



SERVICES

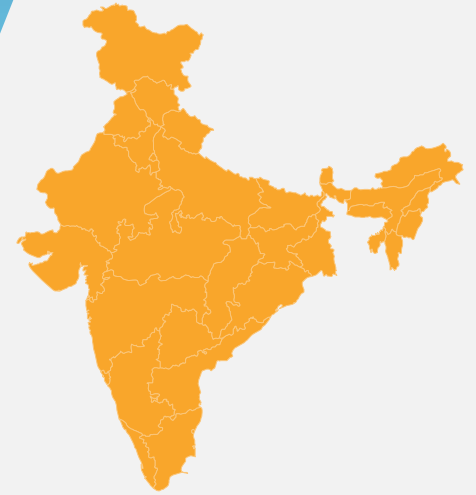
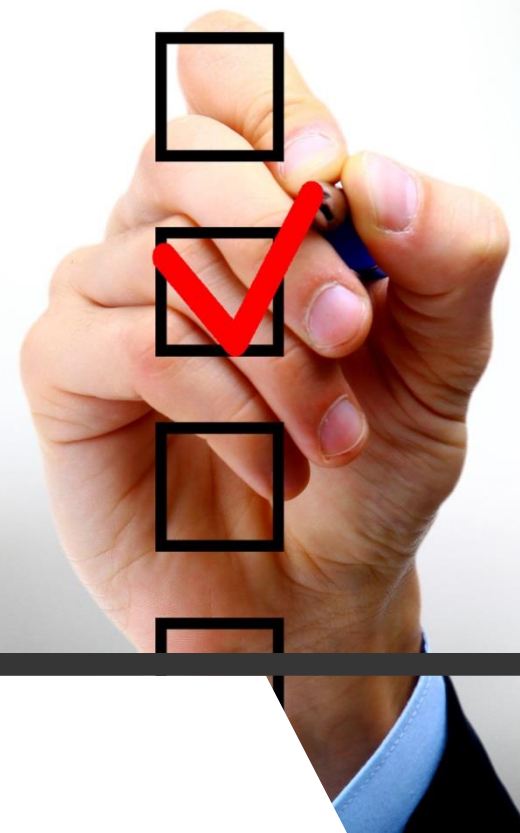


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Key Driver of Economic Growth

- The services sector of India remains the engine of growth for India's economy and contributed 57.12 per cent of India's Gross Value Added at current prices in H1 2018-19.
- At current prices, the sector grew by 13.09 per cent year-on-year in H1 2018-19.
- India had net service exports of US\$ 38.95 billion in H1 2018-19.
- As of 2017, 33 per cent of India's employed population was working in the services sector.

Global Technology Hub

- A large pool of skilled IT manpower has made India into a global outsourcing hub. It now commands a 55 per cent share in the global sourcing market.
- Further, India is the digital capabilities hub of the world with presence of 75 per cent of global digital talent.

Attractive Ecosystem

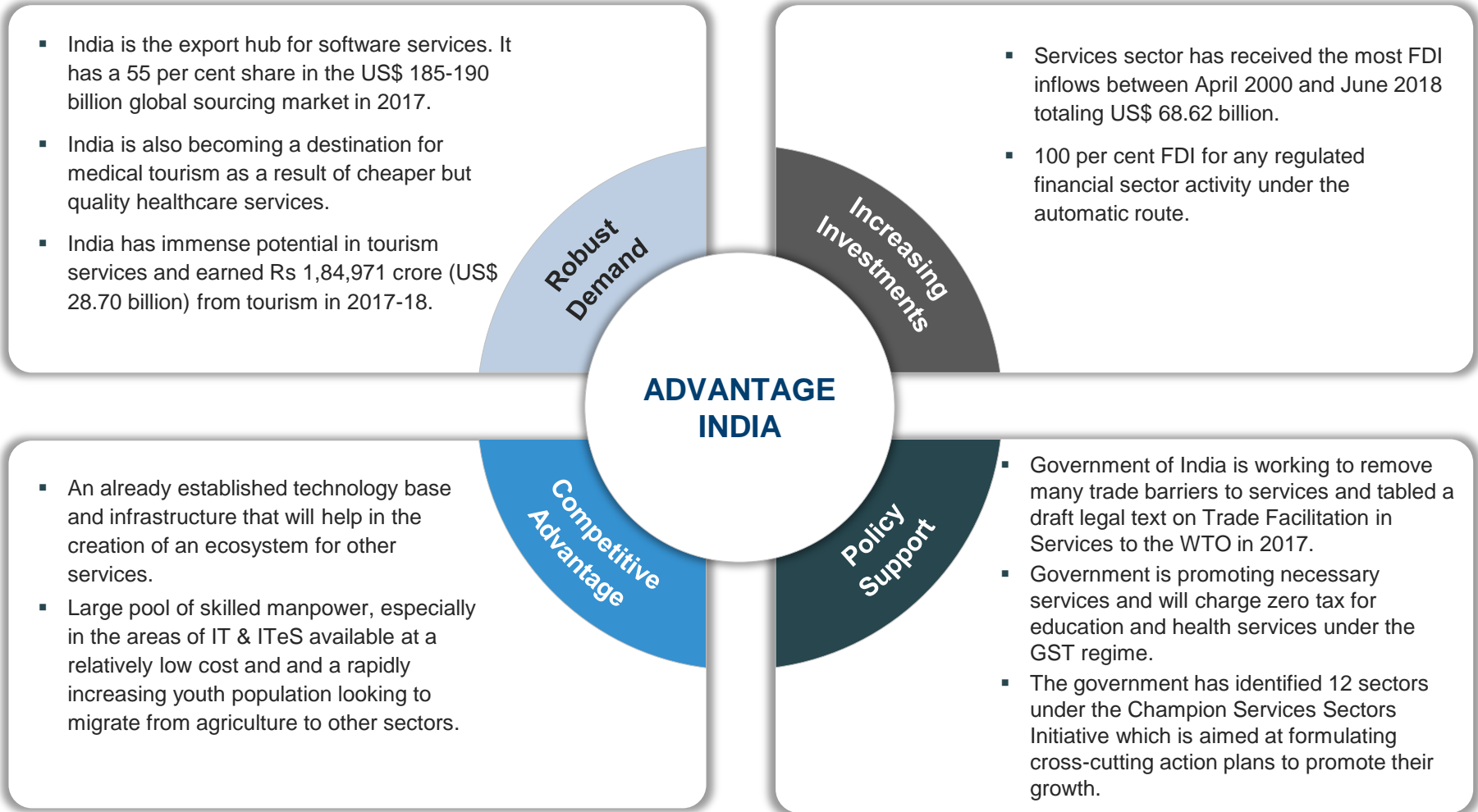
- The government's move to launch 'Startup India' aims to create an inclusive ecosystem for entrepreneurs and push for innovation. Services are a big part of this system. The technology infrastructure required for such an ecosystem has increased the potential for the sector in India.
- Low setup costs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

Note: H1 2018-19 – April-September 2018, P - Provisional

Source: Economic Survey of India, DIPP, MOSPI, RBI



ADVANTAGE INDIA



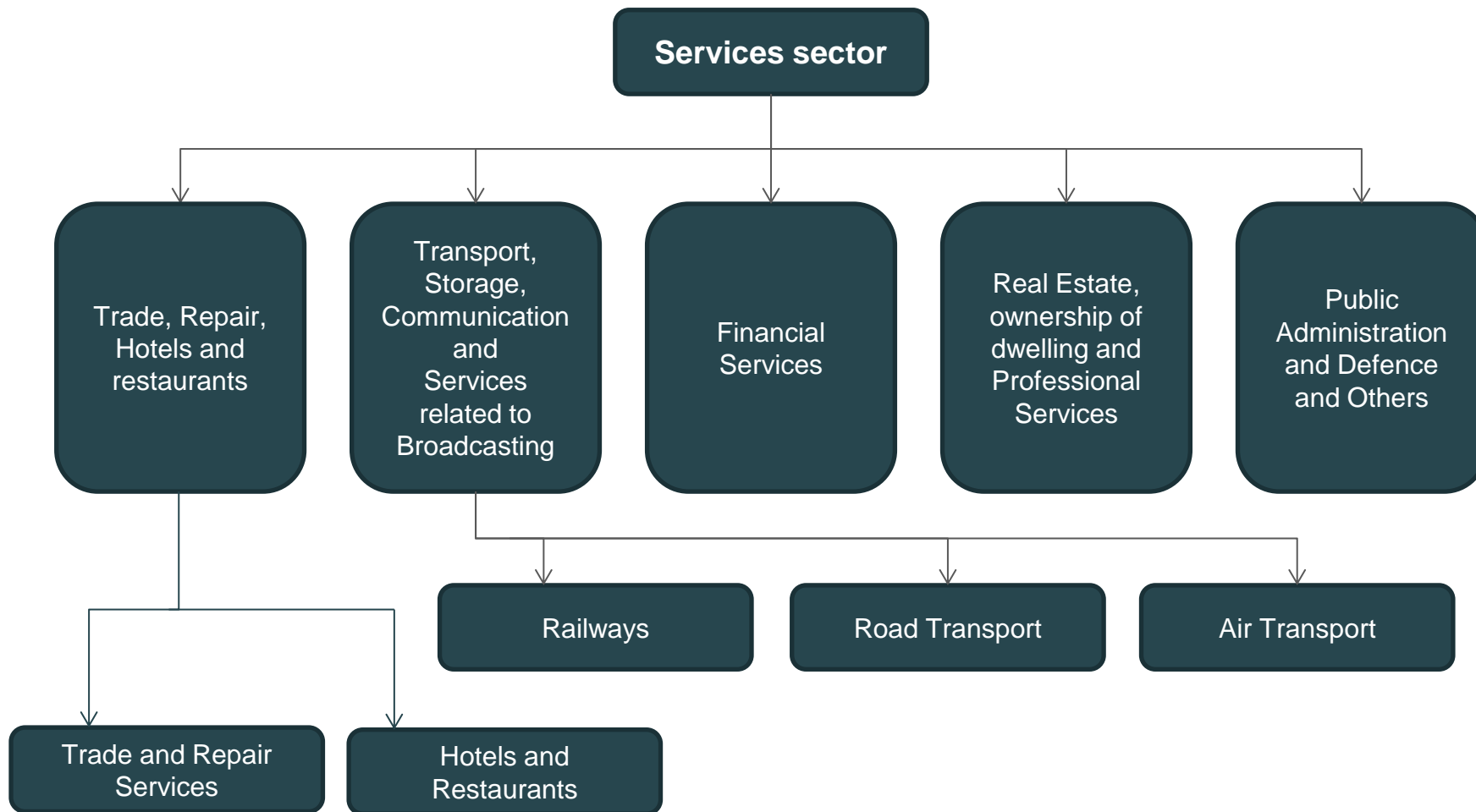
Source: WTO- World Trade Organisation

Source: Economic Survey of India 2016-17, DIPP, NASSCOM



MARKET OVERVIEW AND TRENDS

SERVICES SECTOR CLASSIFICATION

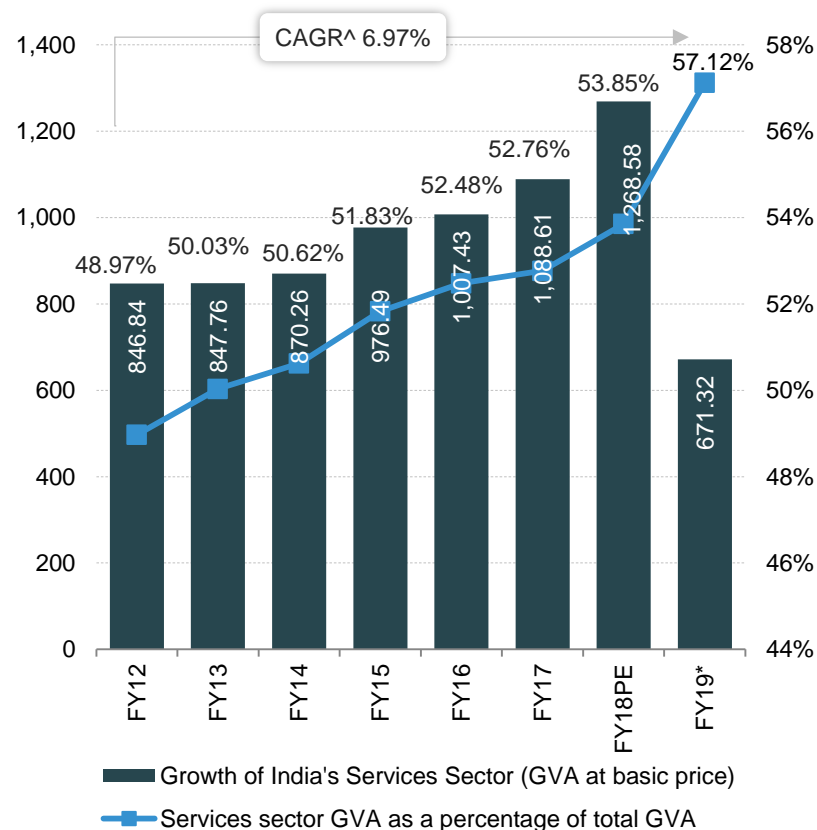


Source: Indiabudget

SHARE OF SERVICES SECTOR GROWS AT THE FASTEST CAGR

- In terms of overall GDP India ranks 5th in 2017 and was the leader in services GVA growth in 2016, achieving 7.8 per cent growth.
- India's services sector GVA grew at a CAGR of 6.97 per cent to US\$ 1,268.58 billion in FY18PE from US\$ 846.84 billion in FY12.
- Growth rate of financial, real estate and professional services was estimated at 10.75 per cent in FY18. Trade, hotels, transport, communication and services related to broadcasting were estimated to have recorded 11.42 per cent growth in FY18.
- At current price, the sector grew 13.09 per cent year-on-year in H1 2018-19. It has contributed about 57.12 per cent to India's GVA in H1 2018-19 at US\$ 671.32 billion.

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

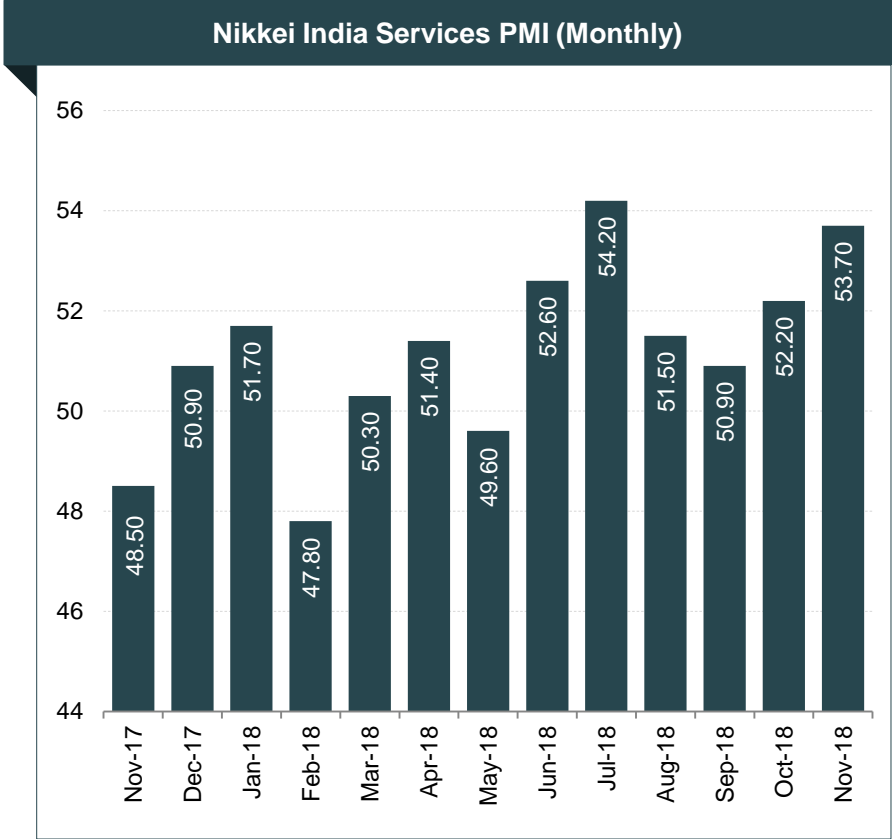


Note: PE – Provisional Estimate, CAGR - Compound Annual Growth Rate, Exchange Rate used is average for the year, Q1 – April-June 2018, * - April-September 2018, ^ - CAGR upto FY18

Source: Indiabudget, MOSPI (Provisional Estimates of National Income 2017-18 and First Revised Estimates of National Income 2016-17)

SERVICE SECTOR PMI

- The services sector is a key driver of India’s economic growth
- Nikkei India Services Purchasing Managers' Index (PMI) improved to 53.7 in November 2018 from 52.2 in October 2018, indicating strong growth in services activity.
- It was driven by rising demand and strong growth in new business for the consecutive ninth month.
- The expansion in November 2018 was marked with boost in output, the strongest since July 2018.



Source: IHS Markit

PERFORMANCE OF INDIA'S SERVICES SECTOR: SOME INDICATORS

Sector	Indicators	Unit	Period						
			2009-10	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
IT- BPM	IT- BPM service revenues	US\$ billion	64	106	119	143	154	167	NA
	Exports	US\$ billion	50	87	98	108	116	126	135-137
	Domestic	US\$ billion	14	19	21	35	38	41	NA
Aviation	Airline Passengers (Total)	Million	77.4	103.8	115.8	135.0	158.4	308.8	226.80*
	Domestic	Million	45.3	60.7	70.1	85.2	103.7	243.3	181.72*
	International	Million	32.1	43.1	45.7	49.8	54.7	65.5	45.08*
Telecom	Telecom Connections (wireline and wireless)	Million	621.3	933.0	996.1	1,058.9	1,194.6	1,206.2	1,191.40^
Tourism	Foreign Tourist Arrivals	Million	5.2	7.0	7.7	8.0	8.8	10.5	6.24~
	Foreign Exchange earnings from tourism	US\$ billion	11.1	18.4	20.2	21.1	22.9	28.8	17.46~
Shipping	Gross tonnage of Indian shipping	Million GT	9.7	10.5	10.5	10.5	12.0	12.6	12.7**
	No. of ships	Numbers	998	1,209	1,210	1,251	1,338	1,384	1,389**
Ports	Port Traffic	Million tonnes	850.0	972.5	1,052.5	1,072.5	1,135.6	574.7 [§]	NA

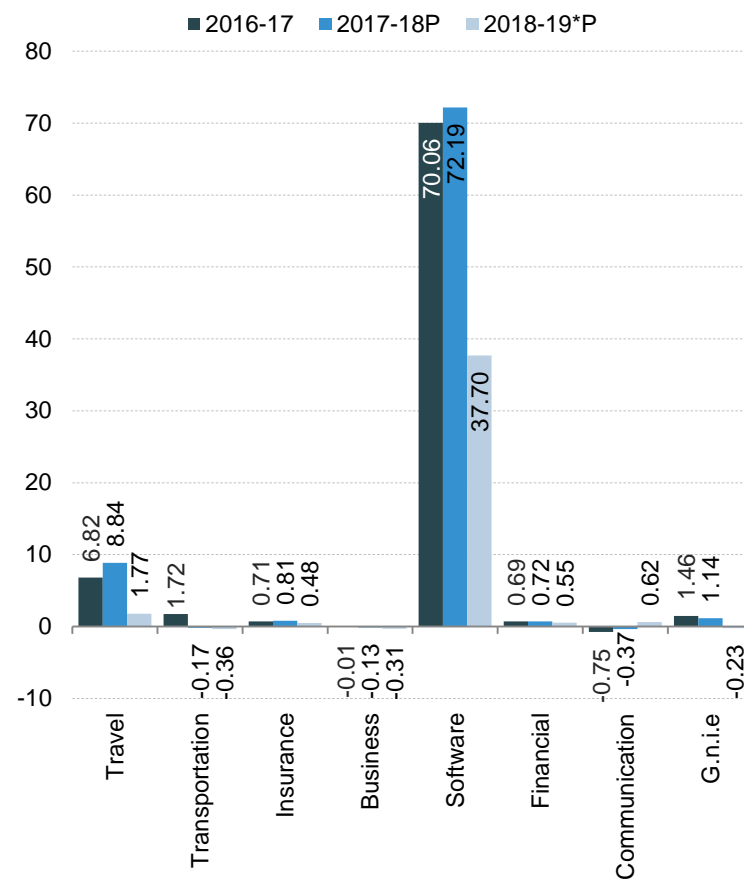
Note: NA - Not Available, [§]April-September 2017, ^{*}April-November 2018, [~]April-November 2018, ^{**} - As of June 2018, [^]As of September 2018

Source: AAI, TRAI, Economic Survey 2017-18

INDIA'S SERVICES TRADE

- Services exports are a key driver of India's growth and India ranked as the eighth largest exporter of commercial services in the world in 2017.
- India's services exports grew 19.60 per cent year-on-year to US\$ 195.09 billion during 2017-18P. Services imports rose 22.85 per cent year-on-year to US\$ 117.53 billion during the same period.
- Net Services exports from India grew 14.98 per cent year-on-year to US\$ 77.6 billion in 2017-18P. India had net service exports of US\$ 38.95 billion in H1 2018-19 (P).
- Exports of travel services witnessed the highest growth, growing 21.99 per cent year-on-year to US\$ 28,355.26 million in 2017-18.

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



*Note: G.n.i.e – Government not included elsewhere, P – Provisional, * - Upto September 2018*

Source: RBI

KEY PLAYERS

Banking and Financial Services



Tourism and Hospitality Services



Telecommunication Services



Healthcare Services



IT and ITeS Services



Aviation Services



Source: Company websites, Aranca Research



STRATEGIES ADOPTED

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Banking and Financial Services

- **Merger** - In June 2018, IDFC Bank and Capital First received approval from Reserve Bank of India (RBI) for their proposed merger. The merger is expected to lead to utilisation of various synergies.

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 websites 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 or 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.
- Indian LCC'S are looking forward to increase their ancillary services, without tampering their business models. This includes services like lounge access, priority boarding, customer loyalty memberships and customer meals

Healthcare Services

- **Acquisition** - General Atlantic Partners and TPG voiced intentions to bid jointly for acquiring the healthcare assets of Fortis for US\$ 1.80 billion

Education and Training Services

- As the Indian education industry opens up to new innovative ways of learning, Educomp has decided to explore this opportunity by offering its various online and supplemental solutions to help institutions to leverage the most of technology

Telecommunication

- **Merger** - In August 2018, Vodafone India and Idea Cellular merged into Vodafone Idea. As of September 2018, Vodafone Idea is India's largest telecom service provider.

Source: Company websites, Media sources, Aranca Research



GROWTH DRIVERS AND OPPORTUNITIES

GROWTH DRIVERS OF SERVICES SECTOR

Rise in Per Capita Income

- Growth in per capita income has resulted in higher domestic demand for various services such as travel and tourism, healthcare and telecommunications.
- India's per capita income has increased rapidly from US\$ 1,323.50 in 2011-12 to US\$ 1,750.74 in 2017-18 and. It is expected to reach around US\$ 6,000 by 2025.

Services Exports

- Services Exports have acted as a major growth driver of India's services sector.
- Growth in global exports of commercial services has acted as a catalyst for expansion of India's services sector
- World commercial services exports have increased from US\$ 4.15 trillion in 2011 to US\$ 5.25 trillion in 2017.

Growth in Banking

- Government of India's push to financial inclusion has led to increased access to the banking system.
- Strong growth in savings in the country have also acted as tailwinds for the banking sector.

Growth in Aviation

- Low-Cost Carriers have contributed to growth of the sector
- Rising traffic from smaller towns and cities is a major growth driver

Growth in Tourism and Hospitality

- Growing tourism infrastructure has led to expansion of the tourism and hospitality sector.
- Schemes introduced by Government of India such as Swadesh Darshan Scheme have also contributed to expansion.

Growth in Telecommunication

- Rise in affordability of telecommunication services has been a major factor in driving the growth of the sector
- Shift of Indian residents from low income to high income groups has also been a contributor.

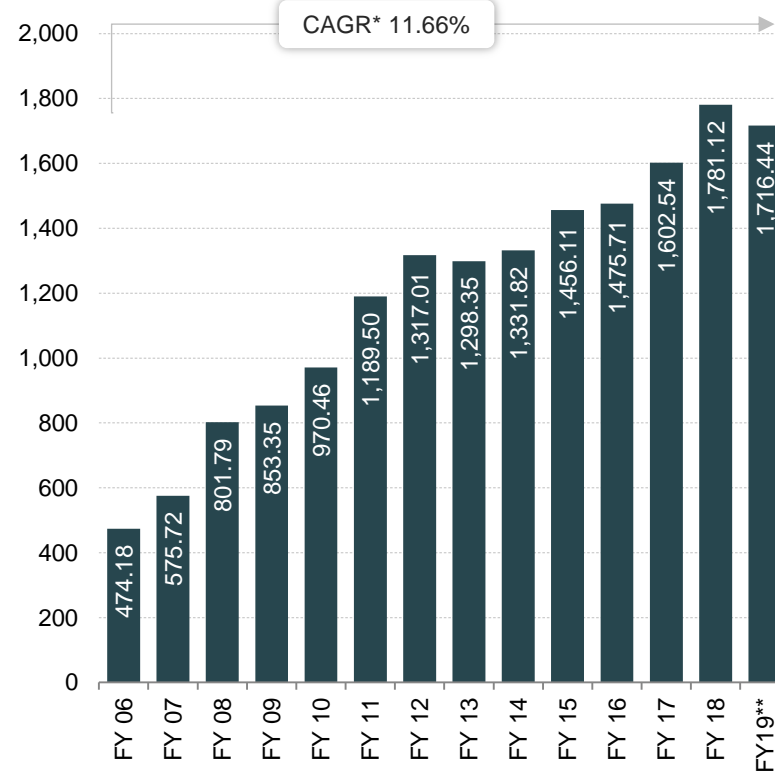
Note: Exchange Rates used are average of each year, provided on slide 30

Source: Ministry of Statistics and Programme Implementation, World Trade Organisation

INDIAN BANKING SECTOR DRIVING GROWTH IN THE SERVICES SECTOR

- During FY06–18, deposits grew at a CAGR of 11.66 per cent from US\$ 474.18 billion in FY06 to US\$ 1,781.12 billion in FY18. As of June 2018, deposits in the country stood at US\$ 1,716.44 billion.
- 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.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Opportunity:
 - Significant growth possible in private sector lending as credit disbursement by private sector banks is expected to increase.
 - Market share of private banks in advances is expected to increase from 27.7 per cent in 2017-18 to nearly 35 per cent in 2019-20.^

Growth in deposits over the past few years (US\$ billion)*

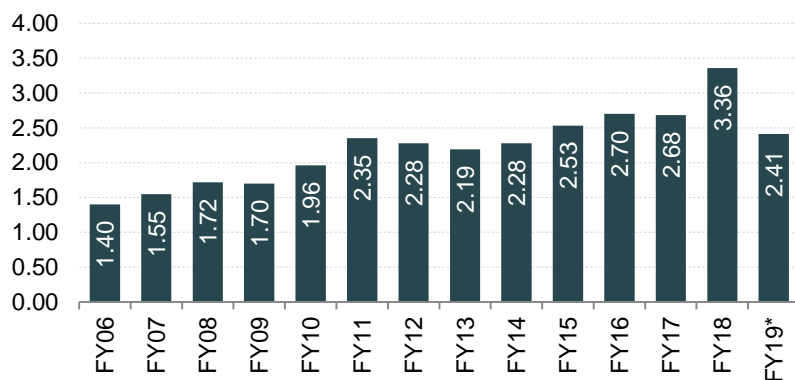


Note: CAGR - Compounded Annual Growth Rate, Exchange Rate used is average for the year, ^As per Motilal Oswal, * - CAGR upto FY18, ** - As of June 2018, data expected to be updated by February 2019

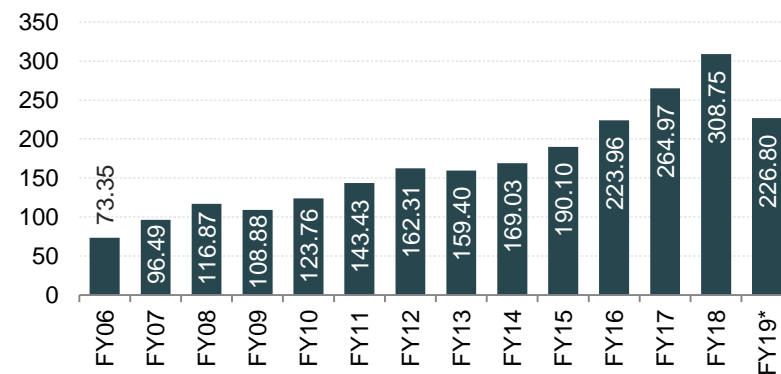
Source: Reserve Bank of India (RBI), Aranca Research;

AVIATION DRIVING GROWTH IN SERVICES WITH INCREASING PASSENGER AND FREIGHT TRAFFIC

Freight traffic in India (million tonnes)



Passenger traffic in in India (million)



- Witnessing a growth of 12.72 per cent over the previous year, total passenger traffic stood at a 308.75 million in FY18, which was recorded at 264.97 million in FY17 in India. Passenger and freight traffic during Apr-Nov 2018 reached 226.80 million and 2.41 million tonnes, respectively.
- Growth in passenger traffic has been strong since the new millennium, especially with rising incomes and low-cost aviation.
- Freight traffic on airports in India is expected to cross 11.4 million tonnes by 2032.
- Opportunity:
 - Passenger traffic arising from small cities and towns is expected to witness rapid growth.
 - Total passenger traffic in the country is expected to surpass 855 million by 2030-31.
 - Rise in passenger traffic is being complemented by the Regional Connectivity Scheme (RCS) and expansion of airport handling capacity of India.

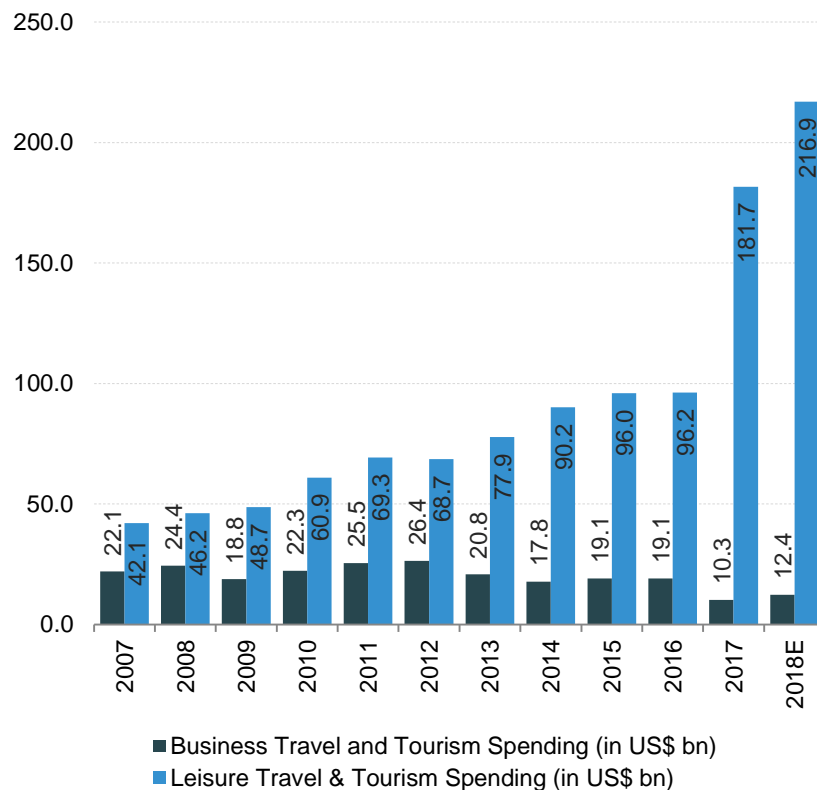
Notes: CAGR – Compound Annual Growth Rate, FY – Indian Financial Year (April – March), *up to November 2018

Source: Association of Private Airport Operator, Airports Authority of India

INCREASING EXPENDITURE ON TRAVEL AND TOURISM IS A MAJOR DRIVER FOR THE SECTOR

- The travel and tourism sector forms a major part of the services industry; thereby increasing expenditure for obtaining this service is expected to drive growth in the overall services sector.
- The share of travel and tourism in India's GDP was 9.4 per cent in 2017 and is expected to grow to 9.9 per cent in 2028.
- Leisure and business travel and tourism spending are expected to increase to Rs 14,127.1 billion (US\$ 216.9 billion) and Rs 806.4 billion (US\$ 12.4 billion) in 2018, respectively.
- Opportunity:
 - Presence of world-class hospitals and skilled medical professionals makes India a preferred destination for medical tourism.
 - India's earnings from medical tourism could exceed US\$ 9 billion by 2020.

Travel and tourism spending (US\$ billion)



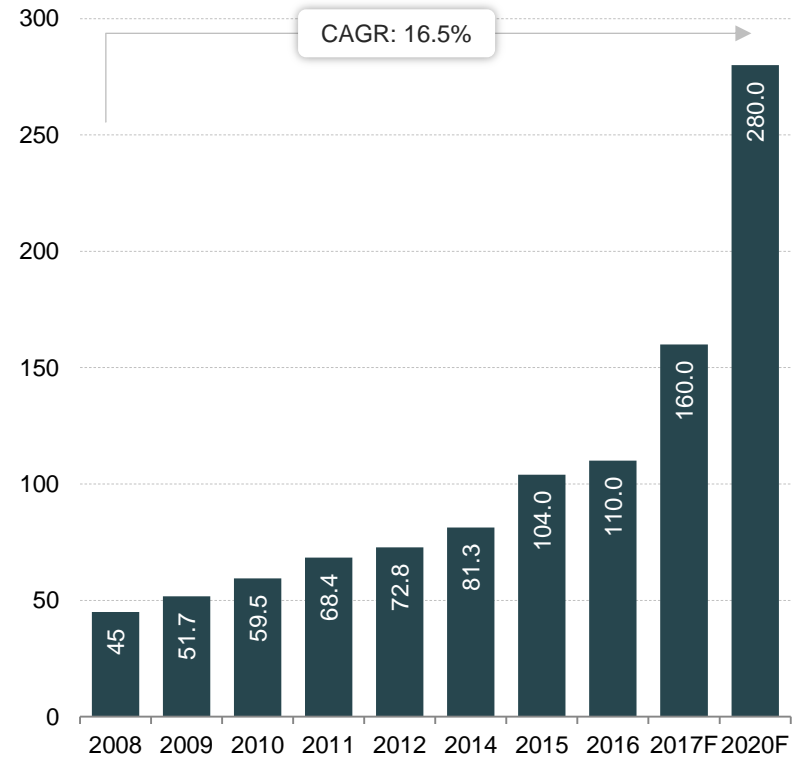
Notes: IT – Information Technology, E – Estimated

Source: World Travel and Tourism Council, Make in India, Global Business Travel Association

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
- During 2008-20, the market is expected to record a CAGR of 16.5 per cent
- The total industry size is expected to touch US\$ 160 billion by 2017 and 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.
- 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 levels is expected to lead to significant growth in demand of healthcare services.

Healthcare Sector Growth Trend (US\$ Billion)

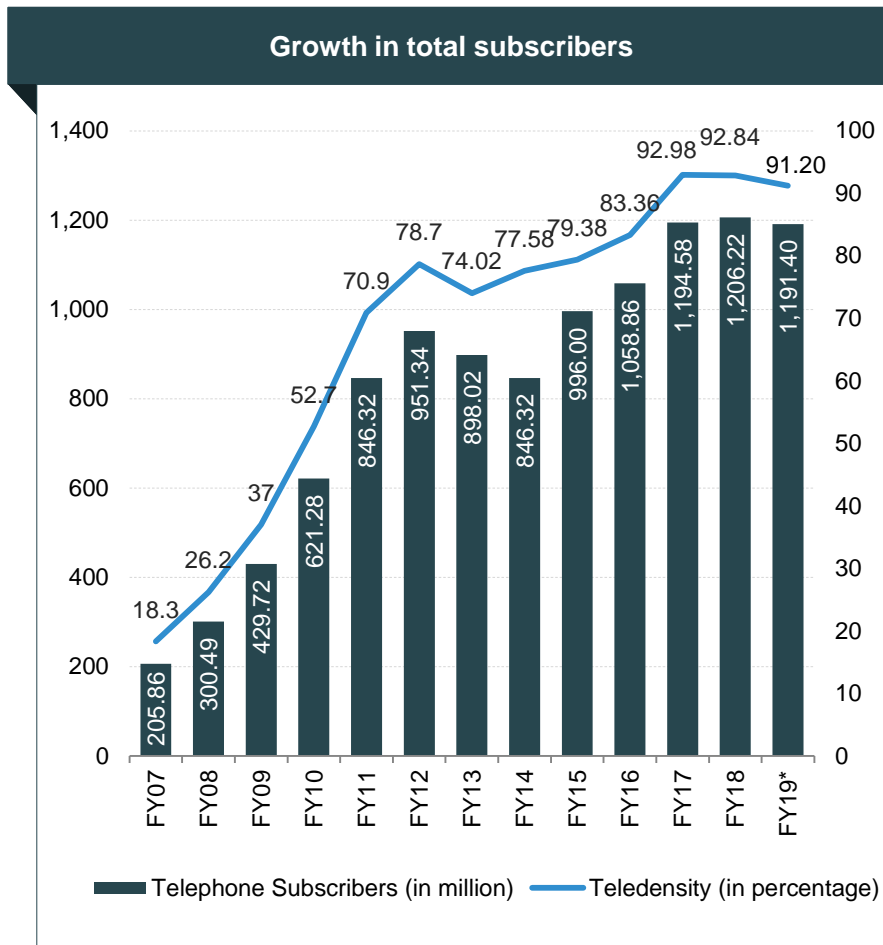


Note: F – Forecast, ^As per UN data

Source: Frost and Sullivan, LSI Financial Services, Deloitte, Aranca Research

EXPANDING TELECOM SUBSCRIBER BASE

- India is currently the second largest telecommunication market and has the 2nd highest number of internet users in the world
- India’s telephone subscriber base expanded at a CAGR of 17.44 per cent during FY07-18, reaching 1,206.22 million in FY18. The figure stood at 1,191.40 million, as of September 2018.
- Tele-density (defined as the number of telephone connections for every 100 individuals) in India, increased from 17.9 in FY07 to 92.84 in FY18. The figure stood at 91.20 per cent, as of September 2018.
- Opportunity:
 - Internet penetration in India has displayed strong growth over the past few years, yet India is far behind other economies in terms of internet penetration.
 - Consequently, internet subscriber base of India is expected to grow from 445.96 million in 2017 to 829 million in 2021.

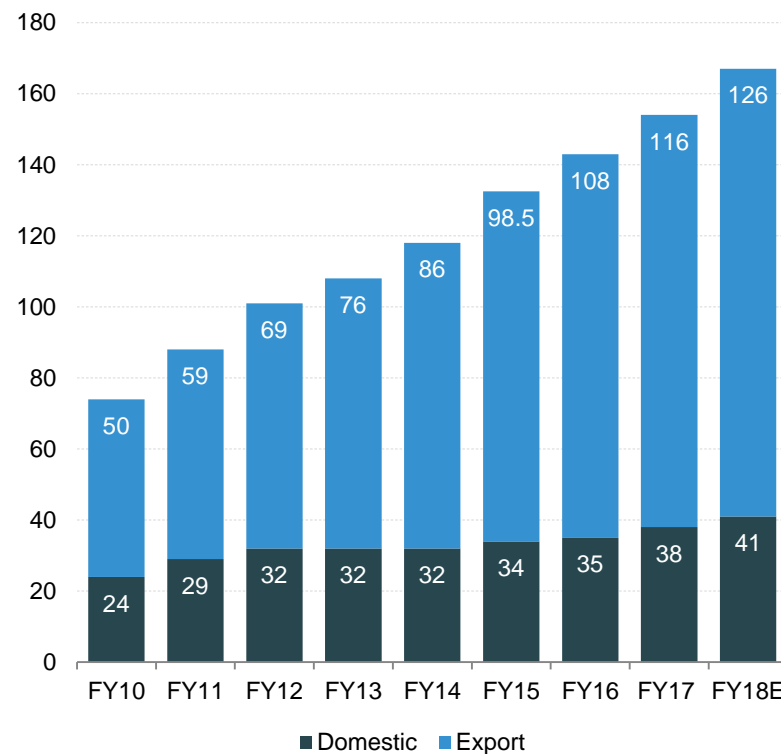


*Note: CAGR - Compound Annual Growth Rate, * - as of September 2018*
Source: Telecom Regulatory Authority of India, Aranca Research

GROWING IT AND IT-ENABLED SERVICES SECTOR

- IT and ITeS sector is the major driver of India’s service sector.
- IT BPM industry revenues increased to US\$ 167 billion in FY18 from US\$ 154 billion in FY17.
- The domestic revenue of the IT industry is estimated at US\$41 billion and export revenue is estimated at US\$ 126 billion in FY18.
- Opportunity:
 - India has emerged as the digital capability hub of the world, accounting for nearly 75 per cent 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/ITeS 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.

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



Note: E – estimate, IT – Information Technology, E - Estimate

Source: NASSCOM, Aranca Research

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 per cent 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 2 per cent.

National Digital Communications Policy 2018

- The National Digital Communications Policy 2018 envisages three missions:
 - Connect India: Creating Robust Digital Communications Infrastructure
 - Propel India: Enabling Next Generation Technologies and Services through Investments, Innovation and IPR generation
 - Secure India: Ensuring Sovereignty, Safety and Security of Digital Communications

National Tourism Policy 2015

- Formulation of National Tourism Policy 2015 that would encourage the citizens of India to explore their own country as well as position the country as a 'Must See' destination for global travellers.

National Health Policy 2017

- The Union Cabinet, Government of India, has approved the National Health Policy 2017, which will provide the policy framework for achieving universal health coverage and delivering quality health care services to all at an affordable cost.

National Education Policy, 2016

- The new 2016 National Education Policy (NEP) considers education as an utmost important parameter in the country. The 2016 NEP majorly focuses on quality of education as well as innovation and research in the sector.

Note : FTP - Foreign Trade Policy

Source : Economic Survey 2017, Media sources

FDI Policy

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

Goods and Services Tax (GST)

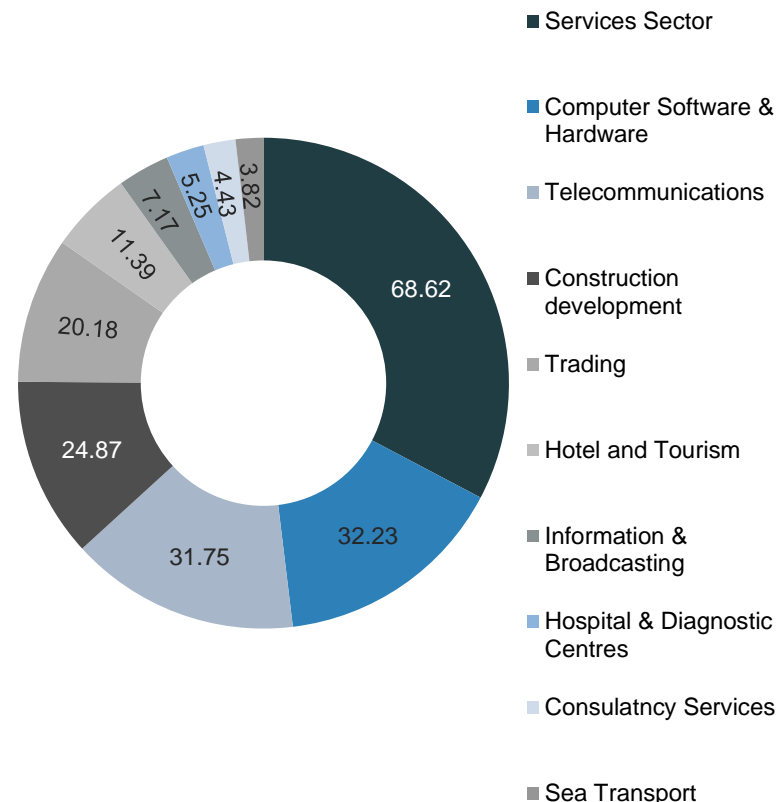
- The GST rates are nil for education and healthcare services; 5 per cent for air transport of passengers in economy class, transport of goods by rail and vessel, supply of tour operator services (without ITC); 12 per cent for food and drinks at restaurants without air conditioner, heating system or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

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 a number of 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 per cent FDI under automatic route for any financial sector activity which is regulated by any financial sector regulator.
- The services category is the highest recipient of FDI Inflows in India with total inflow of US\$ 68,617.41 million during April 2000-June 2018. Top ten service sectors received US\$ 209.72 billion FDI during April 2000-June 2018.

Total FDI Equity Inflows in the top 10 services sectors during April 2000 – June 2018 (US\$ billion)



Source: Department of Industrial Policy and Promotion



INDUSTRY ASSOCIATIONS

KEY INDUSTRY ASSOCIATIONS

Indian Banks' Association

World Trade Centre, 6th Floor
Centre 1 Building,
World Trade Centre Complex,
Cuff Parade, Mumbai - 400 005, India
E-mail: webmaster@iba.org.in

Directorate General of Civil Aviation (DGCA)

Address: Aurobindo Marg, Opp. Safdarjung Airport,
New Delhi –110 003
Phone: 91 11 24622495
Fax: 91 11 24629221
E-mail: dri@dgca.nic.in, dfa@dgca.nic.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
Fax: 91-11-2617 1115

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: International Youth Centre Teen Murti Marg, Chanakyapuri,
New Delhi – 110 021
Phone: 91 11 2301 0199
Fax: 91 11 2301 5452
E-mail: info@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: services.epc@gmail.com
Website: www.servicesepec.org



USEFUL INFORMATION

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

EXCHANGE RATES

Exchange Rates (Fiscal Year)

Year INR	INR 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
Q1 2018-19	67.04
Q2 2018-19	70.18

Exchange Rates (Calendar Year)

Year	INR 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

Source: Reserve Bank of India, Average for the year

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