INVESTMENT OPPORTUNITIES IN SERVICE SECTORS IN INDIA

R. Murugesan, Assistant Professor in Commerce, CBM College, Coimbatore, Tamilnadu, India

ABSTRACT

This paper provides an overview of the Indian services sector. It shows that services is the fastest growing sector in India, contributing significantly to GDP, GDP growth, employment, trade and investment . The existence of a strong service sector is one of the pre-conditions of economic progress of any country. The service or tertiary sector covers a wide range of services ranging from the most sophisticated ones to those provided by the unskilled workers in the unorganized sector. India has made substantial progress on this front since the attainment of independence and is credited with having the second fastest growing service sector in the world. Several factors have contributed to the growth of this sector in India. These include growing affluence, improving status of women, growth of IT sector, development of markets, health care consciousness, opening up of the economy etc. However, the sector has to face a number of hurdles in the form of inadequate infrastructure, absence of customer friendly attitude, bureaucratic inertia, existence of multiple public bodies and slow implementation of reforms. What is worse is that the contribution of this sector to employment is much less as compared to its share of India's GDP. Two important socio economic problems are plaguing the economy in the form of poverty and population. However, this sector has a lot of potential and with just the right policy mix can take the economy to global heights in the near future.

KEYWORDS: *Services, GDP, IT Sector.*

INTRODUCTION

The service sector, also called tertiary sector, is the third of the three economic sectors. The other two are the primary sector, which covers areas such as farming, mining and fishing; and the secondary sector which covers manufacturing and making things. The service sector provides a service, not an actual product that could be held in your hand.

Activities in the service sector include retail, banks, hotels, real estate, education, health, social work, computer services, recreation, media, communications, electricity, gas and water supply.

The existence of a strong and competitive service sector is a pre-condition for economic development of a country. In fact the transition from agriculture to services via manufacturing is a clear indicator of progress of a country. This Paper, attempts to discuss the concept of service sector, recent investments and trends in the development of India's service sector.

The services sector, with around 52 per cent contribution to the Gross Domestic Product (GDP) in 2014-15, has made rapid strides in the past decade and a half to emerge as the largest and one of the fastest-growing sectors of the economy. The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

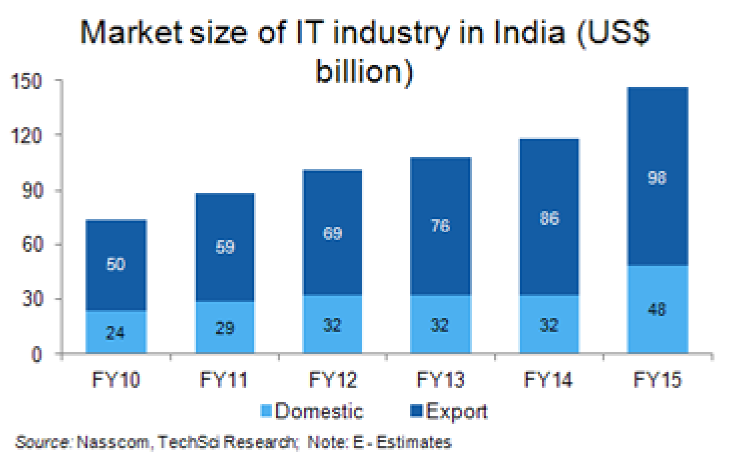
SERVICE SECTORS OF INDIAN ECONOMY

The service sectors of Indian economy that have grown faster than the economy are as follows:

- Information Technology (the most leading service sectors in Indian economy)
- IT-enabled services (ITeS)
- Telecommunications
- Financial Services
- Community Services
- Hotels and Restaurants

IT and IT-enabled services: Leading services segment

India's technology and BPM sector (including hardware) is estimated to have generated US$ 146 billion in revenue during FY15 compared to US$ 118 billion in FY14, implying a growth rate of 23.72 per cent . The contribution of the IT sector to India's GDP rose to approximately 9.5 per cent in FY15 from 1.2 per cent in FY98. TCS is the market leader, accounting for about 10.1 per cent of India's total IT & ITeS sector revenue .The top six firms contribute around 36 per cent to the total industry revenue, indicating the market is fairly competitive.



Recent investments in Indian service sectors

The Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-September 2015, amounting to about US$ 45.38 billion which is about 17 per cent of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP).

Major investments by companies in the Service Sector

Credit Analysis and Research (CARE Ratings) has signed Memorandum of Understanding (MoU) with Japan Credit Rating Agency, Ltd (JCR) to collaborate with each other as strategic business partners. Indian logistics platform Rivigo has raised US$ 30 million in debt and equity in Series B financing round, led by SAIF Partners. The firm aims to use the raised funds to achieve its target of scaling 10 times in the next 12 months. Fairfax India will look to acquire controlling stake in collateral management and weather advisory firm National Collateral Management Services (NCML) where the deal size could be $150-180 million. Amazon, the world's largest online retailer, plans to invest Rs 31,700 crore (US$ 4.76 billion) in India in addition to the US$ 2 billion investment it committed two years ago, in expanding its network of warehouses, data centers and increasing its online marketplace, besides launching an instant video and subscription-based ecommerce services for high-end buyers, called Amazon Prime, later this year. The private security services industry in India is expected to register a growth of over 20 per cent over the next few years, doubling its market size to Rs 80,000 crore (US$ 12 billion) by 2020.

Government initiatives to improve service sectors in India

The Government of India recognizes the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

The Central Government is considering a two-rate structure for the goods and service tax(GST), under which key services will be taxed at a lower rate compared to the standard rate, which will help to minimize the impact on consumers due to increase in service tax. By December 2016, the Government of India plans to take mobile network to nearly 10 per cent of Indian villages that are still unconnected. The Government of India has proposed provide tax benefits for transactions made electronically through credit/debit cards, mobile wallets, net banking and other means, as part of broader strategy to reduce use of cash and thereby constrain the parallel economy operating outside legitimate financial system. The Reserve Bank of India (RBI) has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and has also allowed white label ATMs to tie up with any commercial bank for cash supply.

Foreign Direct Investment in service sectors in India

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows soared by 24.5 per cent to US$ 44.9 billion during FY2015, as compared to US$ 36.0 billion in FY2014. FDI into India through the Foreign Investment Promotion Board (FIPB) route shot up by 26 per cent to US$ 31.9 billion in the year FY2015 as against US$ 25.3 billion in the previous year, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for FY2015 indicates that the increase in the FDI inflows was primarily driven by investments in infrastructure and services sector. Within Infrastructure, Oil & Gas, Mining and Telecom witnessed higher FDI inflows, whereas IT services and trading (wholesale, cash & carry) drove the services inflows. Most recently, the total FDI inflows for the month of September 2015 touched US$ 2.9 billion as compared to US$ 2.5 billion in the same period last year.

Recent foreign investment in India

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US$ 770 million).

Some of the recent significant FDI announcements are as follows

Japan has won the right to construct India's first bullet train, while offering a loan of US$ 8.11 billion to India for the same. Chinese mobile handset maker, Coolpad Group Limited, has committed US$ 300 million for setting up a research and development (R&D) centre and its own assembly line in India by 2017. Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015, as Amazon.com invested more than US$ 700 million in its India operations since July 2014. The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US$ 500 million). Google plans to invest Rs 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.

Government initiatives to improve FDI in service sector

The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

The Government of India has recently relaxed foreign direct investment (FDI) policy in 15 sectors, such as raising the foreign investment limit for some sectors, easing the conditions for others and putting many on the automatic route for approval. The sectors that benefited from the relaxation include defence, real estate, private banking, defence, civil aviation, single brand retail and news broadcasting. The new rules provide for easier exit from investment in the construction sector while foreign investment limit in defence and airlines was allowed up to 49 per cent through the automatic route. Banks were allowed fungible FDI investment up to 74 per cent, which means that FII investment in private banks can rise to this limit. The Government of India recently relaxed the FDI policy norms for Non-Resident Indians (NRIs). Under this, the non-repatriable investments made by the Persons of Indian Origin (PIOs), Overseas Citizens of India (OCI) and NRIs will be treated as domestic investments and will not be subject to FDI caps.

The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment.

India's cabinet cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains etc. The Government of India plans to further simplify rules for Foreign Direct Investment (FDI) such as increasing FDI investment limits in sectors and include more sectors in the automatic approval route, to attract more investments in the country.

Investment In Financial Service Sector

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system.

The financial services sector has been an important contributor to the country gross domestic product (GDP) accounting for nearly 6 per cent share in 2014-15. The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

Recent investments in financial sector

Foreign Direct Investment in the insurance sector stood at US$ 341 million in March-September, 2015, showing a growth of 152 per cent compared to the same period last year. Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent. Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 per cent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth Rs 1,664 crore (US$ 249 million). Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest Rs 2,265 crore (US$ 348 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.

Government initiatives in financial sectors

The Government has also announced several schemes to improve the extent of financial inclusion. The Prime Minister of India has launched the Micro Unit Development and Refinance Agency (MUDRA) to fund and promote microfinance institutions (MFIs), which would in turn provide loans to small and vulnerable sections of the business community.

Investment opportunities in service sector in India

India provides great avenues for investments in various service sectors.

- Aviation
- Education
- Healthcare
- IT & BPM
- Railways
- Renewable Energy
- Retailing
- Roads & Highways
- Telecommunications
- Tourism and Hospitality
- Wellness
- Banks

Opportunities and Challenges in Service Sector in India

The Indian service industry has emerged as one of the largest and fastest-growing sectors on the global landscape and hence has made substantial contribution towards global output and employment. Growing at faster pace as compared to agriculture and manufacturing sectors, Indian service segment comprises of wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. LPG has opened the door for the growth of service sector but in India it has entered with so many challenges. The Indian rural market has great potential. All the major market leaders consider the segments and real markets for their products and services. It proves that large opportunities in service industry are available. Development of tourism industries, innovation of new technology, increasing the living standard has extended the scope of service industry. Development of professional courses, Advertising, Entertainment, Marketing, IT industry, development of stock market and financial services all field are giving opportunity to human resource to develop and to increase the living standard . E-commerce and internet are one of the fastest growing service sub-segments in the Indian economy.

Inflation, increasing cost of petrol, Depreciation of Indian currency and Deficit Budget are the major challenges for service sector, which is increasing cost of service sector. The services industry calls for a highly trained and mature workforce. Unlike traditional businesses, the degree and quality of training transcends mere technical or product knowledge to include communications, behavior and interaction.

CONCLUSION

Make in India is a major new national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector. It is being led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India. The Make in India programme is very important for the economic growth of India as it aims at utilising the existing Indian talent base, creating additional employment opportunities and empowering secondary and tertiary sector. The programme also aims at improving India's rank on the Ease of Doing Business index by eliminating the unnecessary laws and regulations, making bureaucratic processes easier, making the government more transparent, responsive and accountable.
The focus of Make in India programme is on 25 sectors. These include: automobiles, aviation, chemicals, IT & BPM, pharmaceuticals, construction, defence manufacturing, electrical machinery, food processing, textiles and garments, ports, leather, media and entertainment, wellness, mining, tourism and hospitality, railways, automobile components, renewable energy, biotechnology, space, thermal power, roads and highways and electronics systems.

References:

1. DIPP (2012), "Consolidated FDI Policy (Effective from April 1, 2012)", Ministry of Commerce and Industry, Government of India, March, 2012, New Delhi.

2. Kumar Gulshan and Neerja Dhingra (2011), "Impact of Liberalization on FDI Structure in India", International Journal on Economic Research, Volume 2(2), 80-94, March-April 2011,

3. Media Reports, Press Releases, DIPP publication, Press Information Bureau,

India budget 2015-16

4. www.ibef.org

5. www.makeinindia.com