

# Sri Lanka Information Technology Report

## Executive Summary

You have downloaded a PDF of BMI Research's latest views on the market, summarising the key findings that are assessed in detail in the new report, as well as the full report Table of Contents.

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### Table of contents

BMI Industry View	7
SWOT	9
IT SWOT	9
Wireline SWOT	11
Political	13
Economic	14
Business Environment	15
Industry Forecast	16
<i>Table: IT Industry - Historical Data And Forecasts (Sri Lanka 2011-2018)</i>	16
Macroeconomic Forecasts	23
Economic Analysis	23
Rising Food And Garment Exports Driving Manufacturing	23
Public Infrastructure Development Supportive Of Growth	24
Services Sector Poised For Strong Growth	25
<i>Table: Economic Activity (Sri Lanka 2009-2018)</i>	26
Industry Risk Reward Ratings	27
Asia Pacific Risk/Reward Index	27
<i>Table: Asia Pacific IT Risk/Reward Index - Q1 2015</i>	30
Market Overview	31
Hardware	31
Software	38
Services	49
Industry Trends And Developments	54
Regulatory Development	62
<i>Table: Regulatory Overview</i>	62
Competitive Landscape	64
International Companies	64
<i>Table: Hewlett Packard</i>	64
<i>Table: Dell</i>	65
Local Companies	66
<i>Table: Virtusa</i>	66
<i>Table: EWIS</i>	67
<i>Table: John Keells Holding</i>	68
Company Profile	69
Panora	69
Regional Overview	71
Demographic Forecast	75
<i>Table: Sri Lanka's Population By Age Group, 1990-2020 ('000)</i>	76
<i>Table: Sri Lanka's Population By Age Group, 1990-2020 (% of total)</i>	77
<i>Table: Sri Lanka's Key Population Ratios, 1990-2020</i>	78
<i>Table: Sri Lanka's Rural And Urban Population, 1990-2020</i>	78
Methodology	79
Industry Forecast Methodology	79

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Sources

80

Risk/Reward Index Methodology

81

*Table: It Risk/Reward Index Indicators*

82

*Table: Weighting Of Components*

83

*BMI View: Strong economic growth and a government that is supportive of digitalisation underpin our IT growth forecast as this is also likely to filter through in a shape of increased government spending. We forecast a CAGR of 15.4% for IT market spending 2015-2019, with the market expected to increase to a value of LKR 188.8 bn in 2019. We believe Sri Lanka will outperform the majority of IT markets in the APAC region due to a convergence of factors. Strong income growth and low penetration of PCs, enterprise software and services will combine to boost IT spending growth in Sri Lanka over the medium term. The local IT industry is also developing, with vibrant local software and BPO industries and the development of local facilities for PC manufacture and assembly to service the local market and wider region.*

### Headline Expenditure Projections

- **Computer Hardware Sales:** LKR59.7bn in 2014 to LKR114.9bn in 2019, CAGR of 14.0% in local currency terms. There is strong growth potential for hardware sales in Sri Lanka due to low PC penetration rates, declining device prices, rising incomes and the development of a local manufacturing base.
- **Software Sales:** LKR14.8bn in 2014 to LKR32.8bn in 2019, CAGR of 17.3% in local currency terms. Software piracy remains a drag on the market, but growth will be driven by investments in enterprise software, with SaaS adoption rates expected to increase significantly over the medium term.
- **IT Services Sales:** LKR17.9bn in 2014 to LKR41.1bn by 2019, CAGR of 18.1% in local currency terms. IT services forecast to be the outperforming vertical with cloud computing service adoption seeing the fastest growth alongside the continued expansion of the outsourcing industry.

### Key Trends And Developments

BMI is bullish about the enterprise IT opportunity in Sri Lanka 2015-2019, with a generally low penetration of devices and solutions a consequence of years of instability due to conflict. However, the market has gained momentum as the economic and political backdrop has become more supportive, and we now expect spending to grow rapidly over the medium term. One particular opportunity is in the financial services vertical, traditionally an overweight IT spending vertical. In the case of Sri Lanka, the outlook is even brighter due to our in-house Country Risk team also expecting financial services to increase as a share of GVA during our medium-term five-year forecast. One illustration of the opportunity was the deal for national payment network operator LankaClear to install a secure transaction system in late 2014. The project will support Sri Lanka's largest common ATM network connecting over 2,500 ATMs - accounting for over 80% of the total nationwide. The network is designed to become the backbone infrastructure for all future electronic payments, which will facilitate seamless connectivity coupled with real-time payments, and we believe will continue to provide vendors with sales growth opportunities.

The growth of local computer hardware manufacturing will, BMI believes, help to increase supply of localised models and ensure production at price points suitable for the Sri Lankan mass market, which we expect to assist in raising the PC penetration rate 2015-2019. The local manufacturing industry made a major step forward with the opening of a new EWIS manufacturing plant in Sooriyawewa. The plant began producing tablets, notebooks and desktops in November 2013 and will serve the domestic market with affordable devices for a price-sensitive market, as well as acting as a hub for sales into the region. Additionally, in October

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2014 EWIS partnered with Japan's *Tosslec Group* to manufacture computing components, including printed circuit boards, in Sri Lanka for the global market. *Intel* is also involved in the addition of printed circuit board (PCB) manufacture, lending its expertise to EWIS. A supply of local components could make a positive impact on Sri Lankan domestic supply by enabling lower price devices, although it is not clear when EWIS and Tosslec PCBs will achieve significant production volumes at the time of writing.

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