VII

Services Growth

Key Indicators of Services Sector Growth

The remarkable performance of the services sector as a whole in the Indian economy has been reflected in the select lead indicators of the services sector, which have continued to grow at robust rates during 2006-07 (Table 7.1). The tourism sector has performed well in terms of foreign tourist arrivals, although there has been a marginal slowdown in the growth rate of tourist arrivals, and hence a noticeable deceleration in foreign exchange earned therefrom. As an indicator for the transportation sector, there has been a strong growth in production (31.6 per cent) as well as domestic sales (35.5 per cent) of commercial vehicles during April-November 2006 over the corresponding period of 2005. Similarly, the production and domestic sales of passenger vehicles have also grown at double-digit rates during the same period. Substantial activity has been witnessed in cargo and passengers traffic handled at international as well as domestic airports during April-September 2006 (latest available data). During April-November 2006, the Indian Railways have also exhibited a reasonably good performance. In the communication sector, there has been a 113.8 per cent growth in new cellular connections during April-November 2006.

The shipping sector that has shown moderate growth as compared to last year in terms of cargo handled at major ports - 8 per cent during April-October 2006 as against 13 per cent during the comparable period of the previous year. A major expansion is required in the port infrastructure sector in order to handle sea borne traffic arising from increased foreign and coastal trade. This could be achieved through private sector participation, by reducing the gestation period for setting up new facilities, bringing in latest technology and improving management techniques in order to upgrade cargo handling, both in terms of quality and quantity. Apart from these physical indicators, there has been a considerable growth in the monetary indicators, like aggregate deposits, non-food credit (during April-November 2006) and central government expenditure (during April-October 2006).

Table 7.1: Select Indicators of Service Sector Activities
(growth rates in per cent)

	2006-07	2005-06
1. Tourism (April-December)		
Tourism arrivals (in numbers)	13.0	13.3
Foreign exchange earnings (in US $)	14.6	20.2
2. Transport		
Automobiles (April-November)		
Commercial vehicles production	31.6	15.3
Passenger vehicles production	17.5	7.0
Commercial vehicles domestic sales	35.5	8.5
Passenger vehicles domestic Sales	20.7	5.8
Railways (April-November)		
Revenue earning freight traffic (in tonnes)	10.1	9.7
Revenue earning passenger traffic (numbers)	7.6	-
Passenger earnings (Rs crore)	11.8	-
Goods earnings (Rs crore)	16.8	-
Civil Aviation (April-September)		
Freight handled at international terminals	13.8	12.3
Freight handled at domestic terminals	8.7	6.1
Passengers handled at international terminals	15.8	14.4
Passengers handled at domestic terminals	44.6	20.1
Shipping (April-November)		
Cargo handled at major ports (in tonnes)	8.0	12.1
3. Communication (April-November)		
New cell phone connections	113.8	-
New landline connections	-141.9	-
Total new telecom connections	88.1	-
Broadband connections	4.2	-
4. Banking and Finance (April-December)		
Aggregate deposits *#	21.2	19.5
Non-food credit*	30.3	31.9
5. Public Administration (April-November)		
Central government expenditure	14.9	10.8

Notes: '-'means not available,
* Refers to scheduled commercial banks and the figures are as on Dec 29, 2006,
#Data reflect redemption of India Millennium Deposits (IMDs) on Dec 29, 2005
Sources: Data are taken from respective ministries or other government authorities and CMIE

Not only has the services' share in India's GDP has risen but a shift in favour of services sector has also been observed in the external sector where services have increasingly gained importance over the period and India has emerged as one of the fastest growing exporters of services in the world. According to data published by Reserve Bank of India on India's balance of payments for the second quarter (Q2) of the fiscal year 2006-07, services exports have swelled upto US $ 18,100 million from US $ 13,333 million in corresponding period of the last year, an increase of 35.8 per cent (Table 7.2). The 'miscellaneous' group has been as a major contributor to this growth accounting for 77 per cent of the total services exports, followed by travel, which has contributed 9.8 per cent. Within the 'miscellaneous' group, the share of software exports has been a large 47.2 per cent and its contribution to total services exports has worked out to be a substantial 39 per cent.

Table 7.2: India's Services Sector Balance of Payments
(US $ million)

Sub-sectors	2006*						2005**					
	H1			Q2			H1			Q2		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Services (Total)	35295	20997	14298	18100	11546	6554	26403	14677	11726	13333	7254	6079
	(33.7)	(43.1)	(21.9)	(35.8)	(59.2)	(7.8)						
Travel	3487	3247	240	1779	1796	-17	3029	2757	272	1594	1409	185
	(15.1)	(17.8)	(-11.8)	(11.6)	(27.5)	(-109.2)						
Transportation	3744	3689	55	2010	1791	219	2827	3579	-752	1398	1684	-286
	(32.4)	(3.1)	(-107.3)	(43.8)	(6.4)	(-176.6)						
Insurance	551	278	273	312	150	162	567	341	226	358	118	240
	(-2.8)	(-18.5)	(20.8)	(-12.8)	(27.1)	(-32.5)						
G.n.i.e.	124	210	-86	67	129	-62	119	208	-89	53	116	-63
	(4.2)	(1.0)	(-3.4)	(26.4)	(11.2)	(-1.6)						
Miscellaneous	27389	13573	13816	13932	7680	6252	19791	7792	11999	9930	3927	6003
	(38.4)	(74.2)	(15.1)	(40.3)	(95.6)	(4.1)						
of which	12966	881	12085	6581	443	6138	10321	479	9842	5218	229	4989
software services	(25.6)	(83.9)	(22.8)	(26.1)	(93.4)	(23.0)						

Note: Figures in parenthesis denote percentage variation over the corresponding period of the previous year.
*: Preliminary. **: Partially Revised.
Source: *RBI,' Balance of Payments July-September 2006'*

The net services receipts have stood at US $ 6,554 million, which have moved relatively marginally by 7.8 per cent over the last year, as the net receipts from major sub-categories like travel, transportation, and insurance have shown sharp declines. This is attributed to the growth in the payments owing to a surge in outbound tourist traffic, business services such as business and management consultancy, engineering and other technical services, etc.

Select Service Sector Industries

Travel and Tourism

The key performance indicators of the tourism sector are inbound and outbound tourist traffic and foreign exchange earnings from the same. After experiencing positive growth in 2005, the number of foreign tourist arrivals and the corresponding foreign exchange earnings have increased by about 13 per cent and 20.2 per cent, respectively, during January-December 2006. While foreign earnings have been at the same as a year ago, the tourist arrivals have been marginally lower compared to last year (Table 7.3).

Table 7.3: Performance of Tourism Sector in India								
Year	Foreign tourist arrivals (in million)		Domestic tourist visits (in million)		Outbound tourist traffic (in million)		Foreign exchange earnings (US $ million)	
1999	2.48	(5.2)	190.7	(13.4)	4.1	(7.9)	3009	(2.1)
2000	2.65	(6.9)	220.1	(15.4)	4.4	(7.3)	3168	(5.3)
2001	2.54	(-4.2)	236.5	(7.5)	4.6	(4.5)	3042	(-4.0)
2002	2.38	(-6.3)	269.6	(14.0)	4.9	(6.5)	2923	(-3.9)
2003	2.73	(14.7)	309.0	(14.6)	5.4	(10.2)	3533	(20.9)
2004	3.45	(26.4)	367.6	(19.0)	6.2	(14.8)	4769	(35.0)
2005	3.91	(13.3)	-	-	-	-	5731	(20.2)
Jan-06	0.44	(15.1)	-	-	-	-	632.4	(18.8)
Feb-06	0.43	(10.1)	-	-	-	-	594.6	(10.9)
Mar-06	0.41	(11.0)	-	-	-	-	547.2	(8.2)
Apr-06	0.33	(24.7)	-	-	-	-	473.4	(25.1)
May-06	0.26	(14.7)	-	-	-	-	368.6	(10.6)
Jun-06	0.29	(10.6)	-	-	-	-	401.2	(6.9)
Jul-06	0.33	(13.3)	-	-	-	-	497.3	(5.7)
Aug-06	0.33	(10.5)	-	-	-	-	456.8	(4.9)
Sep-06	0.28	(9.3)	-	-	-	-	424.7	(5.7)
Oct-06	0.39	(13.3)	-	-	-	-	594.0	(19.4)
Nov-06	0.47	(11.4)					711.6	(12.5)
Dec-06	0.55	(14.2)					822.5	(15.9)
Jan-Dec 06	4.51	(13.0)	-	-	-	-	6524.3	(20.2)

Figures in bracket represent present variations over the previous year.
Source: *Ministry of Tourism (www.tourism.nic.in)*

Retail Sector

According to the India Retail Report 2007, compiled by the Indian Retail Forum, organised sector has accounted for Rs 55,000 crore ($12.4 billion) business at current prices in 2006 *and this share is likely to increase to 4.6 per cent of the total Indian retail value, which stands at Rs 12,00,000 crore ($270 billion).* Of the Rs 12,00,000 crore retail market, food and grocery retail, by far, has been the single largest block estimated to be worth a whopping Rs 7,43,900 crore, though the share of organised sector in this business has been very small. Clothing, textiles and fashion accessories constitute the second largest category, but the largest segment as far as organised retailing (accounting for nearly 46 per cent) is concerned. As per the report estimates, organised retailing is likely to grow at the rate of about 37 per cent in 2007 and 42 per cent in 2008 and has the potential to generate 10 - 15 million jobs over the next 5 years in areas such as contract production and processing, supply chain and logistics, retail real estate development and management.

Indian retail industry is all set for transformation with the emergence of truly large-scale, modern retail businesses. The year 2006 has witnessed several current incumbents expanding their business activities in urban and more so in rural areas. For instance, Tata and Woolworths have entered into a technical collaboration and launched household appliances and home electronics store, Croma. The Raheja Group has inaugurated Hypercity, a hypermarket, in Mumbai. Chennai-based discount chain Subhiksha closed the year 2006 with nearly 500 outlets across India, making it the largest in the discount format. Rural retailing has also gained momentum with ITC's initiative in the form of e-Choupals, Godrej's project known as Adhaar and DCM Consolidated's Hariyali Stores.

The industry, now, is poised to witness a revolution riding on huge investments and subsequent growth of large retailers. While Reliance has been the first, announcing a Rs 25,000 crore investment in 5 years through a network of 10, 000 hypermarkets, supermarkets, convenience stores and other formats, the Aditya Birla Group is also foraying into the retail market focusing on the grocery segment. The most recent noteworthy development has been the announcement of the Bharti-Wal-Mart joint venture, whereby Wal-Mart would manage procurement, inventories and logistics and Bharti Enterprises would set up stores under a franchise arrangement. Reliance's retail venture is targeted towards the rural retailing segment as well and has plans to spend a large part of its Rs 550crore investment for this purpose. Given the favourable demographics, rising dispensable incomes, and fiscal plans to permit foreign direct investment (FDI) in at least 5 speciality retail areas, including electronics, sports goods, building equipments and stationery the market is likely to see the entry of other international retailers, namely, Carrefour and Tesco, amongst others.

The FMCG sector has continued to progress on a robust growth trajectory during the first 9 months of the fiscal year 2006-07, mainly, on account of cross-border as well as domestic acquisitions and burgeoning demand for FMCG products in the domestic market. As per the media sources, categories such as washing powders (18 per cent growth in the first nine months of 2006), toilet soaps (15 per cent) and toothpaste (15 per cent) have managed to post robust expansion after four years, almost catching up with categories such as skin creams (20 per cent) and shampoos (21 per cent).

Major Acquisitions in FMCG Sector

- Tata Tea and its promoter Tata Sons jointly acquired a 30 per cent stake in Energy Brands Inc for $677 million
- Marico Ltd bought out Hindustan Lever's Nihar brand, followed by acquisitions of two Egyptian hair care and colour brands namely Fiancee and Hairmode
- Godrej Beverages and Foods Ltd bought confectionery brand Nutrine

Rural consumption of FMCG products has been satisfactory owing to players expanding their distribution network to cover various remote areas. For instance, Hindustan Lever has continued to focus on extending its rural reach through Project Shakti, Colgate has leveraged on the e-choupal network to distribute products and Emami has commenced distribution of its products through post offices. The urban markets have also displayed buoyancy with the players diversifying their product range and thereby intensifying the competition. For example, Hindustan Lever has rolled out its water venture (Pure It) in more towns, ITC has ventured into packaged spices (Aashirwad), Marico has forayed into soaps and baby care products and Dabur has made a serious pitch for a higher share of the toothpaste market. Consequently, the sector has witnessed expansion in marketing and advertising budgets of the players, which is somewhat reflected in the price hike for these products. In the backdrop of many companies still exploring new opportunities for acquisitions both in domestic and international markets, the industry experts expect the sector to accelerate ahead in the 2007 as well.

Real Estate

According to reports published by the global real estate consulting group Knight Frank, India has been ranked 5th in the list of 30 emerging markets in case of land used for retail purposes. While the retail segment of the real estate industry is expected to witness investment of over Rs 100 billion upto financial year 2010, the organised retail segment is estimated to grow by 20 per cent by financial year 2012. The report has pegged the mall space to increase to 100 million square feet by the end of the financial year 2010 from 30 million square feet presently available. The commercial space requirement is also projected to expand to 100 million square feet lead by an unprecedented boom in outsourcing activities driven by the information technology (IT) or IT-enabled services requiring many global companies to set up their offices in India. Investment in the residential segment is estimated to be above Rs 9,000 billion and the number of households estimated to be built is above 5 millions over next five years.

According to real estate experts, the recent development of setting up special economic zones (SEZs) is another major factor that is driving the demand for land and in turn swelling the prices of the same. All these activities related to real estate construction would result in increasing the demand for the raw materials in the sector and the highest growth is likely to be in demand for cement.

Another noteworthy development during 2006 is the enormous influx of FDI into real estate. According to a recent Assocham study (Future of Real Estate Investment in India), FDI's share in the real estate market is set to increase by at least 10 per cent by March 2007 and reach about 26 per cent from 16 per cent in 2005-06. This spurt in investments can be attributed to a new trend emerging in the industry with the entry of real estate developers into the hospitality sector to diversify their portfolio. Realty majors like DLF, Emaar MGF and Unitech have entered into joint ventures with global hotel majors like Hilton, Accor, and Marriott to foray into the country's fast burgeoning hospitality sector. Around 50,000 branded hotel rooms have reported to be in various stages of planning and development in ten cities, which are expected to be completed by around 2010.

One consequence of the expansion in real estate operations has been an emergence of new real estate developers with over 4,000 small and medium developers mushrooming in the last 2years. In 2004, there were an estimated 1,500 -2,000 developers across the country, but with the realty boom the figure has soured to more than 6,000 developers.

Shipping

Recognising that cruise shipping, with a growth rate of 12 per cent per annum globally, has emerged as a sunshine product in the leisure industry, the central government is planning to announce a first ever 'cruise policy'. The policy aims at developing the country as a source and destination market and targets 10 lakh cruise passenger landings per year by 2010. In order to encourage the entry of foreign cruises, the policy proposes changing the Maritime Shipping Act, which insists that no ship other than an Indian ship or a ship chartered by an Indian citizen shall engage in the coasting trade of India, except under a license granted by the Director General. The policy also includes a waiver of duties on bunkering, service tax levied by central government, entertainment tax levied by states governments and duties on food and beverages. The policy recommends inclusion of cruise shipping itineraries in India offered by luxury cruise liners as a permissible mode of travel/destination under an LTC scheme so that middle class and government employees can also take advantage of the scheme. Besides, it envisages an exclusive special purpose vehicle (SPV) with participation from, among others, shipping companies, ports, hotel/hospitality industry associations, ministries of shipping and tourism and culture and shipping companies for the implementation of the cruise policy.