



SERVICES

The reformation era of the 1990s ushered in a significant expansion of the service sector in India, marking a pivotal moment in the nation's economic evolution. While the service sector had begun to show signs of growth in the mid-1980s, it wasn't until the 1990s, amidst a backdrop of economic reforms aimed at addressing pressing balance of payments concerns, that the sector truly took off.

Today, the service sector not only stands as the dominant force in India's GDP but also serves as a magnet for substantial foreign investment. It has made substantial contributions to exports and has emerged as a major source of employment generation. Encompassing a diverse array of activities spanning trade, hospitality, transportation, finance, real estate, and more, India's service sector is a multifaceted powerhouse.

Recognizing the immense potential of India's commercial services exports, the government is actively engaged in efforts to boost its share in the global services market, aiming for a substantial expansion in GDP. This commitment is reflected in various initiatives such as the Smart Cities, Swachh Bharat (Clean India), and Digital India programs, all geared towards bolstering the services sector.

In terms of economic indicators, the service sector boasts a commanding presence, contributing over 50% to India's GDP and registering a robust growth rate of 10.8% during the first half of 2021-22. Moreover, it serves as the primary driver of employment growth, witnessing a year-on-year increase of 5-7% in 2022.

From a global perspective, India's services industry is distinctive, leveraging unique skills and competitive advantages derived from knowledge-based services. Supported by a conducive policy environment and government initiatives, such as the ones mentioned earlier, the services sector is on a trajectory of strengthening and expansion. This growth not only holds immense potential for India's economy but also presents a multi-trillion-dollar opportunity with the capacity to drive symbiotic growth worldwide.



SERVICES

In terms of recent investments and developments, the services sector has been a magnet for foreign direct investment (FDI), with inflows totaling US\$ 106.70 billion between April 2000 and September 2023. Additionally, the sector continues to witness significant advancements, such as the exponential growth in telecommunication and broadband services, alongside the rapid expansion of innovative startups supported by initiatives like Startup India.

Looking ahead, the road for India's services sector appears promising, driven by both domestic and global factors. As trade barriers lower, FDI regulations ease, and deregulation progresses, the sector is poised for healthy growth in the coming years. The National Digital Health Blueprint, in particular, holds the potential to unlock substantial economic value for the healthcare industry, paving the way for a transformative decade ahead.

In conclusion, India's services sector stands as a beacon of growth and opportunity, poised to play a pivotal role in the nation's economic trajectory and global engagement in the years to come.

Today, the services sector not only holds a dominant position in India's GDP but has also become a magnet for substantial foreign investment, a key contributor to exports, and a significant generator of employment. Encompassing a wide spectrum of activities including trade, hospitality, transportation, finance, and real estate, India's services sector boasts a diverse portfolio. To bolster India's commercial services exports and elevate its share in the global services market from its current 3.3%, the government has undertaken substantial initiatives in this direction.

The services sector's contribution to India's GDP stands at over 50%, with a notable growth rate of 10.8% observed during the first half of 2021-22. Remarkably, it has emerged as the foremost employment generator, exhibiting a year-on-year growth rate of 5-7% in 2022. As per advance estimates, the services sector accounted for 57% of the total Gross Value Added (GVA) in FY24 (April-September), securing the top spot in FDI inflows as well, according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT).



SERVICES

India's services industry enjoys a unique position in the global landscape owing to its distinctive skills and competitive edge in knowledge-based services. Supported by a slew of government initiatives such as Smart Cities, Clean India, and Digital India, the sector continues to fortify its position. With June signaling positive demand trends, there has been a notable uptick in new business volumes and job creation.

Projections indicate that services exports are poised to reach a record high of US\$ 322.72 billion during FY23, with a compound annual growth rate of 26.79% compared to FY22. Meanwhile, India's service exports reached US\$ 163.94 billion, while imports stood at US\$ 88.89 billion during April-September 2023-24, resulting in a services trade surplus of US\$ 75.05 billion for the same period.

MARKET SIZE

The services sector remains the cornerstone of India's economic growth, contributing 53% to India's Gross Value Added (GVA) at current prices in FY22. Notably, the services sector's GVA witnessed a 6.5% increase in the third quarter (2022-23), serving as the primary driver of aggregate GVA growth, accounting for approximately 84% of the total GVA growth. Furthermore, the sector experienced robust performance in H2:2022-23, buoyed by contact-intensive services and building activities. India's services sector GVA grew YoY by 11.43% to Rs. 72.69 trillion (US\$ 871.59 billion) in FY24 (April-September), up from Rs. 68.81 trillion (US\$ 1,005.30 billion) in FY16. The IT and business services market is expected to reach US\$ 19.93 billion by 2025.

The PMI services index remained in the expansion zone in September 2023, at 61, driven by favorable demand conditions and new business gains. With a global service sector growth rate of 9.2%, India's sector accounts for 66% of the country's GDP and generates approximately 28% of the total employment. As per the First Advance Estimates, Gross Value Added (GVA) in the services sector is anticipated to grow at 9.1% in FY23, propelled by a 13.7% growth in the contact-intensive services sector.



SERVICES

RECENT INVESTMENTS/ DEVELOPMENTS

In recent times, the services sector has witnessed notable investments and developments:

The Indian services sector emerged as the largest recipient of FDI inflows worth US\$ 106.70 billion between April 2000 and September 2023. The service sector received US\$ 3.85 billion in FDI equity inflows in FY24 (April-September), as per the Ministry of Commerce and Industry. According to RBI's Scheduled Banks' Statement, deposits of all scheduled banks collectively surged by Rs. 1.75 lakh crore (US\$ 2,110.87 billion) as of December 1st, 2023. The hospital industry in India is anticipated to reach US\$ 132 billion by 2023, growing at a CAGR of 16%-17%. India's telephone subscriber base stood at 1,179.21 million as of August 2023, while the total broadband subscriber base reached 876.53 million. Notable investments have been recorded across various sectors, including healthcare, telecommunications, and information technology, indicating confidence in the sector's growth potential.

GOVERNMENT INITIATIVES

The Government of India has rolled out several initiatives to promote growth in the services sector across diverse domains such as healthcare, tourism, education, and information technology. Some of the key initiatives include:

Formulation of an 'Action Plan for Champion Sectors in Services' to provide focused attention to 12 identified Champion Services Sectors.
Launch of the National Digital Health Mission (NDHM) to revolutionize the healthcare industry by providing a unique health ID to every Indian.
Adoption of production-linked incentive (PLI) schemes to boost manufacturing in critical sectors like telecom and networking products.
Enhancement of FDI limits for insurance companies to attract more foreign investment into the sector.
Introduction of credit incentive programs to bolster healthcare infrastructure, among other sectors.



SERVICES

ROAD AHEAD

Looking ahead, both domestic and global factors are poised to influence the growth trajectory of India's services sector. Supported by digital technologies and institutional frameworks facilitated by the government, several service industries are expected to sustain double-digit growth rates. Ongoing reforms aimed at lowering trade barriers, easing FDI regulations, and deregulation are set to fuel further growth in the sector. The National Digital Health Blueprint holds the potential to unlock incremental economic value exceeding US\$ 200 billion for the healthcare industry in India over the next decade.

Projections suggest that India's digital economy will scale to US\$ 1 trillion by 2025, with the IT and business services sector expected to reach US\$ 14.3 billion by the end of 2023. The implementation of the Goods and Services Tax (GST) is anticipated to create a common national market, thereby reducing overall tax burdens and stimulating growth across service sectors. With such conducive conditions, India's services sector is well-positioned to sustain a robust growth trajectory in the coming years.

MergerScap Advisory is dedicated to providing comprehensive guidance and support to companies operating within the services sector who are embarking on mergers and acquisitions (M&A) endeavors. With a deep understanding of the nuances and complexities of the services industry, MergerScap Advisory offers tailored solutions to assist companies throughout the entire M&A process.

From initial strategic planning and target identification to due diligence, negotiations, and post-merger integration, MergerScap Advisory collaborates closely with clients to ensure seamless and successful transactions. Leveraging its expertise and network within the services sector, the advisory firm helps clients identify potential synergies, mitigate risks, and maximize value creation opportunities.

MergerScap Advisory aspires to be more than just a facilitator of deals; it aims to play a pivotal role in shaping the landscape of the services industry through strategic M&A initiatives. By fostering strategic partnerships, driving consolidation efforts, and facilitating transformative transactions,