

Sector:

IT/ITeS

Project Title:

IT Incubation Centers

Project Description

The might of Indian IT skills has been acknowledged across the globe and it is one of the fastest growing segments of Indian industry. The role of both central and State Governments have been instrumental in the exponential growth of IT sector in the Country, which has proliferated under various favorable incentives and tax holiday schemes such as STPI.

In the last couple of years, the industry has witnessed heightened entrepreneurial activity. IT being knowledge intensive sector provides excellent probability to translate novel innovations and path breaking ideas into profitable entrepreneurial ventures. However, availability of adequate funds, enabling and support infrastructure are key growth limiting factors for new ventures.

To assist new ventures and foster greater entrepreneurial development in the community, the Government of Madhya Pradesh (GOMP) proposes to establish a chain of incubation facilities at various key locations across the State. The center would be established on 15 – 20 acres of land and it would be a geographic concentration of warm shells, plug and play offices, business center and various facilities of specific and generic use.

The Center would assist start-ups by facilitating access to critical enabling and support infrastructure without undertaking massive capital investment for the same. Further, the center would also provide consultancy services to the budding start ups and would have following service offerings:

- ✓ Business planning
- ✓ R&D assistance
- ✓ Capital management
- ✓ Funds acquisition (by facilitating access to venture capitalist and angel investors)
- ✓ Commercialization strategies
- ✓ Marketing assistance
- ✓ Intellectual property management
- ✓ Technology transfer
- ✓ Business development

The center would foster links with leading universities and technical institutions across the Country to identify pioneering technologies and initiate their

commercialization. The Incubation Center (IC) would provide enabling infrastructure to start-up companies and would assist them (incubation period 2-3 years) to acquire a critical mass.

Project Rationale

Information Technology has been largely instrumental in establishing Indian Technical prowess across the globe. The industry holds significant potential for creating entrepreneurship development and other socio-economic avenues for the society. The sector has witnessed significant numbers of start ups in various segments across the IT value chain. The knowledge intensive nature of industry empowers technocrats, ample scope of transforming their innovations into successful commercial ventures.

There is an increased trend towards outsourcing significant operational and R&D value chain functions to offshore IT companies due to high cost advantage. The offshoring market is thriving and India is expected to garner significant portion of global outsourcing pie. The rising prominence of India as a favorable outsourcing destination has further provide impetus to the new startups preferred by large foreign and domestic IT companies due to their high quality, cost competitive service offerings. However, limited financing options and support infrastructure is the key impediments for the industry.

There is significant scope of commercialization of novel technologies developed in some of the prestigious technical institutes in the Country such as IIT's and NIT's. These technologies generally remained confined to the laboratories and didn't see light of the day due to lack of finance, infrastructure and guidance.

The development of IT Incubation center will address all the discussed concerns of the industry. It would assist budding entrepreneurs to materialize their business plans, foster risk taking tendency and remove initial growth impediments. Thus, it would not only assist in creating new business venture but will also increase employment opportunities for the Country's technical workforce.

Proposed Facilities

Followings facilities are proposed to be set up in the Incubation center:

- Plug and Play offices
- Media center
- Business center
- IPR cell

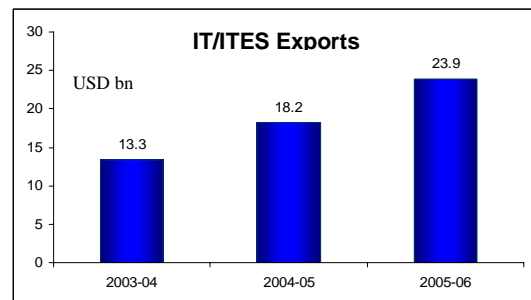
- Advisory cell
- Central library
- Seminar rooms
- Cafeteria

The office will be equipped with high spectrum IT and communication facilities such as:

- ✓ Networked PC Station
- ✓ Broadband ADSL internet access
- ✓ MS office applications
- ✓ Personal email A/C
- ✓ Firewall and virus protection
- ✓ Direct dial telephone with voice mail facilities
- ✓ Faxing, printing, scanning and photocopying facilities

Market Potential and Demand Dynamics

IT/ITeS industry in India generated more than US\$ 36 billion in revenues in the FY 2005-06, growing a CAGR of 28% from the past several years. It is one of the fastest growing segments of Indian industry. The industry is expected to sustain the growth momentum at the same rate for the next five years i.e. from 2005-10 and is estimated to reach US\$ 148 billion by the year 2010.



The industry contributes significantly to the national GDP where its contribution has risen from 1.9% in 1999 to a projected 4.8% in the current fiscal (2005-06). Further, it has a special significance as one of the largest employment providers in the Country. In 2005-06 the IT sector employees a total of 1,287,000 personnel.

With 64% of the total revenues being contributed by exports, the industry is predominantly export oriented. The exports of IT/ ITeS has grown from USD 13.3 billion in FY 2003-04 to USD 18.2 billion in FY 2004-05 and is estimated to exceed USD 23.9 bn in the current fiscal year. The exports are projected to grow at a rate of 32% in the current fiscal.

MP has made significant progress in the last couple of years and is further paving the way to be at the forefront of the IT revolution. The total IT/ITeS exports from the region are estimated to be approximately USD 655 million out of which USD 11 mn is contributed by software exports while USD 644 million is the Share of ITeS.

Why Madhya Pradesh?

1. Connectivity is the key

Being the second largest State of Country along with the strategic central location, MP has some innate advantages and can offer strategic benefits to companies establishing their operations in the State. Well connected with all the key metropolitan cities by rail, road and air, the State key business centers such as Indore, Bhopal and Gwalior Provides near equidistance connectivity with all the major commercial centers of India.

2. Support Infrastructure

To support the upcoming knowledge intensive sector, the State Government has proactively initiated the development of support infrastructure, as part of which, over 24,000 kms of optic fiber has been laid to cover all 313 development blocks across 45 districts in the State making it one of the leading States in the Country with highest optical fiber coverage.

3. Burgeoning IT/ITes Base

The IT/ITeS base in the State is rapidly expanding. Major players like Taurus Microsystems and Fujitsu already have their presence in the State and are on the road to further expand their operations. The Greenfield SEZ at Indore is attracting lot of attention form leading IT players, HCL is in advance stage of setting up a Center at SEZ. Another leading BPO player Genpact has proposed to set up a 7,000 BPO facility in Bhopal with an estimated investment of US\$ 34 million.

4. Manpower Availability

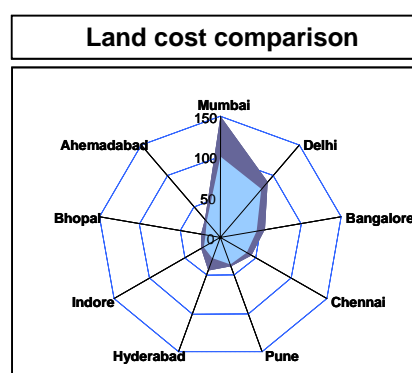
With ~38 engineering colleges and several management institutes along with the prestigious IIM at Indore, the State has ample availability of high quality skilled manpower. Further to foster specifically skilled IT workforce the State has established the Country's first Indian Institute of Information Technology and Management at Gwalior.

Table 2.3 Students Graduating from Technical and Management Institutes in MP as of March 2006

Education	No. of Institutes	No. of Students
Engineering (All streams)	61	20,210
MCA	45	2,310
MBA	47	3,735
Polytechnics	49	9,094
Industrial Training	110	14,298
TOTAL	312	49,647

5. Land Cost Competitiveness

The State has the lowest land rates among the upcoming commercial centers across the Country. The State has ample amount of land available for various commercial entities and corporate houses.

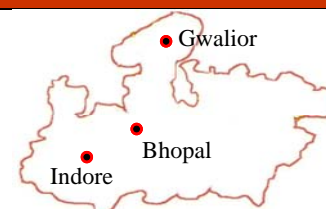


6. Manpower Cost Competitiveness

Rising cost of human resource is severely straining the profit margins of IT/ITeS industry and is the increasing concern of knowledge intensive sector. Madhya Pradesh has the potential to ameliorate the rising manpower cost concern of the industry. Cost of skilled labour in Madhya Pradesh is USD 2.4/day vis-à-vis USD 3.5 – USD 4.0/day in metros. The State has one of the lowest rates of skilled manpower in the Country.

Location Analysis

Indore, Gwalior and Bhopal have been identified as key locations for establishing the proposed Incubation center. Following criteria's were considered while analysis of various potential locations:



- ✓ Well developed infrastructure
- ✓ Existing IT base
- ✓ Availability of skilled human resource
- ✓ High Quality life
- ✓ Perceived image as commercial center

Around 15 – 20 acres of land would be made available at each of the potential locations for developing the incubation center.

Government Support

The key **Incentives** offered for **developers** under the STPI scheme are:

	PARTICULARS	STP (Industrial Park Scheme, 2002)
1	Period and quantum for tax holiday	100% tax holiday until March 2009
2	Duty exemption on input materials for development	Restricted to telemetric infrastructure/ DG/ AC etc.
3	Ability to sell space to units	Available. Schemes such as the Special Economic Zone Scheme only allow leasing of space to units
4	Foreign direct investment	100% permitted.
5	Minimum Area Criteria	None
6	Minimum Investment Requirement	None

Incentives Offered by the State Govt. Beneficial to Developers:

	INCENTIVES	IMPLEMENTING DEPARTMENT	BENEFITS TO INVESTORS
1	Exemption from payment of Stamp duty on sale/ lease deed relating to plot or built – up area executed with the State Government or any semi government organization or any other State Government undertaking	Commercial Tax Department	Saving of approximately 10% of the investment on land
2	Do not require clearances for water and air pollution	Housing and Environment	Results in saving pre-operative time
3	Relaxation up to 25% in existing FAR in Indore, Bhopal, Gwalior and Jabalpur. No restriction of FAR in other cities	Housing and Environment	

Proposed Investment

The total investment for each incubation center is estimated to be around USD 11 mn or INR 50 crores.

Returns

Internal rate of return is estimated around 12-14%.

Coordinating Agency

- **Madhya Pradesh State Industrial Developmental Corporation**
- **Madhya Pradesh Agency For Promotion of Information Technology**