand for portable HDDs as a backup medium is also steadily rising.

Factors fuelling the market

Indian IT has gone places over the last decade. While the software services industry is having a tough time of late, the domestic market is just getting into high gear. Price remains the first and most important factor in determining hardware purchases but it is no longer the be all or end all as it used to be as can be seen by the fact that branded PCs outsell assembled ones and have been doing so for the last couple of years. Reduction in taxes and import duties and abolishing of the octroi on the hardware products are fuelling growth although there is still work to be done on this front as hardware products generally cost more than their exchange rate multiplier in India.

The other factors include rising broadband penetration, the ongoing up gradation of telecom infrastructure, setting up of State WANs (SWANs) for rolling out e-governance to the masses, widespread adoption of IT across verticals such as education, SMBs, defense, financial segment, government, and railways etc.

Higher per capita income, availability of international brands at a competitive price, awareness about products and a good setup for the



Subashini Prabhakar
CHIEF TECHNOLOGY MANAGER, DAX NETWORKS

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Diptarup Chakraborti
PRINCIPAL RESEARCH ANALYST, GARTNER

As far as the Indian market is concerned, hardware becomes a replacement investment rather than a new one. Investment in software is more than in hardware, as the requirement is greater in the former space

distribution network are some of the other favorable factors.

Commenting on this, Chang, elaborated, "The principal reason is, of course, the high economic growth of India on a sustained basis. This has enabled the country's population to invest in rapid expansion of IT infrastructure and IT education. Increasing business dependence on IT is sustaining rising demand for IT hardware. So much so that India has evolved as a strategic market for all major IT brands and they are not shy about investing their best resources to India, and are even willing to bear losses initially for their long-term growth in the market."

Clearly, economic activity is fuelling employment and money

in the hands of consumers. "This in turn fuels telecom growth, infrastructure growth and all these converge to IT. IT, per se, is a driver of efficiency. Therefore, when a segment grows faster, it needs IT to be efficient. So it is clearly economic activity and spending power of the Indian middle class that is fuelling the growth of the IT market," added Satyanathan.

Software vs. hardware

Traditionally, software exports have outpaced domestic hardware consumption by a long margin. That is starting to change, albeit slowly. Ganapathy said, "India has the third largest scientific and technical manpower base in the world. Most of the software is developed by Indians—not only in the country but also overseas."

Diptarup Chakraborti, Principal Research Analyst, Gartner, pointed out that as far as the Indian market is concerned, hardware becomes a replacement investment rather than a new investment. Investment in software is more than hardware, as the requirement is more in the former space.

As of today, the domestic IT split slightly favors software. Hardware accounts for about 47% of the pie. The hardware revolution is essential for the continued high growth of the software industry. The Government needs to address many serious issues on the hardware front. Issues like lack of local availability of input, raw material, ever changing government policies, inconsistent sales tax structures in different states, high interest rates, customs duties on capital goods, poor infrastructure, inordinately long and variable transit times all add to

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Factors fuelling the Indian IT hardware market

Factor	Details
Awareness and affordability of technology	Growth in Internet and mobile penetration availability is taking place even in tier III cities and rural areas.
Reduction in price of access points	There is a new category emerging known as the Netbook consisting of products that are powerful enough to browse the Internet and check your mail and lightweight tasks and are cheaper and lighter than conventional laptops. HCL, Asus, Sahara amongst others have launched sub-20K Netbooks.
Government initiatives	The Government is trying to lure SMBs to adopt technologies for raising their process efficiency. The Government is providing various services online including railway ticketing, electricity and telephone bill payments, filing tax returns, company registration, etc., to drive Internet adoption.
Globalization	Indian SMBs are going to the global market or collaborating with MNCs and to do this they need to deploy excellent IT systems.

A recent MAIT study concluded that the Indian hardware industry had the potential to reach \$62 billion by 2010. Current PC penetration amongst Indian SMBs is 15.7%. That's expected to rise to 38% by 2012

► uncertainty, delays and increased costs. This is something that hardware manufacturers dread. There are many restrictions for the hardware industry. The software industry has grown in leaps and bounds simply because there have been no restrictions.

Going forward, if the government and the hardware industry proactively decide to work together and solve issues rather than have one hand clamoring for duty concessions, and the other avoiding issues, the Indian hardware industry could definitely go the software way.

Chang pointed out, "The Indian IT hardware market is prosperous and active. However, for some items the import duty is still a barrier that adds extra cost to IT hardware products for end users."

Satyanathan opined that hardware is just an engine. The user looks at the value that the application brings in. "When you are looking at the manufacturing and if I want to take examples of companies like Oracle, they sell a lot of ERP systems and obviously this is the value that customers get and not just the hardware. Hardware is just the basic infrastructure or the platform upon which an application runs and then delivers value to

customers. You will see a lot of software or rather application growth happening. It is a loop wherein the application will grow and it will fuel hardware growth. But at the same time, if you are growing fast, you need to have software applications to manage your growth," he added.

Future prospects

The growth of IT is likely to keep pace for at least a couple of years more as the growth in demand, of late, has been increasingly coming from upcountry markets that remain largely tapped. Another reason for being bullish is that the Indian economy is not dependent on just a few segments, locations or even industry verticals.

A recent MAIT study, conducted jointly with Ernst & Young, concluded that the Indian hardware industry had the potential to reach a size of \$62 billion by 2010.

Current PC penetration amongst Indian SMBs stood at 15.7% in 2007-08. Experts say that PC penetration in this sector will more than double to 38% by 2012.

Due to the sharp price drop of flash chip, we foresee the demand for flash related products such as flash cards, drives, MP3 players,

digital photo frames, and Solid State Disks (SSD) in laptops and Netbooks to take an upward swing in the near future.

Prabhakar concluded, "The government's ambitious growth plans to increase the country's teledensity in the next few years will help grow the telecom hardware market to \$13 billion. We have to build our own hardware products and design devices that are low cost and work well in the Indian environment catering to the needs of the Indian masses. In recent trends, networking has moved from products to services. The IT hardware market in India is on the upswing. With strong consumption in the telecom, banking and financial services, retail and BPO sectors and aggressive adoption in smaller towns, computer sales in the country have increased by 36.2% during the first six months of the current financial year with vendors selling 2.34 million units."

Here, we would just like to mention that India is still under-penetrated in terms of hardware. Experts predict 15% year-on-year growth but there is still a long way to go before we match up to global standards. ■

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