

**Economic survey FY19 –
Services sector summary**

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Overview

This report highlights salient features of the economic survey FY19 released today by Ministry of Finance, Government of India. Some of which are summarised below:

- Services sector (excluding construction) has a share of 54.3% in India's GVA and contributed more than half of GVA growth in FY19.
- The services sector growth declined marginally to 7.5% during the year, from 8.1% in FY18.
- India's services sector does not generate jobs in proportion to its share in GVA. Services share in employment was 34% in 2017 which is significantly lower than its share of 54% in GVA.
- During FY19, FDI equity inflows into service sector fell by USD 696 mn or 1.3% from the previous year to reach ~USD 28.26 bn.
- India received 10.6 mn foreign tourists in FY19, compared with 10.4 mn in FY18. The foreign exchange earnings from tourism stood at USD 27.7 bn in FY19, compared with USD 28.7 bn in FY18.
- IT-BPM industry is estimated to have grown by 8.4% to USD 181 bn in FY19.

In this report, CARE Ratings has analysed the following four sectors:

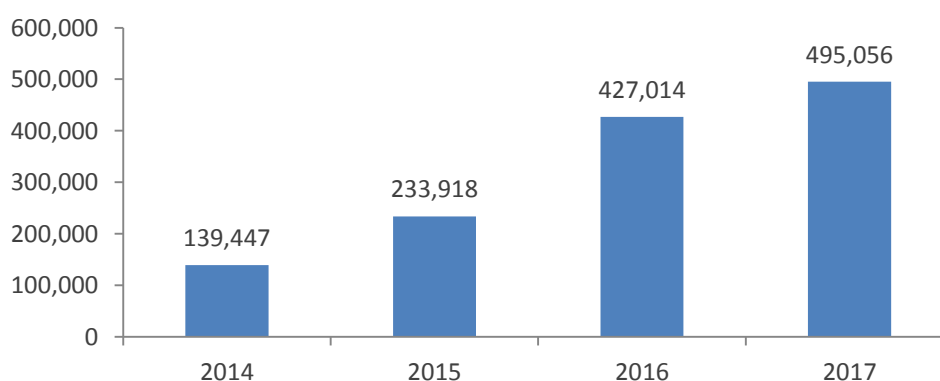
- Hospitality and Tourism
- Media and entertainment
- IT-BPM
- Telecom

Tourism

Tourism sector is a major engine of economic growth that contributes significantly in terms of GDP, foreign exchange earnings and employment. As per the World Tourism Barometer of the United Nation's World Tourism Organization (June, 2018 edition) International Tourist Arrivals (ITA) reached a total of 1.3 billion in 2017, 84 million more than in the previous year, with a growth rate of 6.7% higher than the growth rate of 3.7% in 2016. In India, the Tourism sector had been performing well with Foreign Tourist Arrivals (FTAs) growing at 14% to 10.4 million and Foreign Exchange Earnings (FEEs) at 20.6% to US\$ 28.7 billion in FY18. However, the sector witnessed a slowdown in FY19. **The Foreign Tourist Arrivals (FTAs) in FY19 stood at 10.6 million** compared to 10.4 million in FY18. In terms of growth, the growth rate of FTAs declined from 14.2% in FY18 to 2.1% in FY19. **Foreign exchange earnings (FEEs) from tourism stood at US\$ 27.7 billion in FY19** as compared to US\$ 28.7 billion in FY18. In terms of growth, the FEEs declined from 20.6% in FY18 to -3.3% in FY19.

- Growth in domestic tourist visits slowed down from 12.7% in 2016 to 2.4% in 2017. In absolute numbers, there were 1,653 million domestic tourists in 2017 compared to 1,615 million in 2016.
- Tamil Nadu (345.1 million), Uttar Pradesh (234 million), Karnataka (180 million), Andhra Pradesh (165.4 million) and Maharashtra (119.2 million) were the top 5 destination States, accounting for 63.2% of total number of domestic tourist visits in 2017.
- Amongst centrally protected ticketed monuments, Taj Mahal, Agra (5.66 million) was the most visited monument in FY18 for domestic visitors followed by Sun Temple, Konark (3.22 million) and Red Fort, Delhi (3.04 million).
- The Ministry of Tourism launched the 'National Mission on Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive' (PRASHAD) in January 2015 with the objective of pilgrimage infrastructure at selected important pilgrimage destinations. The total number of sites identified for development under the scheme at present is 41 in 25 states. Till date 28 projects in 17 states have been approved under the scheme since January 2015.
- Under the Swadesh Darshan Scheme, the Ministry of Tourism has identified 15 thematic circuits for development namely: Himalayan Circuit, North East Circuit, Krishna Circuit, Buddhist Circuit, Coastal Circuit, Desert Circuit, Tribal Circuit, Eco Circuit, Wildlife Circuit, Rural Circuit, Spiritual Circuit, Ramayana Circuit, Heritage Circuit, Tirthankar Circuit and Sufi Circuit. These circuits cover religious, spiritual, cultural, natural, tribal sites in the country. Under the scheme the Ministry is developing these thematic circuits on the principles of high tourist value, competitiveness and sustainability in an integrated manner with an objective of enriching tourist experience and enhance employment opportunities.

Chart 1: Arrivals in India on Medical Visa (Nos.)



The market size of medical tourism in India is estimated at `195 billion (US\$ 3 billion) in 2017. The value of medical tourism is forecasted to reach US\$ 9 billion by 2020. India currently has around 18% of the global medical tourism market. In an estimate, it can be a US\$ 9 billion-worth medical tourism destination by having 20% global market share by 2020. (Source: Services Export Promotion Council, Ministry of Commerce). Share of Medical Tourists to India is 4.9% out of total FTAs in 2017.

Hospitality Services

As per the Ministry of Tourism statistics, there has been a growth rate of 75.7% in number of approved Hotels to 1,961 as on December 2018 from 1,116 as on December 2014. Similarly there was a growth rate of 43.9% in number of approved Hotel Rooms in India to 102,490 as on December 2018 from 71,244 as on December 2014. This is only a subset of the hotel market which has grown sharply due to entry of online-based service providers.

Table 1: Number of Approved Hotels and Hotel Rooms for Major categories, 2014 to 2018

| S. No. | Category of Hotels | as on 31.12.2014 | | as on 31.12.2015 | | as on 31.12.2016 | | as on 31.12.2017 | | as on 31.12.2018 | |
|--------|--------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|---------------|
| | | No. of Hotels | No. of Rooms | No. of Hotels | No. of Rooms | No. of Hotels | No. of Rooms | No. of Hotels | No. of Rooms | No. of Hotels | No. of Rooms |
| 1 | One Star | 41 | 1193 | 26 | 785 | 12 | 398 | 8 | 286 | 9 | 348 |
| 2 | Two Star | 80 | 1902 | 68 | 1922 | 53 | 1190 | 43 | 1028 | 37 | 990 |
| 3 | Three Star | 554 | 22724 | 531 | 22793 | 428 | 17604 | 481 | 17428 | 535 | 18889 |
| 4 | Four Star | 134 | 7969 | 197 | 9972 | 210 | 9892 | 256 | 13184 | 322 | 16451 |
| 5 | Five Star | 92 | 11744 | 125 | 15230 | 136 | 16214 | 162 | 19431 | 181 | 22673 |
| 6 | Five Star Deluxe | 113 | 23907 | 127 | 27775 | 146 | 31037 | 152 | 34376 | 170 | 37955 |
| 7 | Apartment Hotels | 3 | 249 | - | - | - | - | 1 | 126 | 3 | 252 |
| 8 | Guest House | 5 | 77 | 7 | 110 | 118 | 690 | 6 | 88 | 7 | 106 |
| 9 | Heritage Hotels | 42 | 1237 | 30 | 1065 | 40 | 1258 | 46 | 1403 | 58 | 1843 |
| 10 | B&B Estt | 52 | 242 | 283 | 1359 | 316 | 1596 | 664 | 3268 | 639 | 2983 |
| | Total | 1116 | 71244 | 1394 | 81011 | 1459 | 79879 | 1819 | 90618 | 1961 | 102490 |

Source: Ministry of Tourism

Highlights

- FDI Equity inflows for Hotels & Tourism industry stood at US \$ 1,076 million in FY19, a decline of 4.9% y-o-y after registering a growth of over 23.6% during the corresponding period previous year.

Some of the issues relating to tourism sector are briefly stated below:

- The co-ordination mechanism of various like-minded Ministries and Stakeholders to resolve issues for promotion of tourism in the country needs to be strengthened
- State/UT Government need sensitization about tourism as a major driver of employment and poverty alleviation
- Budgetary allocation for development of tourism infrastructure should be increased

- Land should be made available for hotels and reserve land for hotels in all new townships under planning
- Fast-track clearances for hotel projects
- Increase skill development efforts to train more persons
- Make the Taxation regime on Hospitality Industry globally competitive

Media and entertainment

The Information and Broadcasting sector attracted twice the FDI equity inflows in FY19, compared with the previous year. In FY19, it stood at USD 1,252 mn, forming 4.4% of the total FDI equity inflows in the services sector and 2.8% of the total FDI equity inflows in the country.

The media and entertainment sector, which comprises 10 segments, has seen a rapid change in its profile especially in the area of content and carriage, due to the usage of immense technology. This sector is estimated at Rs. 1.67 lk cr, growth of 82% in past 5 years.

The top 3 segments including TV, print and films form ~72% of the total size of the sector, with TV having the largest share of 44%. Compared to the traditional media, it is the non-linear media comprising digital media including OTT, animation & VFX, live events, online gaming, etc. that has been witnessing double digit growth in the media & entertainment sector in recent years.

Some salient features of top segments are as below:

a) Television (TV)

India is the second largest pay-TV market in the world after China, with TV penetration at 66%. Advertising comprises 41% of the revenue while distribution accounted for the balance. Cable TV dominates the distribution of TV channels in the country through Multi System Operators (MSOs) and Local Cable Operators (LCOs). Direct to Home (DTH) sector is rapidly becoming a key player in the distribution sector. Key drivers for TV sector include digitisation of cable services, higher uptake of High Definition channels, growth of OTT platform aided by rising smart phone penetration and high speed data adoption.

b) Print media

Print Industry has seen a slowdown primarily due to huge in roads of internet and TV channels in media industry. The share of advertising revenue in Print Media is 71% of the total revenue income while the balance is accounted for subscription revenue. While newspapers accounted for about 96 per cent of the revenue, the rest was through the magazines. Hindi dailies continue to be the largest in terms of circulation followed by English and Urdu.

c) Films

India is the world's biggest producer of films with 1,776 domestic film releases in 2018. Despite this, India is underpenetrated in terms of number of screens. This presents a large untapped potential for the Indian film segment. In the Overseas Theatre Performances, the highest number of film exports were made to the Gulf region (50) followed by Australia (48) and USA/Canada (46). In terms of value, however, China became the largest international market for Indian film content.

d) Digital media

This segment includes online video viewing, audios, news through OTT platforms and social media etc. The spread of broadband connectivity, fall in data prices, demand for regional language content have triggered the growth of digital media.

IT-BPM

The computer software and hardware sector attracted FDI equity inflows worth USD 6,415 mn in FY19, growth of 4.3% compared with previous year. This sector forms 22.7% share of the total FDI equity inflows in the services sector.

The sector is estimated to have grown to USD 181 bn in FY19, with exports contributing 75%. The IT services constitute the largest segment with a share of around 52%, followed by BPM with 19%, hardware 10% and Software products and engineering services together accounting for 19% share.

This industry has contributed immensely in positioning the country as a preferred investment destination amongst global investors and creating huge job opportunities in India, as well as in the USA, Europe and other parts of the world.

USA, UK and EU account for ~90% of the total IT-ITeS exports. However, there are new challenges surfacing in these traditional geographies. Demand from APAC, Latin America and Middle East Asia is growing and new opportunities are emerging for expanding in continental Europe, Japan, China and Africa. Efforts are being made to further strengthen existing markets, and simultaneously diversify and increase presence in the new and emerging markets.

India's digital economy has received a tremendous boost through various Government initiatives such as Digital India covering e-Government services, common service centres, BPO promotion schemes, digital payments, electronic manufacturing, Digital Saksharta Abhiyaan, e-commerce, GST network, Make in India, Start-up India, e-health, Smart Cities, and e-agriculture market place/ digital mandis. These initiatives coupled with new and emerging technologies are enhancing the digital economy of the country and are creating IT and electronics led new opportunities for revenue and job creation in the country.

The National Policy on Electronics 2019 (NPE 2019) notified in Feb-2019 by the Ministry of Electronics and Information Technology (MeitY) encourages industry-led R&D and innovation and promoting start-up eco-system in all sub-sectors of electronics, including emerging technology areas such as 5G, IoT/ Sensors, artificial intelligence (AI), machine learning, augmented reality (AR) and virtual reality (VR), drones, robotics, etc.

Telecom

Telecommunication has been recognized world-over as a powerful tool of development and poverty reduction through empowerment of masses. Growth in the telecom sector in India remains strong over the last few years on the back of strong consumer demand and supportive policies of the Government.

- From a low of 933 million as on March 2014, total telephone connections in India touched 1,183 million as on March 2019, registering a growth of 26.8%. As on March 2019, the total subscription stood at 1,183 million out of which 514 million connections were in the rural areas and 669 million in the urban areas.
- The telecom wireless internet subscriptions that were at 283.3 million as on March 2015 increased to 615.1 million subscriptions, a stupendous rise of 117.1%.
- The wireless telephony now constitutes 98.2% of all subscriptions and share of landline telephones now stands at only 1.8%. The overall tele-density in India stands at 90.1%, the rural tele-density being 57.5% and urban tele-density being 159.7% at the end of March 2019.
- The private sector dominated overall connections with a share of 88.7% per cent (1,050 million) at the end of March'19 while the share of public sector was 11.3% (134 million).

Chart 2: Total telephone connections (in million)

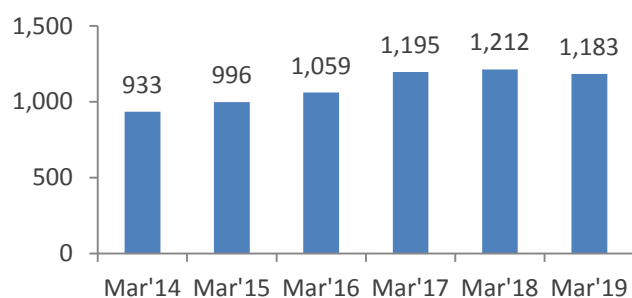
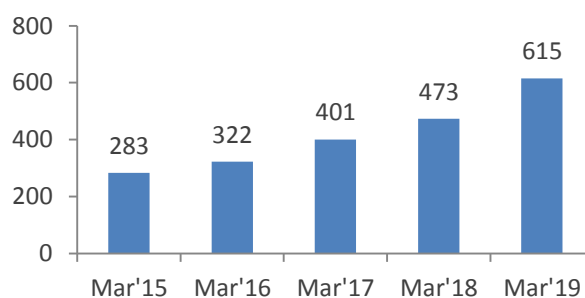


Chart 3: Total wireless internet subscriptions (in million)



India's Mobile Economy

The mobile industry has witnessed exponential growth over the last few years driven by affordable tariffs, wider availability, roll out of Mobile Number Portability (MNP), expanding 3G and 4G coverage, evolving consumption patterns and a conducive policy and regulatory environment. As per a GSMA report, the mobile industry supports about 6.5 per cent of India's GDP. Telecom industry contribution to GDP is expected to reach 8.2 per cent by 2020.

Policy Initiatives Making India 5G ready by 2020

- The 5G has been conceived as a foundation for expanding the potential of the Networked Society. The landscape is expanding to include massive scale of "smart things" to be interconnected. For India, 5G provides an opportunity for industry to reach out to global markets, and consumers to gain with the economies of scale and citizens to reap the benefits of doorstep governance and availability of services, medical support, benefits transfers, education, entertainment and build a digital payment, knowledge and services economy.

- The Government has constituted High Level 5G India 2020 Forum to articulate the Vision for 5G in India and submitted its report on “Making India 5G Ready” in August, 2018. Based on the recommendations of the forum, seven committees have been constituted for action on Spectrum Policy, Regulatory Policy, Education and Awareness Promotion Program, Application & Use Case Labs, Development of Application Layer Standards, Major Trials & Technology Demonstration and Participation in International Standards for 5G.

Thirteen-digit Machine to Machine (M2M) Numbering Plan for M2M communication

- M2M Communications /Internet of Things (IoT) refers to technologies which involve machines or devices communicating among themselves through a network without human intervention. Sensors and communication modules are often embedded within M2M devices, enabling data to be transmitted from one device to another device through wired and wireless communications networks.
- The transformational impact of M2M/IoT for the common people will be realized through transformation of the way services are designed and how they utilize information to meet the needs of citizens more efficiently and effectively.

FDI in telecom sector

FDI has played a crucial role in shaping the progress of the telecom sector over the years by providing much needed finances for expansion of telecom infrastructure in the country. During 2018-19 FDI equity inflow touched US\$2.67 billion – more than double rise from the level of US\$1.3 billion witnessed in 2015-16. The substantial foreign inflows in the telecom sector is indicative of the faith of global community in Government policy, reforms and measures taken towards ease of doing business, as well as the bright prospects of the telecom sector in the country.

FDI equity inflow in the telecom sector declined by 57.1% y-o-y to US\$2.7 billion during 2018-19 compared with growth of 11.6% to US\$6.2 billion during 2017-18.

Digital Communications Commission

This was until recently known as the Telecom Commission, set up by the Government of India vide resolution dated 11 April, 1989 with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications. Vide Resolution dated 22 October 2018, the ‘Telecom Commission’ has been re-designated as the ‘Digital Communications Commission’ to ensure effective implementation and monitoring of the newly announced ‘National Digital Communications Policy- 2018’.