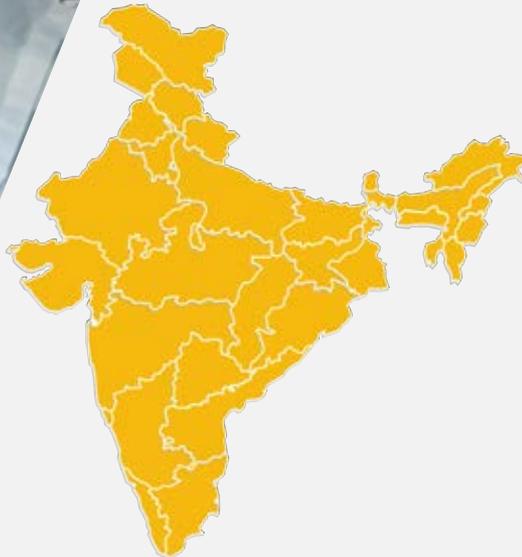




SERVICES



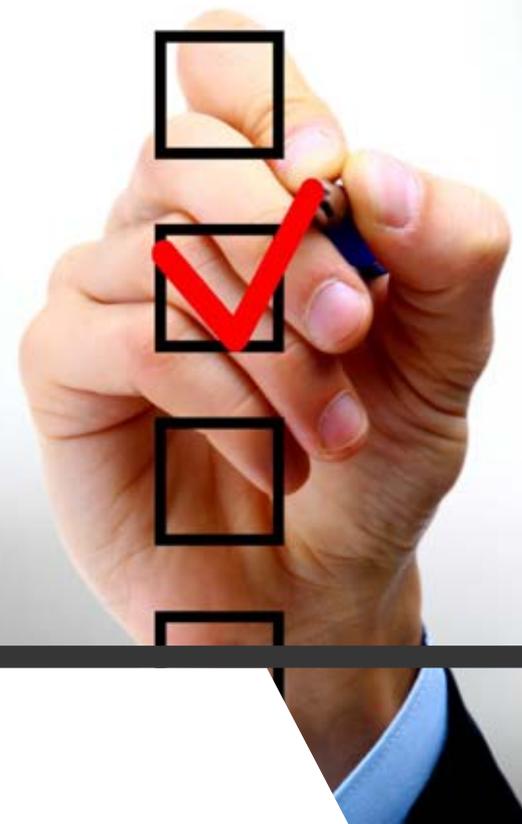
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November 2020

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Key drivers of economic growth

- The services sector of India remains the engine of growth for India's economy and contributed 55.39% to India's Gross Value Added at current prices in FY20*.
- In the healthcare sector, the telemedicine market is driving growth with the increasing demand for remote consultation. By 2025, the telemedicine market in India is expected to reach US\$ 5.5 billion
- In an effort to build IT capabilities and competitive advantage over international players, Indian companies plan to deploy ~10 cloud platforms to drive business transformation in sectors such as retail, telecommunication and insurance, which is expected to boost growth in the IT & BPM sector

Global technology hub

- A large pool of skilled IT manpower has made India into a global outsourcing hub. It now commands a 55% share in the global sourcing market.
- Further, India is the digital capabilities hub of the world with presence of 75% of global digital talent.
- In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20 % of GDP. The government is working to build cloud-based infrastructure for collaborative networks that can be used for the creation of innovative solutions by AI entrepreneurs and startups

Attractive ecosystem

- The Government's move to launch 'Startup India' aims to create an inclusive ecosystem for entrepreneurs and push for innovation. Services are a big part of this system. The technology infrastructure required for such an ecosystem has increased the potential for the sector in India.
- Low setup cost make this sector an attractive investment destination.
- India also has a reasonably well-developed financial market.
- All these factors make Indian services sector an attractive ecosystem for both the entrepreneurs and the investors.

*Note: *As per second advance estimates*

Source: Economic Survey of India, DIPP, MOSPI, RBI, International Labour Organisation

ADVANTAGE INDIA



- India is the export hub for software services. The Indian IT outsourcing service market is expected to witness 6-8% growth between 2021 and 2024

Robust Demand

- Services sector has been the largest recipient of FDI in India with inflow of US\$ 82 billion between April 2000 and March 2020.
- 100% FDI is allowed for any regulated financial sector activity under the automatic route.
- In 2019, Indian Real Estate attracted more than US\$ 5 billion in private equity (PE) inflow.

Increasing Investment

ADVANTAGE INDIA

- An already established technology base and infrastructure that will help in the creation of an ecosystem for other services.
- Large pool of skilled manpower, especially in the areas of IT & BPM available at a relatively low cost and a rapidly increasing youth population looking to migrate from agriculture to other sectors.

Competitive Advantage

- The Government of India is focusing on boosting Make-in-India initiatives and expanding India's entrepreneurial ecosystem across all service sectors.
- Government is promoting necessary services and will charge zero tax for education and health services under the GST regime.
- The Government has identified 12 sectors under the Champion Services Sectors Initiative, aimed at formulating cross-cutting action plans to promote their growth.

Policy Support

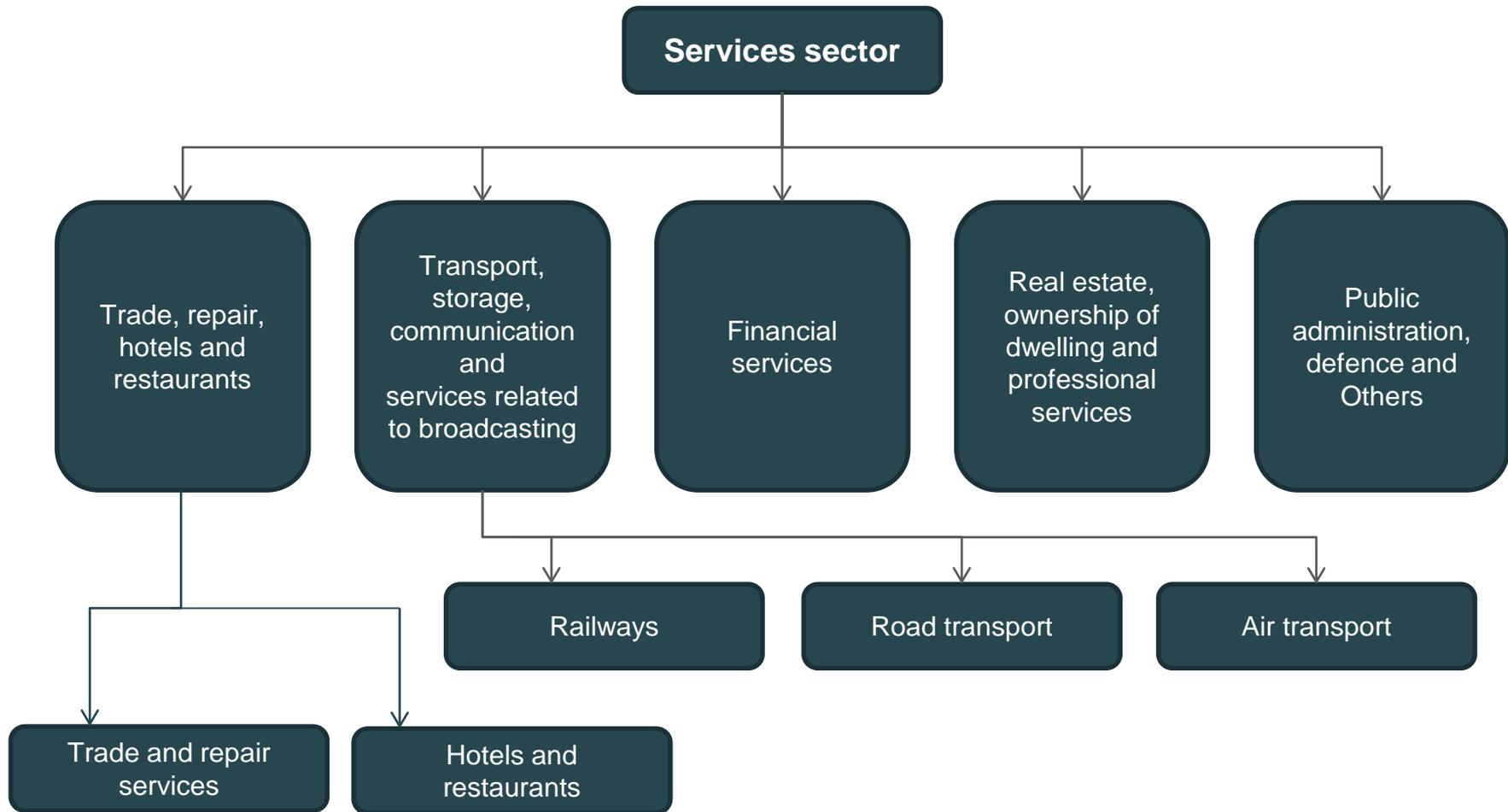
Source: WTO- World Trade Organisation

Source: DPIIT, NASSCOM

MARKET OVERVIEW AND TRENDS



SERVICES SECTOR CLASSIFICATION

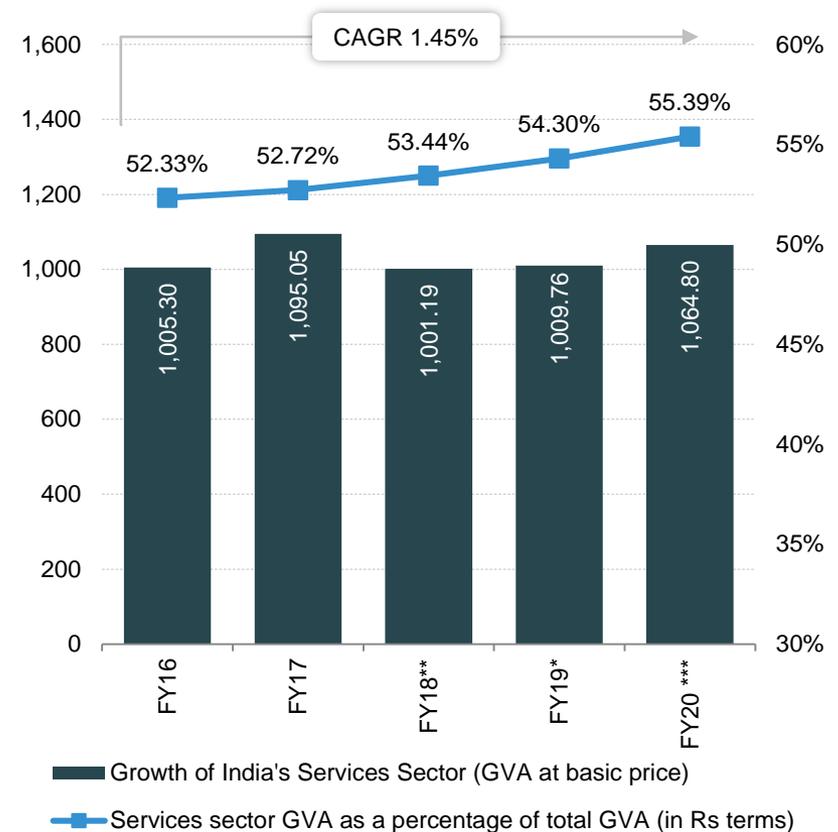


Source: Indiabudget

SHARE OF SERVICES SECTOR GROWS AT THE FASTEST CAGR

- As per the second advance estimates for GVA, services sector shares reached 55.39% in FY20.
- India's services sector GVA grew at a CAGR of 1.45% to US\$ 1,064.8 billion in FY20* from US\$ 1,005 billion in FY16.
- Growth rate of financial, real estate and professional services was estimated at 4.6% (in Rs. terms) in FY20***. Trade, hotels, transport, communication and services related to broadcasting are estimated to have recorded 3.6% growth (in Rs. terms) in FY20***.

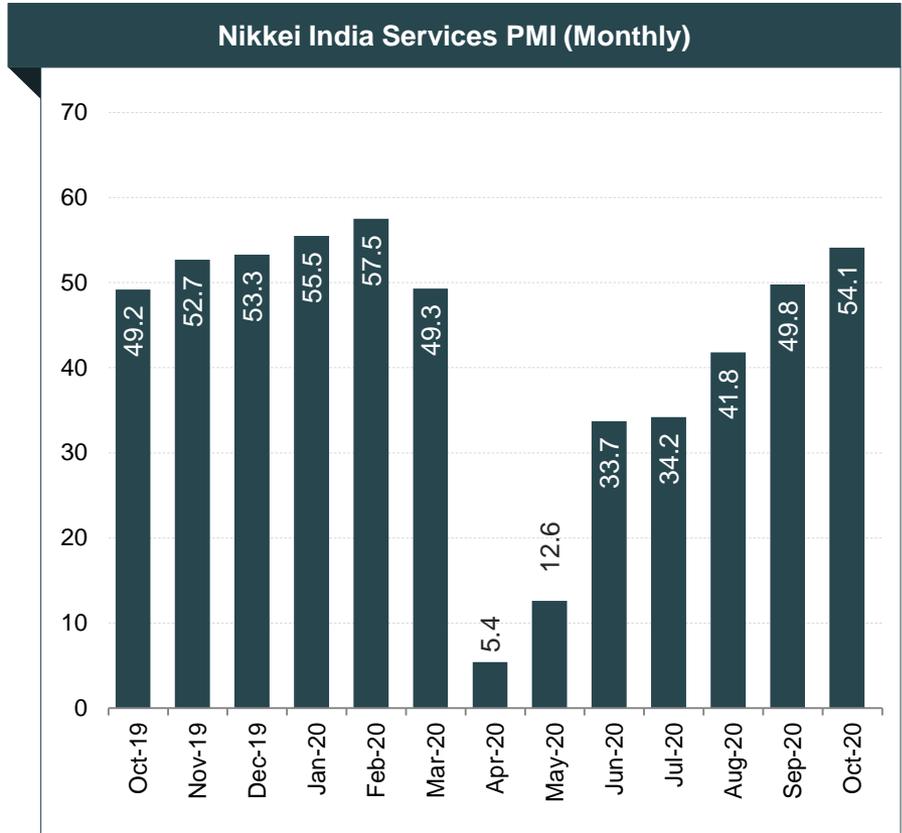
Services Sector GVA at basic prices at current prices (in US\$ billion)



Note: CAGR - Compound Annual Growth Rate, Exchange Rate used is average for the year, ****Provisional Estimates, **Second Revised Estimates, *First Revised Estimates, ^As per World Bank's World Development Indicators

Source: IMF, World Bank, MOSPI

- The services sector is a key driver of India’s economic growth
- Nikkei India Services Purchasing Managers' Index (PMI) stood at 57.5 in February 2020, indicating an expansion.
- Strong overseas demand and new export business opportunities will boost total sale in the country .
- Nikkei India Services Purchasing Managers' Index (PMI) stood at 54.1 in October 2020, reflecting the highest reading since March 2020, before the coronavirus pandemic accelerated; however, it is still below the neutral mark, indicating a sixth consecutive decline in business activity in the private sector.



Source: IHS Markit

PERFORMANCE OF INDIA'S SERVICES SECTOR: SOME INDICATORS

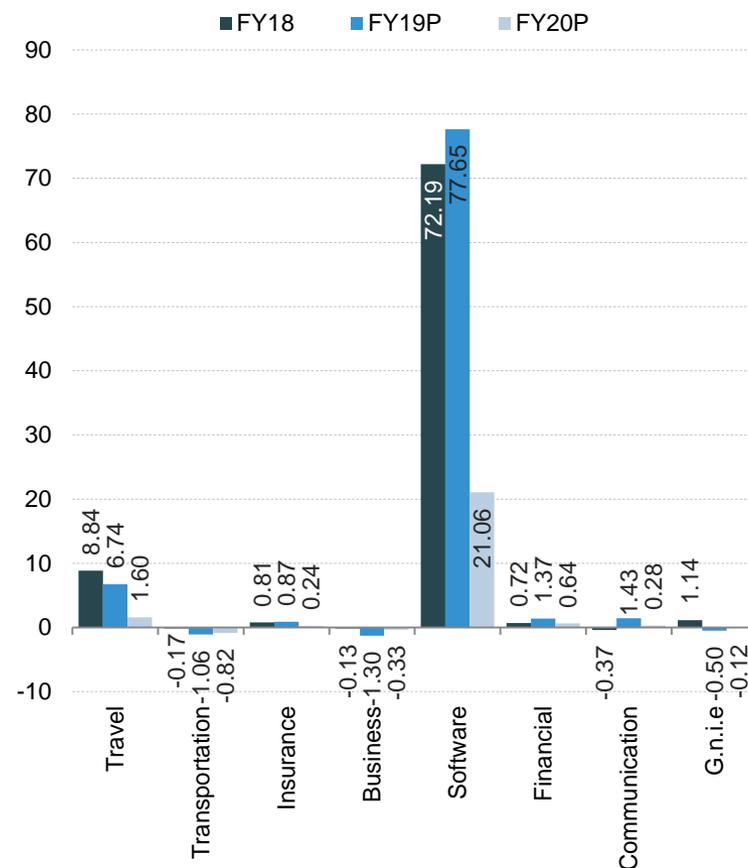
| Sector | Indicators | Unit | Period | | | | |
|----------|---|--------------|---------|---------|---------|----------|----------|
| | | | 2009-10 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| IT- BPM | IT- BPM service revenues | US\$ billion | 64 | 154 | 167 | 181 | 191 |
| | Exports | US\$ billion | 50 | 116 | 126 | 136 | 147 |
| | Domestic | US\$ billion | 14 | 38 | 41 | 45 | 44 |
| Aviation | Airline Passengers (Total) | Million | 77.4 | 158.4 | 308.8 | 204.2 | 341.05 |
| | Domestic | Million | 45.3 | 103.7 | 243.3 | 275.21 | 274.50 |
| | International | Million | 32.1 | 54.7 | 65.5 | 69.48 | 66.54 |
| Telecom | Telecom Connections (wireline and wireless) | Million | 621.3 | 1,194.6 | 1,206.2 | 1,776.75 | 1,177.02 |
| Tourism | Foreign Tourist Arrivals | Million | 5.2 | 8.8 | 10.5 | 10.6 | 10.89 |
| | Foreign Exchange earnings from tourism | US\$ billion | 11.1 | 22.9 | 28.8 | 27.7 | 29.96 |
| Shipping | Gross tonnage of Indian shipping | Million GT | 9.7 | 12.0 | 12.6 | 12.7 | 14.69 |
| | No. of ships | Numbers | 998 | 1,338 | 1,384 | 1400 | - |

Source: AAI, TRAI, Economic Survey 2017-18, Ministry of Shipping, Ministry of Tourism, NASSCOM, Directorate General of Shipping

INDIA'S SERVICES TRADE

- Services export is a key driver of India's growth and India ranked eighth among the largest exporter of commercial services in the world in 2019.
- Export of travel services witnessed the highest growth, reaching US\$ 7,643 million during July-September 2019P.
- India's overall export of services stood at US\$ 214.14 billion in FY20 increasing by 4.13% y-o-y.
- Service import stood at US\$ 131.41 billion, witnessing a growth of 5.16% y-o-y.
- According to RBI data, in August 2020, service exports stood at Rs. 122,768.07 crore (US\$ 16.44 billion), while imports stood at Rs. 71,662.62 crore (US\$ 9.60 billion).

Net Exports of Major Services from India (US\$ billion)



Note: G.n.i.e - Government not included elsewhere, P - Provisional

Source: RBI

KEY PLAYERS

Banking and Financial Services



Tourism and Hospitality Services



Telecommunication Services



Healthcare Services



IT and BPM Services



Aviation Services



Source: Company websBPM

STRATEGIES ADOPTED



STRATEGIES ADOPTED

Banking and Financial Services

- The Cabinet Committee on Economic Affairs has given its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20.

Tourism and Hospitality Services

- Players are trying to ensure convenience for their customers by providing all services available on a single portal. For example, makemytrip.com and a host of other webs. BPM provide a comprehensive basket of offerings which include outbound and inbound travel for leisure and business trips, hotels and car booking, holiday packages within India and abroad, etc.
- Players are opting for many channels to maximise sales and ensure convenience for their customers. For example, Thomas Cook and Kuoni India launched their online portals to compete with others. On the other hand, makemytrip.com is planning to go for the offline channel to complement its existing portal and has already launched mobile apps for maximising sales.

Healthcare Services

- The Indian healthcare industry is expected to shift digitally enabled remote consultations via teleconsultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025
- In August 2020, Japan committed ~Rs. 35 billion (US\$ 476.11 million) under the Official Development Assistance for the health sector to fight the COVID-19 crisis in India and improve resilience of India's health systems against infectious diseases

Education and Training Services

- In September 2020, LinkedIn and NSDC collaborated to accelerate digital skills training for the Indian youth
- In September 2020, NASSCOM FutureSkills and Microsoft collaborated to launch a nationwide AI skilling initiative to train 1 million students in AI by 2021
- In September 2020, Byju's acquires 3D virtual lab startup LabInApp to strengthen its edtech presence

Telecommunication

- Between April 23 and July 16, 2020, Jio Platforms Ltd. sold 25.24% stake worth Rs. 1.52 trillion (US\$ 21.57 billion) to various global investors in separate deals involving Facebook, Silver Lake, Vista, General Atlantic, Mubadala, Abu Dhabi Investment Authority (ADIA), TPG Capital, L. Catterton, Public Investment Fund (PIF), Intel Capital, Qualcomm Ventures and Google. This is the largest continuous fundraise by any company in the world.

Source: Company websBPM, Media sources

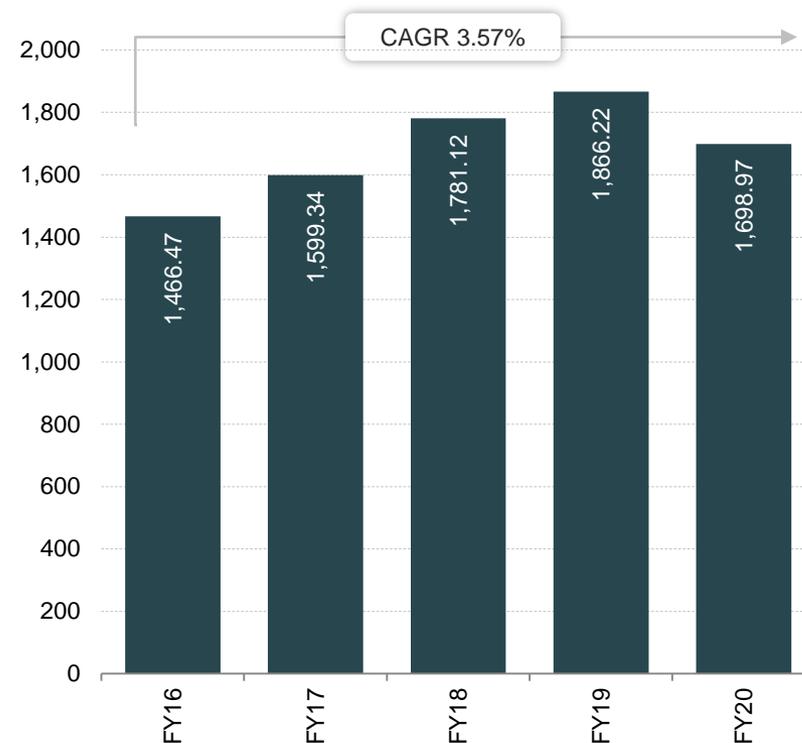
GROWTH DRIVERS AND OPPORTUNITIES



INDIAN BANKING SECTOR DRIVING GROWTH IN THE SERVICES SECTOR

- During FY16-FY20, deposits grew at a CAGR of 3.57% and reached US\$ 1.70 trillion in FY20.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Access to banking system has also improved over the years due to persistent Government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan regions.
- At the same time, India's banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years.
- Bank accounts opened under the Government's flagship financial inclusion drive Pradhan Mantri Jan Dhan Yojana (PMJDY) reached 40.05 crore and deposits in Jan Dhan bank accounts stood at more than Rs. 1.30 lakh crore (US\$ 18.44 billion).
- In September 2020, the government announced that it may infuse Rs. 200 billion (US\$ 2.72 billion) in public sector banks through recapitalisation of bonds
- The banking sector growth will also be supported by technology innovations such as data analytics, artificial intelligence, cognitive technology, blockchain technology and robotics process automation.

Growth in deposits (US\$ billion)

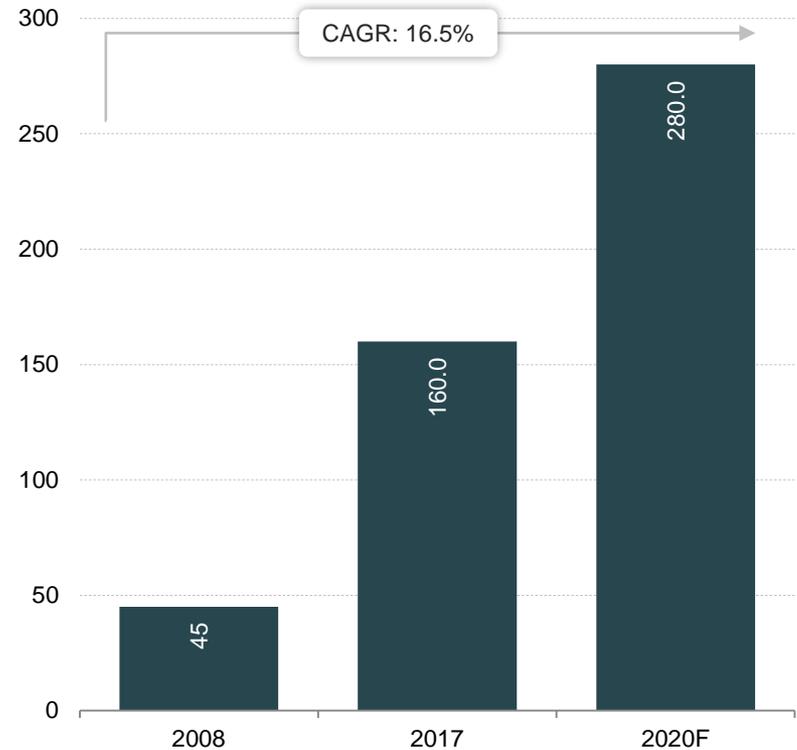


Source: Reserve Bank of India (RBI)

STRONG GROWTH IN HEALTHCARE SERVICE SECTOR

- Healthcare has become one of India's largest sectors, both in terms of revenue and employment. The industry is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well private players.
- The market is estimated to grow at a CAGR of 16.5% during 2008-2020.
- The total industry size is expected to touch US\$ 280 billion by 2020.
- Indian companies are entering into merger and acquisitions with domestic and foreign companies to drive growth and gain new markets.
- Home health care industry in India is expected to reach US\$10 billion by 2025.
- Opportunity:
 - India's median age of population is expected to increase from 26.7 years in 2015 to 31.4 years in 2030.^
 - This increase in median age coupled with rising income level is expected to lead to significant growth in demand of healthcare services.

Healthcare Sector Growth Trend (US\$ Billion)



Note: F - Forecast, ^As per UN data

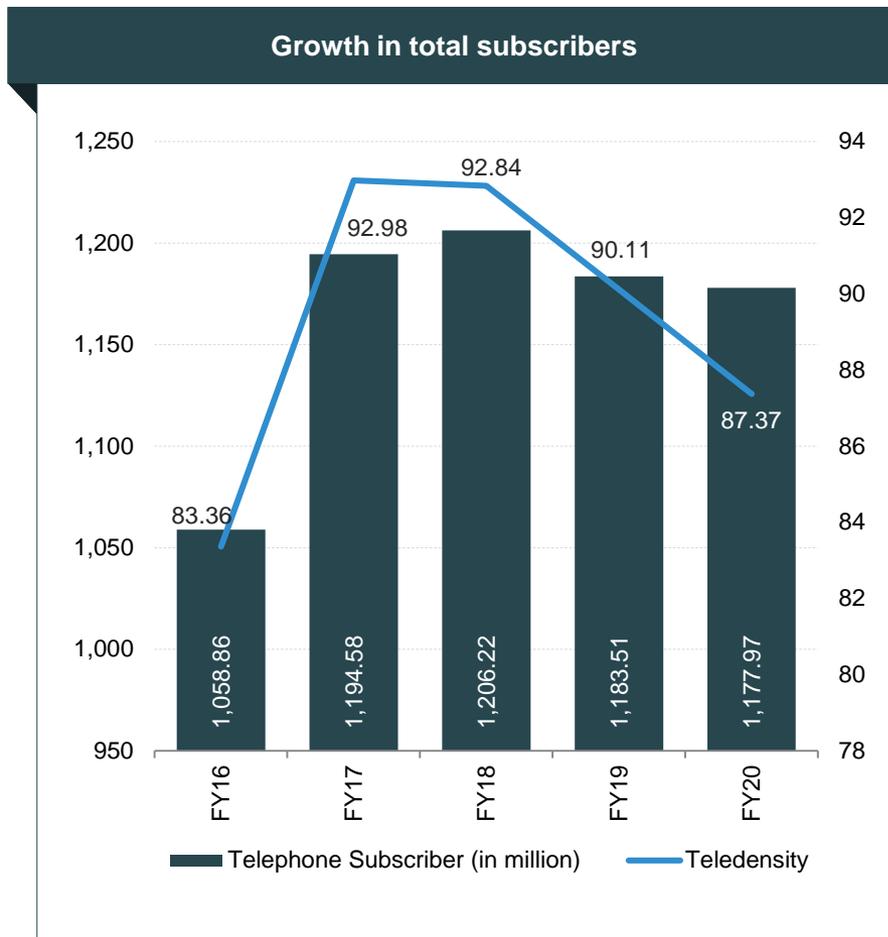
Source: Frost and Sullivan, LSI Financial Services, Deloitte

EXPANDING TELECOM SUBSCRIBER BASE

- India is currently the second largest telecommunication market and has the second highest number of internet users in the world.
- India's telephone subscriber base expanded at a CAGR of 2.70% between FY16-20 and reached 1,177.97 million in FY20.
- The total number of broadband subscribers increased to 71.61 crore in August 2020.
- Tele-density (defined as the number of telephone connections for every 100 individuals) in India stood at 87.37% in FY20.
- In September 2020, Airtel launches Airtel Xstream Fiber with speeds up to 1 Gbps, which will drive penetration of home broadband in India
- In October 2020, the government selected Hughes Communications India to connect 5,000 village panchayats in border and naxal-affected states and island territories with satellite broadband under BharatNet project by March 2021.
- Opportunity:
 - In 2020, the government is focusing on implementing the flagship BharatNet project (in phases) to expand the telecom infrastructure (connectivity, WiFi hotspot, etc.) via an optical fibre network in rural areas
 - E.g., in September 2020, the Uttarakhand government approved an incentive worth Rs. 4 million (US\$ 54 thousand) for telecom companies to set up mobile towers in village areas

Note: CAGR - Compound Annual Growth Rate

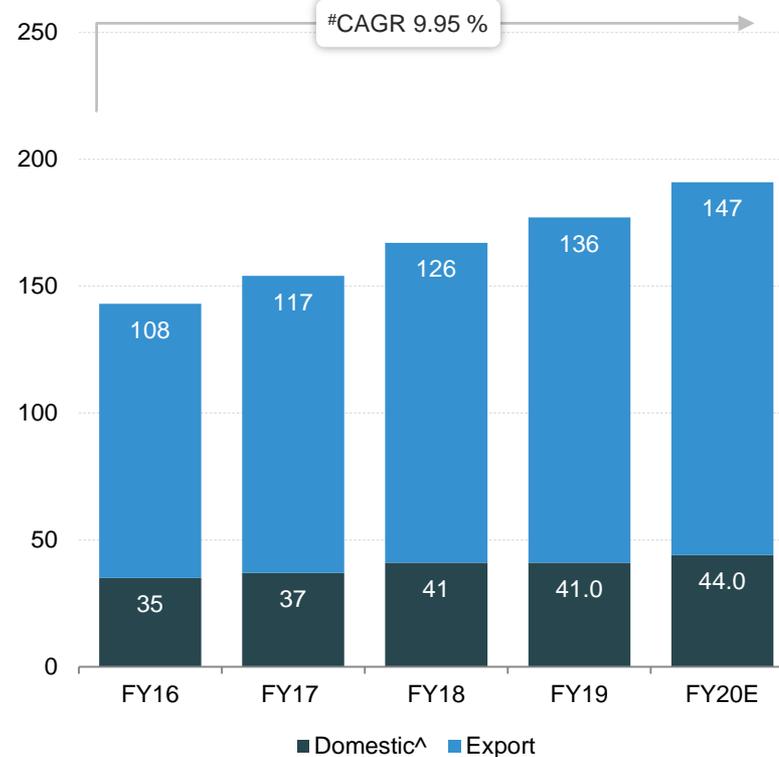
Source: Telecom Regulatory Authority of India



GROWING IT AND BPM SECTOR

- IT BPM industry revenues was estimated at around US\$ 191 billion in FY20 with a growth rate of 7.7%.
- The market size of India's IT-BPM sector is expected to reach US\$ 350 billion by 2025 and BPM is expected to account for US\$ 50-55 billion out of the total revenue.
- Spending on information technology in India was expected to reach US\$ 90 billion in 2019.
- By 2023, Indian companies are expected to deploy ~10 cloud platforms to drive business transformation mainly in sectors such as retail, telecommunication and insurance.
- By FY21, the Indian IT-BPM sector is likely to add an estimated 24,900 employees on contract.
- Opportunity:
 - India has emerged as the digital capability hub of the world, accounting for nearly 75% of the global digital talent pool.
 - As global digital spending increases from US\$ 180 billion in 2017 to US\$ 310 billion in 2020, Indian IT/BPM industry will be well positioned to expand significantly.
 - The rollout of 5G wireless technology in India is expected to bring US\$10 billion global business to Indian information technology (IT) services firms during 2019-25.
 - India's digital economy is estimated to reach US\$ 1 trillion by 2025. Government plans to increase digital economy's contribution to 20% of GDP in 5 years (by 2025).

Market size of IT industry in India (US\$ billion)



Note: E - estimate, ^Including Hardware, #CAGR is for total of domestic and export

Source: NASSCOM, Gartner

Services Exports from India Scheme (SEIS)

- SEIS is aimed at promoting export of services from India by providing duty scrip credit for eligible exports.
- Under this scheme, a reward of 3 to 5% of net foreign exchange earned is given for Mode 1 and Mode 2 services.
- In the mid-term review of FTP 2015-20, SEIS incentives to notified services were increased by two%.

Digital connectivity initiative

- For the Budget 2020, the government allocated Rs. 60 billion (US\$ 851.1 million) to the BharatNet programme to boost digital connectivity across India.

Electronics Hardware Manufacturing Policy of Tamil Nadu, 2020

- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US\$ 100 billion by 2025. Under the policy, it aims to meet the requirement for incremental human resource by upskilling and training >100,000 people by 2024.

Health data management policy

- On Independence Day 2020, Prime Minister Mr. Narendra Modi announced the National Digital Health Mission (NDHM) to provide a unique health ID to every Indian and revolutionise the healthcare industry by making it easily accessible to everyone in the country. The policy draft is under 'public consultation' until September 21, 2020.

National Education Policy, 2020

- On July 29, 2020, Union Cabinet approved the National Education Policy (NEP) 2020, with an aim to transform India into an energetic knowledge society and global knowledge superpower by making school and college education more holistic, flexible, multidisciplinary, suited to 21st century needs and aimed at bringing out the unique capabilities of each student.

Note : FTP - Foreign Trade Policy

Source : Economic Survey 2017, Media sources

FDI Policy

- 100% FDI is allowed under automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline.
- Approval of 100% FDI in aviation for foreign carriers.
- 100% FDI is allowed under the automatic route in tourism and hospitality subject to applicable regulations and laws.
- The Government of India allowed 100% FDI in the education sector through the automatic route since 2002.
- For the healthcare sector, 100% FDI is allowed under the automatic route for greenfield projects and for brownfield project investments, up to 100% FDI is permitted under the Government route.
- FDI cap in the telecom sector has been increased to 100% from 74%. Out of 100%, 49% will be done through automatic route and the rest will be done through the Foreign Investment Promotion Board (FIPB) approval route.
- Government has allowed 100% FDI in the railway sector for approved list of projects.
- FDI limit for insurance companies has been raised from 26% to 49% and 100% for insurance intermediates..

Goods and Services Tax (GST)

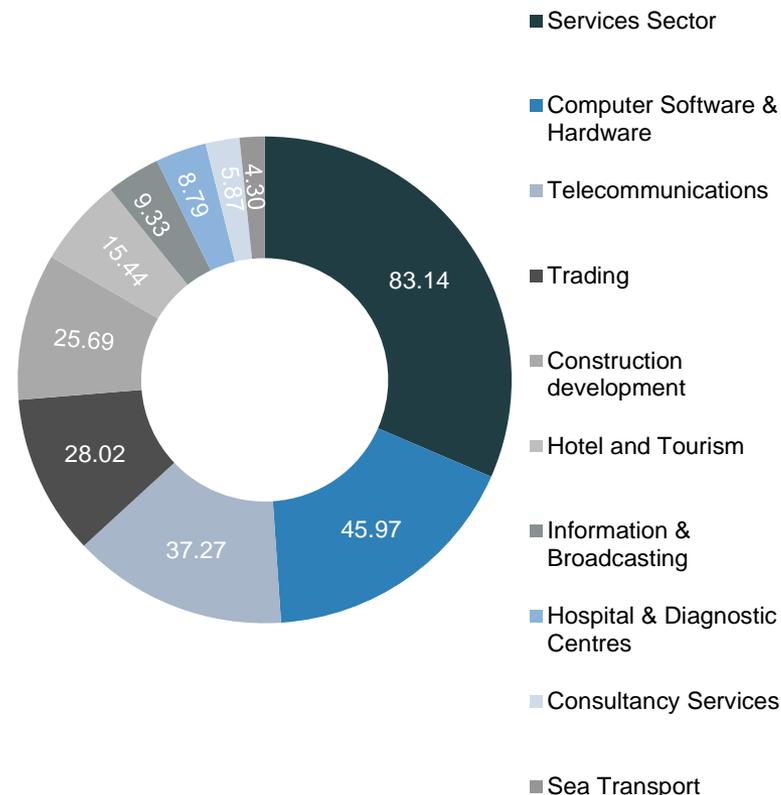
- The GST rates are nil for education and healthcare services; 5% for air transport of passengers in economy class, transport of goods by rail and vessel, supply of tour operator services (without ITC); 12% for food and drinks at restaurants without air conditioner, heating system or license to serve liquor, while it is 18% for those having them; 12% for accommodation in hotels, inns, etc for rooms with tariff between Rs. 1000-2500 (US\$ 14.18-35.46), while it is 18% for those between Rs. 2500-7500 (US\$ 35.46-106.39); 12% for air transport of passengers in other than economy class; 28% for entertainment events, cinematograph films, etc, hotels and inns with room tariff above Rs. 7,500 (US\$ 106.39).

Source : Economic Survey 2017, Media sources

HIGH FDI INFLOWS INTO THE SECTOR

- To ensure that India remains an attractive investment, the Government has brought about several reforms such as the abolition of the Foreign Investment Promotion Board (FIPB) and the introduction of composite caps in the FDI policy which permits 100% FDI under automatic route for any financial sector activity which is regulated by any financial sector regulator.
- The services category was the highest recipient of FDI inflow in India at US\$ 83.14 billion from April 2000 to June 2020.

Total FDI equity inflows in the top 10 services sectors from April 2000 to June 2020 (US\$ billion)



Source: Department of Industrial Policy and Promotion

KEY INDUSTRY ORGANISATIONS



KEY INDUSTRY ORGANISATIONS

Indian Banks' Association

World Trade Centre, 6th Floor
Centre 1 Building, World Trade Centre Complex,
Cuff Parade, Mumbai - 400 005, India
Phone: 91-22- 22174040
E-mail: webmaster@iba.org.in
Website: <https://www.iba.org.in/>

Directorate General of Civil Aviation (DGCA)

Address: Aurobindo Marg, Opp. Safdarjung Airport,
New Delhi -110 003
Phone: 91 11 24622495
E-mail: dri@dgca.nic.in, dfa@dgca.nic.in
Website: <https://dgca.gov.in/>

Hotel Association of India (HAI)

Address: B 212-214, Som Dutt Chamber-I,
Bhikaji Cama Place, New Delhi - 110 066
Phone: 91-11-2617 1110/14
E-mail: info@hotelassociationofindia.com,
hai@hotelassociationofindia.com
Website: <http://hotelassociationofindia.com/>

Association of Unified Telecom Service Providers of India (AUSPI)

Address: B-601, Gauri Sadan 5, Hailey Road, New Delhi - 110 001,
India
Tel: 91 11 23358585
Fax: 91 11 23327397
Website: <http://www.auspi.in/>

National Association of Software and Services Companies (NASSCOM)

Address: NASSCOM Plot 7 to 10, Sector 126, Noida – 201303
Phone: 91-120-4990111
Fax: 91-120-4990119
E-mail: north@nasscom.in
Website: <https://nasscom.in/>

Services Export Promotion Council (SEPC)

Address: 3rd Floor, 6A/6, NCHF Building, Siri Fort Institutional Area,
August Kranti Marg, New Delhi-110049
Phone: +91 11-41046327-28-29, +91 11-41734632
E-mail: info@servicesepc.org
Website: www.servicesepc.org

USEFUL INFORMATION



- CAGR: Compound Annual Growth Rate
- FDI: Foreign Direct Investment
- FY: Indian Financial Year (April to March)
- GOI: Government of India
- Rs.: Indian Rupee
- US\$: US Dollar
- Wherever applicable, numbers have been rounded off to the nearest whole number

EXCHANGE RATES

Exchange Rates (Fiscal Year)

| Year Rs. | Rs. Equivalent of one US\$ |
|----------|----------------------------|
| 2004-05 | 44.95 |
| 2005-06 | 44.28 |
| 2006-07 | 45.29 |
| 2007-08 | 40.24 |
| 2008-09 | 45.91 |
| 2009-10 | 47.42 |
| 2010-11 | 45.58 |
| 2011-12 | 47.95 |
| 2012-13 | 54.45 |
| 2013-14 | 60.50 |
| 2014-15 | 61.15 |
| 2015-16 | 65.46 |
| 2016-17 | 67.09 |
| 2017-18 | 64.45 |
| 2018-19 | 69.89 |
| 2019-20 | 70.49 |

Exchange Rates (Calendar Year)

| Year | Rs. Equivalent of one US\$ |
|------|----------------------------|
| 2005 | 44.11 |
| 2006 | 45.33 |
| 2007 | 41.29 |
| 2008 | 43.42 |
| 2009 | 48.35 |
| 2010 | 45.74 |
| 2011 | 46.67 |
| 2012 | 53.49 |
| 2013 | 58.63 |
| 2014 | 61.03 |
| 2015 | 64.15 |
| 2016 | 67.21 |
| 2017 | 65.12 |
| 2018 | 68.36 |
| 2019 | 69.89 |

Source: Reserve Bank of India, Average for the year

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