

6. SERVICES

GDP originating in major constituents of the services can be conceived as a function of some key lead indicators for the respective categories. Dominant among these performance indicators have been enumerated in Table 6.1.

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

Major Sectors	Latest Period [^]		Full Financial Year		
	2009-10	2008-09	2008-09	2007-08	2006-07
1 Tourism (April-June)					
Tourist arrivals (numbers)	-1.1	8.7	-2.5	12.8	13.8
Foreign exchange earnings (US \$)	-1.5	14.2	-9.6	27.9	16.2
2 Transport					
Automobiles (April-July)					
Commercial vehicles production (numbers)	-15.3	10.3	-24.0	5.6	33.0
Passenger vehicles production (numbers)	8.1	12.3	3.4	15.0	18.0
Commercial vehicles domestic sales (numbers)	-7.6	8.0	-21.7	4.9	33.3
Passenger vehicles domestic sales (numbers)	9.5	11.0	0.1	12.3	20.7
Railways (April-June)					
Railway revenue earning freight traffic (tonnes)	4.1	21.3	4.9	9.0	9.2
Shipping (April-June)					
Cargo handled at major ports (tonnes)	1.4	9.5	2.1	12.0	9.5
Civil Aviation (April-May)					
Aircraft Movement at international airports	4.7	11.9	8.8	15.3	12.9
Aircraft Movement at domestic airports	-6.7	12.3	-2.2	22.9	33.1
Cargo handled at international terminals (tonnes)	-4.7	7.6	0.2	12.3	11.0
Cargo handled at domestic terminals (tonnes)	3.0	2.7	-3.6	7.3	9.5
Passengers handled at international terminals (numbers)	3.5	9.7	5.9	15.7	15.2
Passengers handled at domestic terminals (numbers)	-10.3	6.8	-11.2	23.3	38.5
3 Communication (April-May)					
New cell phone connections (numbers)	39.5	32.6	36.1	44.7	58.6
4 Banking and Finance*					
Aggregate deposits (Rs crore)	4.6	3.0	19.9	22.4	23.8
Non-food credit (Rs crore)	0.0	1.7	17.8	23.0	28.5
5 Public Administration (April-June)					
Central government expenditure (Rs crore)	16.6	-6.1	23.7 P	15.5	17.5

Notes: [^]: latest available period specified against each indicator, P: Provisional

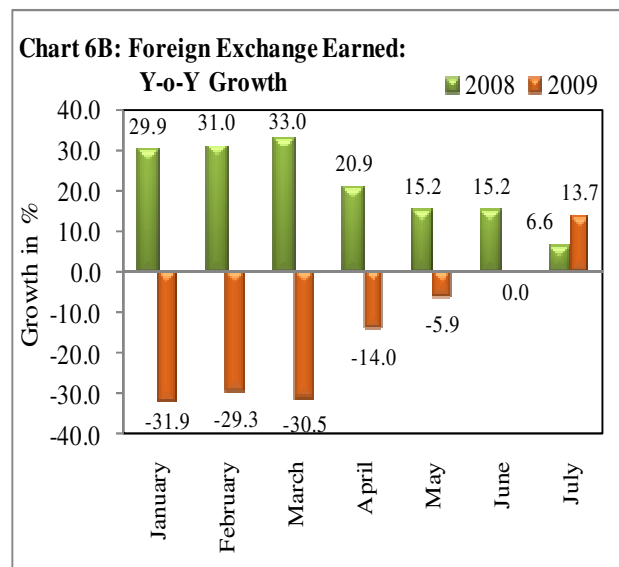
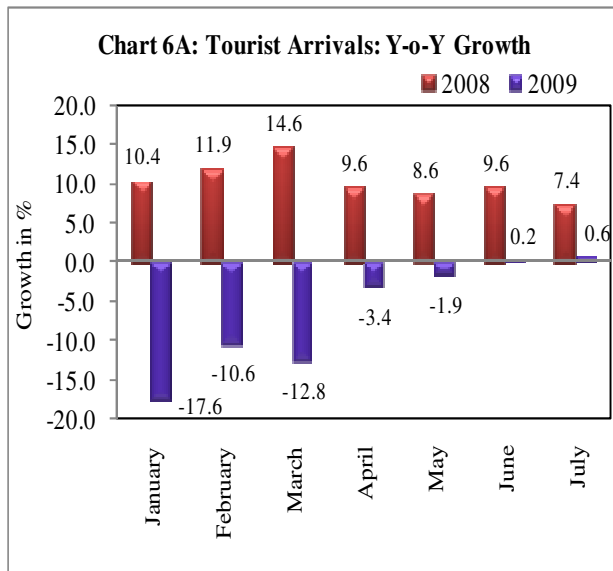
* Refers to scheduled commercial banks and the figures are as on 17 July 2009

Sources: Data are taken from respective ministries or other government authorities and CMIE

Overall, with exception of communication and public administration, all categories have pointed towards deceleration in activity, affecting the prospects of this sector's contribution to GDP growth in 2009-10.

6.1 Tourism and Hospitality

For tourism sector, the second half of the calendar year 2009 has begun with a positive note. Foreign tourists arrivals as well as foreign exchange earned have shown signs of improvements in month of July. Though the increases are not significant, the tourism business that has battered with a double whammy of 26/11 terrorist attack and the global economic slowdown, has reason to cheer. As per the tourism ministry data, inbound tourist growth (y-o-y) has continued to be positive for the second consecutive month of July at 0.6% reaching 4.32 lakh tourists after reporting 0.2% rise (y-o-y) in June 2009. Similarly, foreign exchange earned during the month have been higher by US \$124 million touching US \$1028 million as compared to US \$904 million in July 2008. This could be attributed at least partly to the ‘Visit India’ campaign and road shows that have been arranged in different countries.



The cumulative data, however, display a contrasting picture. Reflecting the downturn experienced during the first half of the current calendar year, the period January – July 2009 has reported lower number of foreign tourists visiting the country (28.99 lakh) as compared to those a year ago (31.49 lakh). Earnings in US \$ terms during the same period have been down by US \$1,254 million to US \$6035 million as compared to US \$7,289 million during January – July 2008. Even the financial year so far (April – July 2009) has also registered negative growth rates

in terms of both tourists arrivals and foreign exchange earnings (Table 6.1) indicating that the upturn observed during June and July has been too small to compensate for the losses suffered during April and May 2009.

With an aim of giving necessary impetus to tourism activities and tourism business, the ministry has plans to develop Caravan, Wellness and Heliport tourism in the coming months. The private sector is very enthusiastic about these niche tourism products and the ministry could explore a public-private partnership model for this initiative. The total outlay for promoting domestic tourism, which includes campaigns and other promotions will be Rs 60 crore for this year, while total outlay for the current financial year has been Rs 1,000 crore. The ministry would also provide special attention towards skill developments of its human resource and upgradation of technology and infrastructure.

Adventure tourism is likely to gain a momentum in days to come with the Union Budget 2009 introducing various incentives for adventure tour equipment and road travel. The customs duty exemption has been provided on water sports equipment like inflatable rafts, water skis, surf skis, sail boards and snow skis. According to the President of the Adventure Tour Operators Association of India, Tejbir Anand, India can now draw tourists from US, Australia and New Zealand where people are keen on adventure holidays. This kind of assistance combined with reduced air fares and room rents could provide the much-needed impetus to the travel industry.

Hospitality Sector

Aided by the growing number of corporate travellers, patrons of five-star hotels, shifting to these hotels as part of cost-cutting measures, mid-market branded hotels are set to traverse on a growth trajectory. A mid-market branded hotel is a term used to describe three-and four-star hotels that are positioned between five-star and entry-level budget hotels. For instance, for Taj Hotels & Resorts, its four-star hotel brand Gateway is the fastest-growing among its portfolio, with 31 hotels within nine months of their launch. Hotel consultants opine that mid-market properties not only require lower investment in construction, but also help hotel companies expand to new cities and markets faster. As per the HVS India executive director Siddharth Thaker, in tough times like slowdown, mid-segment hotels can be flexible with pricing and still make profits. International hotel brands such as French hotel company Accor and Global Hyatt Corporation are also building their India expansion strategy on a similar line.

With the business picking up in the tourism segment and corporate travel spends are showing signs of an improvement, hoteliers are planning to raise room tariffs by 5-10% before the peak season begins in September. Given the drop in business volumes this year, hospitality consultants had initially ruled out the possibility of hotels going ahead with their annual rate hike before the winter season.

Hotel developers seem to get increased flow of credit, as the RBI, in its draft guidelines on commercial real estate (CRE) exposure, has mentioned that loans for construction of hotels will not be classified as CRE exposure. According to bankers, the internal cap on lending could be relaxed if projects do not carry the CRE tag. To encourage foreign direct investment (FDI) in the hospitality sector, the central government is contemplating over a proposal to remove conditions pertaining to minimum area development and minimum capitalisation norms for mixed development projects in hotel and tourism space. At present, 100% FDI is permitted in standalone hotel projects. Further, the government is considering making certain changes in the FDI policy for construction to boost FDI inflows into smaller projects. It mulls reduction of minimum area to be developed from the present 25 acres to 10 acres for serviced housing plots and reduction in minimum built-up area for construction development projects to 10,000 sq metres (from the existing 50,000 square metres of built-up area). It has been reported that FDI flows into the construction development space would continue subject to lock-in period of three years.

The Commercial Tax Department of Goa has sought to bring the shacks (temporary eateries set up on Goan beaches during tourist season) under VAT by introducing a new category for sale of cooked food and non-alcoholic beverages by shacks to pay a lump-sum of Rs 25,000 a year as VAT, provided their turnover does not exceed Rs 10 lakh a year.

6.2 Aviation

In the backdrop of financial crisis suffered by Air India, the Travel Agents Association of India (TAAI) and the Travel Agents Federation of India (TAFI) have decided to give preferential treatment to Air India as well as to other national carriers — Kingfisher, Jet, Indigo, SpiceJet. Accordingly, they would persuade their customers to fly Indian carriers. The move is likely to benefit Indian carriers directly, while it would have a major indirect impact on ticket sales of

international airlines. Rajji Rai, President, TAAI, clarified that all possible assistance would be lent to Air India in order to improve its profits and the bottom-line. He also informed that 85% of the total ticket bookings are done through travel agents in India with the foreign carriers accounting for about 60% of the business.

With the losses estimated to range between Rs 5,000 - 7,200 crore for the financial year 2008-09, Air India is reported to have asked the government to extend Rs 20,000 crore bailout package. As reported by Indian Express news line dated 26 July 2009, the national carrier, Air India, and its consultant SBI Caps sought an equity infusion of Rs 10,000 crore and an equal amount as a soft loan in a presentation to the Committee of Secretaries (CoS). At the same time, to bring down the interest payments, the company has proposed that a substantial part of its Rs 16,000 crore working capital requirement be converted into a term loan, backed by a sovereign guarantee. Conversion of working capital into a term loan would bring down the interest rate from the current levels of 12-13% and reduce the interest burden on the struggling airline. The airline has been asked to come up with a concrete cost reduction proposal and replacement of the current Productivity Linked Incentive (PLI) with an alternative scheme within the framework of the Department of Public Enterprises' guidelines.

It is learnt that the government is likely to contribute only a minor part of total bailout package sought. A major part of this package is likely to be financed through partial divestment of government equity or through initial public offering of the carrier. The government has asked the petroleum ministry to extend the credit limit on jet fuel for at least three more months. Several other measures have also been taken to improve the operating ratio of the airline, which is 116.96% as on 31 March 2007 (i.e, AI is spending approximately Rs 117 to earn Rs 100). The turnaround plan for Air India (AI) consists of a plan to strengthen its resource base by revaluing its buildings, including the corporate office at Nariman Point in Mumbai and in other cities, as well as selling its slots at various domestic and international airports where it does not have good load factors. The other components of the plan include reduced turnaround time for each aircraft that can cut its expenditure to the extent of Rs 2,300 crore on an annual revenue of Rs 17,000 crore — that is expected to end 2008-09 with a cumulative loss of Rs 7,200 crore — as per the civil aviation ministry. Currently, the rate of utilisation of AI is nearly 30% less than its international counterparts' norm of daily 11 hours of flying. The government has also simultaneously planned to raise the equity base of the airline from Rs 153.84 crore to about Rs

2,500 crore to improve its leveraging power. AI also plans a route revamp for both domestic and international network. Other steps to curtail cost at the carrier include suggestions that foreign carriers need not be given additional bilateral rights at destinations where AI has a strong network.

However, the cash-strapped National Aviation Company India, which runs Air India has decided to go ahead with its proposed acquisition of 111 aircrafts. The Committee of Secretaries, formed to look into the restructuring of the airline, reiterated that the national carrier's fleet renewal plans were necessary in view of the intense competition in the sector. There were concerns in some quarters that the airline would defer the purchase of some aircraft in order to save costs. Air India has already taken delivery of 48 aircrafts.

India's Kingfisher Airlines has posted a net loss of Rs 16.09 crore (US \$334.9 million) for the year ending 31 March on income of Rs 52.7 crore. In the first quarter of the new financial year, Kingfisher made a net loss of Rs 2.43 crore. Net income for the three months ending 30 June was Rs 13.13 crore.

Low cost carrier SpiceJet Ltd has made a profit of Rs 26.34 crore during the Q1: 2009-10 compared with a loss of Rs 129.22 crore in the same period last year, mainly on account of lower fuel costs. It spent Rs 182.81 crore on aircraft fuel during April – June 2009, nearly half of Rs 310.2 crore incurred a year ago. SpiceJet's revenue for the same quarter rose to Rs 634.41 crore from Rs 483.40 crore in the previous year.

The major domestic airlines owe around Rs 250 crore as on June 30, 2009 to the Airport Authority of India (AAI) for using its facilities at different airports across the country. While Kingfisher Airlines forms almost 60% of the total dues payable, Jet Airways stands at second position accounting for around 13%.

Carrier	Amount (Rs Lakh)
Go Airlines	1335.8
Interglobe Aviation Limited	989.9
Jet Airways	3,309.1
Jet Lite (India)	1,418.4
Kingfisher Airlines-	14,968.7
Paramount Airways	1,300.8
Spice jet Limited	1,655.3
Source: Media	

In a bid to increase its share of the leisure market, Jet Airways, the country's largest private carrier by market value, has plans of collaborating with several state tourist departments to offer special travel packages. For instance, Jet Airways has signed a memorandum of

understanding (MoU) with Karnataka State Tourism Development (KSTDC) to offer Golden Jet Escapes on Golden Chariot, the luxury tourist train of Karnataka. Jet Airways has entered into a similar agreement with the tourism department of Kerala to offer 'Jet To Kerala' holiday packages. The airline is also looking at having a tie-up with Andhra Pradesh's tourism department to offer special packages to Tirupati and other destinations in the state.

Jet Airways is looking to merge its low-cost service Jet Konnect and its budget airline JetLite, once the ongoing legal dispute with Sahara Group is resolved. The case is still pending in the court. Jet Airways launched Jet Konnect in May to arrest the falling load factor on its full service airline. Jet was forced to start a new service, as the ongoing legal dispute with Sahara prevented it from transferring planes to JetLite, which is a separate airline.

Faced with huge losses in the first quarter, Jet Airways has plans to complete the process of replacing expat pilots with Indian ones by the end of the current fiscal year 2009-10 with an objective of controlling its costs. The company has a total of 1,100 pilots out of which 250 are expats. The contracts of nearly three dozen expat pilots will expire in October while some more will run out in December with the rest by March next year. The Directorate General of Civil Aviation had earlier said all domestic airlines should have only Indian pilots by July 2010.

6.3 Retail

Consumer durable manufactures are witnessing buoyancy in sales growth. Unexpected increase in demand for top-end models from semi-urban markets is also considered to be another reason that has helped this growth in sales. Fast moving consumer goods makers as well as durables makers, for whom a bulk of sales comes from the rural hinterland, are confident of achieving their growth targets, despite erratic monsoon reducing the hopes of demand improving in the short run.

The Maharashtra government has hiked the value-added tax (VAT) on mobile cellular handsets by 8.5%, that is, from 4% to 12.5%. Despondent retailers have protested this move, saying their margins are (which are just 1% to 2%) are pressurised, leaving no room for price cuts. Drawing attention towards the tax levied by states, which stands at 4%, retailers also have mentioned that the extra VAT is likely to encourage gray market activities in the state. Retailers

and manufacturers like Nokia are expecting a huge decline of about 40-80% in sales after the new tax regime gets introduced in the state. Some retailers have estimated the drop in the revenue from Rs 300 crore to just Rs 30 crore.

According to Global Retail MarketView, a new retail research from CB Richard Ellis (CBRE), prime retail rents have fallen in almost every region across the world, as the global recession impacts consumer sentiment and retail sales. Prime retail rent represents a typical open-market headline rent that an international retail chain can expect to pay for a ground floor retail unit (either high street or shopping centre depending on the market) of the highest quality space in the best location in a given market. The report reveals that demand for retail space has declined in most markets across the world on account of consumers cutting back on spending. New York has retained its top position as the world's most expensive retail destination. New Delhi in India has been placed at 69th position. New Delhi has seen noticeable correction in rentals compared to the beginning of 2008.

It has been reported that fast moving consumer goods companies have posted double-digit top-line growth in first quarter of the financial year 2009-10; growth seems to have driven by volumes as against value (or price hikes) like that in the corresponding period of the last year. It is learnt that the sector is also benefited by lower input costs, which saw the margins expanding. For instance, Godrej Consumer Products (GCPL) recorded one of the strongest margin expansions of 598 basis points (bps) to 19.7 % (13.7 % last year), followed by Colgate Palmolive which delivered margin expansions of 557 bp. The margin expansions for ITC, Hindustan Unilever (HUL) and Marico were 385 bp, 209 bp, and 116 bp, y-o-y, respectively. The y-o-y volume growth for the first quarter 2009-10 for Dabur was 16%, for GCPL and Marico, it was 14 % each, for Colgate Palmolive 12 %. On the other hand, y-o-y volume growth for the non-cigarette business of ITC was 6% and for HUL 2%. High volume growth was also driven by the increase in advertising and promotion expenses due to events like the Indian Premier League (IPL) and T20 cricket tournaments, besides the sector's ongoing efforts to adjust prices at price-sensitive points and increase grammage, and lots of new launches and product innovations.

6.4 Real Estate

Real estate sector, which was reeling under impact of overall slowdown has started gaining traction led by residential properties showing signs of resilience backed by interest rate cuts, price drops that has made repayment of home loan easier than earlier. The crisis faced by the domestic property market evolved a year ago following the sub-prime disaster in the American economy and the Lehman bankruptcy. During this period, according to industry estimates, property prices too fell 30-45% since peak of 2007 along with drastic drop in sales as buyers wanted to conserve their resources. However, with several measures undertaken by the government and liquidity conditions easing over the period, the real estate displayed some rise in its activities, which got momentum in the last few months. Affordable housing segment has started attracting buyers. According to Raminder Grover, CEO – Homebay Residential, Jones Lang LaSalle Meghraj, the revival in sales has been, conservatively speaking, to the tune of around 25% across the mid-to-high income segments, according to his company's sales records. Speaking on the similar lines Rohtas Goel, CMD of Delhi-based Omaxe told that there has been a 30% increase in sales thanks to factors such as a reversal in general economic sentiment after the elections and more options available in affordable housing. As per the statistics available with media, India's largest real estate developer DLF has sold almost 1,500 flats in various cities since April, around 400 flats in its mainstay market Gurgaon, 700 in Bangalore, 100 plots in Indore, 200 flats in Hyderabad and 50 in Kochi. Unitech has managed to sell more than 4,000 units in the last two and a half months in the National Capital Region, Chennai and Mumbai. Omaxe has also sold almost 500 apartments in its Omaxe Eternity project in Vrindavan. Niranjani Hiranandani, MD of Hiranandani Developers told that there had been a sale of 7,000 apartments across the industry, mainly in Mumbai suburbs, over the last 60 days. Despite indications of improving demand, builders do not seem to be in a hurry to raise prices.

To encourage the flow of foreign direct investment (FDI) in smaller construction projects — integrated townships and hospitality projects — the Department of Industrial Policy & Promotion (DIPP) has recommended changes to the Press Note 2 of 2005. The DIPP has asked for a reduction in the minimum area to be developed under each project from 25 acres to 10 acres for development of serviced housing plots. It has also asked for reduction in the minimum built-up area for construction of development projects to 10,000 sq. m. These recommendations have been sent to the Cabinet Committee on Economic Affairs. DIPP is of the view that that in smaller

cities and towns, developing serviced plots or built-up areas according to guidelines prescribed in Press Note 2 is not economically viable. The minimum area requirement is viewed as a deterrent infusing FDI into companies desirous of undertaking small-size construction projects. Foreign investment brought into such projects will be subject to a lock-in period from the date of infusion. The lock-in would also hold for three years after project completion.

The state government of Maharashtra has plans to implement Rs 1,715-crore project over the next three years to provide free housing to nearly 7.35 lakh families that belong to below-the-poverty-line (BPL) category. The project would be commissioned in all the districts except Mumbai city and its suburbs. Project would be financed through the Central and State corpus. Every year, 2.45 lakh self-contained houses would be built with a fixed area of 269 square feet. The cost of each home would work out to Rs 70,000 where the government would subsidise Rs 68,500 with only the balance to be paid by the beneficiary occupant. The project will be executed through the State Housing and Rural Development Department. Those BPL families which are not covered under the Indira Awas Yojana and Rajiv Gandhi Grameen Niwara Yojana are entitled to reap the benefits of this project.

6.5 Summing Up

Services sector activities are gearing up with a slow pace albeit at sectors such as tourism, real estate and retail sector to some extent exhibiting signs of revival. Tourism ministry is set to undertake a slew of measures to attract increasing number of foreign tourists focussing on development of Caravan, Wellness and Heliport tourism in the coming months. In the real estate market, affordable housing projects have continued to receive good response bringing the buyers back to the market leading to increase in sales. In case of retail segment, consumer durables segment is experiencing growth. Fast moving consumer goods companies have posted double-digit top-line growth in first quarter of the financial year 2009-10; growth seems to have been driven by volumes as against value (or price hikes) like that in the corresponding period of the last year. Aviation sector, however, is still struggling to fight various odds; every possible option is being tried to help Air India to tackle its problems.