

# Human resources solutions industry

Stepping into the next decade of growth

January 2012



# Foreword

Over the last two decades, India's image as a land of snake charmers has changed rapidly to that of a power house of human resources. Our greatest resource today is our people, be it our entrepreneurs or our large, young and vibrant working population.

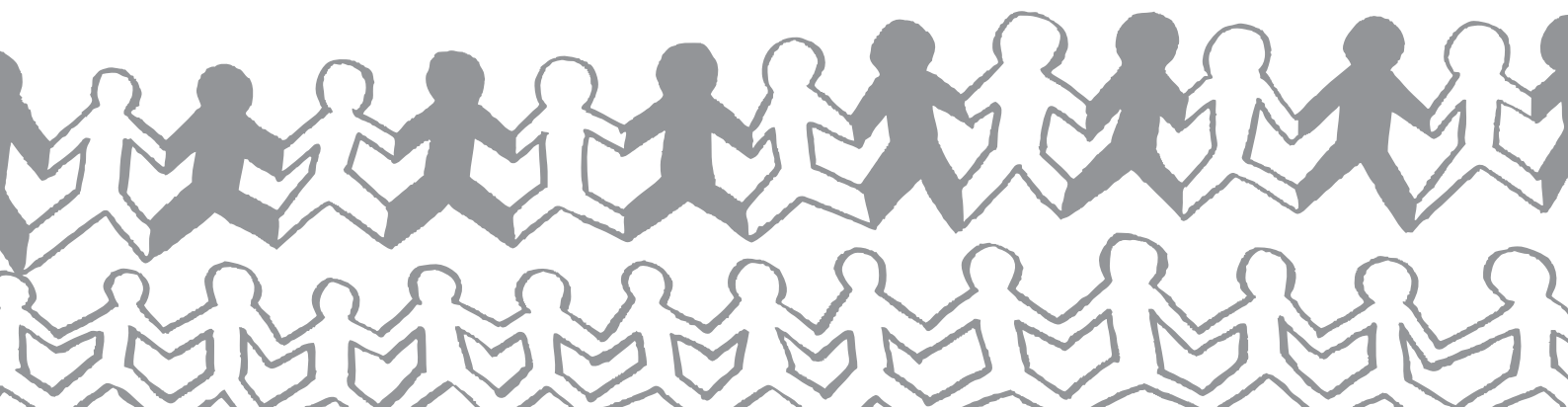
India's human resource industry, dominated by talent acquisition in the form of recruitment, temporary staffing and executive search, has been growing by an estimated CAGR of 21% over the last four years and is now estimated at more than INR228 billion.

Many global players have entered the Indian market over the last decade and some are poised to make the quantum leap. This market is rapidly moving from a highly fragmented and unorganized sector to a structured and organized industry.

The Executive Recruiters Association (ERA) is a non-profit chamber of commerce representing Indian executive recruitment consulting firms. ERA was formed with the objective of creating professional and ethical standards of recruitment and establishing the recruitment process as an industry.

ERA and Ernst and Young are pleased to present to you the first comprehensive report on the Indian recruitment and HR services industry. I would like to express my gratitude to Ernst and Young and all the industry people who contributed to making this report.

**Vipul Varma**  
Chairman  
ERA





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# Executive summary

Over the past few years, the Indian HR solutions industry has grown significantly. This is largely attributed to the change in the mindset of large Indian companies in two ways:

1. Companies have started increasingly engaging consultants to meet their HR requirements on account of the growing complexity of doing business and talent challenges.
2. They are opting for a temporary staff model to have smaller bench strength to withstand the global economic crisis.

Given this transformation in customer segments, the industry is emerging as more than just a vendor in clients' growth plans.

The present HR marketplace in India has some individual freelancers, start-ups, small and medium players, as well as large Indian companies and MNCs. The size of this space is expected to be INR228 billion in FY11 and has grown at a CAGR of 21% between FY08 and FY11.

The industry can be broadly divided into permanent recruitment with a market size of INR23-25 billion, temporary recruitment with a market size of INR 167-170 billion and other segments with a market size of INR 33-38 bn

The strong growth witnessed by the sector has brought a combination of opportunities as well as challenges.

Permanent recruitment has grown on the back of growth in key customer industries, with large MNCs entering the Indian market and expanding their presence, as well as the emergence of new industries. However, permanent recruitment companies face challenges in the form of high attrition and competition from online portals.

Temporary recruitment companies are growing with organizations that are gradually increasing their share of temporary staff in their total workforce to withstand the economic downturn – recognizing the merits of having temporary staff. However, such companies face high attrition rates with clients absorbing temporary staff, pressure on their working capital and compliance with laws applicable to permanent staff.

HR solutions is a highly competitive and fragmented industry that is poised for enormous growth in the next 10 years as companies increase their investment in their HR infrastructure.

Furthermore, changing market dynamics and global competitive pressures has resulted in business becoming more complex, making companies realize the importance of having the right employees undertaking complex tasks and outsourcing non-core activities. Those that were earlier reluctant to engage external vendors now consider HR consultants to be their partners in their organizations' growth strategy.

# 1. Introduction



## 1.1 The HR solutions industry: an introduction

While there is no uniform definition for the HR solutions industry, for the purpose of this report, we may define it as the rewards derived from any decision on buying services for any part of the human capital value chain. The HR solutions industry can be broadly divided into two main functions – permanent recruitment of executives and professionals, and temporary recruitment, specializing in professional and general staffing.

HR solutions are being increasingly viewed as a distinct industry with the role of HR consultants evolving with changing market dynamics.

- ▶ Large Indian companies are diversifying into new sectors and prefer candidates with relevant experience. However, since their HR function find it difficult at times to source candidates from the large and geographically dispersed talent pool, companies are increasingly looking at external help. This change in approach and mindset has made sourcing a relatively complex activity, resulting in companies increasingly partnering with recruitment consultants with a global footprint or access to global databases to source the right candidates.
- ▶ The service industry is a people-driven one and is clocking double-digit growth. The service industry has a large manpower requirement, which facilitates the need for a large HR function to fulfill its growing needs. Since recruitment is not a recurring activity and is a function of economy and a company's growth plans, companies prefer to partner with consultants to source the right candidates as and when required, and have their HR function focus on the core and strategic activities of selection, planning and retention.
- ▶ Temporary staffing is a growing human resource trend and the phenomenon is finally catching up in India. While industry experts estimate employee leasing to be a US\$140 billion business worldwide, the domestic staffing industry has yet to witness large figures. The scenario is however set to change as companies are increasingly partnering with consultants, and experts expect that in the near future, 2.5%-3%<sup>1</sup> of the workforce in the country will be hired on a temporary basis.

**HR consultants are now increasingly been viewed as partners in an organization's growth strategy rather than just being vendors.**

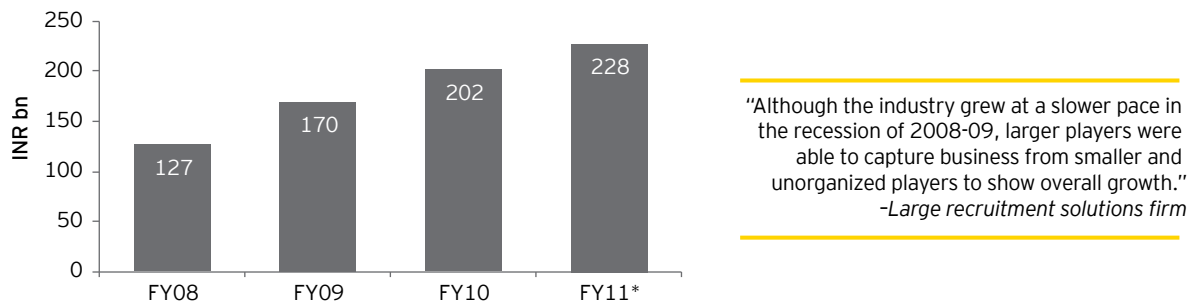
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<sup>1</sup> Industry estimate

## 1.2 Market size

The overall organized HR solutions industry grew at a CAGR of 21% between FY08-FY11 from INR127 billion to INR228 billion<sup>1</sup>.

**Exhibit 1: Human resources solutions industry revenues and growth rate<sup>1</sup> FY08-FY11(E)**



Source: Service tax revenue numbers under the service tax head “Manpower recruitment or supply agency”

Note: As per service tax man power recruitment or supply agency includes any person engaged in providing any service, directly or indirectly, in any manner for recruitment or supply of manpower, temporarily or otherwise, to any other person”

\* FY11 numbers have been calculated by using the 8 months collection numbers upto Nov,2010 and assuming collection to be proportionate over 12 months

The HR solutions market was affected by the global economic slowdown, and slowed a year on year (y-o-y) rate of 34%<sup>1</sup> in FY09 to 13%<sup>1</sup> in FY11. The slowdown forced customer organizations to defer their hiring plans and reduce their spend on HR.

### HR solutions industry market sizing:

Inclusions	Exclusions
Permanent recruitment, introduced in 1997 under manpower recruitment service.	Players filing returns under other service heads
Other services (added in FY07) include services in relation to pre-recruitment screening, verification of the credentials and antecedents of candidates and the authenticity of documents submitted by candidates	Players providing services to SEZs
Temporary recruitment – definition added in FY08	Players with a turnover of INR1 million and below

The overall size of the industry may be marginally higher, given some of the exclusions in service tax definition.

<sup>1</sup>The market size has been calculated by dividing the service tax collected during the year from the service tax records with the service tax rate



## 1.3 Industry structure

The HR solution industry comprises:

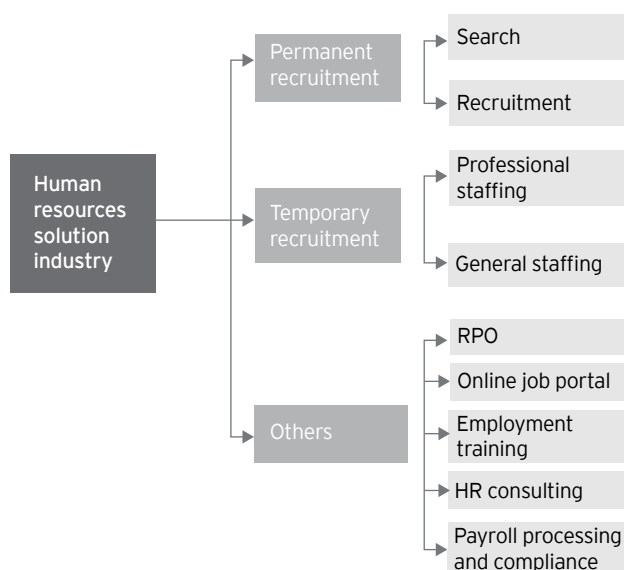
- ▶ Permanent recruitment
- ▶ Temporary recruitment
- ▶ Other segments

Temporary and permanent recruitment are estimated to contribute 86%<sup>1</sup> to the overall market size. Temporary recruitment (staffing) has the largest share at 73%<sup>1</sup> of the market, since it includes pass through salary costs. Permanent recruitment has a 13%<sup>1</sup> share and only includes the net fees from each successful referral.

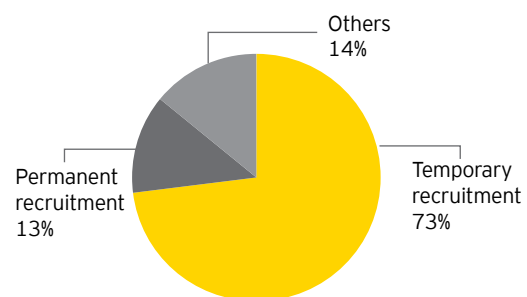
The others categories primarily include small and emerging offerings such as the following:

- ▶ Payroll administration (producing checks, handling taxes, dealing with sick-time and vacations), employee benefits (health, medical, life insurance, cafeteria, etc.)
- ▶ Recruitment process outsourcing,
- ▶ HR management and consulting (benefit consulting, hiring and firing, background interviews, exit interviews and wage reviews),
- ▶ Employment training
- ▶ Online job portals (sourcing of candidates)

### Exhibit 2: Structure of HR solutions industry



### Market size of HR solutions industry in FY11<sup>1</sup>



Source: Ernst & Young Analysis

Temporary recruitment has a share of 73%<sup>1</sup> of the overall market, since it includes the pass-through salary costs of employees that are leased to customer organizations.

<sup>1</sup> Ernst & Young Analysis, refer appendix

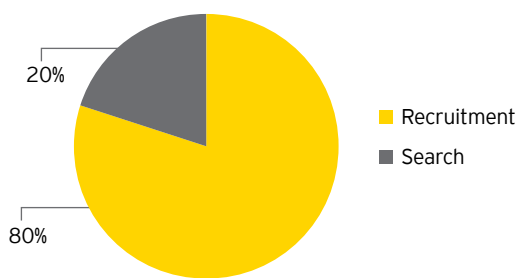
## 2. Permanent recruitment



## 2.1 Introduction

The permanent recruitment market is estimated to be in the range of INR28-INR31 billion<sup>1</sup>. This segment can be divided into executive search<sup>#</sup> and recruitment<sup>#</sup>. "Search," being a niche category, is focused on hiring of CXO-level positions in an organization, while recruitment is for mid- and junior-level positions.

**Exhibit 3: Permanent recruitment market split in FY11 %**

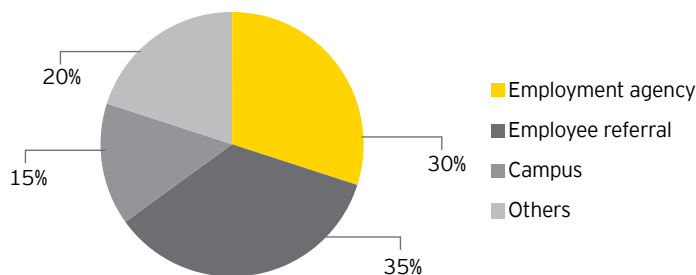


Source: Ernst & Young Analysis

Permanent recruitment is a four-step process of sourcing – screening, selection and on-boarding of candidates – with sourcing being one the most critical steps, since it involves short listing and attracting the right candidates from the pool.

Sourcing of the right candidates takes place through campus recruitment programs, employment agencies, internal referrals and job portals. However, employment agencies and referrals account for more than 65%<sup>2</sup> of the candidate sourcing process. Sourcing of candidates through employment agencies is now gaining traction and currently has a 30%<sup>2</sup> share.

**Exhibit 4: Sourcing share**



Source: Ernst & Young Analysis

In FY11, around 360 thousand<sup>1</sup> candidates got placed through employment agencies across various levels.

**Permanent recruitment is estimated to be an INR30 billion<sup>1</sup> market.**

<sup>1</sup> Ernst & Young Analysis, working given in appendix

<sup>2</sup> Industry estimate

Note: # Search is for positions drawing an average salary of 40 lakhs and above, recruitment is for positions drawing salary of 1.8 lakhs and above

## 2.2 Executive search

### 2.2.1 Introduction

#### Key players:

Egon Zehnder,  
Heidrick &  
Struggles, Russel  
Reynolds, Spencer  
Stuart, Korn Ferry  
and Transearch,  
Amrop

In the early 90s, “executive search” was less prevalent, and small placement agencies dotted the landscape. It was all about database recruiting. The transformation was noticed after the economy opened up with multinationals setting up shop in the country. Business for the Indian search industry largely emanated from global MNCs and accounted for 85-90%<sup>3</sup> of their revenues. The space was dominated by HR consultants such as ABC consultants and Mafoi.

The end of the 90s and the early 2000s saw the entry of some global search companies such as Amrop, Egon Zehnder, Korn Ferry, Transearch and Heidrick & Struggles into India. At that time, these MNCs followed the policy of their international CXOs heading their India operations. The mid 2000s saw the emergencies of new industries and the need for local talent led multinationals to demand a more scientific approach to top-rung hiring. Large search companies began importing their knowledge base, global best practices and proprietary tools to their Indian subsidiaries. There were also new entrants such as Russel Reynolds and Spencer Stuart.

The search market is estimated to be INR6-7 billion<sup>1</sup>, with about 6,000<sup>1</sup> placements through consultants, in FY11. At the CXO, board and top levels, business is traditionally defined as a retained search (with the client paying a fee at the beginning of the service, and is not linked to the success of the search) and a contingency search, with fees in the range of 25-30%<sup>2</sup>.

Currently, the search market, being a niche category, is dominated by large global search companies like Egon Zehnder, Korn Ferry, Transearch, Heidrick & Struggles, Russel Reynolds, Spencer Stuart, Amrop, etc., that have a market share of ~40%<sup>2</sup>. Small companies find it difficult to get search mandates as MNCs prefer large international search organizations. Furthermore, being a relationship-driven business, it also requires years of experience and credibility in the recruitment space to move higher into the search category.

**“It will take us at least 10 more years to become a prominent player within the executive search space.”**

– *Mid-sized recruitment solutions company*

**Search market is estimated to be in the range of INR6 -INR7 billion<sup>1</sup> and is largely dominated by global companies.**

<sup>1</sup> Ernst & Young Analysis, refer appendix

<sup>2</sup> Industry estimate

<sup>3</sup> 'The Hunted Turn Hunters', *Economic times*, 6 Jan 2011



## 2.2.2 Growth drivers

### 1. Large companies diversifying into new sectors

Large Indian conglomerates are now diversifying from their core businesses and venturing into new emerging industries. This has opened up opportunities for search companies to bring in people at the top level, who have relevant experience in these sectors.

### 2. Large MNCs in automobiles, luxury goods, and agricultural and food business setting up shop in India

A large number of MNCs are trying to gain a share of the robust and growing Indian economy. The gloomy outlook for most of developed economies has forced companies operating in these to shift their focus to emerging economies such as India. Large automobile companies have entered the Indian market in the last three years and are in the process of expanding their footprint to withstand competition and capture the market. Large agri food players have entered the Indian market and are looking at expanding their presence across different categories inorganically. Large luxury goods companies are expanding their portfolio and presence in India to be a part of the consumption story and ride on the growth momentum. MNCs extensively use search companies to source the right people to head their India operations, and with the inflow gaining momentum, we expect their growth to be robust.

### 3. Acceptance and adoption of search companies by large family owned conglomerates

In most emerging countries such as India, a significant component of GDP is contributed by family-run companies. It is therefore vital to ensure that these organizations are adequately resourced, both financially and with human capital. Earlier, in large family owned business conglomerates, top level hiring was primarily through referrals, but changes are now being observed in the new generation at the helm. The family run businesses are increasingly using the services of search firms to bring in the right candidates with the required experience and skill sets.

## 2.2.3 Emerging trends

Large executive search firms providing CXOs on hire for a short term

- ▶ Large executive firms have started providing CXOs for short tenures of one to three years to stressed investee companies, to enable them to turn around their operations, or to companies looking for subject matter experts to guide them through their roll-out plans to enter new sectors.
- ▶ Huge demand for CXOs on hire by private equity investors for their investee companies
- ▶ Demand from large corporate organizations planning to enter new sectors and conducting pilot testing to fulfill the need for CXOs on hire

The search market is growing on the back of domestic and international companies 'expansion and entry plans into new sectors and geographies.

## 2.3 Recruitment

### 2.3.1 Introduction

**Key players:**

ABC Consultants,  
Mafoi and Kelly

India's recruitment industry has grown with the rising prominence of industries such as IT, telecom, retail, pharma, ITES and hospitality. These industries have shown significant growth on the back of strong demand from the rising Indian consumer class and the dominance of Indian companies in the outsourcing space.

The recruitment industry has evolved on the back of the increase in the demand for workforce on the talent acquisition and the client fronts. On the talent acquisition front, the change has been significant, from a mere match-making function and career counseling to competency-based assessment hiring. On the client side, it has moved from a requirement-based fulfillment system to turnkey project-based hiring to hiring for value added services (VAS).

The recruitment market is estimated at INR23-INR25 billion<sup>1</sup>, with about 350 thousand<sup>1</sup> placements through consultants in FY11.

The market for mid-level recruitment is dominated by large Indian players such as ABC Consultants and Mafoi. Large MNCs such as Michael Page, CandyDate Jobs, Hunt Partners, Kelly and Korn Ferry have also entered this space. The segment also faces competition from small recruitment companies that cumulatively have a significant share in the pie.

The segment is evolving from an unstructured and fragmented ecosystem to players that are adopting new norms of productivity and cost efficiency, where "resume pushers" (who do not add value to clients) will eventually get marginalized. At the middle management level, business is mostly contingent in nature. Clients pay a fee of 12-16%<sup>2</sup> (of the annual cost-to-company salary) once candidates join organizations.

**"Bulk recruitment is generally at a lower level as compared to the mid-level recruitment process. At the low level, the industry continues to be volume-driven."**

The recruitment market for the junior level is dominated by a large number of small companies and job portals from which companies generally source profiles. Being a volume-driven segment, the focus is more on the turnaround time than quality. Hence, having a large data base is of prime importance. Given the volume nature of this industry sub-segment, fees for consultants may be lower (in the range of 7-10%<sup>2</sup> of the annual cost-to-company salary) per recruitment.

**"Entry-level hiring is characterized by large volumes with a focus on quick turnaround time rather than on quality hiring."**

**Recruitment is evolving from an unstructured and fragmented ecosystem to players adopting new norms of productivity and efficiency.**

<sup>1</sup> Ernst & Young Analysis, refer appendix  
<sup>2</sup> Industry estimates

## 2.3.2 Growth drivers

### 1. Growth in key customer industries

India's economy has been growing at an average rate ~8% on the back of growth in its key customer industries, e.g., IT, ITES, retail, banking, health care, hospitality and others, which have been witnessing significant growth.

The country's economy has been maintaining its growth momentum on the back of a large middle class, their increased their spending and the Government opening up sectors such as aviation , financial services and retail for FDI. Companies operating in these industries and other ancillary industries are expected to recruit robustly. India's retail sector, after hitting a road block in 2009, is expanding again on the back of falling real estate rentals, a burgeoning middle class and the Government's plan to bring FDI in retail. Foreign banks that have obtained banking licenses in FY11 are slowly increasing their workforce.

**"Sectors such as retail, BFSI and life sciences continue to need talent."**

*HR solutions provider*

### 2. New emerging sectors

The economy has grown robustly in the last decade on the back of sunshine sectors that emerge every few years. In the early 90s, it was IT, then ITeS, telecom, retail and banking, and now it is consumer goods and health care.

**"Every year, there is a new sector that does a lot of hiring, resulting in attrition across other industries. This has a cascading effect, which benefits recruitment companies."**

*Large recruitment player*



### 2.3.3 Emerging trends

<p>Recruitment firms providing RPO as an offering</p>	<ul style="list-style-type: none"> <li>▶ ABC has formed a JV with Alexander Mann Solutions.</li> <li>▶ Elixir and People Strong are other players that have entered the segment.</li> <li>▶ Other small players also offer RPO as a service.</li> </ul> <ul style="list-style-type: none"> <li>▶ RPO can have a cannibalizing effect on traditional forms of recruitment; hence, to avoid any loss of business, most recruitment providers have themselves begun providing RPO as a service offering.</li> <li>▶ RPO as a service is an annuity and the term of contracts vary from six months to a year, providing a definitive revenue source to recruitment-focused companies, wherein revenue is only earned on successful referrals.</li> </ul>
<p>Recruitment firms with their own online portals</p>	<ul style="list-style-type: none"> <li>▶ Recruitment firms such as ABC Consultants have their own online portal, called "Head Honchos," on which they post jobs for senior-level positions only.</li> <li>▶ Michael Page has its own website, on which it has job listings, and requires users to register themselves to have their own database.</li> </ul> <ul style="list-style-type: none"> <li>▶ Mid-level recruiters have ready access to a database of relevant profiles and therefore have a quick turnaround time.</li> <li>▶ Recruitment agencies can have higher margins because they do not need to share their revenues with online portals to source profiles.</li> <li>▶ They help recruitment firms build credible brand.</li> </ul>
<p>Large executive search firms entering mid-level recruitment</p>	<ul style="list-style-type: none"> <li>▶ Korn Ferry<sup>2</sup>, through its subsidiary Future Step, has entered the mid-level recruitment segment.</li> </ul> <ul style="list-style-type: none"> <li>▶ The mid-level recruitment segment, which provides an opportunity of INR16.5-INR18 billion<sup>1</sup>, is characterized by average margins (lower than in executive search), but higher volumes.</li> </ul>

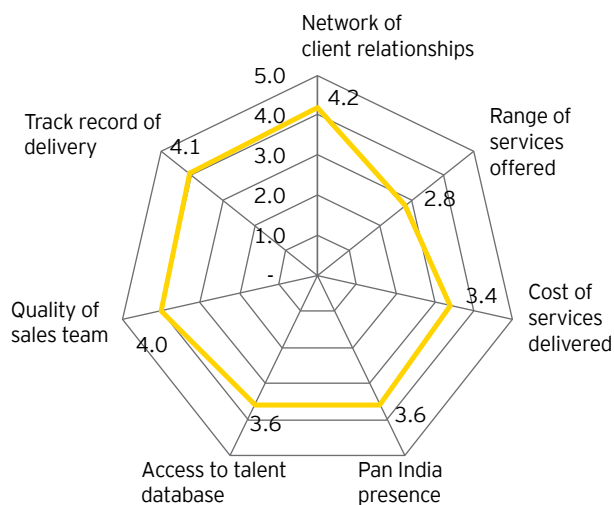
**Recruitment firms have entered RPOs, which require large setups and online job portals to build a brand, to increase their market share and withstand competition from small players.**

<sup>1</sup> Ernst & Young Analysis, refer appendix  
<sup>2</sup> <http://www.kornferry.com/futurestep>, 10 January 2012



## 2.4 Critical success factors

Exhibit 6: Critical success factors



Source: Industry estimate

Critical factors for the success of permanent recruitment firms

### 1. Network of client relationships

Having strong ties with companies and maintaining them in this crowded space is the key to obtaining business. This industry is characterized by low entry barriers and large volumes. Therefore, companies need to build on their existing relationships to prevent their market share from shrinking. They should also foster new relationships to grow.

### 2. Track record of delivery

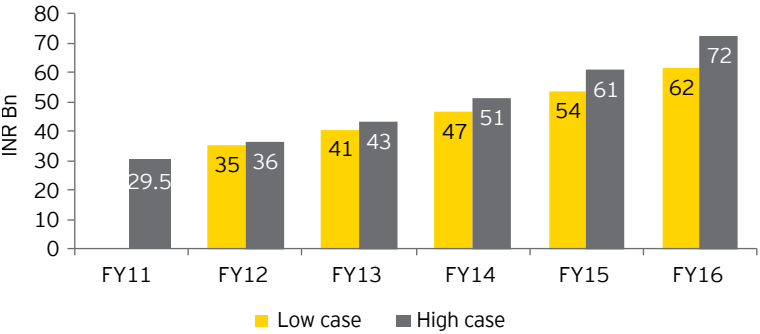
Quick turnaround time and quality of candidates sourced are important factors on which the track record of delivery is measured. This track record is critical for increasing business from existing clients and also to attract new clients.

### 3. Quality of sales team

Permanent recruitment is a relationship-driven business. Having a quality sales team to source mandates from companies and to be able to successfully make a pitch to the right candidates is critical for the success of companies.

## 2.5 Market opportunity

**Exhibit 5: Permanent recruitment market growth<sup>1</sup> (FY11-FY16)\***



The search and recruitment market is expected to grow from INR29.5 billion<sup>1</sup> in FY11 to INR62 billion<sup>1</sup> in FY16 in low case at a CAGR of 15% and INR72 billion<sup>1</sup> in high case at a CAGR of 20%.

Source: Ernst & Young Analysis

\* "High case is based on the assumption of a higher economic growth and activity which is likely to result in higher rate of growth in the private sector organized work force, as well as, higher rate of increase in the average salary across organization levels"

Growth drivers	Challenges to future growth
<p><b>1. Growth of the economy</b></p> <p>India's economy is expected to grow at a CAGR of ~8% on the back strong domestic demand,</p>	<p><b>1. Attrition of talent</b></p> <p>The attrition rate in search or recruitment agencies is at 40% -50%<sup>2</sup>, which is the highest across industries.. Being a people-driven business, frequent changes in employees, who end up becoming the face of companies, affect the relationships of these companies with their large clients.</p>
<p><b>2. Focus on human resource</b></p> <p>Challenges relating to talent that organizations face today are manifold. There is an increasing cost implication in finding and hiring talent, which is exerting considerable pressure on most businesses, especially people-intensive ones.</p> <p>Top managers in India are increasingly paying close attention to their people interventions as well as their HR spending. HR budgets are growing as the quality of talent, attraction and retention concerns drive business growth more than ever before.</p>	<p><b>2. Growth of online portals</b></p> <p>With the growth of online portals, companies' HR functions now prefer to directly connect with these to source relevant candidates' profiles from their large databases or advertise openings on job portal websites and obtain the profiles of interested candidates. This eliminates the need for recruitment consultants who now face tough competition from online portals.</p>
<p><b>3. Companies considering HR agencies as their partners</b></p> <p>Increasing complexity in the nature of business has led companies to partner with HR agencies. They now consider these agencies as not just mere vendors, but partners in their long-term growth strategies.</p>	

<sup>1</sup> Ernst & Young Analysis, refer appendix

<sup>2</sup> Industry estimate

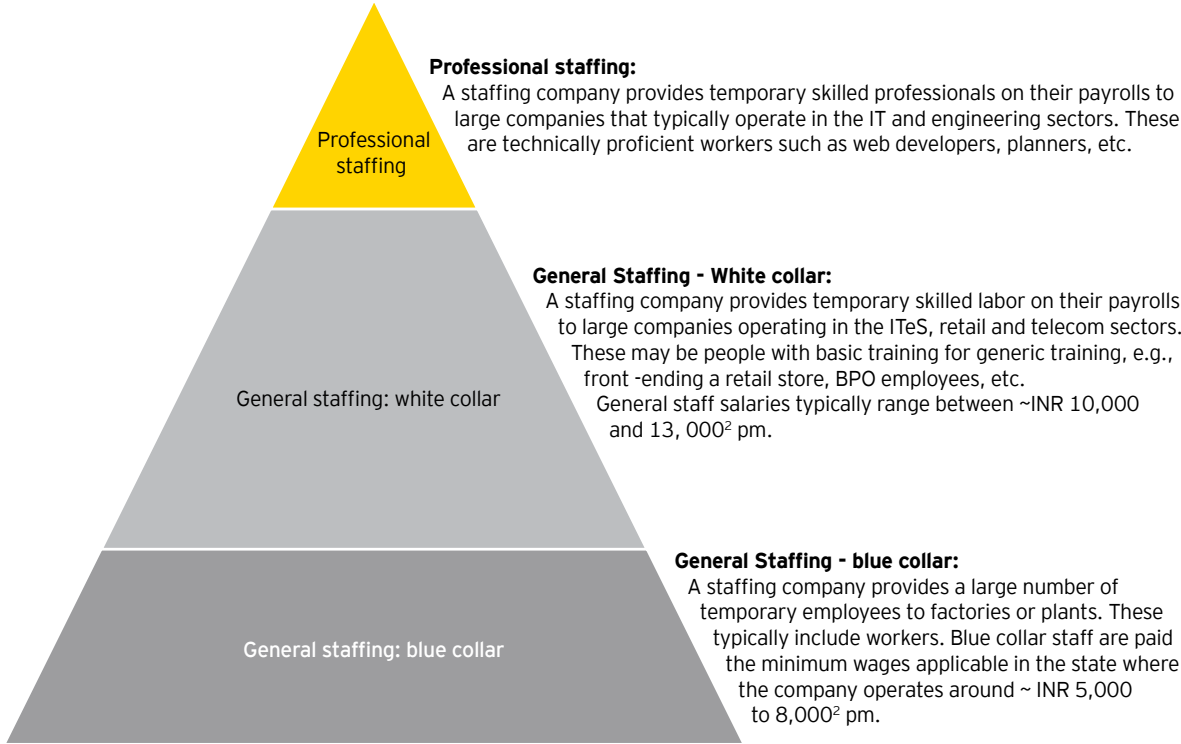
A man in a white shirt and dark trousers is walking away from the camera, carrying a silver briefcase. He is walking on a paved surface next to a large glass wall. The scene is brightly lit, suggesting a sunny day. A semi-transparent grey banner is overlaid on the image, containing the text '3. Temporary recruitment'.

### 3. Temporary recruitment

### 3.1 Introduction

The temporary recruitment market is estimated to be INR172 billion<sup>1</sup>. Temporary recruitment takes place when a temporary work agency finds and retains workers, while other companies in need of short-term workers enter a contract with the agency to send temporary workers on assignment. Temporary employees are generally used in industries that are cyclical in nature and require frequent adjustment of staffing levels.

The temporary recruitment market can be broadly classified on the basis of the skill set of temporary workers.



The temporary recruitment market is estimated at INR172 billion<sup>1</sup>, with professional staffing accounting for INR53 billion<sup>1</sup> and general staffing INR119 billion<sup>1</sup>.

<sup>1</sup> Ernst & Young Analysis, refer appendix  
<sup>2</sup> Industry estimate

## 3.2 Professional staffing

### 3.2.1 Introduction

#### Key players

Team Lease,  
Manpower,  
Adecco, Mafoi,  
Ikya, Kelly,  
Allegis, WDC and  
Future Focus

The professional staffing market was estimated at INR49- INR53 billion<sup>1</sup> in FY11, with 110 thousand<sup>1</sup> staffed through consultants. Professional staffing companies have higher margins than general staffing ones, since the employees they source have higher specialized skill sets. Their margins typically range from 30-35%<sup>2</sup> (of the salary paid by the client organization to the staffing company for the resource).

The professional staffing market is estimated at INR49-53 billion<sup>1</sup> with companies having high margins of 30-35%<sup>2</sup>.

### 3.2.2 Growth drivers

#### 1. Growth in IT and engineering industries

- ▶ Over the past few years, the Indian IT industry has been on a steady growth trajectory. It has played a pivotal role in placing India on the world map as a major knowledge-based economy and outsourcing hub.

The Indian market for IT products and services is expected to consolidate the growth it achieved in 2010 and increase from US\$19.7 billion<sup>3</sup> in 2010 to US\$41.2 billion<sup>3</sup> by 2015. Indian IT companies have been pioneers in temporary recruitment. They are now increasing their temporary staff in non-core activities and services (where the revenue flow is not recurring) to focus more on core activities and cut down on costs to withstand competition from other emerging markets and become more competitive.

- ▶ India's engineering industry is primarily engaged in designing, manufacturing and operation of structures, machines or devices. Design, although an integral part of engineering, is a onetime activity in a project and is largely outsourced by most companies to save the fixed cost of maintaining a separate team. The engineering sector is the largest of all industrial segments in India and accounts for about 12%<sup>4</sup> of its gross domestic product (GDP). According to the Engineering Export Promotion Council (EEPC) India, the apex body of engineering exporters, engineering exports recorded a growth of 94%<sup>4</sup> and 60%<sup>4</sup> during 1QFY11 and 2QFY11, respectively. The increasing use of temporary staff in the engineering sector is expected to lead to growth in the demand for professional staff.

1 Ernst & Young Analysis, refer appendix

2 Industry estimate

3 IBEF,

4 EEPC

## 2. Shift to staffing model

- ▶ What has been rated as a leading HR trend worldwide, temporary staffing, is finally catching up in India. While industry experts estimate employee leasing at US\$140 billion<sup>2</sup> globally, the domestic staffing industry is yet to witness significant figures. However, this scenario is set to change, given the fact that in the near future, 2.5-3%<sup>1</sup> of the country's workforce is likely to be hired on a temporary basis. The IT industry, being a pioneer in staffing, is expected to witness a large percentage of such hiring in the next few years, with the penetration of a temporary workforce in the segment being expected to increase from 10% to ~20%<sup>1</sup>.

### 3.2.3 Emerging key trends

<p>Recruitment companies providing RPO as an offering</p>	<ul style="list-style-type: none"> <li>▶ Manpower, which was focused more on recruitment and general staffing, has acquired WDC, which is a large player in professional staffing.</li> <li>▶ lkya, which was largely focused on recruitment and general staffing, has acquired Magna, which is only engaged in IT professional staffing.</li> <li>▶ Professional staffing companies have high margins.</li> <li>▶ IT companies are pioneers in engaging temporary employees, and therefore, companies do not need to educate them about the benefits derived from availing of these services.</li> <li>▶ IT companies are gradually increasing the share of temporary staff in their total workforce.</li> </ul>
<p>Staffing companies entering managed services</p>	<ul style="list-style-type: none"> <li>▶ Staffing companies such as Allegis and Adecco are moving up the value chain and have entered managed services. They undertake supervision of leased employees as well as accountability of results of the facility or function that have been leased.</li> <li>▶ Staffing companies are moving up the value chain and have entered managed services to earn increased margins.</li> </ul>

The growth the IT and engineering sectors, along with increased staffing, is expected to drive the growth of the professional staffing market in India.

General staffing companies are looking at entering the professional staffing space, while professional staffing organizations are slowly moving up the value chain to managed services.

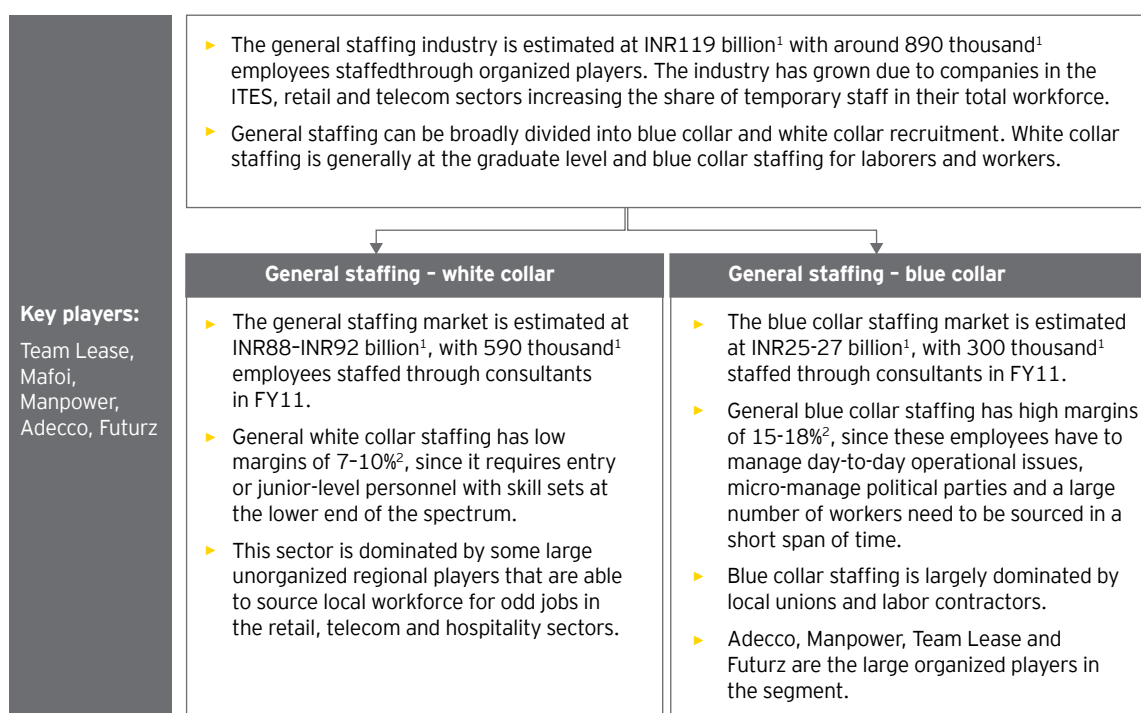
<sup>1</sup> Industry estimate

<sup>2</sup> <http://retail.franchiseindia.com/articles/Retail-Operations/HR-and-People/Contracting-trends-419/>, 18 December 2011

Company websites, merger market, <http://dealcurry.com/2011041-Manpower-Buys-74-Stake-In-Kolkata-Based-WDC.htm>, 29 December 2011

## 3.3 General staffing

### 3.3.1 Introduction



**White collar staffing is estimated to be an INR92 billion<sup>1</sup> market and blue collar staffing to be an INR27 billion<sup>1</sup> market in FY11.**

### 3.3.2 Growth drivers

#### 1. Growth in retail, telecom and ITES

- ▶ India has been ranked the fourth most attractive country for retail investment among 30 emerging markets. The country's retail market is estimated at US\$435 billion<sup>3</sup>, out of which only 7%<sup>3</sup> is organized. There is therefore significant potential to be explored by domestic and international players, and the industry is slated to witness increased activity with the Government planning to introduce 51% FDI in retail. The retail industry is one of the largest employers of temporary staff in its sales team, and given the positive future outlook, the increased demand in temporary staff is likely to increase exponentially. India's telecom industry is the third largest in the world and has grown at a CAGR of 16%<sup>3</sup> between FY06 and FY11. The sector has witnessed inadequate growth due to macro-economic and regulatory issues, but its long-term outlook is

1 Ernst & Young Analysis

2 Primary discussion

3 IBEF

largely positive. In the short term, telecom companies are tending to reduce their bench strength and are opting for temporary staff in their sales and maintenance teams.

- ▶ India offers a unique combination of services, which has established it as the preferred offshore destination for IT-BPO. The country's share in BPO increased from 39-63%<sup>1</sup> over 2001-11. Its outsourcing industry continues to grow, but faces the challenge of high attrition rates of 40-60%<sup>2</sup>, and the cost of training is as high as INR40, 000<sup>3</sup> per person on an average. Therefore, companies have been saving on training costs by successfully using the temporary staff model. Furthermore, there could be sudden spurts of demand from clients for which temporary staffing companies may be able to provide ready solutions.

**"... staffing in core industries such as IT and ITes will continue to be on the rise as long as there are favorable exchange rates."**

*Mid-sized IT staffing company*

## **2. Shift from unorganized to large organized players**

- ▶ Most large companies are gradually moving from unions to large organized players since they are expected to address to governance issues in a scientific and transparent manner. Furthermore, large players may be able to provide solutions across locations where small players with their localized reach may not be of much help.

## **3. Operational issues and compliance**

- ▶ Managing labor, operational issues and compliance with the labor Acts often requires liaising with local authorities. Large organizations may not necessarily have the wherewithal and relationships to manage such issues. Large organized players would not only offer them flexibility of sourcing workforce in time, but also ensure compliance to labor laws including gratuity, minimum wages, PF, etc. These factors have compelled companies to opt for the temporary staffing model.

**"Going forward, a change in the labor law will see companies increasingly adopting the temporary staff model and also witness a gradual shift from unorganized to organized temporary staff."**

*Leading staffing company*

**Growth in key user industries such as retail, ITES and telecom, and the large companies shifting from unorganized to organized players is expected to contribute to the growth of general staffing.**

1 Dun & Bradstreet report, [http://www.cci.in/pdf/surveys\\_reports/it-ites-sector.pdf](http://www.cci.in/pdf/surveys_reports/it-ites-sector.pdf)[http://en.wikipedia.org/wiki/Business\\_process\\_outsourcing\\_in\\_India](http://en.wikipedia.org/wiki/Business_process_outsourcing_in_India),

2 Primary discussion,

3 IDFC report on education and training, January 2009.



### 3.3.4 Emerging key trends

<p>Large international players entering blue collar staffing</p>	<ul style="list-style-type: none"> <li>▶ Adecco acquired Ajinkya in FY08 to enter the blue collar staffing space.<sup>1</sup></li> <li>▶ Blue collar staffing have high volumes and margins</li> </ul>
<p>Staffing companies entering into vocational training</p>	<ul style="list-style-type: none"> <li>▶ Team Lease acquired IJIT in FY10 to enter the vocational training space.<sup>2</sup></li> <li>▶ Training is the starting point for developing a temporary work-force. A company with training facilities has an edge in terms of an employment-ready and local temporary workforce.</li> </ul>
<p>Permanent recruitment focused firms entering temporary recruitment</p>	<ul style="list-style-type: none"> <li>▶ Elixir, though its partner GI, has entered the temporary recruitment segment.</li> <li>▶ A large player in recruitment and search planning is also planning to enter the temporary recruitment segment.</li> <li>▶ CandyDate jobs has acquired UK Steels, which provides temporary staff to steel companies.<sup>3</sup></li> <li>▶ Recruitment-focused companies are entering the temporary recruitment segment to build a healthy top line. A large balance sheet makes them attractive from the perspective of investors and banks and helps them to obtain funds required for their future growth.</li> </ul>

**General staffing companies are entering other services such as vocational training and compliance services as an extension of their staffing business, while players in the permanent recruitment space are entering the staffing segment to build on their top line.**

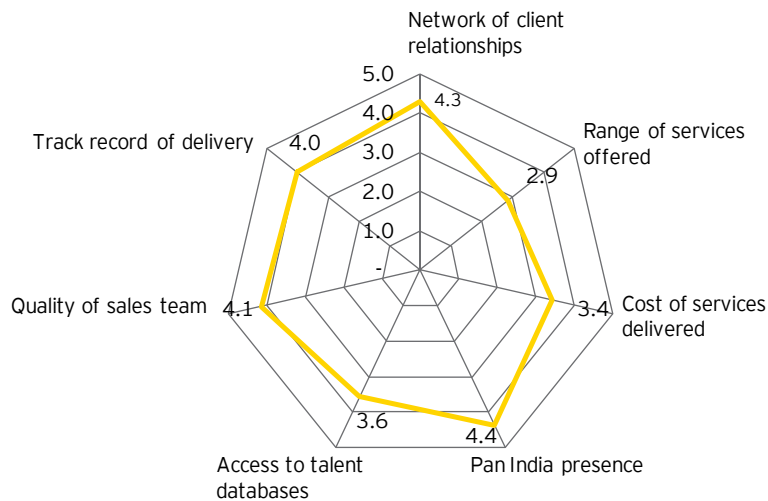
<sup>1</sup> <http://www.adecco.co.in/en-GB/media-relations/PressReleases/Pages/AdeccotakesinorganicroutetoenterbluecollartempingspaceinIndia.aspx>, 10 December 2011

<sup>2</sup> <http://www.teamlease.com/index.php?module=waves&event=view&id=17>, 15 December 2011

<sup>3</sup> <http://www.indiaprwire.com/pressrelease/mining-metals/2011040682846.htm>, 30 December 2011

### 3.4 Critical success factors

Exhibit 7: Critical success factors



Source: Industry estimate

### Critical factors for the success of temporary recruitment companies

#### 1. Pan-India presence

Having a pan-India presence is of prime importance for staffing companies, since clients prefer to have access to local manpower to meet their general staffing requirements. Staffing companies have offices in industrial belts or service industry-intensive cities to be close to their clients, to understand their needs, and in close proximity to local workers to be able to source the right staff in time.

#### 2. Network of client relationships

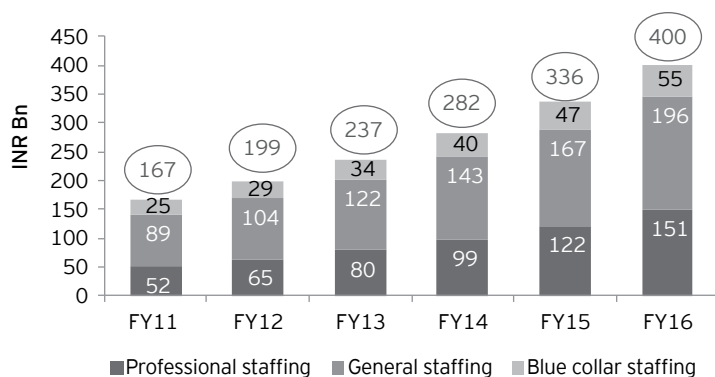
While staffing, companies outsource part of their activities to temporary staff, and therefore, work closely with their associate leased and staffing companies. Since the contract is long term in nature, building on trust to source work is important. Thereafter, maintaining strong ties with the company is of equal importance to retain business.

#### 3. Quality of sales team

Temporary recruitment is a relationship-driven business, and therefore, requires quality sales teams to source mandates, which are of long term in nature, from companies. Moreover, having associates with the required skill sets to perform the given tasks is critical for their success.

### 3.5 Market opportunity

**Exhibit 8: Temporary recruitment market growth (FY11-FY16)<sup>1</sup>**



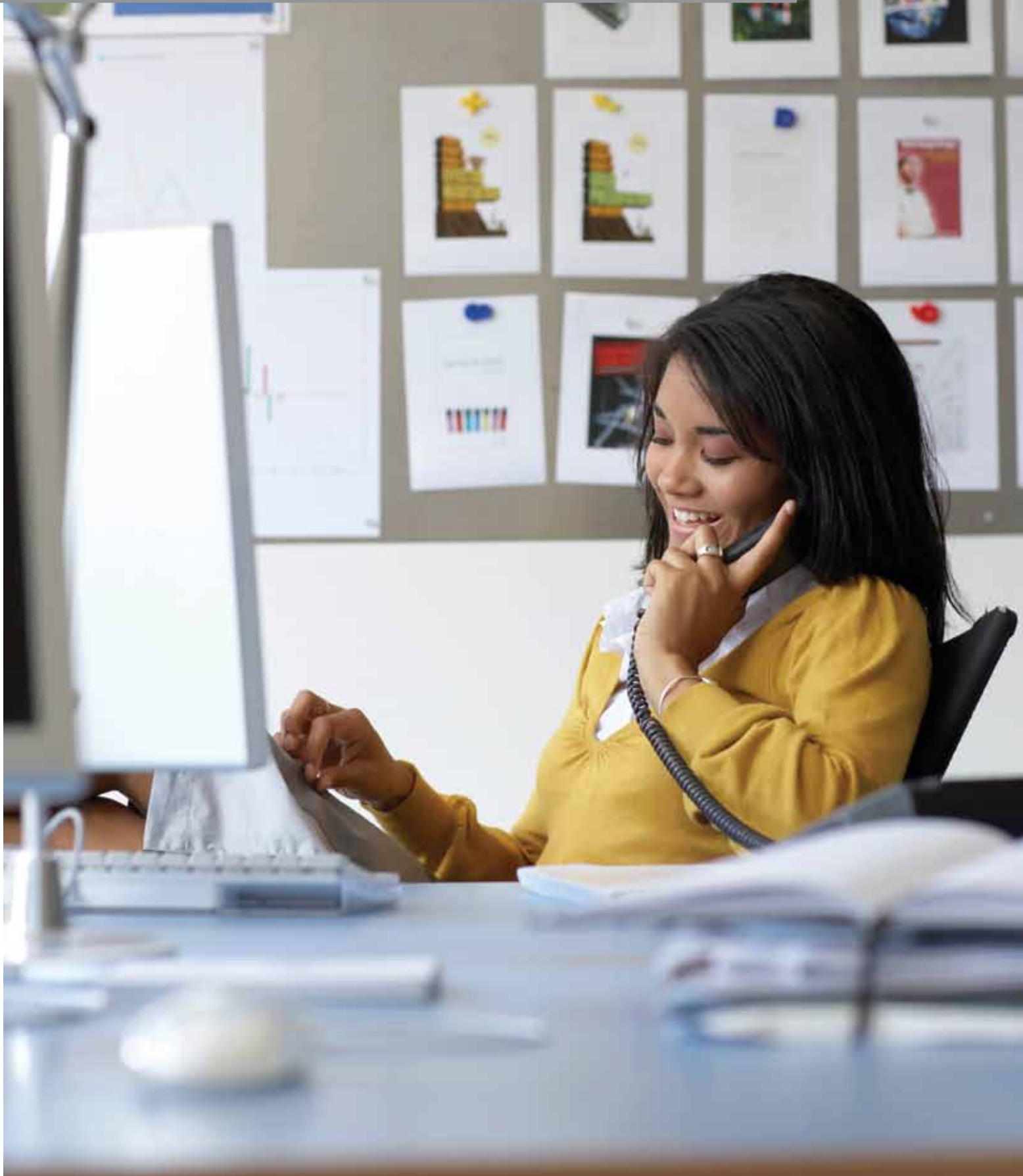
The temporary recruitment market is expected to grow from INR167 billion<sup>1</sup> in FY11 to INR400 billion<sup>1</sup> in FY16 at a CAGR of 19%.

Source: Ernst & Young Analysis

Growth factors	Challenges to future growth
<p><b>1. Shift to temporary staffing model</b></p> <p>Companies across sectors such as IT, ITES, retail, telecom, hospitality and manufacturing are increasingly shifting to the temporary staffing model.</p>	<p><b>1. Compliance with laws applicable to permanent staff</b></p> <p>Staffing companies need to comply with the laws applicable to employers of permanent staff, e.g., gratuity, bonus, PF, etc., which makes them less competitive as compared to unorganized players, since the cost of services is not only high, but the in-hand component paid to workers is less as compared to that paid to unions.</p>
<p><b>2. Temporary staffing prospers in downturn</b></p> <p>During a downturn, companies avoid subscribing to fixed costs and prefer opting for temporary staff to bring in efficiency in their operations. Companies in the retail and hospitality industry generally hire temporary staff since demand varies with economic activity. In the case of a downturn, when demand for their products is likely to be slow, they avoid fixed costs and prefer to replace these with variables.</p>	<p><b>2. Contract Labor Regulation and Abolition Act</b></p> <p>The Act applies to every establishment or contractor in which 20<sup>2</sup> or more workmen are employed. Every contractor is required to obtain a licence and undertake or execute work in accordance with the licence issued by the licensing officer.</p>
	<p><b>3. Working capital</b></p> <p>Staffing companies have to pay salaries on a monthly basis to their associates, whereas they offer a 30- to 60-day credit period to their clients and require working capital.</p>
	<p><b>4. Local presence increases cost of operations</b></p> <p>A local presence is one of the critical success factors for a general staffing company. However, having multiple offices results in increased operating expense and it may not always be possible to pass this on to clients.</p>
	<p><b>5. Attrition</b></p> <p>Staffing companies tend to lose a significant part of their lease employees to client organizations. Therefore, they need to keep recruiting trained manpower to sustain their business.</p>

<sup>1</sup> Ernst & Young Analysis, refer appendix  
<sup>2</sup> CLRB Act

## 4. Other segments of the industry



## Recruitment process outsourcing (RPO)

The provider acts as a company's internal recruitment function for all or part of its recruitment activities, e.g., sourcing of the right candidates, screening candidates through tests and/or interviews, selection of candidates based on screening results, and on-boarding and training.

While the global scenario in RPO is evolving rapidly, offshoring in India has been relatively slow to take off. There are very few homebred companies that prominent in this space (Elixir Web Solutions, MaFoi Consultants and People Strong). Several other RPOs are extensions of recruitment agencies that offer their services to prevent RPO from having a cannibalizing effect on their recruitment business. RPO contracts generally extend for six months to a year, unlike recruitment, which is based on successful referral, and it is an annuity. However, most recruitment companies do not have the wherewithal to support the large-scale nature of such contracts and global clientele.

Most of the recent newsmakers in the Indian RPO space are global players that are setting up or expanding their Indian delivery base. Some of these include Alexander Mann Solutions, which has tied up with ABC Consultants, and Kelly Services, which is launching its RPO services in the country.

Large international players have entered the Indian market as they are of the view that small and medium-sized companies will increase their outsourcing of non-core activities. Moreover, with the market becoming increasingly more competitive, large players are also expected to begin outsourcing to reduce costs and increase their efficiency.

**"The RPO business is complex, technology-intensive, has the longest sales cycle and is like an annuity as contracts are generally for six months to a year."**

*Mid-sized company*

**"Outsourcing recruitment processes for a sector, e.g., BPO, which faces attrition of almost 50-60%, can help companies in the BPO sector substantially save costs and focus on other issues such as retention."**

*Mid-sized company*

**RPO as a service offering has not yet evolved significantly in India, but consultants expect companies to adopt the outsourcing model to withstand competition during a downturn. Since RPO is an annuity, most large recruitment companies are expected to offer it as a part of their portfolios.**

## Payroll processing and compliance

Payroll outsourcing largely involves analysis of organizational data, computation of gross salaries, TDS, allowances, reimbursements of expenses and filing of TDS.

Organizations have the option to establish their payroll systems, but it is time-consuming and requires expertise. Increasing workloads, strategic roles gaining in importance, low costs and the enhanced quality of outsourcing is driving organizations to outsource their processes. According to a survey conducted by the Society for Human Resource Management, 49%<sup>1</sup> of organizations are outsourcing their payroll processes due to their increasing headcount.

This space is dominated by large established players such as Hewitt and Mafoi and small players find it difficult to enter the space, since not all of them provide end-to-end solutions and last-mile compliance, which is an extremely important factor. Furthermore, organizations are not comfortable sharing sensitive information with less established and known players.

Contracts in payroll outsourcing are generally offered for fixed fees in the range of INR100-INR150<sup>2</sup> per employee. Some of the key success factors in any payroll agreement include technology, security, last mile compliance, business continuity and web-enabled query-handling capabilities.

**Payroll being a complex and noncore activity, companies generally outsource it. The space is dominated by large MNCs due to concerns relating to sensitive personal data sharing and the ability to provide end-to-end solutions.**

## Online job portals

These are job sites that list jobs according to different classifications and post job requirements for a position to be filled. Through a job website, an employee can locate and fill out a job application, submit resumes on a database, which is accessed by recruitment consultants for any job opening that has not been advertised.

Naukri, Monster, Head Honchos, and Times Jobs are some of the large online job portal players. They earn revenues in the form of fees for every successful referral. Online job portals face stiff competition from recruitment agencies and internal referrals.

Large recruitment companies such as ABC Consultants, Michael Page and Vito have launched their own job portals to have a presence across the value chain, increase their margins and establish their brands.

**Online job portals are successful for sourcing resumes at the junior level, where quick turnaround time is of prime importance, but at the mid level, companies prefer consultants.**

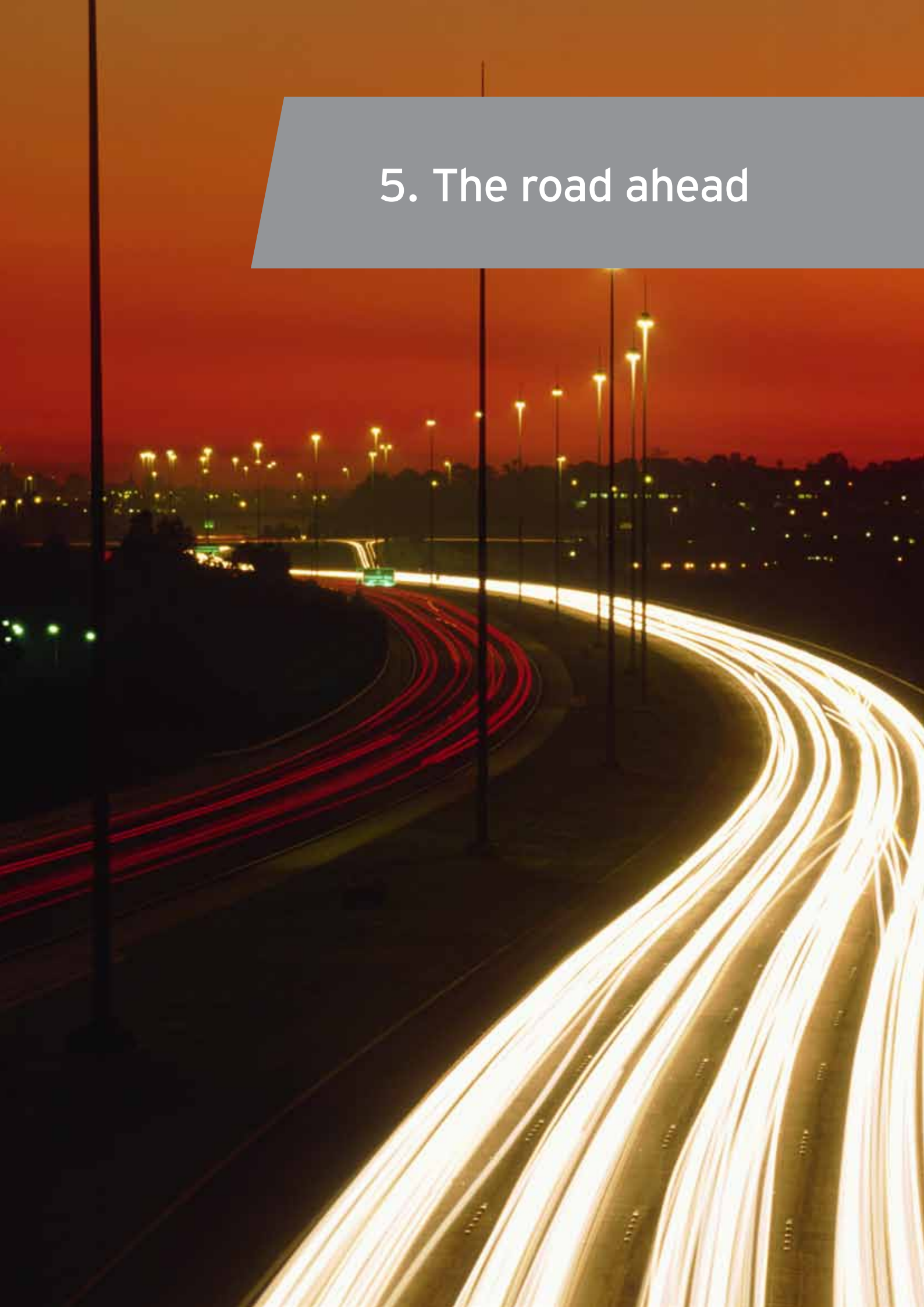
## Employment training

Defined by high value corporate training to upgrade the skills of employees and make them productive from the time they come on board.

Although corporate organizations are realizing the benefits of training, they cut down on their training spend significantly during a downturn. Training contracts with the private sector are not long term in nature and revenues earned are "non-sticky."

<sup>1</sup> <http://payroll.naukrihub.com/compensation/payroll-outsourcing/>  
<sup>2</sup> Industry estimate

## 5. The road ahead



## **The HR solution industry**

The HR solutions industry is highly competitive and is poised for enormous growth in the next 10 years as companies increase their investment in their HR infrastructure.

Changing market dynamics and global competitive pressures has resulted in business becoming more complex. This has made companies realize the importance of getting the right candidates to undertake complex tasks and outsourcing non-core activities. Companies that were earlier reluctant to engage external vendors now consider HR consultants their partners in achieving their organizational growth strategy.

### **Search**

The search market, which evolved in the late 2000s, is expected to continue growing on the back of the expansion and entry plans of large domestic and international companies into new sectors and geographies.

### **Recruitment**

Recruitment is expected to evolve from a fragmented ecosystem to players adopting ways to work closely with clients' requirements, where "resume pushers" (who do not add significant value to their clients) will eventually get marginalized. Recruitment companies are likely to move away from sourcing relevant candidates to accessing the right ones by using psychometric and other robust tests to shortlist them.

### **Temporary staffing**

Temporary staffing, one of the leading HR trends today, is expected to increase its penetration significantly, given the current uncertain economic conditions. Companies and captive units are likely to increasingly depend on agencies to lease them with the required manpower in time, to meet sudden demand from clients.

### **Other segments**

Organizations are fast realizing the benefits of outsourcing non-core activities and focusing on enhanced value-added activities. Outsourcing non-core activities enables HR professionals to move away from routine administration to a more strategic role. As a result, the number of companies outsourcing HR activities is expected to continue to rise and the scope of outsourced HR activities to expand.

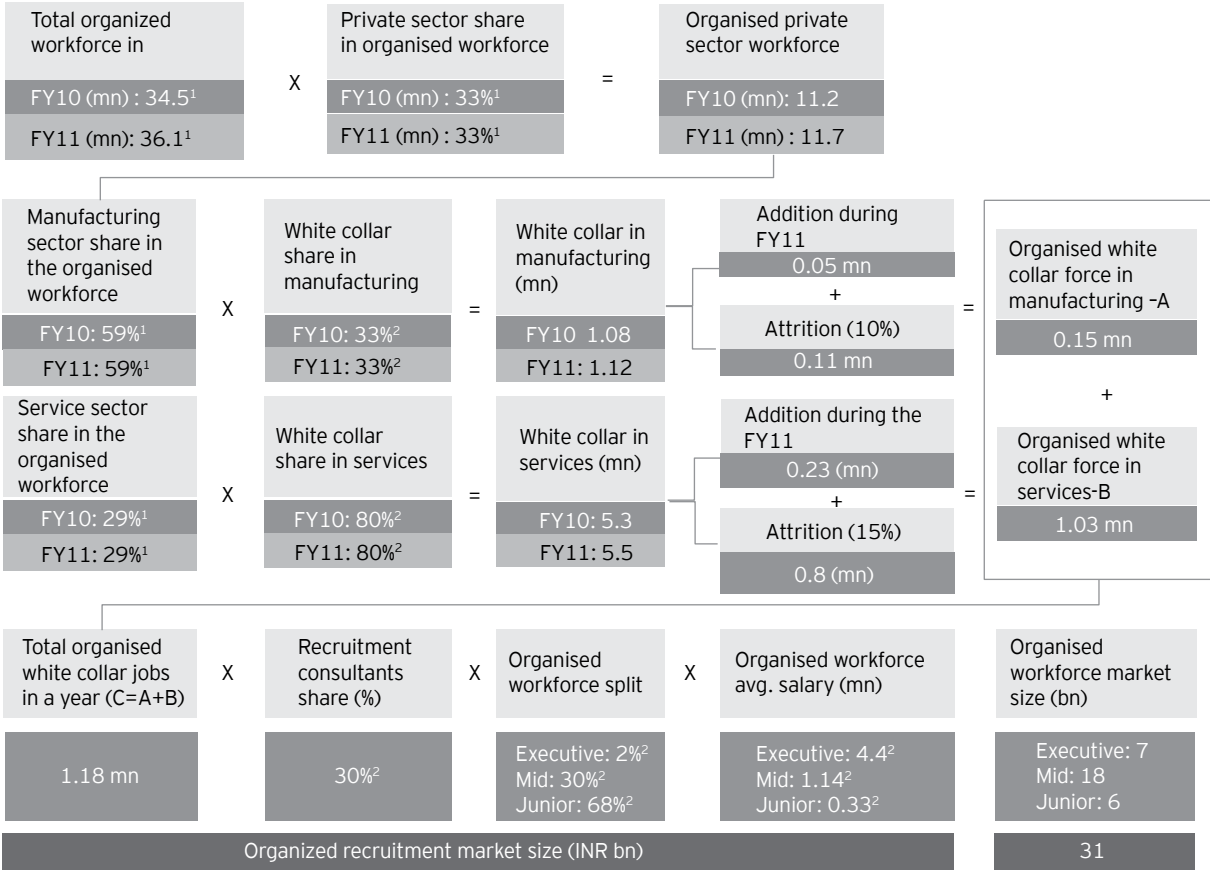
The HR solutions industry is seems poised for interesting times; with 11 deals in the last three years, the overall sector is expected to keep innovating and evolving toward exponential growth





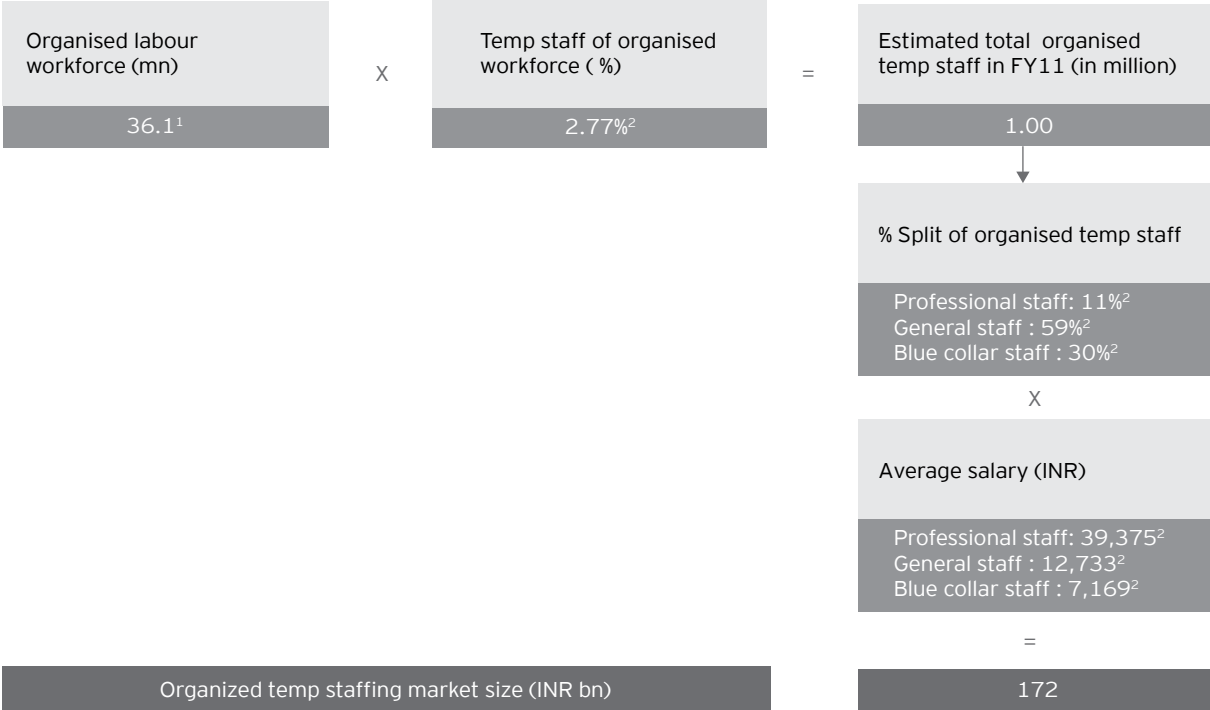
## 6. Appendix

### 6.1 Market size estimation of permanent recruitment in FY11



1 DGET, Employment in organised sector 2009  
2 Industry estimate

## 6.2 Market size estimation of temporary recruitment in FY11



1 DGET, Employment in organised sector 2009

2 Industry estimate

## 6.3 Key players and their revenues

Players	Primary services	Sales <sup>1</sup> (INR mn)
Mafoi	Recruitment, search and staffing	8,434
Adecco	Recruitment and staffing	7,050
Manpower	Staffing	2,863
Kelly Services	Recruitment, search and staffing	2,045
Ikya (including Magna)	Recruitment, search and staffing	2,043
Global Innov	Recruitment and staffing	1,861
Genius Consultants	Staffing	1,412
WDC	Staffing	715
Egon Zehnder	Search	570
Allegis	Staffing	542
ABC Consultants	Recruitment and search	493
Heidrick & Struggles	Search	480
Team Lease	Recruitment and staffing	421 <sup>2</sup>
Future Focus	Staffing	336
Korn Ferry	Search	314
T&M Service	Staffing	272
Spencer Stuart	Search	266
Transearch	Search	156
Amrop Intl.	Search	143
Personnel search services	Search	83

MCA website, ROC financials

Note: <sup>1</sup> FY 10 Sales figures

<sup>2</sup> Revenue provided in ROC at net level, i.e., excluding pass through costs of salary in staffing

## 6.4 Private equity and M&A deals

Year	Acquirer	Target	Segment	Type
2011	Deberry Ventures	CandyDate Jobs	Recruitment and online job portal	PE
2011	CandyDate Jobs	UK Steels	Staffing	M&A
2011	ICICI Venture	Team :Lease	Recruitment and staffing	PE
2011	PeopleStrong	Summit HR India	Recruitment	M&A
2011	Lumis Partners	PeopleStrong	Recruitment and HR outsourcing	PE
2011	Manpower	WDC	Professional staffing	M&A
2010	Ikya	Magna	Professional staffing	M&A
2010	Team Lease	IIJT	Job training	M&A
2010	Randstad	Mafoi	Recruitment and staffing	M&A
2009	Ikya	Coachieve	Recruitment	M&A
2009	AAA Ventures	People Strong	Recruitment and HR Outsourcing	PE
2009	Gaja Capital Advisors	Team Lease	Recruitment	PE
2008	Adecco	Ajinkya	General staffing – blue collar	M&A
2008	IEP	Ikya	Recruitment and staffing	PE
2008	Ikya	Avon Management Services	Facility management	M&A
2007	Hat Pin Plc	Executive Access (India) Pvt. Ltd.	Recruitment	M&A
2005	Manpower	ABC Consultants	Recruitment	M&A
2004	Adecco	Peopleone	Recruitment	M&A
2004	Vedior NV	Mafoi	Recruitment and staffing	M&A

Source: *mergermarket.com*, <http://dealcurry.com/search.htm?search=Deberry%20Ventures>, 12 December 2011, <http://www.indiaprwire.com/pressrelease/mining-metals/2011040682846.htm>, 15 December 2011, [http://www.peoplestrong.com/news\\_pr.htm#pr\\_acquisition\\_hr\\_frontline](http://www.peoplestrong.com/news_pr.htm#pr_acquisition_hr_frontline), 16 December 2011, [http://www.peoplestrong.com/news\\_pr.htm#pr\\_private\\_equity\\_fund](http://www.peoplestrong.com/news_pr.htm#pr_private_equity_fund), <http://dealcurry.com/2011041-Manpower-Buys-74-Stake-In-Kolkata-Based-WDC.htm>, 20 December 2011, <http://www.teamlease.com/index.php?module=waves&event=view&id=17>, 22 December 2011, <http://www.dealcurry.com/20091107-ikya-Human-Capital-Acquires-Coachieve-Solutions.htm>, 26 December 2011, [http://www.peoplestrong.com/news\\_pr.htm#pr\\_a2](http://www.peoplestrong.com/news_pr.htm#pr_a2), 29 December 2011, <http://www.adecco.co.in/en-GB/media-relations/PressReleases/Pages/AdeccotakesinorganicroutetoenterbluecollartempingspaceinIndia.aspx>, 28 December 2011 <http://www.dealcurry.com/20101112-IKYA-Human-Capital-Acquires-Tech-Staffing-Firm-Magna-For-Rs-100-Cr.htm>, <http://www.alacrastore.com/mergers-acquisitions/ManpowerGroup-1010447>, 3 January 2012, [http://www.alacrastore.com/mergers-acquisitions/People\\_One\\_Consulting-3640520](http://www.alacrastore.com/mergers-acquisitions/People_One_Consulting-3640520), 7 January 2012



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