VI

Services Growth

An outlook with respect to performance of services sector appears bright by the end of first half of financial year 2007-08. The tourism industry has experienced lower growth rate in terms of tourist arrivals, though foreign exchange earned from these activities has improved almost thrice than that achieved during the corresponding period of the last year.

Table 6.1: Select Indicators of Services Sector Activities
(Growth rates in per cent)

Major Sectors	Latest Period^		Full Financial Year	
	2007-08	2006-07	2006-07	2005-06
1 **Tourism** (April-September)				
Tourist arrivals (numbers)	11.1	14.3	13.5	14.0
Foreign exchange earnings (US $)	31.2	11.4	14.8	17.5
2 **Transport**				
Automobiles (April-September)				
Commercial vehicles production (numbers)	3.0	33.5	33.0	27.0
Passenger vehicles production (numbers)	12.8	18.5	18.0	22.2
Commercial vehicles domestic sales (numbers)	2.9	37.0	33.3	22.0
Passenger vehicles domestic sales (numbers)	12.9	20.7	20.7	17.7
Railways (April-September)				
Railway revenue earning freight traffic (tonnes)	7.3	-	10.7	9.2
Railway revenue earning passenger traffic (numbers)	5.6	-		
Railways passenger earnings (Rs crore)	12.5	-	15.0	7.2
Railways goods earnings (Rs crore)	10.4	-	16.6	17.9
Shipping (April-August)				
Cargo handled at major ports (tonnes)	14.3	6.0	9.5	10.4
Civil Aviation (April-August)				
Cargo handled at international terminals (tonnes)	12.7	14.0	10.9	18.6
Cargo handled at domestic terminals (tonnes)	10.3	8.0	10.1	22.2
Passengers handled at international terminals (numbers)	17.3	15.9	15.1	16.7
Passengers handled at domestic terminals (numbers)	32.7	44.6	38.5	24.2
3 **Communication** (April-August)				
New cell phone connections (numbers)	62.9	107.4	85.5	89.4
New landline connections (numbers)		-	-	-
Total new telecom connections (numbers)		-	-	-
4 **Banking and Finance***				
Aggregate deposits # (Rs crore)	9.8	9.6	11.3	30.8
Non-food credit (Rs crore)	5.6	11.0	26.6	32.8
5 **Public Administration** (April-July)				
Central government expenditure (Rs crore)	35.4	17.4	15.2	1.7

Notes: '-'means not available, ^: latest available period specified against each indicator
* Refers to scheduled commercial banks and the figures are as on September 28, 2007
#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

In respect of transport services, automobile industry has been showing the signs of recovery after witnessing sluggishness with respect to production and sales of vehicles since the beginning of the financial year 2007-08. Five-year high interest rates have slowed the demand for cars and sports utility vehicles in the country, as most vehicles are bought on credit. As a result, automobile companies have been forced to delay their expansion plans and have cut down the production volumes. Decline in the interest rates on certain segments of commercial as well as passenger cars have fuelled the increase in the sales of the same and sales are expected to pick up the momentum with the onset of the festive season in the short run. Apart from these, substantial activity has been witnessed at shipping as well as airport terminals during this period. Cargo handled at various ports in the country has posted a double-digit growth during April-August 2007, more than twice compared to that attained a year ago. With buoyancy continuing on retail and real estate fronts, both these sectors are set to witness huge investments in the short run. Thus, buoyancy witnessed by most of the sub-segments of the services sector is likely to provide an impetus to overall real sector activity in the economy, propelling it to record a sturdy growth by the second quarter of the financial year 2007-08 (Table 6.1).

Travel and Tourism

The travel and tourism industry in the country is in the upswing since last few years with the country witnessing growing number of inbound tourists and thereby receiving mounting foreign exchange earnings. It has grown considerably in the recent past with inbound tourists and foreign exchange earning reaching peak levels in 2004. However, the growth rates in terms of both these aspects have decelerated in 2005 and 2006.

Table 6.2: 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*)	
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)
2006	4.43	(13.3)	-	-	-	-	6569	(14.6)
Sep-07	0.33	(8.4)					606	(42.7)
Sep-06	0.30	(11.1)					425	(4.9)
Jan-Sept 2007	3.4	(10.7)	-	-	-	-	5559	(25.2)
Jan-Sept 2006	3.1	(15.1)	-	-	-	-	4441	(12.5)

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

This deceleration has continued even during January-September 2007 in terms of tourist arrivals, with the growth rate standing at 10.7 per cent as against 15 per cent during the corresponding period of last year. On the contrary, growth rate of foreign exchange earnings has nearly doubled to touch 25 per cent from 12.5 per cent during the same period.

As per the estimates of a study by Elixir Web Solutions' Business Intelligence Team, the travel and tourism sector in the country is expected to employ about 7 million more people over the next 10 years at the back of better infrastructure and soaring income levels in the domestic economy. Quoting United Nations World Tourism Organisation, that the growth of tourism in South Asia has been boosted by India, the destination responsible for half the arrivals to the sub-region, the study expects the tourism and travel sector to witness a boom time in the short run. "India expects a tourist inflow of around 10 million in 2010 when it will host the Commonwealth Games," Union Tourism Minister Ambika Soni had earlier said.

Through an overhaul of the website 'www.exploreruralIndia.org', the Ministry of tourism and the United Nations Development Programme (UNDP) are focusing on rural tourism as a means to generate employment and promote sustainable livelihoods in India's villages. The Ministry has allotted Rs 50 lakh per site for infrastructure, including sanitation, sewage systems, repair of roads and illumination. UNDP has allocated US $3.5 million to the project from 2003-2008, with funds going towards activities like training in visitor handling, advocacy to communities on the importance of the project and marketing to tourists.

With its redesigning, the website at present displays the rural attractions of 15 locations and users can search by craft or region. In addition, there are email addresses through which potential guests can enquire about accommodation, guides and activities. In some places such as Samode, in Rajasthan's Jaipur district, visitors can book home stays with local artisans.

Aviation Sector

Domestic Indian low-cost airlines, that have made air travel a more popular mode of transport for the average middle class family apart from business travellers, have experienced fall in their market shares as well as load factor (the average number of people flown per flight) in the aviation sector since beginning of this year. Monsoon, consolidation and rising fares are some of the factors responsible for this decline in the market share. GoAir was the only budget airline to increase its share, by 2 per cent over January. Air Deccan, country's the largest budget

airline, has witnessed its market share falling from 20.6 per cent in January to 16.1 per cent in July 2007 (as per the latest available data). The same has seen the steepest fall in its load factor, that is, from a high of 87.3 per cent in January to 65.7 per cent in July 2007 (as per the latest available data). While load factor of Jet Lite, earlier Air Sahara, has dropped from 72.6 per cent to 68.3 per cent during the same period, that of SpiceJet and IndiGo have dipped by nearly 5 per cent and 1 per cent, respectively. Among full-service airlines, load factor of Jet Airways has come down from 73.4 per cent in January to 66.5 per cent in July and that of Kingfisher Airlines from 67.3 per cent to 63.6 per cent. Indian Airlines was the only full-service carrier, load factor of which has improved from 61.7 per cent to 66.2 per cent during the same period. As per the information reiterated by Directorate General of Civil Aviation (DGCA), full-service carriers have been able to increase their market shares marginally in the last few months. Market leader, Jet has seen an increase in its market share to 22.7 per cent in July 2007, compared to 22 per cent registered in June 2007. Whereas the market share of Indian has gone up to 20.5 per cent in July, as against 19.8 per cent in June and that of kingfisher has also increased by just 1 per cent to 13 per cent in July.

Decline in market shares as well as of load factors among low cost carriers have resulted in these airlines incurring losses and in turn have forced them to reconsider their plans regarding capacity induction. The Kingfisher Airlines-Air Deccan combine, for example, has apparently decided to shrink its combined fleet induction for 2008 to match demand. The two carriers are likely to cut their 2008 aircraft induction plans from 18 new aircraft to 8. This is expected to ease the overcapacity that has led to mounting pressure on margins.

The department of industrial policy and promotion (DIPP) is likely to approve an increase in the foreign direct investment (FDI) ceiling to 74 per cent in helicopter services, chartered service operators and regional airlines. The increase in FDI is not only expected to enhance connectivity for remote areas but also would boost the feeder airline business. The civil aviation ministry has recommended a hike in the FDI ceiling from 49 per cent to 100 per cent for five sub-sectors of the aviation industry, namely maintenance, training facilities, cargo handling, passenger handling and chartered services.

A Paper by Associated Chambers of Commerce and Industry of India (Assocham), titled 'Implications of Higher Tax Incidences on ATF for Domestic Flyers' has highlighted that

aviation turbine fuel (ATF) is the largest component of operating expenses for airlines, accounting for almost 35 per cent to 40 per cent of the total costs. The fuel used by jetliners is loaded with various tax levies, as a result of which domestic airlines pay a total of 66-per cent tax on ATF, compared with the 8 per cent paid by international airlines that fill ATF in India. This erodes their profitability by an average of 10.5 per cent per annum for full service airlines, to as much as 15 per cent per annum for low cost carriers.

According to a report by The International Air Transport Association (IATA), Asia-Pacific based airlines have added 42 per cent to their passenger carrying capacity outstripping their counterparts in Europe and North America. This was primarily driven by the massive growth in air traffic in India and China. While north American carriers have added 11 per cent to their carrying capacity and have improved load factors by 6 percentage points, the Europeans airlines have added 29 per cent to their capacity with 5 percentage point increase in load factor. On the contrary, the Asia-Pacific based airlines are reported to have seen a rise of 2 percentage points in their load factors.

Retail Boom

With the domestic retail players stepping up their expansionary drive besides the global retail giants foraying into the country, the growth momentum of the Indian retail market is set to move on a higher growth trajectory.

Characterised by rising purchasing power, changing consumption patterns, increased access to information and communication technology, improving infrastructure and increased government initiatives to boost the rural economy and 87 per cent of the rural markets not having access to any sort of organised marketing and distribution, rural market provides huge scope for retailers to expand their business activities in rural areas. Hence, the domestic corporate players are firming up innovative schemes to tap this rural retail market. Bharti-Wal-Mart joint venture, for example, has planned to invest substantially in the next 3-4 years for establishing supply-chain network in rural India. Reliance Retail's Rural Hubs, which act as procuring-cum-processing hub and one-stop farmer shop, is likely to expand this business in Punjab, Maharashtra, West Bengal, Andhra Pradesh and Gujarat. Pantaloons also has plans to establish a similar procuring-cum-processing hub for setting up farm input malls in rural areas. Even public

sector companies have also entered this segment. For instance, Indian Oil Corporation (IOC) has launched its rural retail initiative in 2006 in Uttar Pradesh, Madhya Pradesh, Punjab, Tamil Nadu, Karnataka and Bihar with more than 1,400 stores and an average store area of 4,400 sq. ft covering a radius of 10-15 km. According to a Confederation of Indian Industry (CII) - YES BANK study, The rural retail market worth of Rs 1,40,000 crore is expected to cross Rs 180,000 crore mark by 2010 and it is likely to go up to Rs 240, 000 crore by 2015.

When the local retail shops have been facing a tough competition from modern retail chains/ malls mushrooming in their vicinity, one of the major FMCG giants, Dabur India Ltd., has embarked on an initiative known as 'Parivaar' to partner neighbourhood shops by offering higher margins to drive volumes in the highly competitive FMCG segment. Under this scheme, the company would also buy shelf space from key grocery stores and provide other collateral support like advertising to push Dabur products to the consumers. In addition to this, Dabur has decided to offer retail solutions and merchandise to shopkeepers and to invest on creative elements in the outlets. Through this new scheme, the company is expected to generate revenues to the tune of over Rs 120 crore from around 12,000 key grocery stores across the country by the end of fiscal year 2007-08.

Market research company, AC Nielsen, in its monthly retail sales audit of consumer goods, has identified 24 categories in the personal grooming space that are growing at an average rate of 13 per cent. Among these, the 'feel-good' category, which includes perfumes, body washes and hair colours, is experiencing high double-digit growth. Considering this trend, Dabur India is planning to enter into the skin care category this year by introducing a new skin care range towards the end of 2007. The company would also invest Rs 140 crore in its Health and Beauty (H&B) stores, which are expected to start generating profits by the fourth year of operations.

As per a FICCI survey, India's food and beverages (F&B) sector, which is growing at rate of 9 per cent, is expected to touch Rs 4,660-billion mark by the end of 2007, driven by robust growth in areas like semi-processed, ready-to-eat food and wine. The survey, covering 300 sector-specific industry associations and companies, has projected that segments like semi processed/cooked ready-to-eat, ice-cream, wine and sugar, would grow by 24 per cent, 30 per cent, 22 per cent and 25 per cent, respectively. Apart from these, fruit juices, pulp and

concentrates are likely to post a growth rate of 18 per cent, followed by sauces/ketchups (17 per cent), branded flour atta and biscuits (16 per cent each) and bakery items like bread, cakes (11 per cent). However, items belonging to the unorganised sector, which also includes processed food products, flour/atta, bread, milk and dairy products, ghee, sugar, tea, coffee and edible oil are likely to achieve moderate to single digit growth.

Mahindra group has forayed into the rapidly growing Indian organised retail market with a chain of premium lifestyle stores selling apparels, toys and furnishings. The new venture would be called 'Mahindra Retail' and it would operate under group company Mahindra Intertrade. The Mahindra group already has a licence to distribute children's apparel, toys and furnishings of retail giants such as Walt Disney, Mattel, Lego and Woolworths' Ladybird. The company is planning to introduce private labels in its stores. The Mahindra group already has undertaken exports of fresh agricultural produce under Mahindra Shubhlabh. Under its another venture 'Mahindra Logistics', the company has lined up Rs 400 crore to set up greenfield warehouses across the country. The company is planning customised cold and dry warehouses and fruits and vegetable processing centres for corporates in major cities, including Mumbai, Pune, Bangalore, Hyderabad, Chennai, Kochi and Kolkata. To supply fresh produce to domestic modern retail store (malls), the company is conducting a pilot project in Punjab over 100 acres.

IT and ITeS Growth

According to a global Services Survey conducted by Cyber Media in association with Tholons, an investment advisory firm, 6 Indian cities have ranked among the top 50 cities identified globally as 'emerging outsourcing and IT services destinations.' Out of total 6 outsourcing hubs belonging to India, 5 have appeared among the top 15 vis-a-vis 3 cities in China and 2 in Vietnam. These 5 outsourcing destinations include Bangalore, New Delhi (National Capital Region), Manila NCR, Mumbai and Dublin, as these have serviced the global corporate world for over a decade. Coimbatore at the 21st position is the sixth city to figure in the list of top 50. The survey has placed 19 Asian and 12 East and Central European cities among the Top 50 (emerging BPO and IT services) destinations worldwide. The survey has indicated that process maturity, availability of relevant skills and costs in the individual city are the 3 major reasons that outsourcers consider before deciding on the location.

An Assocham study, in its paper on 'Opportunities for Consultancy', has revealed that consultancy sector in India is set to grow at an annual rate of 30 per cent to become a Rs 17,000 crore industry from Rs 13,000 crore at present, triggered by increased demand for consultancy services by domestic and foreign firms. While identifying areas like civil engineering, telecom, power, metallurgy, chemical and computer software to be the fields of Indian specialisation, the study has also highlighted features like professional competence, low cost structure, diverse capabilities and adaptability as reasons of Indian consultants having edge over their global peers. Currently, there are about 6000 consultancy firms in major cities like Delhi, Bangalore, Hyderabad, Chennai, Cochin and Dehradun.

A survey conducted by the Internet and Mobile Association of India (IAMAI) and Indian Market Research Bureau (IMRB) has projected that the e-commerce market in India is expected to grow at an average rate of 30 per cent to touch Rs 9,210 crore by the end of financial year 2007-08. Among the various businesses, online travel segment is expected to post the highest growth rate of 30 per cent to reach Rs 7,000 crore by the end of 2007-08, followed by online classifieds, which is projected to reach Rs 820 crore. Online retail segmant (eTailing) is likely to touch Rs 1,105 crore level at the end of 2007-08 from Rs 850 crore attained a year ago. According to the survey, saving of time, convenience associated with shopping at home and the availability of a range of products are the 3 significant factors that are fuelling this growth in e-commerce market. The report has also highlighted the product quality, the ability to bargain and security issues with regard to e-transactions as main hurdles to growth in this market.

Real Estate

The Ministry of food processing industries is expected to kick-start its ambitious 30 food park projects by inviting, in the next two months, expressions of interest from companies to invest in five of them. It has already identified five locations in Maharashtra, Andhra Pradesh, Punjab and Jharkhand and one in the country's northeast region. Each food park would span around two to three districts in each location and would require a total investment of Rs 400 crore each. Each food park would have a cold storage facility, apart from facilities for sorting, grading, food processing, packaging and quality control, and research and development laboratories, among other things. Each project would be operated by special purpose vehicles

comprising of private companies as well as government agencies. The government has decided to provide a grant of around Rs 50 crore to set up this infrastructure.

The central government is considering the establishment of a real-estate regulator to address the complaints of consumers and builders. A regulator would act as a quasi-judicial body and would not deal with property prices issues. However, it would lay down conditions on who would be the developer, property dealer. The first such body is planned be set up for Delhi within 6 months, which would serve as a model for other states to emulate it taking necessary steps in this regard. Since the state has a constitutional authority concerning land matters, the central government does not intend to intervene while facilitating the creation of regulator at the state-level. However, it has decided to provide assistance to state governments under Jawaharlal Nehru Urban Renewal Mission.

Table 6.3: 20 most Attractive Real Estate Investments Destinations in the Asia-Pacific Region

Ranking	City	Investment Prospects	Development Prospects	Ranking	City	Investment Prospects	Development Prospects
1	Shanghai	6.35	6.4	11	Kuala Lumpur	5.66	5.69
2	Singapore	6.3	6.3	12	Bangalore	5.6	6.24
3	Tokyo	6.2	6.23	13	New Delhi	5.57	6.11
4	Osaka	6.06	6.02	14	Auckland	5.52	5.56
5	Hong Kong	6.03	6.05	15	Sydney	5.51	5.31
6	Beijing	6	5.93	16	Taipei	5.46	5.51
7	Seoul	5.9	6.08	17	Melbourne	5.28	5.24
8	Ho Chi Minh City	5.86	6.41	18	Bangkok	5.19	5.45
9	Guangzhou	5.85	6.05	19	Manila	5	5.16
10	Mumbai	5.74	6.23	20	Jakarta	4.71	4.89

1=Abysmal, 5=Fair, 10=Excellent

Source: Media Sources

As per an investor survey ‘ Emerging Trends in Real Estate Asia Pacific 2008’ conducted by Urban Land Institute (ULI) and PricewaterhouseCoopers (PwC), Mumbai has emerged as the 10th most attractive real estate investment destination among 20 cities in the Asia-Pacific region, while Bangalore and New Delhi have achieved 12th and 13th positions, respectively. The survey has ranked Shanghai, Singapore and Tokyo as the top 3 attractive destinations in terms of investment prospects. In terms of most preferred property types vis-à-vis investment prospects, the hotel sector has been ranked as most attractive sector followed by the office sector in the Asia-Pacific Region. Ho Chi Minh city has held the first position as most attractive for investment both in hotel space as well as office sector.