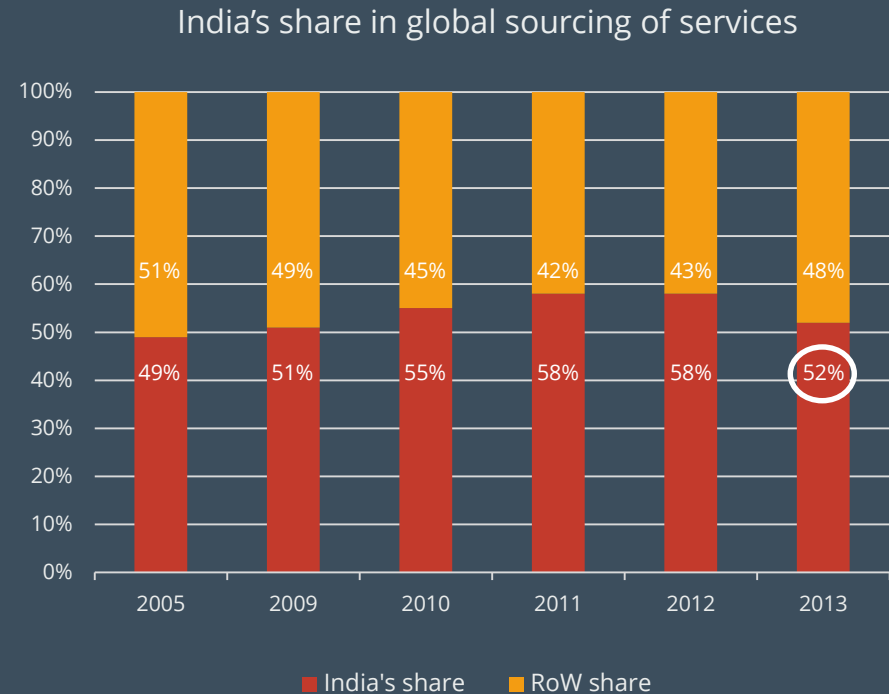WHY INDIA & BANGALORE?

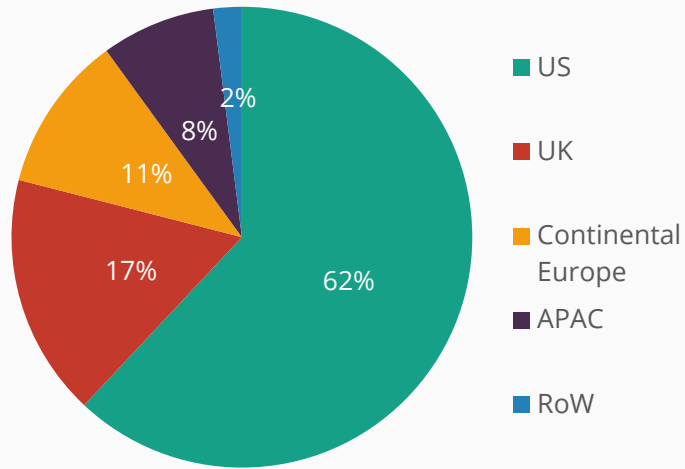# The world is coming to India for their talent needs...

- 30 year old industry - Began in 1985 in Bangalore
- IT Sector employs 3.2 million directly and ~ 10 million indirectly
- 200,000 engineers joining the IT industry every year
- 825+ global corporate offshore centers are in India
- Total industry revenues of $118 billion in 2014
- Industry growing at 14%
- Data security and privacy regulations are in place – The IT Act 2000
- SEZ act provides for a 15 year tax holiday scheme
- Labor costs advantage – salary differentials of 50% - 70% lower than US
- Increasing talent maturity and deep domain expertise
- Service delivery, quality of output and types of engagements have matured to cater to all types of requirements
- Global talent with many qualified global expatriates & returnees
- Many companies driving their innovation, R&D centers, patent portfolios and product ideation programs out of their India offshore centers

India's share in global sourcing of services

	2005	2009	2010	2011	2012	2013
RoW share	51%	49%	45%	42%	43%	48%
India's share	49%	51%	55%	58%	58%	52%

■ India's share   ■ RoW share

RoW – Rest of the World

Source : Nasscom

Geographic Diversification

- US — 62%
- UK — 17%
- Continental Europe — 11%
- APAC — 8%
- RoW — 2%

Industry skill based estimate

- Graduate (excl. Engg) — 45%
- Engg Graduates — 32%
- Post Graduates — 13%
- Finance Specialists — 5%
- Others — 5%
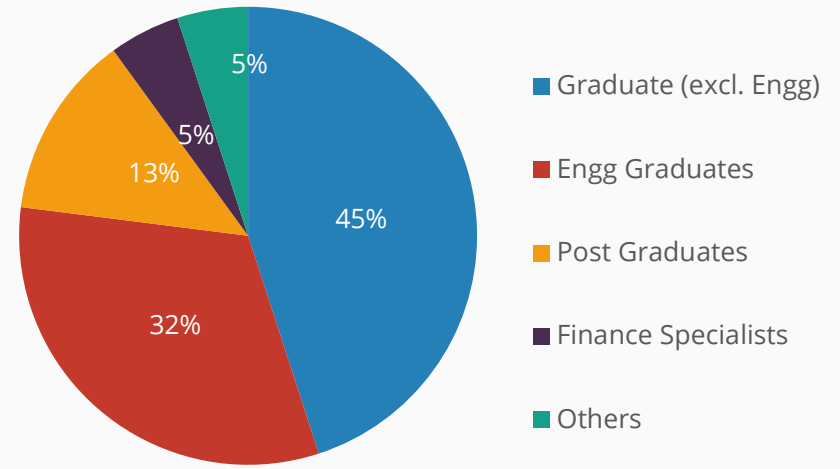
Industry Diversification

- Manufacturing — 16%
- Hi-Tech / Telecom — 19%
- Retail — 10%
- Healthcare — 5%
- T&T — 3%
- Construction & Utilities — 3%
- MPE — 2%
- BFSI — 42%
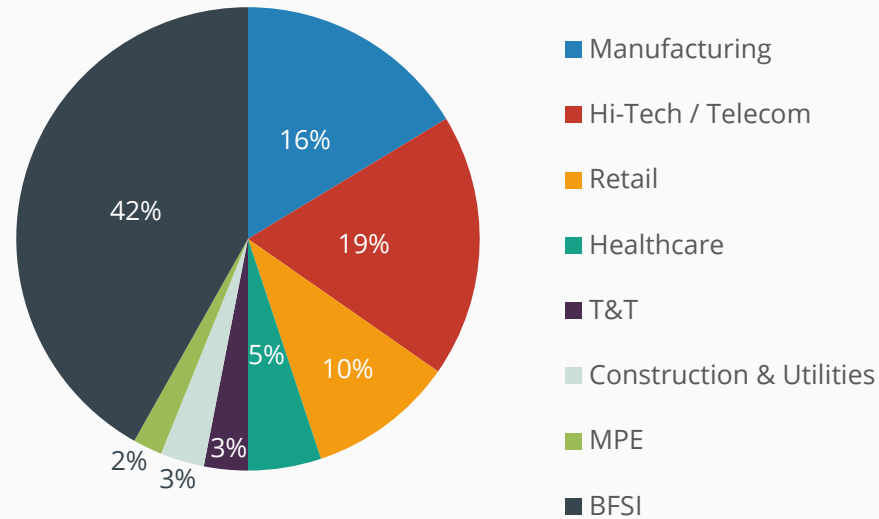
Captives – preferred value enhancing choice of most corporates...

$15.5 Bn — Indian Captive Market size

18% — Contribution to Indian IT-BPO exports

44% — ER&D/SPD share in total captives revenue

825+ — Number of captives in India

76% — Captives in India with headquarters in North America

530K — Number of employees in captives in India
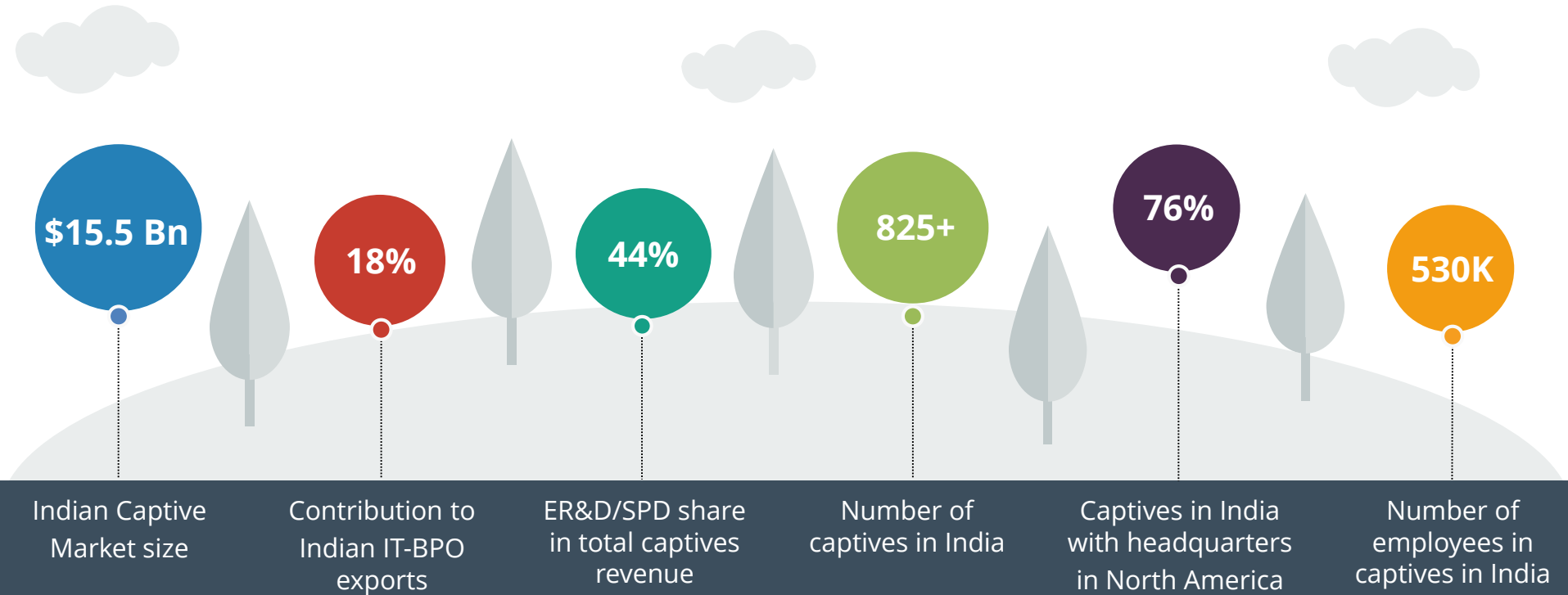
- Captives or global in-house centers (GIC) or offshore centers provide for a effective way to derive enhanced business value
- Benchmarks provide for captives deriving 6x-8x value beyond cost and labor arbitrage
- For R&D, product dev, collaboration, business value or decision / judgment functions captives are the de-facto choice
- A **BOT (Build – Operate – Transfer)** is a risk mitigated way for a corporate to reduce establishment risk and derive greater value than sourcing to a vendor
- Vendor outsourcing is primarily used for back office and maintenance / support needs
- Most vendor engagements are limited to value derivation up to cost arbitrage savings

ER&D – Engineering and R&D, SPD – Software Products Development   *Source: Nasscom, 2014*

Joint Venture

Company
Captive

BOT

Hybrid – Captive
& Outsourced

Outsourced

Higher control
Higher costs
Lower Risk

Lower control
Lower costs
Higher Risk
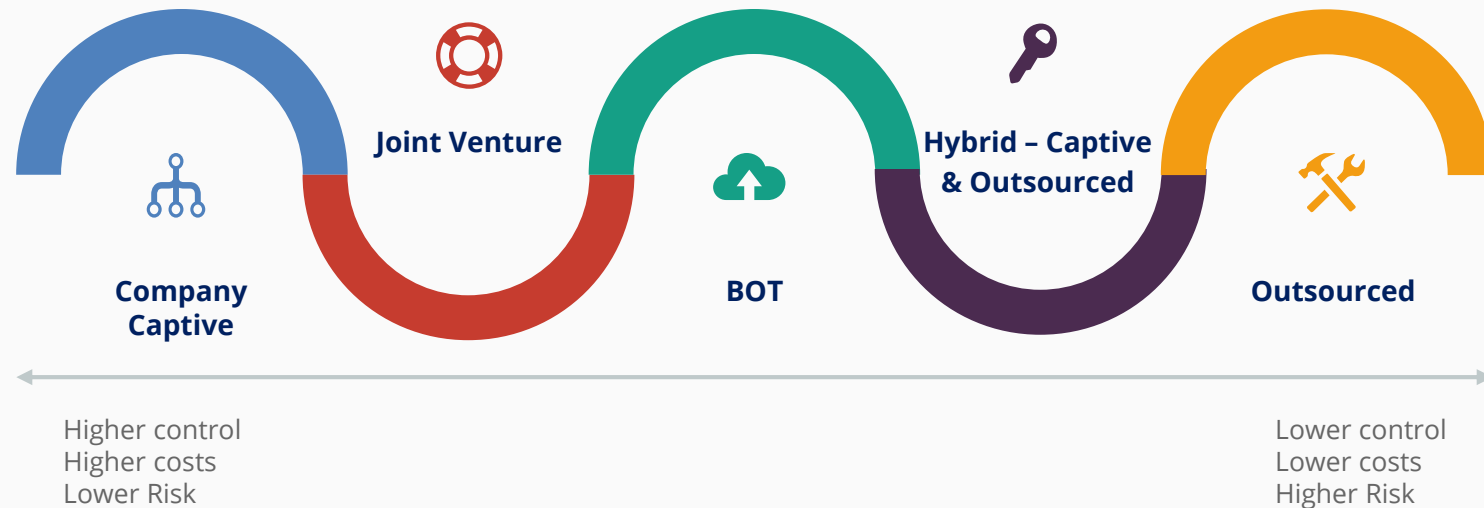
Some of the leading MNCs that have captive centers in India are…

ABN Amro	AOL	Continental	Honeywell	Mercedes Benz	Prudential	Thomson
Accenture	AT&T	Dell	HSBC	Microsoft	RBS	Reuters
AIA	Axa	Dow Chemical	IBM	Motorola	Shell	Volvo
Airbus	Barclays	Exxon Mobile	Intel	Nokia	Siemens	World bank
Amazon	British Telecom	Ford	JP Morgan	Oracle	Target	Yahoo
Amex	Caterpillar	GM	Marriott	Pfizer	Telstra	3M
ANZ	Cisco	HP	McKinsey	Philips	Tesco	

Bangalore – The preferred choice of the majority....

- Bangalore is home to 39% of all R&D centers & 44% of all GIC's in India
- Is home to 4158 schools, 55 polytechnics, 66 engineering colleges & 9 universities including India's top most universities in management, IT, design, statistics and astrophysics
- Attracts graduates from 18,000 institutes of higher learning from all over India
- Has the most talented and diverse talent pool compared to any other city
- Has a unique eco-system for R&D, IT, startup and product companies

Employs over 530,000 people, and account for 17% of IT expert revenues.

Bangalore is the 4th largest technology cluster in the world after Silicon Valley, Boston, and London

Presence of 50% of the world's SEI CMM Level 5 Certified companies

Hub of Global In-house Centers (GICs) for leading MNCs

GIC Revenue to rise to $17 Billion in FY 14

150+ MNC companies

39% of MNC R&D Centers In India

Top pie chart (by city):
- Bangalore: 44%
- Delhi NCR: 21%
- Mumbai/Pune: 15%
- Chennai: 10%
- Hyderabad: 7%
- Other cities: 3%

Bottom pie chart (by patent count range):
- <500: 56%
- 500-1000: 18%
- 1000-1500: 24%
- >5000: 2%

Patents out of Bangalore centers

- IBM (4800)
- HP (1100)
- GE (1000)
- Texas Instruments (800)
- CISCO (800)
- Qualcomm (230)
- Phillips (210)
- Samsung (135)
- Huawei (200)
- Mercedes (200)

BOT MODEL
EXPLAINED

POSSIBLE SOURCING MODELS

Freelancers

- Independent developers
- Multiple locations
- No cohesive process
- Complicated to manage
- Expensive

Dev. factories

- Fixed bid
- No control over talent
- No continuity
- Discipline on requirements
- Process maturity needs high

Offshore Dev. center

- Dedicated talent
- Management effort required
- Less control over talent
- Indirect costs high

- Located on vendor site – IP loss possible

Captive

- Local experience required
- Max control
- Mgmt. involved day to day
- Highest costs
- Operational & establishment
- risks high

PBOT

- Max flexibility & control
- Hiring & scale Management Process
- Minimized risk
- Pay as you go
- Lower costs
- Tax efficient
- Take ownership when ready

COVIAM PLAN BUILD OPERATE TRANSFER (CPBOT)

PLAN (P)

STRATEGY & MANDATE	ORG. MODEL	OPERATING MODEL	CORPORATE ENTITY	CULTURE & COMM.	FINANCE & COTROLS

BUILD (B)

DESIGN	HIRING	TRAINING	KNOWLEDGE TRANSFER	SETUP & CONNECT	TRANSITION GOVERN.

OPERATE (O)

DELIVERY MANAGEMENT	QUALITY & CONTROLS	MEASURE	OPTIMIZE	OPERATIONAL GOVERN.	STRATEGIC GOVERN.

TRANSFER (T)

PLANNING & LEGAL	CORP. ENTITY	PEOPLE	ASSETS & KNOWLEDGE	AUDIT & SIGNOFF	TRANSTION GOVERN.

ADVANTAGES OF THE CPBOT MODEL

ADVANTAGES COMPARED TO OUTSOURCING
IP OWNERSHIP
LOWER RISK
GREATER FOCUS ON BUSINESS
LEVERAGE PROVEN LOCAL EXPERTISE
COMPLETE CONTROL
TALENT HIRE / FIRE
PAY AS YOU GROW
LESSER TRAVEL
OPTIMIZED TIME AND RESOURCES
LESSER TAX AND LEGAL HURDLES
SETUP OWN CORPORATE CULTURE
BETTER HO INTEGRATION
OWN WHEN READY
ASSURED SUCCESS + MORE VALUE + COMPLETE CONTROL

PBOT - COST Plus model

Customer pays for

Physical & people assets

Setup, rental & utilities

Managed services margin

COVIAM provides

PBOT services

Leadership & people management

Corporate entity setup

Network setup & support

Legal, taxation, finance

Payroll processing

Regulatory filings

Facilities & support

Employee engagement

Approvals & auth. liaison

PBOT model flow and timeline

START

| X days | X + 30 days* | X + 45 days* | X + 60 days* | X + 75 days* |

Negotiate terms → Contract framing → Sign contract → Real Estate finalize → Order equipment

Additional payments For capex.

Start hiring

X + 60 days*

Office & network setup

X + 105 days*

Testing & parallel

START

Deposits refunded on a pro-rated basis after remaining payments of 3 year leased space deducted. Assets sold and refunded.

PBOT Success fee paid to COVIAM @ 3 months (calculated as average billed for each year of ops) for every successful year of operation

END

COVIAM stock options given for employee retention to be cashed out at fair value or switched To customer options if available

Entity transfer (corporate)

Rental & assets transfer ← Notice 6 months prior to exit ← 2 years minimum ← Regular Operations

Employees transfer

Notice 3 months for abnormal exit

X + 120 TO 150 days*

Completion dates

WHY COVIAM?

COVIAM – Value Based Best of Breed Services

WHO WE ARE?

We are a boutique lifecycle management consulting & services company – providing strategy & mandate setup through to establishment, enablement, realignment, transformation, and governing your services and sourcing strategy within a stable support and risk mitigated framework.

WHAT WE DO?

STAKEHOLDER SATISFACTION

- CSAT & SLA Driven Performance
- Governance & Reporting

IMPLEMENT

- Tested Op. Model
- Sustained Perf.
- Trancparancy
- Continuous Improvement

CULTURE

- Create an environment for Results
- Replicate Sustainable Practices

ENGAGE

- Constant Comm.
- Engage both Org. in Vision & Results
- Increase competitive Profile

STAKEHOLDER CONTRIBUTION

- Define Outcomes
- Engage & Set Targets
- Participate & Collaborate

HOW WE WORK?

- Global track record
- Experience setting multiple centers & engagements
- Strategic and execution focus
- Pool of dedicated available talent

Our Approach

STRATEGY

DESIGN

SETUP

TRANSFORM

OPERATE

INNOVATE

Why Us?

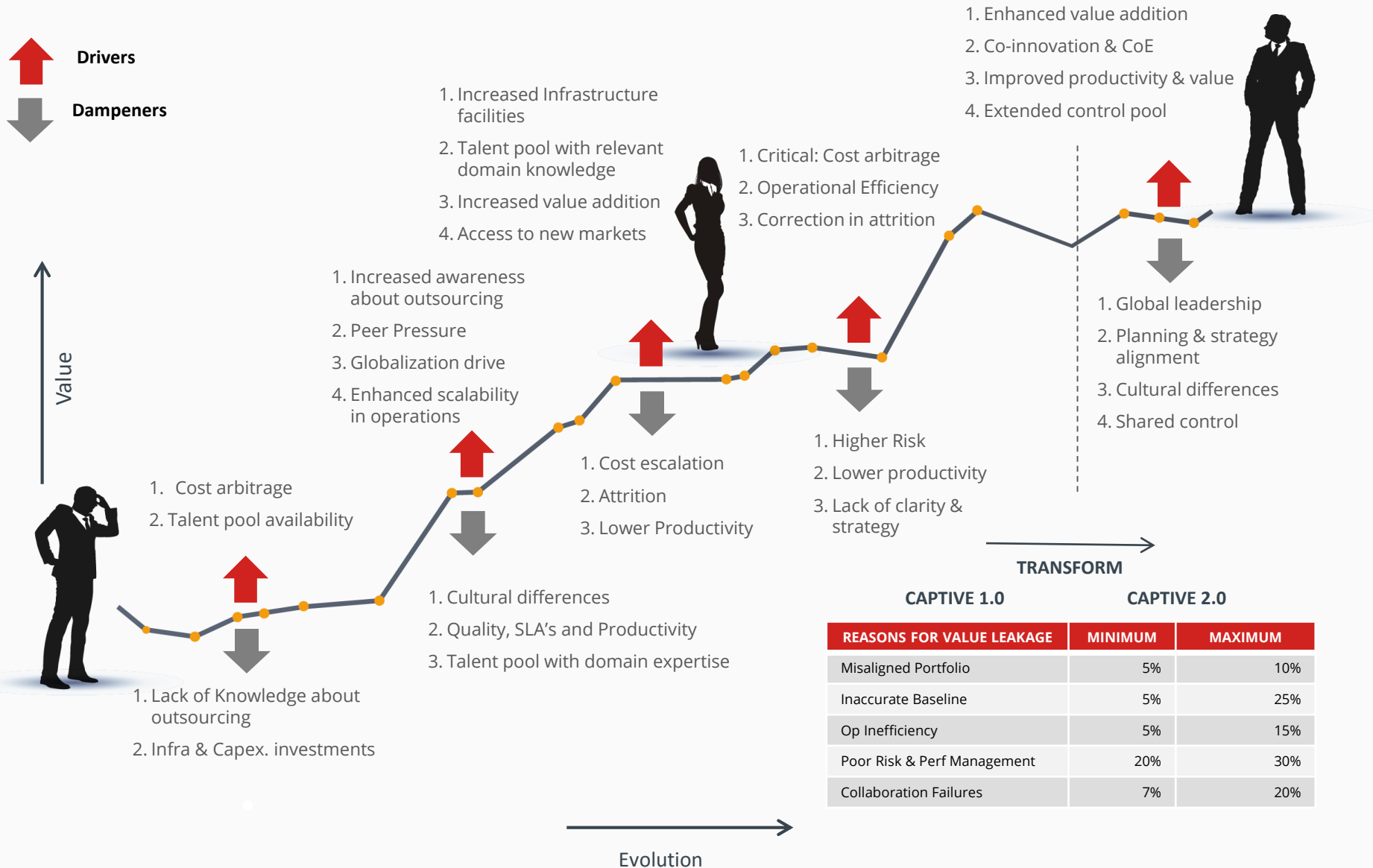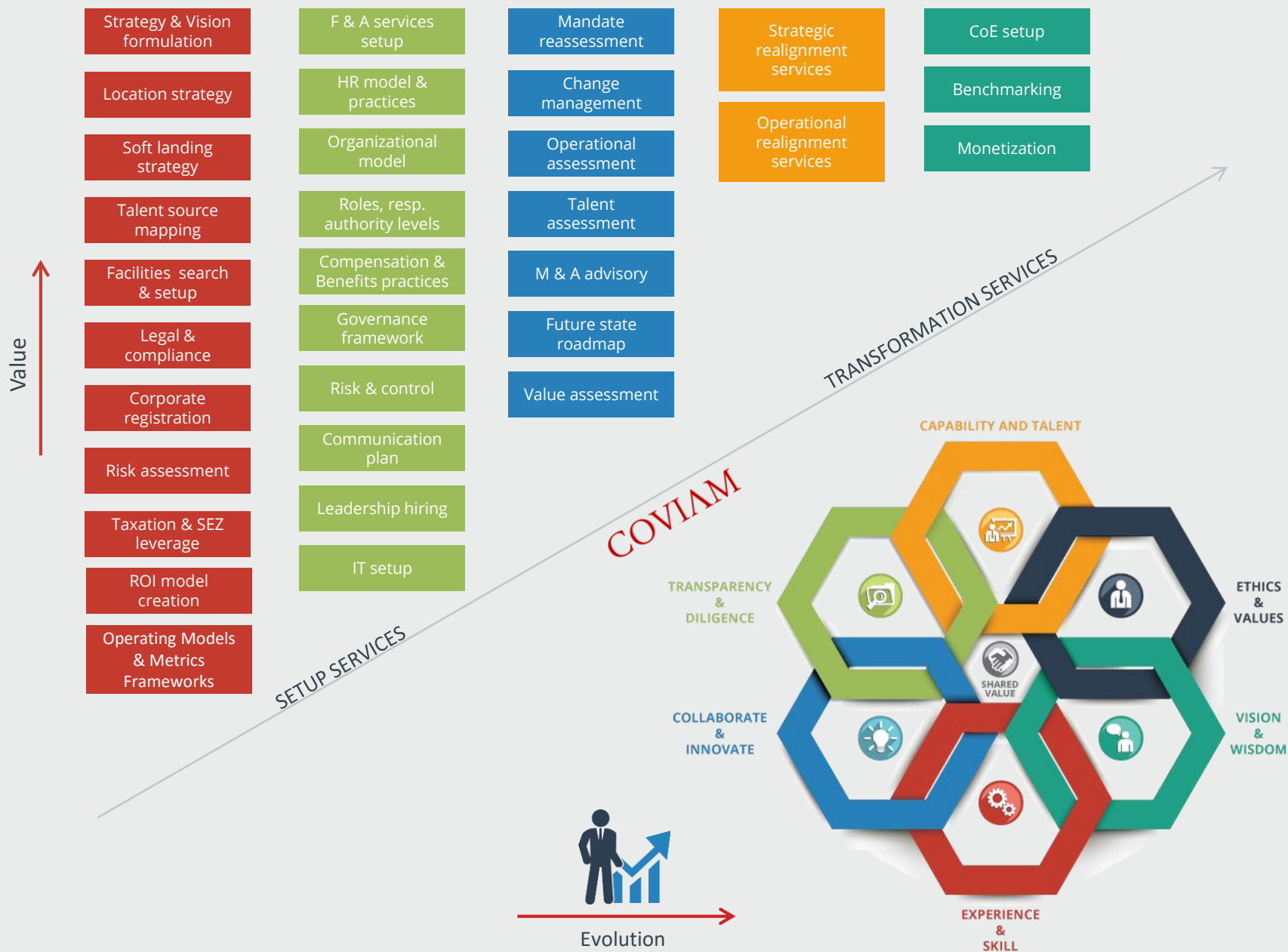Inspired by our diverse leadership backgrounds we use the power of skills, data and innovative thinking to drive results. We are your trusted partners to solve business problems, focused on value optimization by using a multidimensional innovation framework enhanced by our skills and continuous experimentation approach.

Typical Journey If You Setup Your Own Captive...

Drivers

Dampeners

Value

Evolution

TRANSFORM

CAPTIVE 1.0   **CAPTIVE 2.0**

1. Cost arbitrage
2. Talent pool availability

1. Lack of Knowledge about outsourcing
2. Infra & Capex. investments

1. Increased awareness about outsourcing
2. Peer Pressure
3. Globalization drive
4. Enhanced scalability in operations

1. Cultural differences
2. Quality, SLA's and Productivity
3. Talent pool with domain expertise

1. Increased Infrastructure facilities
2. Talent pool with relevant domain knowledge
3. Increased value addition
4. Access to new markets

1. Cost escalation
2. Attrition
3. Lower Productivity

1. Critical: Cost arbitrage
2. Operational Efficiency
3. Correction in attrition

1. Higher Risk
2. Lower productivity
3. Lack of clarity & strategy

1. Enhanced value addition
2. Co-innovation & CoE
3. Improved productivity & value
4. Extended control pool

1. Global leadership
2. Planning & strategy alignment
3. Cultural differences
4. Shared control

REASONS FOR VALUE LEAKAGE	MINIMUM	MAXIMUM
Misaligned Portfolio	5%	10%
Inaccurate Baseline	5%	25%
Op Inefficiency	5%	15%
Poor Risk & Perf Management	20%	30%
Collaboration Failures	7%	20%

COVIAM Journey...

Value (vertical axis, upward arrow)

Setup Services (red column):
- Strategy & Vision formulation
- Location strategy
- Soft landing strategy
- Talent source mapping
- Facilities search & setup
- Legal & compliance
- Corporate registration
- Risk assessment
- Taxation & SEZ leverage
- ROI model creation
- Operating Models & Metrics Frameworks

Green column:
- F & A services setup
- HR model & practices
- Organizational model
- Roles, resp. authority levels
- Compensation & Benefits practices
- Governance framework
- Risk & control
- Communication plan
- Leadership hiring
- IT setup

Blue column:
- Mandate reassessment
- Change management
- Operational assessment
- Talent assessment
- M & A advisory
- Future state roadmap
- Value assessment

Orange column:
- Strategic realignment services
- Operational realignment services

Teal column:
- CoE setup
- Benchmarking
- Monetization

TRANSFORMATION SERVICES

COVIAM

SETUP SERVICES

Evolution

CAPABILITY AND TALENT

TRANSPARENCY & DILIGENCE

ETHICS & VALUES

SHARED VALUE

COLLABORATE & INNOVATE

VISION & WISDOM

EXPERIENCE & SKILL

Comparison With Other Models – Costs / Control / Effort / Taxes

ITO/BPO/Specialist firm	✔ PBOT	Own captive

ITO/BPO/Specialist firm

PROS

- Standard delivery model (GDM)
- Breadth of resources available for expedited needs (scale)
- Min. hiring time (pool available)

CONS

- Resource quality suspect
- Lack of resource control
- Attrition issues
- Vendor has 45% + op. margins
- Build and enhance relationships with vendor top management who are not interested in small accounts
- Not building talent for the future
- Uses expensive onshore resources
- IP and competitor risk

PBOT

PROS

- Cost effective
- Control over resources
- Transparent model
- Tax efficient
- Stock options incentive / dilution not needed upfront
- Backend setup and running by affiliate
- Ownership option (T of PBOT)
- You have a trusted partner with demonstrated captive setup capability
- Hiring / Firing decisions

CONS

- Deal through an affiliate
- Services margin
- Hiring period longer than ITO
- Success fee

Own captive

PROS

- Complete ownership of ops
- Control over resources
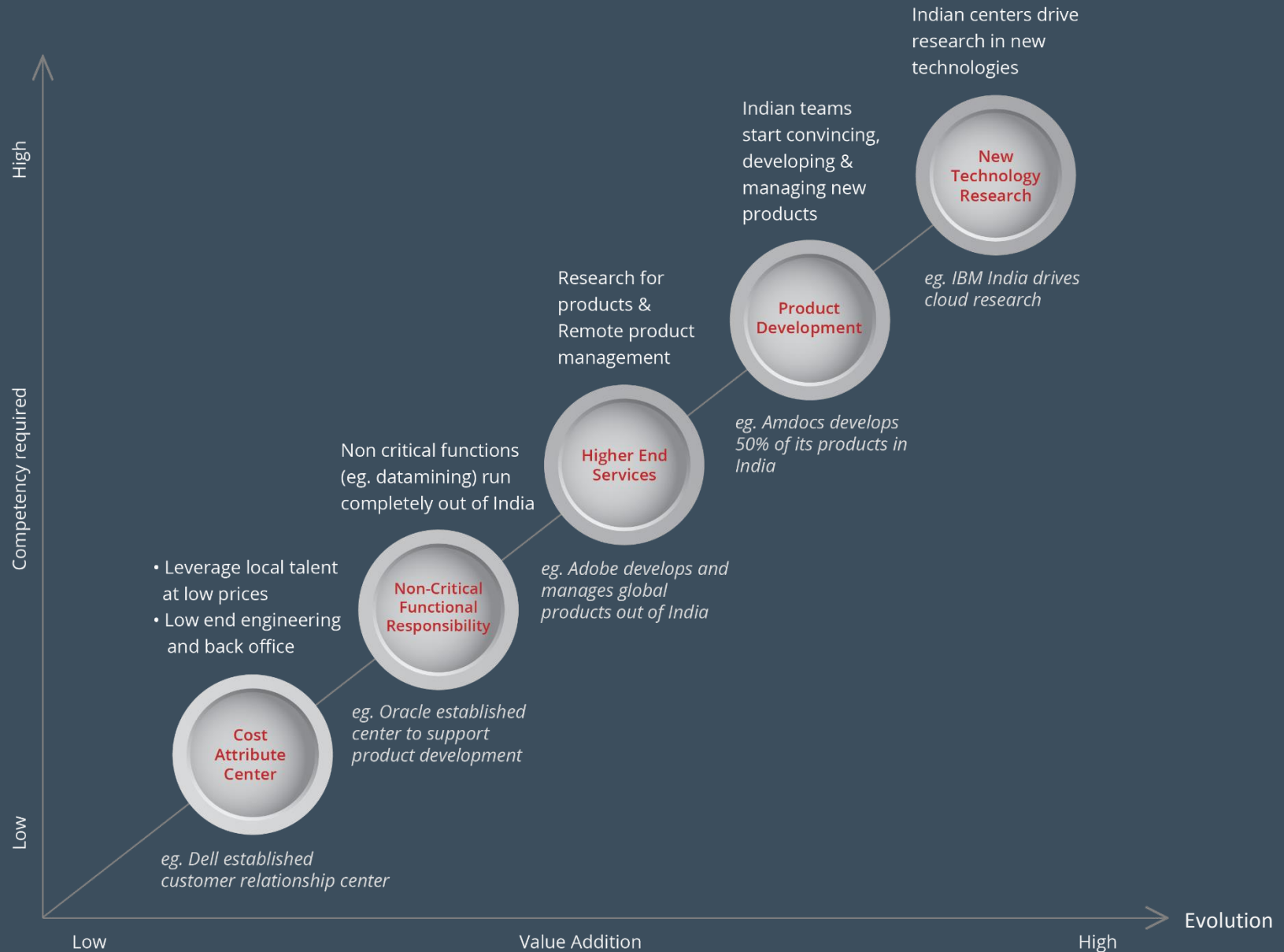- Hiring / Firing control

CONS

- Not cost effective
- Exposure to Indian tax laws and rules
- General management and other talent to be hired additional
- Stock options incentives are needed (dilution)
- Parent Co. management involved in day to day decisions of running operations than growing business
- Hiring period longer than ITO
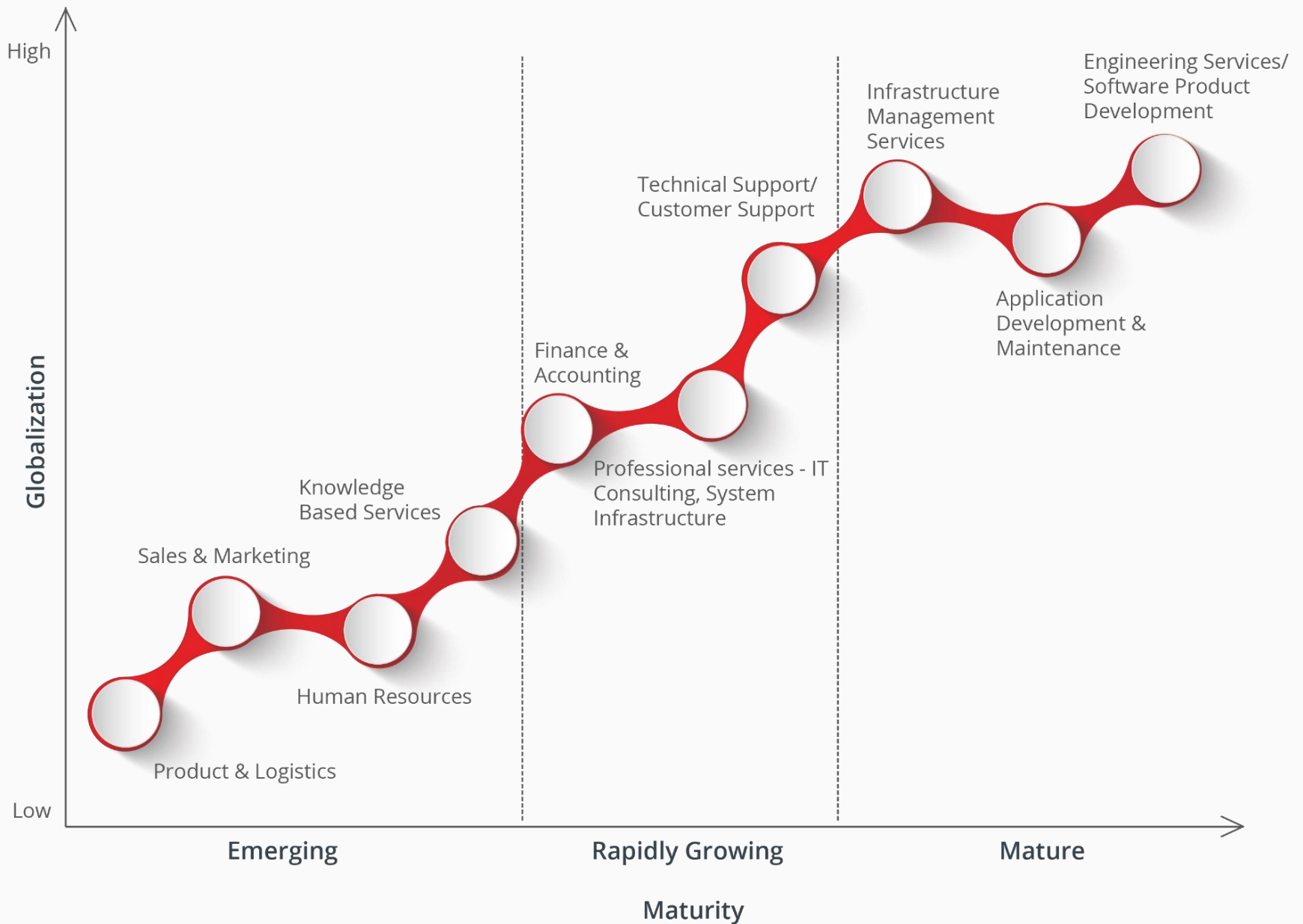- Additional transfer pricing taxes need to be paid (6% of run rate)

* Estimated

SERVICES MATURITY & INDIA ETAIL JOURNEY

GICs – Services Maturity And Retail / e-Commerce Presence

Competency required (y-axis: Low → High)

Evolution / Value Addition (x-axis: Low → High)

Cost Attribute Center
- Leverage local talent at low prices
- Low end engineering and back office

eg. Dell established customer relationship center

Non-Critical Functional Responsibility

Non critical functions (eg. datamining) run completely out of India

eg. Oracle established center to support product development

Higher End Services

Research for products & Remote product management

eg. Adobe develops and manages global products out of India

Product Development

Indian teams start convincing, developing & managing new products

eg. Amdocs develops 50% of its products in India

New Technology Research

Indian centers drive research in new technologies

eg. IBM India drives cloud research

Source: Interviews, Secondary Research, A.T. Kearney analysis

Globalization Adoption Curve* across Functions

High

Globalization

Low

Product & Logistics

Sales & Marketing

Human Resources

Knowledge Based Services

Finance & Accounting

Professional services - IT Consulting, System Infrastructure

Technical Support/ Customer Support

Infrastructure Management Services

Application Development & Maintenance

Engineering Services/ Software Product Development

Emerging

Rapidly Growing

Mature

Maturity

Sample set of eCommerce companies in Bangalore

- FlipKart (24,000)
- Amazon (10,000)
- Tesco (6500)
- Target (3000)
- Lowe's (800)
- Walmart Labs (600)
- L Brands (600)
- InMobi (900)
- eBay / Paypal (1600)
- Rakuten (500)
- Syniverse (500)

* - BOT arrangements

Types of services performed by eCommerce Cos

- B2C and B2B platforms *
- Logistics and supply chain
- Marketplace development
- Inventory management
- Data analytics and mining
- Risk and compliance
- Mobile solutions
- Payment gateways
- Social eCommerce
- Merchandising & marketing tools
- UXD
- Voice platform
- Search engines
- Remote infrastructure management & DC setup

- Areas of focus

India e-Tailing Industry Snapshot

Internet Users in India

140 M — CY2012
213 M — CY2013
400 M — CY2016P
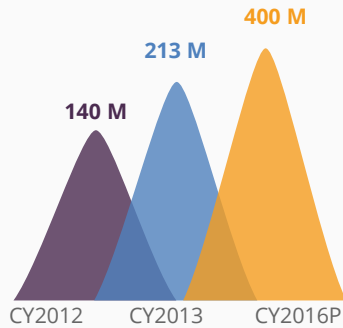
X

% of Internet Users Who Visit e-commerce Sites = 60%

X

Conversion from Visitors to Buyers

3.00% — CY2012
2.70% — CY2013
2.90% — CY2016P
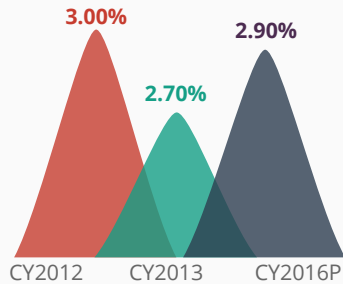
X

Orders per Buyer per Month

1.50 — CY2012
1.55 — CY2013
1.70 — CY2016P

=

# of Orders per Month

4 M — CY2012
5 M — CY2013
1.2 M — CY2016P

X

Average Order Value

1.50 — CY2012
1.55 — CY2013
1.70 — CY2016P
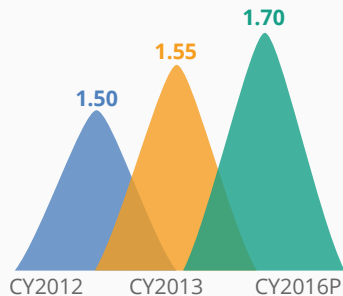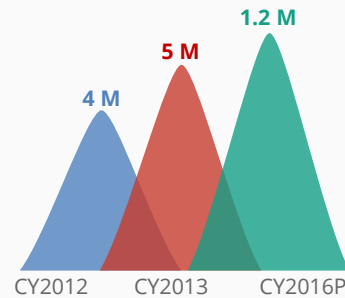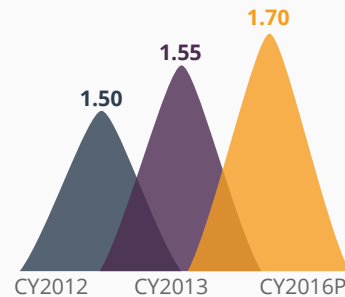
Annualized Online Shopping GMV

=

$816 M — CY2012
$1,983 M — CY2013
$8,519 M — CY2016P
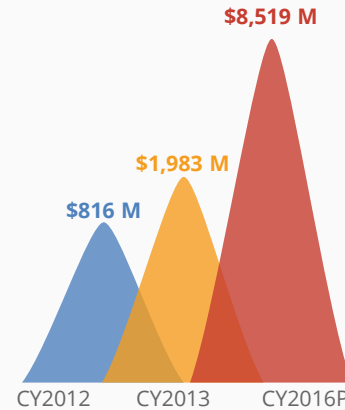
MARKET SIZE AND GROWTH

- 301M users online
- $6B – 2015 (70% growth over 2014)
- < 1% of total retail opportunity
- Mobile eCommerce – 30% of total traffic

KEY PRIORITIES

- Mobile and commerce platforms
- Search
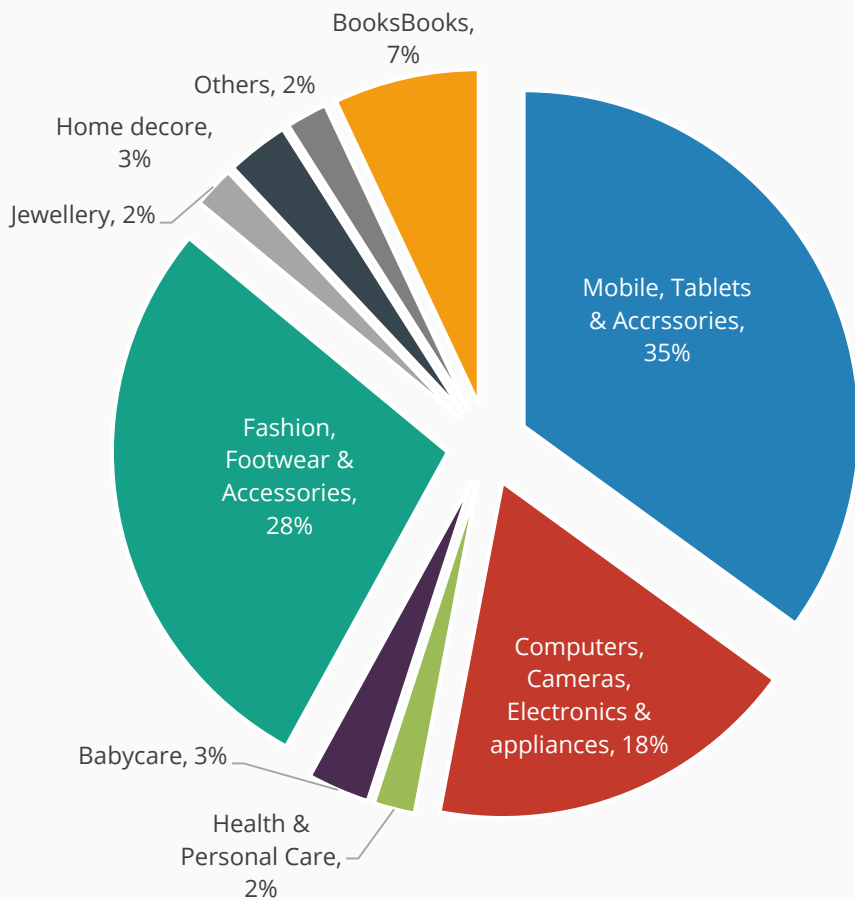- Order management
- Marketing

EXPANSION IN

- Mobile channel development
- Digital marketing, customer experience
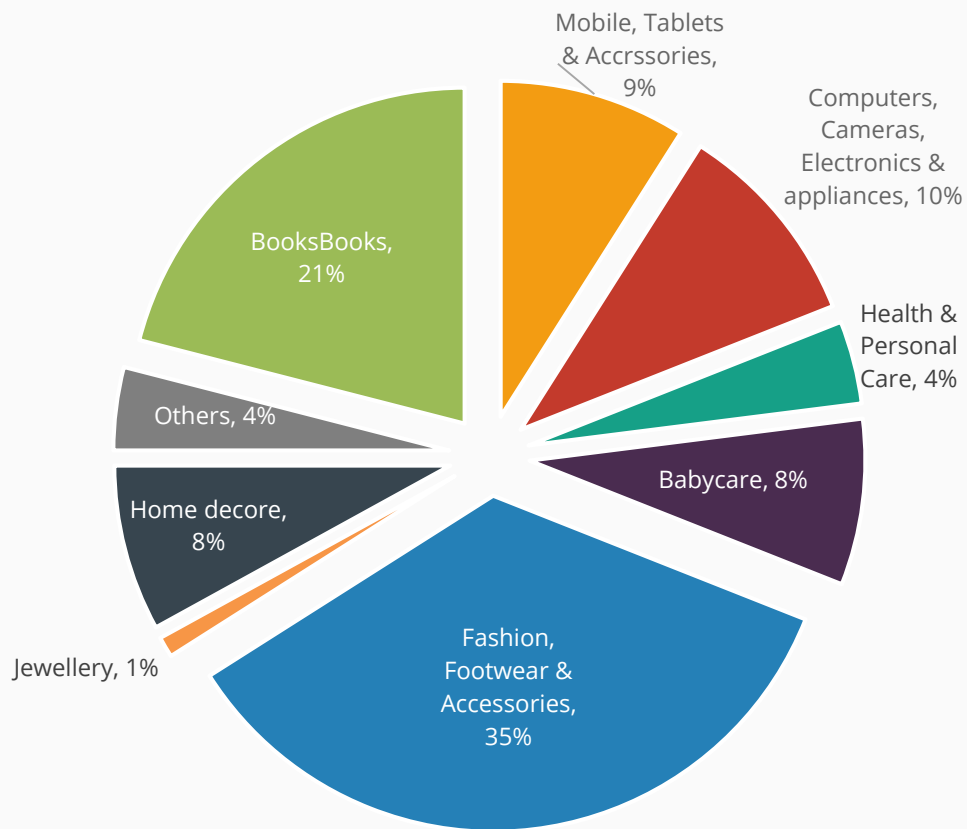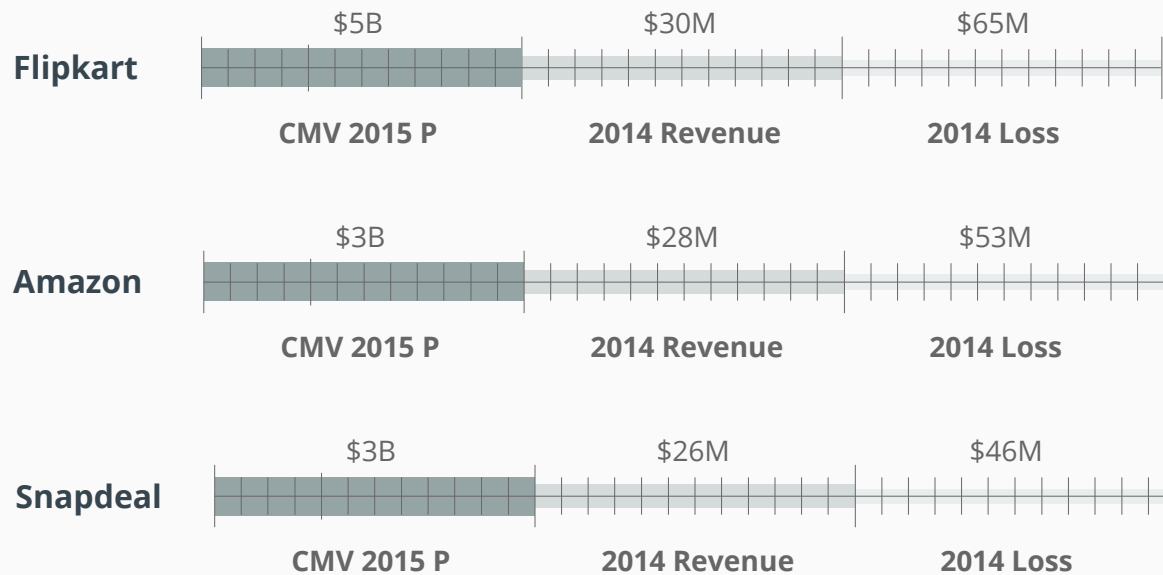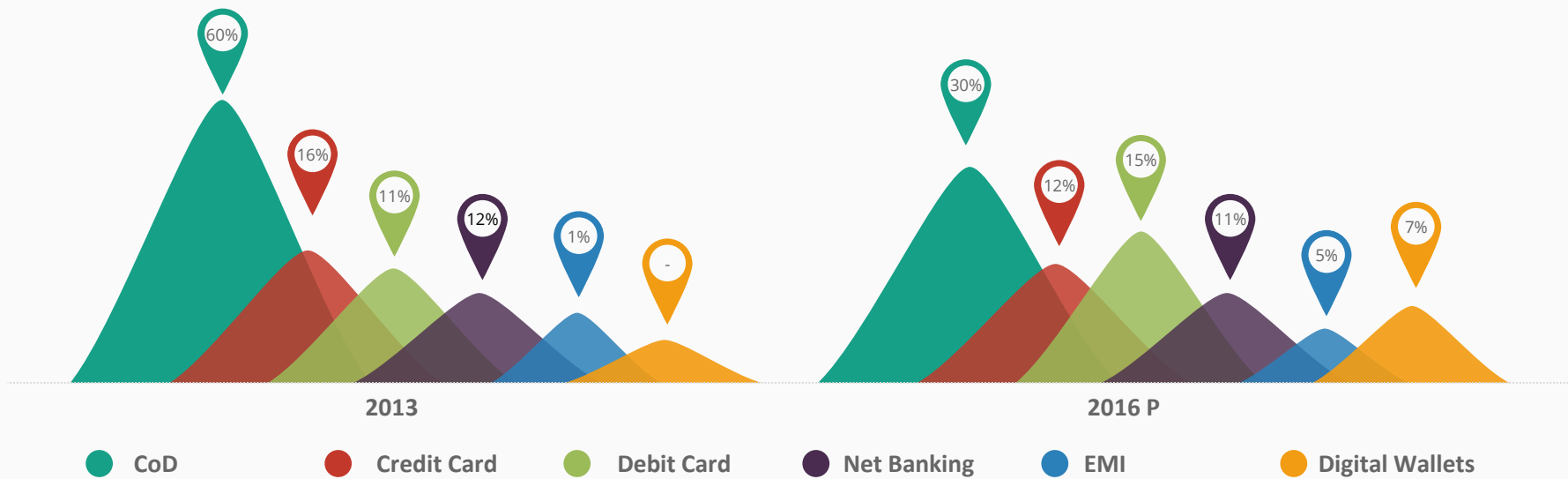- Web analytics, optimizing supply chain
- Big data

CHALLENGES

- Low volume & ticket per customer
- Multiple payment modes (CoD, debit, CC)
- Logistics & fulfillment
- Customer retention

Categories by GMV (%)

- Mobile, Tablets & Accrssories, 35%
- Computers, Cameras, Electronics & appliances, 18%
- Health & Personal Care, 2%
- Babycare, 3%
- Fashion, Footwear & Accessories, 28%
- Jewellery, 2%
- Home decore, 3%
- Others, 2%
- BooksBooks, 7%

Categories by # of Transactions (%)

- Mobile, Tablets & Accrssories, 9%
- Computers, Cameras, Electronics & appliances, 10%
- Health & Personal Care, 4%
- Babycare, 8%
- Fashion, Footwear & Accessories, 35%
- Jewellery, 1%
- Home decore, 8%
- Others, 4%
- BooksBooks, 21%

2013

2016 P

- ● CoD
- ● Credit Card
- ● Debit Card
- ● Net Banking
- ● EMI
- ● Digital Wallets

2013: CoD 60%, Credit Card 16%, Debit Card 11%, Net Banking 12%, EMI 1%, Digital Wallets -

2016 P: CoD 30%, Credit Card 12%, Debit Card 15%, Net Banking 11%, EMI 5%, Digital Wallets 7%

Flipkart

$5B	$30M	$65M
CMV 2015 P	2014 Revenue	2014 Loss

Amazon

$3B	$28M	$53M
CMV 2015 P	2014 Revenue	2014 Loss

Snapdeal

$3B	$26M	$46M
CMV 2015 P	2014 Revenue	2014 Loss

A typical eCommerce retail spend cycle

External Domains

- Product & Market Startegy
- Customer & Digital Experience
- Compliance Framework
- Fulfillment
- Risk, Fraud & Cyber Security

eCommerce Drivers & Challenges

- Tax & Regulatory Structuring
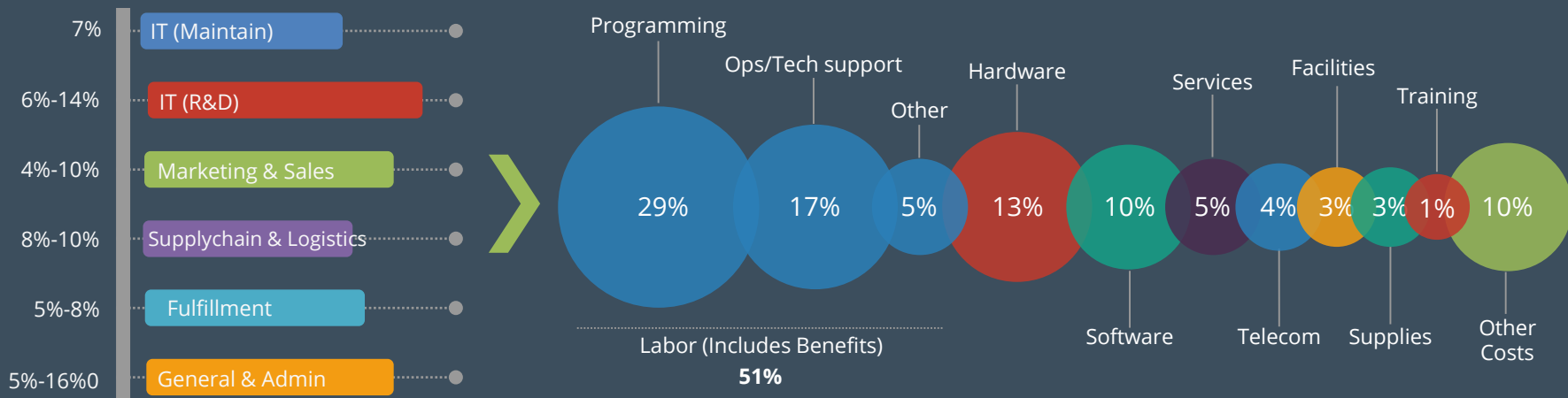- Payments and Transactions
- Organisation Scaling

Internal Domains

SPEND AND GROWTH

- Approx. on average eCommerce companies spend 20% of revenues on IT
- Growth and scale drives higher spend
- Mature eTailing business spend more R&D on
  - Mobile eCommerce
  - Logistics . fulfillment & supply chain tuning
  - New channels & customer acquisition
  - Data analytics & mining
  - Risk, fraud and security
- A $100M company would expect to spend $20M post establishment of marketplace and payments platform
- 8-10% of total staff (employee + vendors) of IT engineers

7%	IT (Maintain)
6%-14%	IT (R&D)
4%-10%	Marketing & Sales
8%-10%	Supplychain & Logistics
5%-8%	Fulfillment
5%-16%0	General & Admin

IT Cost Breakdown by Category

(% to Total IT Costs- Weighted Average)

- Programming — 29%
- Ops/Tech support — 17%
- Other — 5%
- Hardware — 13%
- Services — 10%
- 5%
- Facilities — 4%
- 3%
- Training — 3%
- 1%
- Other Costs — 10%
- Software
- Telecom
- Supplies

Labor (Includes Benefits)
51%

Feel free to say hi!

We are friendly and social

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THANK YOU