

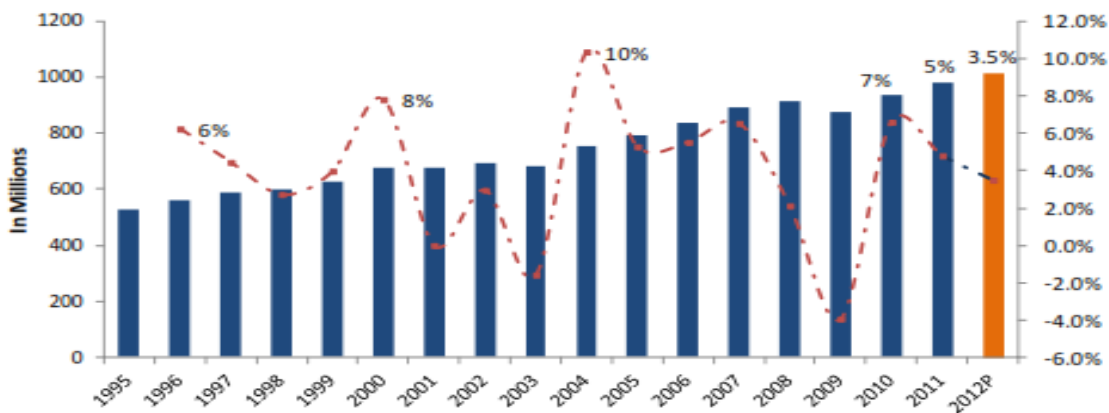
CHAPTER -27

HOTEL

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, geopolitical turmoil in the Arab countries, high interest rates, inflation coupled with muted domestic corporate performance have sapped the hotel industry. The Indian hospitality industry is however, on the path of recovery and the domestic traveller has spearheaded 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.

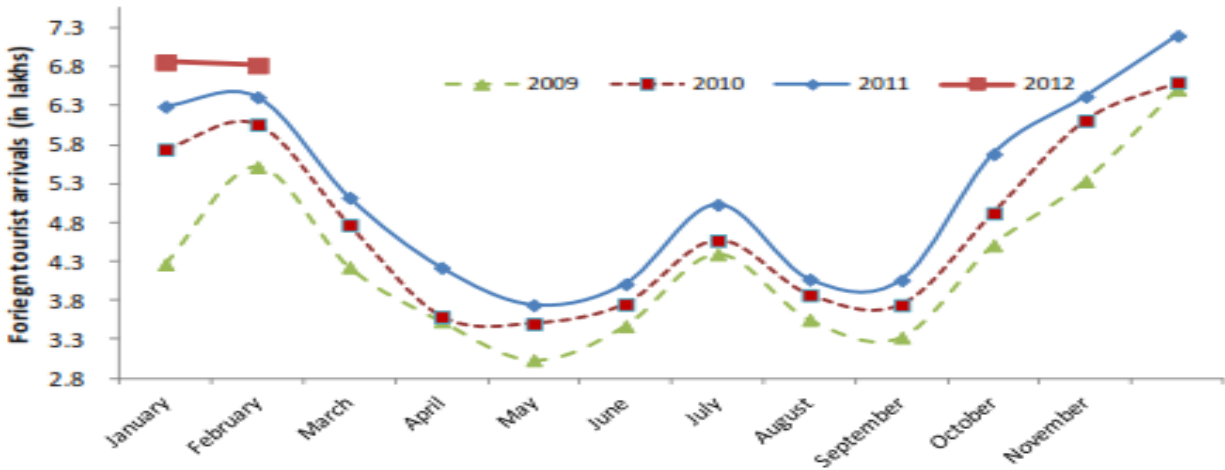
27.2 Footfalls are crucial to hotel industry since they affect revenue realized and occupancy rates reflected by indicators like ARR (Average Revenue Realizations), AOR(Average Occupancy Rates) , RevPAR (Revenue per available room) etc . Hence increased flow of tourists strengthening the demand side 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 8.8% to 62.9 lakh tourists while international tourist arrivals grew by 4.4% to 980 million travellers during CY2011 (Calendar year - Period ending December-11).

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 continues to be higher; Visa on Arrival has eased travel to India. 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 sustained at previous year levels during YTD December-11 for some markets, while certain heavily supplied markets like the National capital Region (NCR) witnessed a 5-10% decline in occupancy.

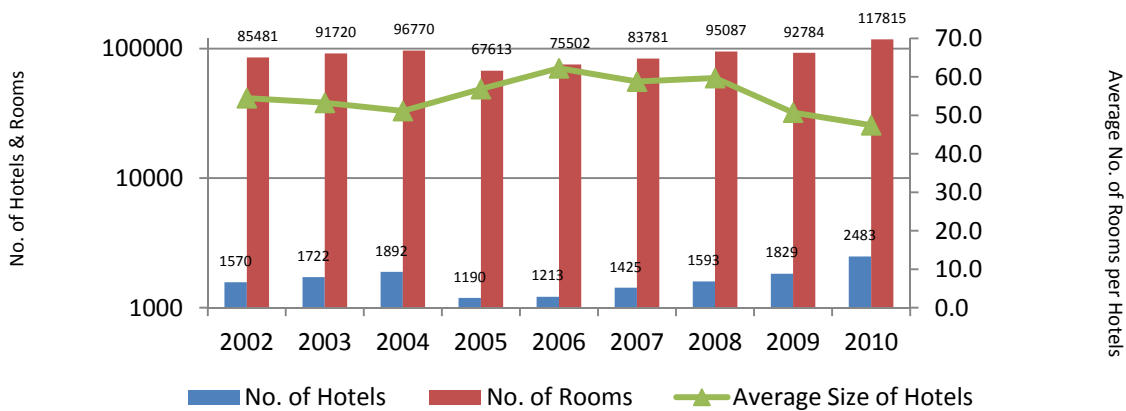
27.4 **Supply Pipeline:** Supply side continues to be strong. Over the past few years a number of projects have materialised though quite a few are in the pipeline. Some argue that the rapid increase in supply has affected the Occupancy (AORs) & Revenue Realizations (ARRs) & RevPARs. With 740 million domestic travellers (in 2011) and over 6.3 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.



Source: Cushman & Wakefield Hospitality Research

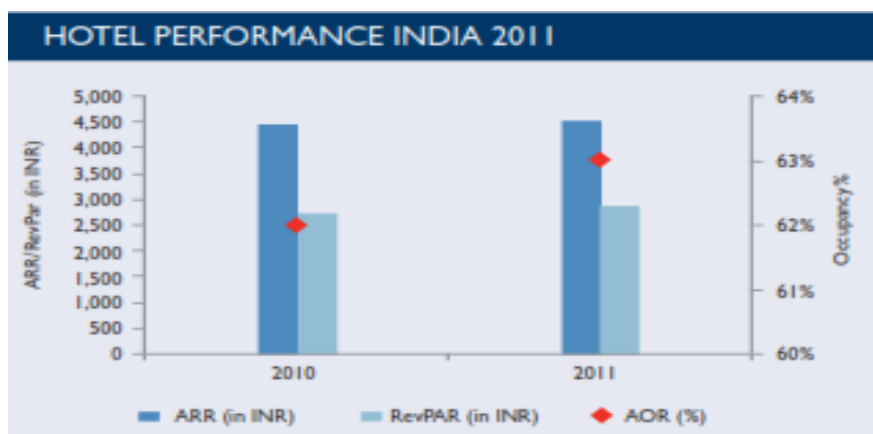
27.5 As per information on approved hotels maintained by Ministry of Tourism, number of rooms increased by 27 % during 2010 compared to the previous year whereas the increase was about 38 % compared to 2002. The increase in number of hotels was more at 36%(2010 over 2009) and 58%(2010 over -2002).However , since the data pertains to classified hotels, any analysis may be taken with caution since greater No. of hotels pending for classification may bring down the increase or vice versa. However on the whole it seems that average size of hotels has seen a decline. This may be in tune with the increasing number of rising middle class budget conscious traveler and growth in demand in that segment.

Growth in Number of Hotels & Rooms



Financial Performance of Hotel Industry:

27.6 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 (average room rate), while occupancies remained stable despite the incremental supply in several markets. While this trend shows demand generation and absorption of new supply albeit at a slower than expected pace, the lack of pricing power in a seasonally strong quarter is a concern and has impacted margins. Quarterly trends show revenues improving but operating profits continue to be pained by higher customer servicing cost & heavy interest burden.



Source: Cushman & Wakefield Hospitality Research

Key Financials for Indian Hotel Industry (9M, 2011-12)

Parameters	9M FY11	9M FY12	y-o-y growth
Total Income	3,023.3	3,358.0	11%
OPBDITA	772.9	770.8	0%
PAT	108.3	(14.4)	-113%
OPBDITA %	25.6%	23.0%	
PAT %	3.6%	-0.4%	
OPBDITA/interest & Finance charges	2.32	1.75	

Note: Amounts in Rs. crore;

Source: Published results of the companies, Capitaline Database and ICRA Estimates

Distribution of Hotels :

27.7 **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 2483 government approved hotels as on 31st Dec 2010 with about 1.18 lakh rooms.

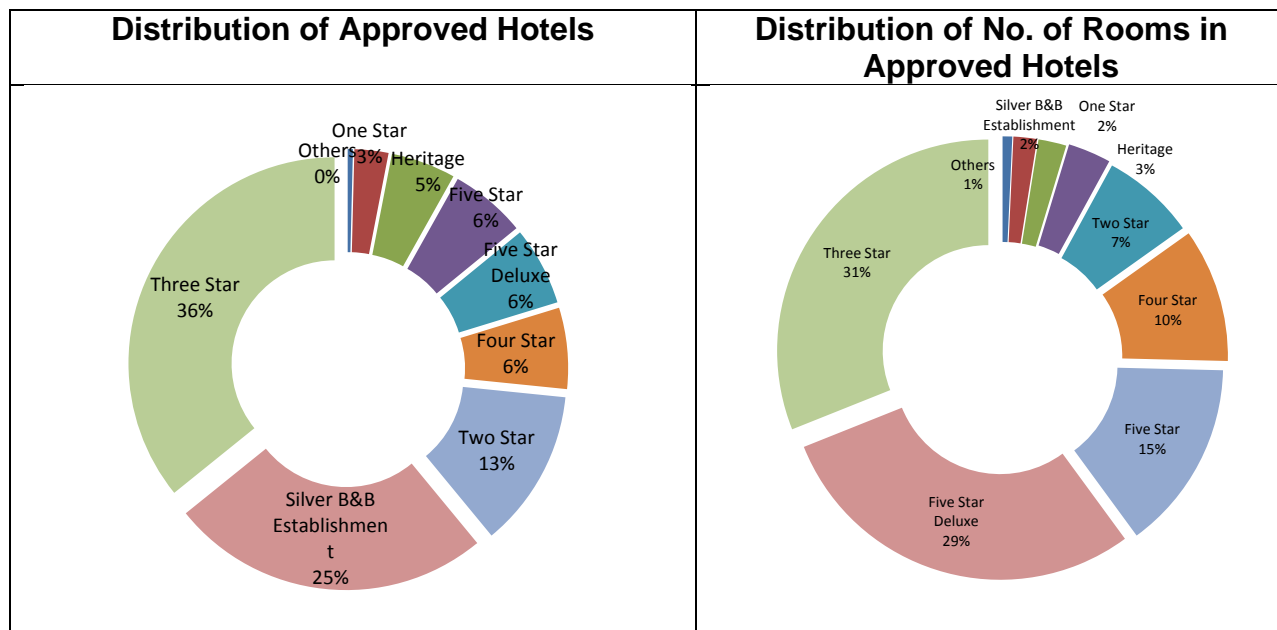
27.8 One Starred hotels provide a limited range of amenities and services, but adhere to a high standard of facility-wide cleanliness whereas two-Starred hotels generally provide good accommodation and better equipped bedrooms, each with a telephone and attached private bathroom. There were about 67 One Star & 307 two star government approved hotels with about 2,500 and 8,500 rooms respectively. Their share in total number of approved hotels was 3 and 13 % respectively whereas the share in total number of rooms was 2 & 7 % respectively.

27.9 Three-Star hotels usually have more spacious rooms and add high class decoration and furnishing and color TV. They also offer one or more bars or lounges. With more than one third hotels in the category, three star hotels occupied the largest share and accounted for about 31% of total rooms.

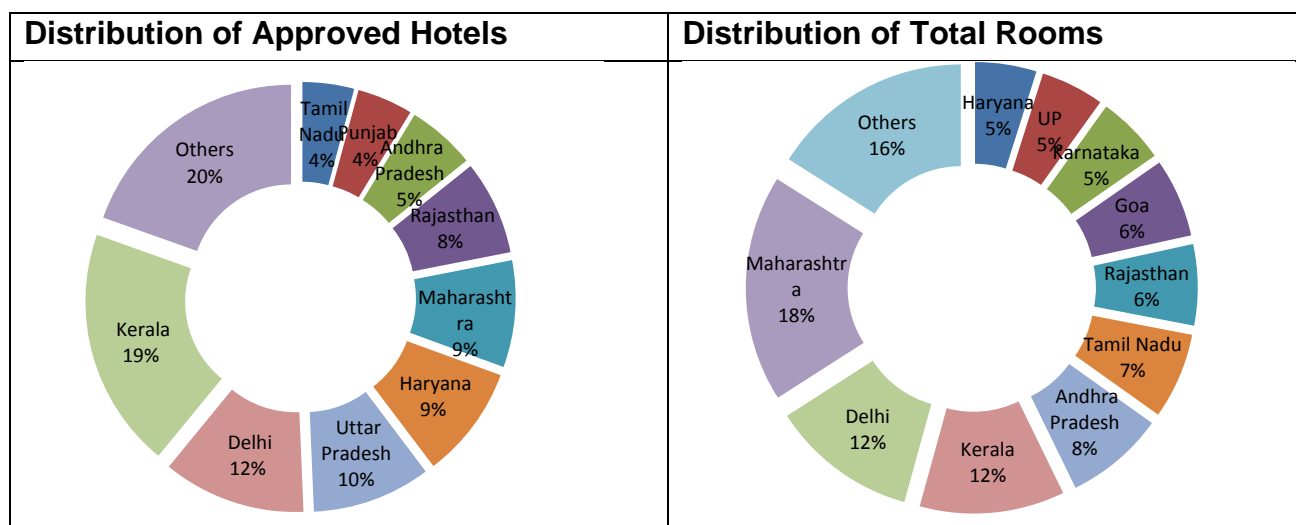
27.10 Four Star hotels are much more comfortable and larger. It provides excellent cuisine (table d'hôte and a la carte), room service, and other amenities. Four star hotels comprised 6 % of the total approved hotels and about 10% of total rooms in various categories.

27.11 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, 149 five star hotels and 153 five star deluxe hotels) comprised about 12% of approved hotels and about 45 % (51,331 rooms) of total number of rooms in India.

27.12 Bed & Breakfast (B&B) Establishments have also grown rapidly. One fourth share of B& B units in total number of hotels but only 2 % share in total number of rooms is on account of their smaller size as they are usually family run home based facilities.



27.13 **State wise Distribution:** As on 31st Dec 2010, 9 major states (having at least 100 hotels), comprised about 80 % of overall approved hotels in India. Kerala & Delhi led the tally of no. of approved hotels (2,483) with 484 & 288 hotels and share of 19 and 12 % respectively followed by UP, Haryana, Maharashtra & Rajasthan. In terms of rooms, share of top ten states (i.e. having highest No. of rooms) accounted for about 84 % out of the total of 1, 17,815 rooms in different categories of hotels. Maharashtra, Delhi and Kerala accounted for about 42 % of total number of government approved hotel rooms.



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

27.15 **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.

27.16 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

27.17 **Visa on Arrival :** There are a total of 11 countries that are allowed Visa on Arrival of which Japan (as of 2012) availed the facility to the maximum, with almost 1,872 Japanese been granted VoA, as opposed to the previous year, while New Zealand was been granted 1,588 VoA . In addition to the current 11 countries, the Ministry of Home Affairs has approved to include 3 new European countries -France, Germany and Russia to the list.

The Bureau of Immigration is however yet to give a final approval and 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.

27.18 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.

27.19 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.

Challenges:

27.20 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.

27.21 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

Across all major cities, construction costs of buildings have seen an average increase of 11% between 2009 to 2011.

27.22 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

References:

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