

Business Strategy and Competitive Advantage Project

GOVERNMENT SPENDING AND ITS TRENDS IN THE DEFENCE AND BANKING SECTOR

Submitted to:

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India's Defence Sector

The defence budget was increased by a mere 7.81% to Rs2.95 trillion against last year's Rs2.74 trillion, belying expectations of a significant hike when the armed forces are facing growing challenge on the borders with both Pakistan and China.

The Government will develop two defence industrial production corridors and bring out an industry-friendly military production policy to promote defence manufacturing in India.

Out of total allocation of Rs295,511 crore for defence budget, only Rs99,947 crore has been set aside for capital outlay to purchase of new weapons, aircraft, warships and other military hardware. The allocation has been estimated at around 1.58% of the GDP and 12.10% of the total budget of Rs2,442,213 crore for 2018-19.

The government would also bring out an industry-friendly "defence production policy 2018" to promote domestic production by the public sector, private sector and MSMEs. A number of initiatives had been taken to develop and nurture India's intrinsic defence production capability to make the nation self-reliant on its defence needs. The minister said private investment in defence production had been opened up, including liberalising foreign direct investment.

Industry Analysis

Political & Policy

- Government support
- Induction of GAAR (General Anti Avoidance Rule)
- Political stability, regulatory effectiveness, rule of law and Sovereign debt
- Regional issues overpowering important country level Economic decisions
- Defence Production policy & Defence Procurement Policy
- Defence of the country is of highest priority

Economical

- Major economic reforms done in last 20 years
- One of the fastest growing economy in the world
- Increase in defence budget on a yearly average of 8%
- One of the highest saving fund
- Defence Offset Policy
- Recently DEFENCE sector opened for private players with Investment up to 100% and FDI 100%
- Largest importer of Arms
- Founding member of WTO

Social & Legal

- Constant threat from terrorists
- Many international disputes with neighbours
- Second largest army of the world
- Low cost labour
- Pool of second largest English speakers
- Large pool of skilled manpower required for Defence industry is available
- Better quipped legal system

Technological

- Availability of foundations for developing a robust industrial Base in the defence sector for R&D, MROs (Maintenance Repair and Operations) i.e. DRDO, HAL
- Indigenized development of Helicopters by (HAL) and Aircraft (LCA/TEJAS) is under progress
- Experience of producing robust Defence equipment at low cost
- Availability of talent suitable for Defence Industry
- Knowledge & Implementation of International Quality Standards

Disruption in the Sector

Demand-side

- India is the largest importer of defence equipment in the world right now. And with ever increasing demand of arm equipment's, 49% FDI allowed under automatic route and 100% FDI in defence allowed under the government route on a case-to-case basis.
- Tie ups with multinational firms to acquire and produce equipment are also taking place. For ex Tata Power and Lockheed Martin to make Javelin missile. Raytheon will also be a part of this JV
- As a part of Make in India initiative, Defence Acquisition Council approves arms purchase of worth Rs9,435 crore as 75% of the arms will be procured under the "buy and make category.
- Boeing Company (hereafter Boeing), which is vying strongly to supply the Indian Navy with 57 "multi-role carrier borne fighters" (MRCBF), has entered talks with Hindustan Aeronautics (HAL) to explore the co-manufacture of its F/A-18E/F Super Hornet fighter in India. Along with HAL, Boeing also intends to involve the Mahindra Group in building Super Hornets in India.

Cost of Acquisition of supply

Following are the major defence acquisition under capital procurements

- Navy Frigates- Rs 48,000 Crore
- Weapon Locating Radars- Rs 2000 Crore
- Mine Counter Measure Vessels – Rs 32,000 Crore
- Smerch Rockets- Rs 3,000 Crore
- BARAK STA Missiles- 875 Crore
- Akash Missile- Rs 4,793 Core
- Apache Helicopters 13,790 Crores
- MI-17 Helicopters- Rs 6,700 Crore
- Chinook Helicopter- Rs 8,000 Crore

Potential Disruption

- **Drones**- Drones are no more just for the supreme enthusiasts as these devices have penetrated the world of technology and a lot of businesses are looking forward to utilize the capacities of these machines to the best effects. They can be used for air-strike surveillance and bomb detection
- **Use of Bots**- Although a very expensive and a far-fetched thought, the use of bots to fight wars or use bots for carrying out military and defence operations seems a reality in near future.
- **Virtual Reality**- Virtual and Augmented Reality (VR/AR) provide rich opportunities for the Defence space. These tools allow for much better presentation and visualisation of information and intelligence in the field, and the possibility to turn traditional training sessions into more of an immersive gaming experience.

Recommendations

- With liberal policies and flow FDI, promote more JV between private and multinational firms such as TATA-Lockhead Martin
- Increase in defence budget. This year's budget of Rs 2.95 trillion crore was the lowest percentage of GDP budget for defence with only around 1.58%
- Use of technology such as drones and bots for the future of defence

BANKING VALUE CHAIN ANALYSIS

Primary Activities in the Banking industry value chain

Marketing: Just like other businesses marketing has a special significance for the banking industry too. Competition has grown intense in this sector and there are more international players in the market. As such marketing becomes important for banks to avoid the competitive pressures too. Attracting and retaining customers requires more focus on marketing. Moreover, segmentation is important for banking and insurance companies as all the consumer segments cannot be targeted in the same manner. The banks and insurance companies target different customer segments with suitable plans and services. Brand image is also an important concern for the banking brands. Most often the brand image is influenced by the service quality. Still, marketing plays an important role in raising brand awareness and it is why banking companies spend so much on advertising and other aspects of marketing. Visibility remains an important concern if brands are to expand their customer base. It is also why banks focus heavily on marketing of their brand and its services. Post-recession growth in the developing countries has remained slow and therefore attracting and retaining customers was somewhat difficult for the brands. So, in this period they were mainly forced to rely on marketing to retain their customer base. The marketing activities in the banking industry are mainly made up of sales support, branding and advertising activities. However, its overall aim is to maximize profits by driving sales higher.

Sales: Sales is also an important function in the banking value chain which is because of the importance of sales for banks. The banking scenario is highly competitive and apart from entering new markets and finding new customers, it is important that the banks retain their existing customers. The sales function serves a very important role at this point where it does not just sell but also works at customer engagement and retention. Another important thing about this function is that it is the main connecting point between the bank and its customers. This function's performance also has an important effect on the bank's personality and image.

Product: The products offered by the banks are also an important part of their value chain. From loans to deposits, banks provide several kinds of products and services. However, in a banking context, rather than just having a great product portfolio, it becomes impertinent for the banks to provide great service. Banks provide a series of products and services, some of which are tangible and several intangible. From deposits and loans to credit cards and foreign exchange services, banks provide plethora of products and services. However, in the banking world, the words products and services generally mean the same thing.

Transactions: Another primary activity down the value chain of the banking industry is transaction. Technology has made this task easier and millions of transactions are carried out every day throughout the world online and offline. From ATMs to online payments, simply millions exchange hands in the form of transactions. Variety of payment clearance systems and settlement systems are used by banks globally. Some of them are ACH networks, ATMs, bankcard networks and check clearing systems. Another method of transaction prevalent in the

banking sector is the internet-based bill payment system. The debit and credit cards have remained at the forefront of this growth in electronic payments.

Supporting activities in the banking value chain are as follows:

Technology: The role of technology has grown increasingly important in the banking world. Specifically, several of the most important developments have taken place during the last two to three decades. Technology can also be a source of competitive advantage for the banks since it helps deliver better services than the competitors. Technology has made banking easier and also improved the bank's productivity. Several of the services can be availed of online and customers do not always need to go to the branch to receive their services.

Human Resources: Despite the growing role of technology human resources continue to play an important role in the value chain of the banking industry. Their importance in the banking industry is higher because trust plays an important role in this environment too.

Infrastructure: Infrastructure also plays a key role in the banking industry. From physical infrastructure to technology and particularly IT, infrastructure plays an important role in the growth and functioning of the banks. Due to increased competition, the importance of IT in banking industry has also grown.

Risk Management guidelines: At last banking is all about risk taking. Several of the inherent rewards in banking are born of risks. Still, it is essential for the banks to properly manage their risks. It is because neither poorly managed nor excessively managed risks are good for the health of the banks. Risk management guidelines are therefore an important aspect of the banking value chain. It helps the bank managers to manage their risks and reduce them as required

Banking Sector in India

- During FY06–17, deposits grew at a CAGR of 12.03 per cent and reached 1.54 trillion by FY17.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Access to banking system has also improved over the years due to persistent government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan regions.
- At the same time India's banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years.
- Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY), have also increased. As on November 9, 2016, US\$ 6,971.68 million were deposited, while 255.1 million accounts were opened

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII).

In August 2017, Global rating agency Moody's announced that its outlook for the Indian banking system was stable. In November 2017, Global rating agency Moody's upgraded four Indian banks from Baa3 to Baa2.

Market Size

The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones.

As the Reserve Bank of India (RBI) allows more features such as unlimited fund transfers between wallets and bank accounts, mobile wallets are expected to become strong players in the financial ecosystem.

The unorganized retail sector in India has huge untapped potential for adopting digital mode of payments, as 63 per cent of the retailers are interested in using digital payments like mobile and card payments, as per a report by Centre for Digital Financial Inclusion (CDFI).

ICRA estimates that credit growth in India's banking sector would be at 7-8 per cent in FY 2017-18.

Investments/developments

Key investments and developments in India's banking industry include:

- ❖ The bank recapitalization plan by Government of India is expected to push credit growth in the country to 15 per cent and as a result help the GDP grow by 7 per cent in FY19.
- ❖ Public sector banks are lining up to raise funds via qualified institutional placements (QIP), backed by better investor sentiment after the Government of India's bank recapitalization plan and an upgrade in India's sovereign rating by Moody's Investor Service.
- ❖ The RBI amends statutes thereby allowing lenders to invest in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) not exceeding 10 per cent of the unit capital of such instruments.

Government Initiatives

- ☞ The Government of India is planning to introduce a two percentage point discount in the Goods and Services Tax (GST) on business-to-consumer (B2C) transactions made via digital payments.
- ☞ A new portal named 'Udyami Mitra' has been launched by the Small Industries Development Bank of India (SIDBI) with the aim of improving credit availability to Micro, Small and Medium Enterprises' (MSMEs) in the country.
- ☞ Mr Arun Jaitley, Minister of Finance, Government of India, introduced 'The Banking Regulation (Amendment) Bill, 2017', which will replace the Banking Regulation (Amendment) Ordinance, 2017, to allow the Reserve Bank of India (RBI) to guide banks for resolving the problems of stressed assets.

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

A two-year plan to strengthen the public sector banks through reforms and capital infusion of Rs 2.11 lakh crore (US\$ 32.5 billion), has been unveiled by the Government of India that will enable these banks to play a much larger role in the financial system and give a boost to the MSME sector. In this regard, the Lok Sabha has approved recapitalization bonds worth Rs 80,000 crore (US\$ 12.62 billion) for public sector banks, which will be accompanied by a series of reforms, according to Mr Arun Jaitley, Minister of Finance, Government of India.

The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed by Rajya Sabha and is expected to strengthen the banking sector.

Disruptions

Through 2017, we have seen technological advancements, new regulatory policies, and ever demanding customers reshape the banking industry's landscape. For some time now, incumbents of the financial sector have been under pressure to address the demands of the well-informed millennial customer while staying relevant and profitable at the same time. Gone are the days when banks viewed FinTech companies as disruptors; today, they are partners that are pairing up to take on the challenges of a digital first world.

The Indian FinTech scene comes with an added extra; new initiatives by the government to boost financial inclusion and promote a cashless society have opened windows of opportunities for FinTech companies where first mover advantages are tremendous. As a result of the government's initiatives, there has been a sharp increase in consumer adoption of FinTech. EY, one of the big four consulting firms, in their FinTech Adoption Index for 2017 states that 52% of India's digitally active consumers are adopting FinTech; a figure that is only second to China's 69% which is the global highest.

In these times of uncertainty, only one thing is certain – change. Below are some of the FinTech trends that could become major game changers in 2018.

- ☞ **Next-Gen Chatbots:** 2017 saw several major banks in India such as HDFC, ICICI, and YES Bank, amongst others, adopting chatbots for supporting customer interactions. Currently, these chatbots are said to possess the intelligence of a 2-3-year old. However, as machines do not suffer from physical or learning fatigue, the evolution of a chatbot could be best described as more exponential than linear. So, in 2018, we could expect more chatbots to be deployed with improved quality of interactions, speed of responses, and accuracy in decision making.
- ☞ **Machine Learning:** Banks in 2018 will start adopting new regression models powered by Machine Learning to deliver better offerings. The brightest data scientists will be involved in this delivery and they will be aided by insights into customer behavior, expectations and responses. These insights will be gained by adopting big data tools and will enable banks to predict customer needs and meet them in a customized manner.
- ☞ **Blockchain:** As NITI Aayog is creating 'IndiaChain', India's largest blockchain network, to reduce fraud, speed up contract enforcement, and increase transparency, it's clear that blockchain is no more the elephant in the room that no one is willing to address. Several major players have already begun pilot projects to measure the feasibility of adopting blockchain into their ecosystems. As Blockchain is virtually unhackable due to time stamps that mark a data entry in a distributed ledger, banks will explore options to leverage the power of blockchain to transform backend operations.
- ☞ **Smart Workflows:** With the help of embedded AI aiding the backend operations of banks, they will be able to quickly identify bottlenecks in their operation workflows and bring in significant improvements in process efficiencies.
- ☞ **Automated Personalization:** Banks will leverage the power of FinTech to personalize the offerings that users see on all their devices. Banks will change the appearance of

apps based on actual usage. This will make users feel more connected with banks and it will also set the stage for efficient self-service. There will also be advancements in providing pre-filled data to users based on their previous interaction history, preferences and banking habits.

- ☞ **Open Banking:** With initiatives such as UPI and AEPS, banking will become more 'open' in 2018. With more APIs exposed by banks, the process of carrying out payments and other banking transactions would be greatly quickened as well as simplified.
- ☞ **Physical and Digital Merger:** FinTech has made it possible for banks to reach customers who are data rich but credit poor. In a country like India, where so many people still don't have access to banking facilities, FinTech works better by offering a 'phygital' (a combination of physical and digital) experience. The objective here is effective self-service that enables customers to walk into a branch and make use of basic automated services. Canara Bank has successfully implemented such a system with CANDI, and more banks will follow suit in 2018 to remove the boundaries between physical and digital banking.
- ☞ **Extended Digital Coverage:** Until now, most digital banking solutions have been primarily targeted at retail customers. In 2018, banks will extend digital coverage to other areas such as corporate banking and SME banking and also transform their internal operations to derive the best out of digital transformation initiatives.
- ☞ **Agile Architecture:** Digital solutions are here to stay and as timelines shrink, budgets tighten, and lifecycles shorten, banks will follow new architecture paradigms such as micro apps, micro services and more. These will enable banks to introduce changes significantly faster with minimal impact on existing deployments and services.
- ☞ **Security:** Data is the new oil and with so much data being generated every second, hackers are constantly devising ways to acquire it. As most cyber security measures up till now have been reactive rather than preventive in nature, banks will now begin to adopt additional measures to ensure data security at all stages using a combination of encryption, OTPs, biometric authentication and more.

The financial services sector is in the process of undergoing a massive transformation. The threat to banks' relevance is due to changing customer demands, increased regulatory scrutiny and advent of disruptive technologies. In line with their global counterparts, Indian banks are also facing profitability pressures. Deterioration in asset quality and capitalization challenges continues to plague many banks.

As traditional banking models are facing pressure, digitization provides the greatest opportunity to reinvent operations. Technology-enabled trends, such as cloud computing, analytics, robotic process automation (RPA), block-chain, the internet of things (IoT) and artificial intelligence will individually as well as collectively drive this transformation process.

The key areas that banks need to focus on include:

- **Disruptions in the payments landscape:** The phenomenal growth in digital payments has mainly been driven by the digital revolution and entry of disruptive FinTech players. Digital payments are rapidly growing in India as the country is evolving from a traditionally cash-dependent economy to a cashless one. P2P payments, real-time payments, foreign exchange and mobile/ electronic wallets are the key elements in the payments value chain witnessing fast-paced developments. Banks are increasing investments in payments infrastructure, and blockchain is expected to be a game-changer.
- **Building stronger customer connects and leaner organizations through analytics:** Analytics has the potential to redefine decision-making in the banking industry by unlocking the hidden value in internal/external data. Analytics can be leveraged by banks to build an effective customer strategy by developing a 360-degree customer view, creating leaner organizational structures by optimizing distribution network and rationalizing product portfolios.
- **Tackling cyber risks in the digital age:** The cyber threat landscape is evolving with the emergence of new risks and increased sophistication of cyber criminals. With the risk landscape eroding organizational perimeters, the cyber security agenda should ideally cover the bank's entire ecosystem.

Going forward, the banking landscape will face increased competition from not only traditional competitors including such as other banks and new-age FinTechs but also large technology and telecom firms driving innovations in the financial access domain as the entire-ecosystem shifts from a product-centric to a customer-centric approach.

Porter's Five Forces Model – Defence

1. Bargaining power of supplier: low to high

Depending on the level of sophistication of the military hardware and technology, the bargaining power of suppliers ranges from low to high. The lower end comprising of components and subassemblies has a market that is highly fragmented, resulting in lower bargaining power. In this basic sector, there are about 5,000 Indian suppliers which take care of almost 25% of the components and subassemblies requirements. Most of these companies gain subcontracted work from large suppliers. The remaining supplies are sourced from foreign companies. The defense offset policy along with the Make in India initiative, which is designed to encourage domestic production, is expected to generate huge opportunity for the small- and medium-sized enterprises (SMEs). With entry barriers gone to a certain extent, we can expect a higher number of private companies to enter the industry. This is likely to further reduce the bargaining power of suppliers.

The mid to higher tier of the defense supply value chain has relatively fewer companies, giving them a high bargaining power. Niche and sophisticated military hardware such as aircraft, tanks, frigates, submarines, and missile systems command even higher bargaining power.

By importing nearly USD 5.5 Billion worth of military hardware, India has emerged as the largest arms importer in the globe accounting nearly 15% of such imports internationally. Therefore, self-reliance to sustain the needs of Indian defence sector is pivotal for both strategic and economic reasons.

Allowing 100 per cent FDI in **defense** marks an important step in the direction of defense manufacturing under the 'Make in India' initiative. The government no more requires companies to have 'state of the art' technology to apply for FDI relaxation above 49 per cent. This has further helped in attracting foreign OEMs and encouraged tie-ups between foreign and local companies under the 'Make in India' campaign where the Indian partner will remain the majority stakeholder. The expected increase in the number of companies is expected to lower on the bargaining power of suppliers.

2. Bargaining power of buyer: high

Being the sole buyer of military equipment in India, The Ministry of Defense enjoys a monopoly on the industry. However, India's low capability of manufacturing state-of-the-art warfare equipment means that the country has to rely heavily on imports. Nevertheless, India's foreign policy and existing strategic alliances possess the ability to influence defense deals, thus gifting the government with a high bargaining power.

3. Barrier to entry: medium to high

The threat of new entrants to the Indian defence industry varies from medium to high, depending on the dynamics of the specific market division. At the basic technology end, there is a medium entry barrier in terms of financial commitment, technological expertise and even regulations. However, in the more advanced tier, the complexity of the military hardware and technology in the division means that the entry barrier ranges from medium to high. Since raising the FDI limit from 26% to 49%, foreign OEMs have been actively seeking to enter the market. The new opportunities given by MII to the domestic companies coupled with their lack of technological expertise to enter the sophisticated product divisions, has led them to seek joint ventures with foreign companies.

India has always favoured public sector over the private players in the defense production space. But, the increasing demand for military equipment bundled with government's vision to make India a leader in global manufacturing is likely to change that and provide new opportunities for private players to enter the space. International origin firms with expertise in defense have also found a reason to expand their business within the Indian periphery. International mammoths like Dassault , Rafael , Airbus are set to forge JVs with the Indian players in order to set up strong manufacturing capabilities and R&D bases. SMEs too are projected to benefitted.

MIID has provided a level playing field to both the domestic public-sector players and international giants and has opened gates for the domestic private players as well.

4. Intensity of rivalry: high

The intensity of rivalry in the Indian defense sector is high owing to the following factors:

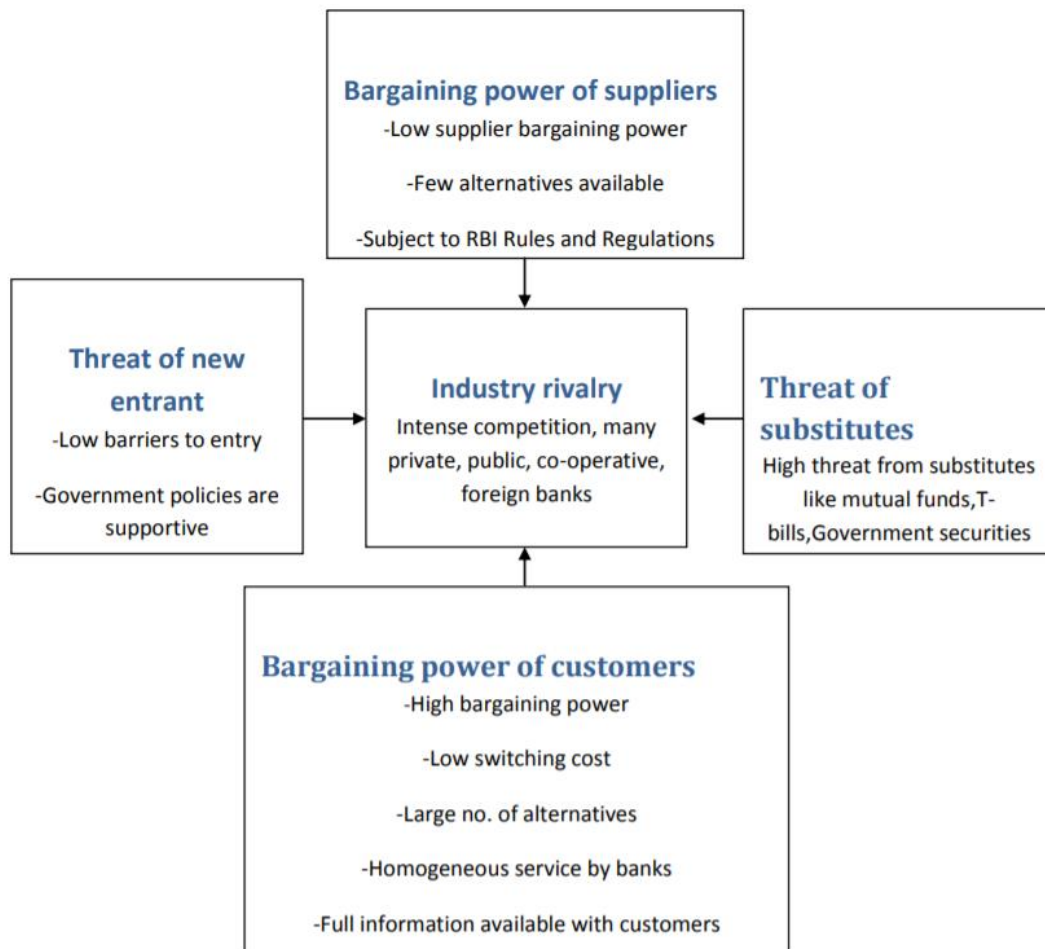
- Too many firms chasing a very limited number of defense deals
- The low level of product differentiation, especially in the low and mid defense product markets
- Due to the limited presence of domestic companies and protected areas for state-owned defense establishments, there is a high rivalry between foreign players.

Bharat Forge, Reliance Industries, the Tata group, Ashok Leyland, Larsen & Toubro, the Godrej Group and the Mahindra Group are fairly well entrenched in the business. There is a growing number of new entrants like Reliance – Dassault, Adani - Saab from the domestic private sector, which are seeking an increased share of the government's defense spending. With this, intensity of rivalry is set to increase.

5. Threat of substitution: medium to high

With a wide range of products available, the substitution threat within any individual category is high. The Ministry of Defense can select from several variants of defence equipment such as RSK's MiG-35, Boeing's twin-engine F/A-18 Super Hornet, and Lockheed Martin's F-16 fighter, Eurofighter's Typhoon, Dassault's Rafale and Saab's Gripen,. Also, with the Indian defense budget set to increase, the threat of substitution will increase too, as the armed forces will opt for more sophisticated military hardware across different types of products. These factors lead to a medium to high threat of product substitution in the Indian defense industry.

Five Force Model – Banking Sector



1. Bargaining power of supplier: low

Suppliers of banks are depositors - people who have excess money and want to keep that money secure and get interest on it. In banking industry suppliers have low bargaining power.

Following are the reasons for low bargaining power of suppliers:

- Nature of suppliers: Suppliers of banks are people who prefer low risk and safety for their money. Bank appears to them as the best place to deposit their surplus money. They consider banks to be safer and better than all other alternatives which lowers their bargaining power.
- Few alternatives: Being risk evaders and wanting regular interest, they have few alternatives available like Treasury bills and government bonds thus lower bargaining power.
- RBI Rules and Regulations: RBI takes all decisions with respect to interest rates. This reduces suppliers bargaining power.
- Suppliers are not concentrated: There are no concentrated suppliers. Each has a negligible portion to offer.
- Forward integration: Only educated people can forwardly integrate like in mutual funds. Most suppliers are unaware about these alternatives.

2. Bargaining power of buyer: high

Customers or Buyers of the banks are those who take loans, advances and use services of banks.

Customers have high bargaining power because of the following reasons –

- Large number of alternatives: There are so many banks and the same pool of customers. Then there are many non-financial institutions, foreign banks, private banks, cooperative banks and development banks together with the specialized financial companies which are all becoming increasingly preferential for customers.
- Low switching cost: Cost of switching from one bank to another is low. Some banks even allow zero balance account and other types of facilities. As a result consumers' loyalties are harder to retain.
- Undifferentiated service: Services are generally similar. Therefore, customers cannot be charged for differentiation.
- Full information about the market: Customers have detailed information about the market thanks to Internet. So, banks have to be more competitive and customer friendly to serve them.

3. Barrier to entry: Low

Barriers to entry in banking industry no longer exist.

- A number of private and foreign banks are entering in the market along with services, such as internet bill payment, on which entrepreneurs can capitalize.
- Product differentiation is low: Thus, every bank strives to survive in highly competitive market. So, we see intense competition and mergers and acquisitions.
- Government policies are supportive to start a new bank: Fewer statutory requirements needed to start a new venture.

4. Intensity of rivalry: high

There are so many private, public, co-operative and non-financial institutions operating in the industry, fighting for same customers. Newer and newer private and foreign firms are coming up thanks to government liberalization and globalization policy.

The factors that have contributed to increase in rivalry are:

- Number of competitors: So many banks and non-financial institutions fighting for the same pool of customers.
- High market growth rate: India is seen as one of the biggest market place and growth rate in Indian banking industry is also very high. This has ignited the competition.
- Low switching cost: Customers can easily switch from one bank to another bank and very little loyalty exists.
- Undifferentiated services: All the banks try to copy each other's services and technology increasing the level of competition.
- Low government regulations: Sector is open for everybody.

5. Threat of substitution: high

Competition from the non-banking financial sector: Banks may offer a suite of services but be it insurance, mutual funds or fixed income securities, chances are there is a non-banking financial services company that can offer similar services. Thus, the threat of substitute products is very high. These include credit unions and investment houses, mutual funds, stocks (shares), government securities, debentures, gold, real estate etc. so, there is a high threat from substitutes.

Predictions for Government Expenditure by 2035 compared to 2017-18

1. The total government expenditure increased from ₹20,144 billion (for the financial year, 2016-17) to ₹21,467 billion (for the financial year 2017-18) – an increase of almost ₹1.32 trillion.

Spending has increased by 6.57% from 2016-17 to 2017-18. If we consider it to increase by 6.57% CAGR, it would reach to ₹63.33 trillion. But it is also expected that Indian Government spending may come down due to increased investment opportunities created through various projects.

2. The government has allotted ₹480 billion to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the highest-ever allocation to the scheme.
3. The subsidy bill also rose by 3% to ₹2.4 trillion. And with this rate in next 17 years, it will be around ₹4 trillion.
4. The government is going to set up a dairy-processing fund of ₹80 billion over three years.
5. Instead of privatising the public banks, the government has infused ₹2.1 trillion in order to improve the health of public sector banks (PSBs).
6. Loan waivers worth ₹360 billion in Uttar Pradesh and ₹300 billion in Maharashtra are a few other examples.
7. As per a recent RTI, the central government has spent ₹37.5 billion on ads. Other governments seem to have been no different. The AAP government, for instance, had set aside ₹5.26 billion for publicity alone.

All Figures In Crores				
For Year	GFCE	Total Government Expenditure	Total GDP	Expenditure as a % of GDP
1997-98	1,82,245	5,54,646	15,72,394	35%
2017-18	19,76,644	63,60,233	1,66,27,585	38%
2034-35 (projected)	1,53,17,333	1,14,14,554.66	12,35,19,202	41.12%

PREDICTIONS

Current Defence Budget	Rs. 2.95 Trillion
Expected CAGR	9%
Exp. Budget in 2035	Rs. 13.92 Trillion

The Y-O-Y growth rate of the government spending in the bracket of 30-39% spending as a percentage of total GDP is taken as 3.5%. Hence considering the above figures, Indian government spending by 2034-35 would be about ₹114.15 trillion. Also, considering prediction regarding India's growth rate in the coming 20 years which is expected to be nearly 8%, the GDP of India in 2034-35 would be around ₹615.224 trillion.

Hence the Government spending as a percentage of GDP would be 18.55%. And India would come in the major league of countries where government can openly invest and boost the growth rate.

The defence outlay works out to just about 1.58 per cent of the GDP for 2018-19, the lowest such figure since the 1962 war with China wherein it was 1.65 per cent. Current increase in the budget stands at 7.81%. But with the introduction of liberal policies and flow FDI in the defence sector, experts suggest that the defence sector may rise by 10.5%, Hence, not being too optimistic, we have assumed the average and the expected CAGR of 9% and expect the defence budget to rise to Rs 13.92 Trillion

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