

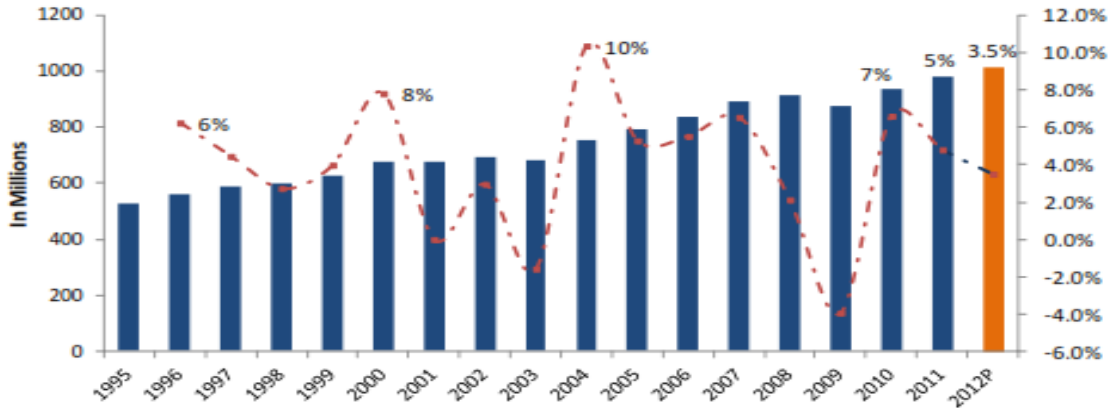
CHAPTER -27

HOTELS

27.1 Tourism Scenario: Global economic crisis during 2008 affected the tourism industry world wide. The same year added to the downturn of hotel industry in India on the account of increased safety concerns, triggered by the Mumbai terror attack at Hotel Taj. Globally weak macroeconomic scenario, the European sovereign debt crisis, geo-political turmoil in the Arab countries, high interest rates, inflation coupled with muted domestic corporate performance have sapped the hotel industry. Subsequently , the Indian hospitality industry, somewhat recovered with domestic traveller spearheading its growth. The improving demographics, rising affluence and spending propensity of Indians along with current under penetration throw up significant growth opportunity for Indian hotel industry in the long run . The optimism about the Indian growth story and potential demand led to spate of new property announcements by Indian and international hospitality majors – keen to increase their presence in the Indian market. However, with the economic slowdown, supply has outpaced demand, suppressing pricing power and reducing occupancies. Law and order concerns, specially issues relating to women safety and infrastructure issues have somewhat impacted the Foreign Tourist Arrivals in India, though the growth in same during 2013 was more compared to 2012. Overall, financial year 2013/14 saw a marginal improvement in nationwide occupancies, thus breaking a three-year downward trend, as per HVS Survey . HVS trend reports predict early upswing for the hotel industry due to improved business climate on the count of political and economic stability after the assumption of new government. Corporate travellers are the key demand drivers for hotels as they account for around 60% of guests, according to the Federation of Hotel & Restaurant Associations of India's survey of 2012-2013. In the recent past growth in both business travellers and foreign tourists has been muted.

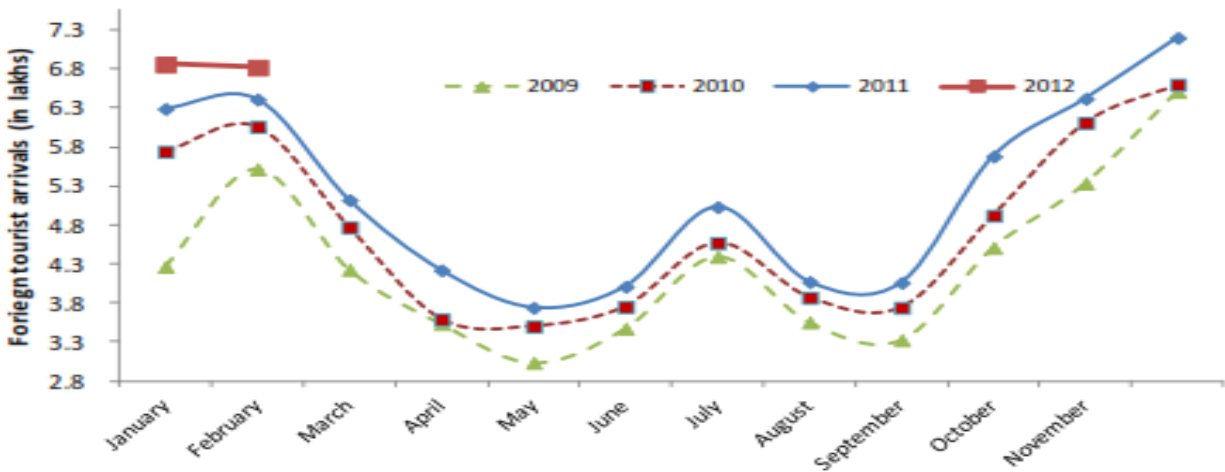
27.2 Footfalls are crucial to hotel industry since they affect revenue realized and occupancy rates reflected by indicators like ARR (Average Revenue Realizations), AOR(Average Occupancy Rates) , RevPAR (Revenue per available room) etc . Hence increased flow of tourists strengthening the demand side is always a good news for the industry as it increases their pricing capability. Year 2011 saw some developments in this regard with tourists flow picking up worldwide (more rapidly in India) though the revenue realizations of the hotel industry remained constrained. Despite the upheavals, foreign tourist arrivals (FTA) to India grew by 8.9% to about 63 lakh tourists while international tourist arrivals grew by 4.4% to 980 million travellers during 2011. Growth rate in FTA's in case of India almost halved to 4.3 % during 2012 (nearly equalling the world average i.e 4%) and somewhat improved to about 6 % during 2013 .Efforts like visa on arrival and e-visa applications aim to boost inbound tourism levels were initiated recently. But revenue realizations has remained constrained with average occupancy being range bound in past few years.

International Tourist Arrivals and Growth Rates



Source: UNWTO and ICRA Estimates

Foreign Tourist Arrivals in India



Source: Ministry of Tourism, Government of India, and ICRA Estimates

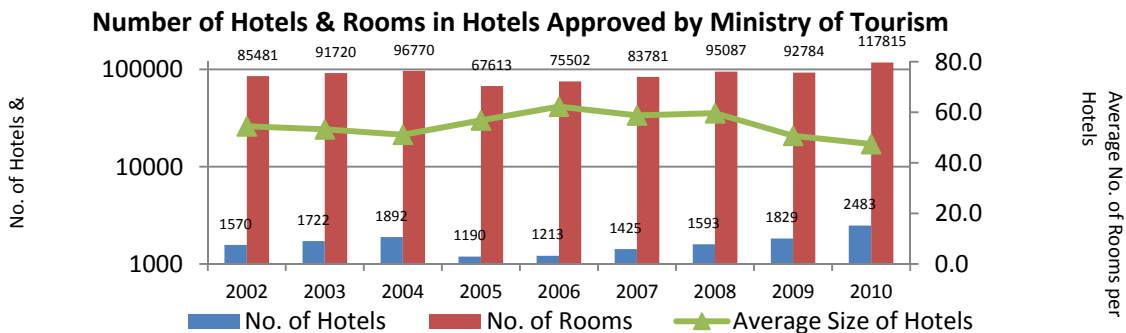
27.3 Domestic demand in case of India continues to be higher. Intra regional travel is expected to have been supported by a weaker Rupee making outbound travel costlier. Additionally this is expected to have driven higher inbound traffic into the country. Despite incremental room inventory in several markets, occupancies have remained range bound for several years in a row and the average rates have declined.

27.4 **Supply Pipeline:** Supply side continues to be strong. Over the past few years a number of projects have materialised though quite a few are in the pipeline. Some argue that the rapid increase in supply has affected the Occupancy (AORs) & Revenue Realizations (ARRs) & RevPARs. With more than a billion domestic tourist visits and

about 7 million FTAs, India, after China, is considered one of the most lucrative hotel markets in the world and has the second largest construction pipeline in Asia. Large Global brands, consequently, remain committed to India. As per HVS survey, on a nationwide basis, branded and/or organized supply grew at a CAGR of 17.8% over the past five years. Demand for these rooms grew at 17.6% for the same period. Resultantly, India-wide occupancies moved from 59.3% in 2011/12 to 57.8% in 2012/13 and have closed at 58.9% in 2013/14. In 2013/14, branded hotel supply surpassed the 100,000 rooms milestone. Nationwide existing supply recorded 103,855 rooms as of March 31, 2014, an increase of around 10.2% (9,600 branded rooms) over the previous year. Supply – in the years going forward – is expected to grow by under 10% in 2014, about 12% in 2015 and approximately 11% in 2016.



27.5 As per information maintained by Ministry of Tourism, number of rooms increased by 27 % during 2010 compared to the previous year whereas the increase was about 38 % compared to 2002. The increase in number of hotels was more at 36% (2010 over 2009) and 58% (2010 over -2002). The total number of approved hotels during 2012 & 2013 was 1376 and 1257 respectively with about 76567 and 75353 rooms.



Note : Since the data pertains to approved hotels , which is voluntary, the same may not provide much meaningful insight into the dynamics of Indian Tourism Industry on the whole.

27.6 Financial Performance of Hotel Industry: As per WTTC, revenues gained from domestic tourism in India rose by 5.1% in 2013 and was expected to increase by 8.2% in 2014. The amount that international visitors spent in India rose by 6.2% in 2013 but was forecast to slow to a 2.9 % growth rate in 2014.

27.7 Hotel Industry is characterized by seasonality with industry peaking during the second half of the fiscal. The muted RevPAR (revenue per available room) growth has been on account of subdued ARR's, while occupancies remained stable despite the incremental supply in several markets. As per HVS survey report, average Room Rates, went down from Rs 6,032 in 2011-12 to Rs 5,773 in 2012-13 and are at Rs 5,531 for the period of April 1, 2013 to March 31, 2014

27.8 HVS Survey reports that due to market volatility, hotels across positioning and price points have dropped rates in a bid to gain business over the last two to three years and 'rate wars' have led to some surprising decisions being made by respectable and globally recognised brands. In 2013/14, the overall weighted occupancy across categories (58.9%) increased by 1.9% over 2012/13; however, average rate (Rs 5,531) dropped by 4.3% over the previous year resulting in a decline in RevPAR by 2.5% to Rs 3,260 in the same time period. Moreover, hotels across all categories witnessed a year-on-year increase in weighted occupancy, except for the four-star segment, which registered a marginal decline of 0.1%. On the other hand, weighted average rate across all categories exhibited a decline apart from the two-star segment, which grew by 7.7%.

27.9 Consequently, the nationwide RevPAR decreased in 2013/14 with the four-star segment registering the maximum decline (5.9%), followed by the five-star deluxe segment (1.7%) and three-star segment (1.5%). This downswing could be attributed to these three categories adding close to 65% of the new supply in 2013/14. After registering a drop of approximately 2% in 2012/13 over 2011/12, the two-star category registered the highest RevPAR growth in 2013/14 (12.7% over the previous year), owing to roundly 8% annual increase in average rates, highlighting the acceptance of branded economy and budget hotels across the country.

27.10 Further, it is expected that hotel companies will continue to face muted revenue growth, stagnated profitability and elevated credit risk in 2014-15 driven by lower demand growth and supply-side pressures.

Distribution of Hotels (Approved by Ministry of Tourism) :

27.11 **Categories of Hotels:** In general, to be called a hotel, an establishment must

have minimum of six letting bedrooms, at least three of which must have attached (ensuite) private bathroom facilities. Although hotels are classified into 'Star' categories (1-Star to 5 Star), there is no standard method of assigning these rating, and compliance with customary requirements of voluntary. In India there were 1257 approved hotels as on 31st Dec 2013 with about 75 thousand rooms.

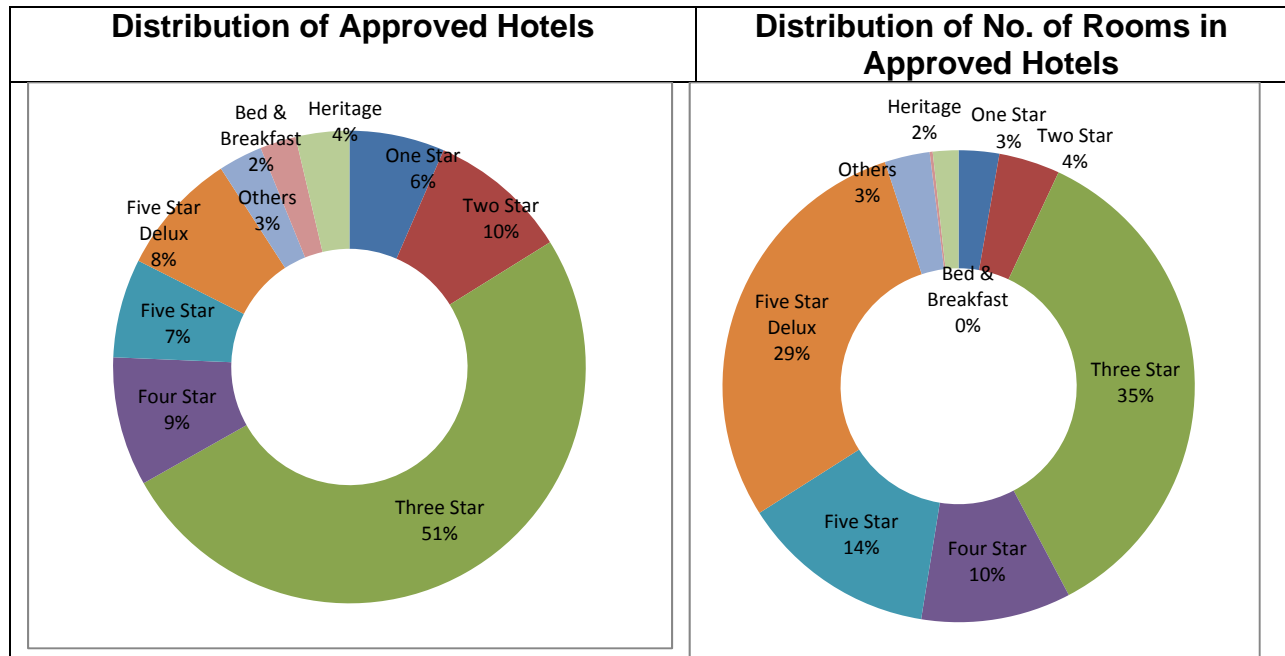
27.12 One Starred hotels provide a limited range of amenities and services, but adhere to a high standard of facility-wide cleanliness whereas two-Starred hotels generally provide good accommodation and better equipped bedrooms, each with a telephone and attached private bathroom. There were about 82 One Star & 121 two star government approved hotels with about 2,086 and 3,154 rooms respectively. Their share in total number of approved hotels was 6 and 10 % respectively whereas the share in total number of rooms was 3 & 4 % respectively.

27.13 Three-Star hotels usually have more spacious rooms and add high class decoration and furnishing and color TV. They also offer one is more bars or lounges. With more than half hotels in the category, three star hotels occupied the largest share (51%) and accounted for more than a third (35%) in terms of total rooms.

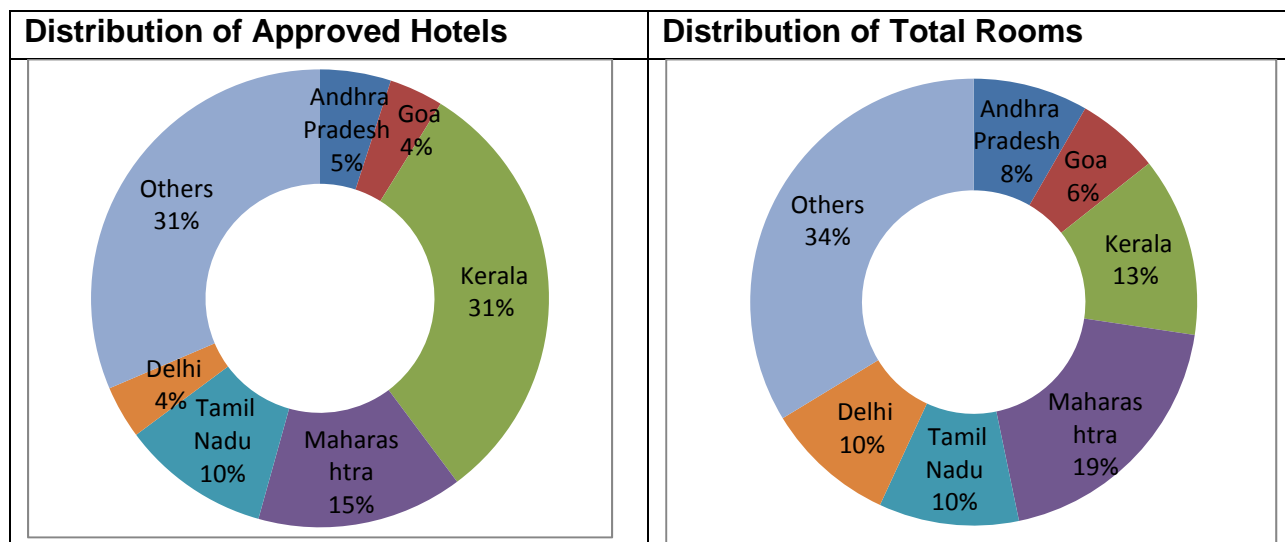
27.14 Four Star hotels are much more comfortable and larger. It provides excellent cuisine (table d'hôte and a lacerate), room service, and other amenities. Four star hotels comprised 9 % of the total approved hotels and about 10% of total rooms in various categories.

27.15 Five-Star hotel offers most luxurious premises, widest range of guest services, as well as swimming pool and sport and exercise facilities. They (including Five Star Deluxe Hotels, 85 five star hotels and 106 five star deluxe hotels) comprised about 15% of approved hotels and about 42 % (nearly 32,000 rooms) of total number of rooms in India.

27.16 Bed & Breakfast (B&B) Establishments usually smaller size and family run home based facilities have also grown rapidly with the growth in budget conscious traveler. Thirty One such establishments with 158 rooms featured in the list approved by Ministry of Tourism.



27.17 **State wise Distribution:** As in 31st Dec 2013, 3 major states (having at least 100 hotels), comprised about 56 % of all approved hotels in India. Kerala led the tally of no. of approved hotels with 389 followed by Maharashtra with 183 and Tamil Nadu with 132 hotels. In terms of rooms, top five states (i.e. having highest No. of rooms) accounted for about 60 % out of the total of 75,353 rooms in different categories of hotels. Maharashtra and Kerala alone accounted for about a third (32 %) of total number of government approved hotel rooms.



27.18 **Government Initiatives:** Ministry of Tourism has taken several steps to encourage tourism in India. Increase in tourism infrastructure has been high on its agenda.

27.19 **Foreign Direct Investment :** The Hotel and Tourism related industry has been declared as high priority industry and Foreign Direct Investment(FDI) of up to 100%, under the automatic route is permitted in 'Hotels & Tourism Sector', subject to applicable laws/regulations, security and other conditions. The sector, between April 2000 and June 2012, has seen a total investment of INR 15,867.72 Crores, which accounts for 1.97% of the total FDI inflows into the country.

27.20 India, as per UNCTAD, continues to be the second most favourable destination for investment after China. The plan of **Five Year Tax Holiday** is already in place for 2, 3 and 4 Star hotels that are established in specified districts declared as 'World Heritage Sites' by UNESCO

27.21 **Visa on Arrival :** Government of India has launched the **Tourist Visa on Arrival (TVOA) Scheme**. Initially, in January 2010 this Scheme was introduced for citizens of five countries, Finland, Japan, Luxembourg, New Zealand and Singapore. In January 2011, the TVOA Scheme was extended to citizens of six more countries, viz. Cambodia, Indonesia, Vietnam, Philippines, Laos & Myanmar. List of countries to which visa on arrival facility is being extended has increased over the years. Recently the government of India has extended visa-on-arrival scheme for South Korea for which ministry has started receiving data w.e.f 15th April, 2014. Further inclusion of other countries is expected to maintain the growth of the number of FTAs in to the country, allowing the country to become a major tourist destination. The number of VoAs issued under the Scheme, during January- October 2014 were Japan (4,373), South Korea (4,243), New Zealand (3,263), Singapore (3,027), the Philippines (2,996), Indonesia (2,450), Finland (865), Myanmar (327), Vietnam (216), Cambodia (109), Luxembourg (108) and Laos (18).

27.22 To promote the Hotel Industry, the Government approved the setting up of a '**Hospitality Development and Promotion Board (HDPB)**' for hotel projects. It will address the constraints faced by the hotel industry in obtaining multiple clearances, from the Central and State Government agencies. In some cases as many as 65 or more clearances/approvals are required by hotel projects which vary from state to state. Not only this, construction of hotels is primarily a private sector activity which is capital intensive and has a long gestation period.

27.23 Including recognition of various home owners by classifying their facilities as 'Incredible India **Bed and Breakfast establishments**' under 'Gold' & 'Silver' category, Ministry of Tourism has promoted several tourism driving concepts which also led to overall growth in this sector: **Rural Tourism:** It is aimed at promoting rural India in an effort to sustain rural traditions and pristine environments and has proved to be a great getaway option for urban tourists. **Cruise Tourism:** It is aimed at providing world-class infrastructure and related facilities at various ports and attract foreign tourists for cruise shipping in India. **Eco-Tourism:** It is aimed at preserving, retaining and enriching natural and cultural resources for environmental protection and community development. **Adventure Tourism:** Financial assistance is being provided to State/ Union Territories to set up facilities for trekking, rock climbing, mountaineering, aero-sports, winter/ water sports, wildlife viewing etc. **Medical Tourism:** Lower cost of treatment and alternative systems like ayurveda etc also attract a lot of tourists.

27.24 Challenges: While in the longer term, the industry would benefit from structural reforms such as better infrastructure, improved law and order situation (encouraging foreign tourist arrivals) and if it is granted the infrastructure status; in the near term the industry need to remain focused on cost control by trimming frills and curtailing non essential expenditures to improve the bottom-line

27.25 **Manpower Issues** The current supply of skilled/ professionally trained manpower is estimated to be a very dismal 8.92% to the total requirement as per a study commissioned by the Ministry of Tourism. 12th Five Year Plan (2012 – 2017) looks at creating Food Craft Institutes, with short term programs to train the non – managerial workforce.

27.26 **Hotel Development Cost :** Development costs have been a challenge for most developers looking to build a hotel in India as land costs accounts for 30%- 50% of the total development cost, while the same equates to about 15-20% internationally.

ESTIMATED COSTS OF CONSTRUCTION PER ROOM (INR)				
CATEGORY	BUDGET	MID-SCALE	UPSCALE	LUXURY
City Hotels	25,00,000 - 30,00,000	50,00,000 - 70,00,000	70,00,000 - 100,00,000	90,00,000 - 150,00,000
Resorts	25,00,000 - 30,00,000	50,00,000 - 70,00,000	70,00,000 - 90,00,000	90,00,000 - 150,00,000
Serviced Apartments		40,00,000 - 60,00,000		80,00,000 - 100,00,000
COMMON ADDITIONAL EXPENSES				
FF&E Cost	10,00,000 - 15,00,000	15,00,000 - 20,00,000	20,00,000 - 25,00,000	35,00,000 - 40,00,000
Pre-Opening Expenses	1,00,000 - 1,50,000	2,00,000 - 2,50,000	3,00,000 - 3,50,000	3,50,000 - 4,00,000

Source: Cushman & Wakefield Hospitality Research

27.27 **Competition from other Asian Countries:** India's closest competitors in the growth and development of travel and hospitality are mostly within the region of Asia.

Countries such as China, Thailand, Singapore, Malaysia and Indonesia have been witnessing equally impressive and strong growth trends of their tourism sectors. In a survey by Travel & Tourism Competitiveness Index of 2011 that ranks various nations based on sub index ratings of Travel & Tourism regulatory framework, Travel & Tourism environment and infrastructure, Travel and Tourism Human, Cultural, and natural resources. India has fallen from its rank of 62 in 2009 to 68 in 2011 in Global Ranking. In terms of Travel & Tourism regulatory framework India finished a dismal 114th. On the parameter of Travel and Tourism infrastructure it was ranked 68th. India's crowning glory was the parameter of Travel and Tourism human, cultural and natural resources where it was ranked 19th. As per the ranking although India faces issues on regulatory framework and infrastructure, it has an enormous amount of potential with the respect to human, cultural and natural resources.

COMPETITIVE RANKING						
	INDIA	CHINA	THAILAND	SINGAPORE	MALAYSIA	INDONESIA
Asia Pacific (Regional Rank)	12	9	10	1	7	13
World -2011 Rank	68	37	41	10	35	74
World -2009 Rank	62	43	39	10	32	81

Source: Travel & Tourism Competitiveness Index 2011

27.28 As per **Travel & Tourism Competitiveness Index 2013** , Overall India was ranked 65th (11th in Asia Pacific), 39th in air transport and 42nd in ground transport infrastructure.

References:

- Survival to supremacy Indian Hospitality Story 2012 & Beyond Cushman & Wakefield, Confederation of Indian Industry.
- Quarterly Review of Indian Hotel Industry , March 2012 – ICRA
- HVS Trend Reports 2014.