

INDIAN HOTEL INDUSTRY

Introduction:

The Indian Hospitality Sector is witnessing one of its rare sustained growth trends. Hotel industry is inextricably linked to the tourism industry and the growth in the Indian tourism industry has fuelled the growth of Indian Hotel Industry.

A major reason for the demand for hotel rooms is the underlying boom in the economy, particularly the growth in the information technology enabled services and information technology industries. Rising stock indices and new business opportunities are also attracting foreign institutional investors, funds, equity and venture capitalist.

The financial year 2008 – 09 was an unforgettable one for the Indian tourism industry with the Mumbai terror attacks and the global economic downturn affecting the industry's performance. The Hotel Industry, too, observed an overall decline in occupancy and revenue in most cities in India.

Foreign Direct Investment in India:

The purpose of the Foreign Direct Investment Policy in India is to invite and encourage foreign Investment in India. Since 1991, liberalized economic policies have transformed India, the world's, largest democracy, into a shine of global Investment

For the purpose of FDI in an Indian economy, the following categories assume relevance:

- Sector in which FDI is prohibited
- Sectors in which FDI is permitted
- Investment under Automatic Route; and
- Investment under Prior Approval Route i.e. with prior approval of the government through the Foreign Investment Promotion Board (FIPB).

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In the Hotel Industry Sector, Foreign Direct Investment (FDI) has been permitted up to 100% under the automatic route. For foreign technology agreements, automatic approval is granted if:

1. Up to 3 % of the capital cost of the project is proposed to be paid for technical consultancy services.
2. Up to 3 % of the net turnover is payable for franchising and marketing/publicity fees.
3. Up to 10 % of gross operating profit is payable for management fees, including incentives fees.

Regulatory Regime:

Classification of Hotels:

1. Star Category Hotels: 5 Star Deluxe, 4 Star, 3 Star, 2 Star, 1 Star.
2. Heritage Category Hotels: Heritage Grand, Heritage Classic & Heritage Basic

Approval of Hotel at the Project Stage:

1. The Ministry of Tourism will approve hotels at project stage based on documentation. Project approval is given to a 1, 2, 3, 4, 5 Star Hotels and Heritage Basic Category. After becoming operational the project may seek classification under 5 Star Deluxe/ Heritage Classic/ Heritage Grand category if they fulfill the prescribed norms.
2. Project approval will be valid for 5 years. The project approval would cease 3 months before the date of expiry of project approval or from the date the hotel becomes operational, even if all its rooms are not ready. The Hotels have to apply for classification within 3 months of commencing operation.

Taxation:

Tax Holiday in respect of Hotels:

- A deduction of an amount equal to 100 % of the profit and gain for the first 5 consecutive years to an undertaking deriving profits from the business of a hotel or from the business of building, owning and operating a convention centre, in specified areas, if such hotel / convention centre is constructed and has started or start functioning before 31st July, 2010.
- A deduction of an amount equal to 100 % of the profit and gain for the first 5 consecutive years to an undertaking derived profit from the business of a hotel located in the specified district having a World Heritage Site. If such hotel is constructed and has started functioning before 31st March, 2013.

Recent changes in Fringe Benefit Tax:

Finance Bill, 2009 has proposed to abolish Fringe Benefit Tax with effect from 1st April 2009.

Fringe Benefit Tax is a tax payable by the employer on benefits (provided or deemed) that employees received as a consideration of their employment. Fringe benefit tax was applicable on several benefits such as travel and tour, entertainment, provision of hospitality, conference, sales promotion including publicity, use of hotel, boarding or lodge, aircraft, festival celebration, use of health club, scholarship, free or concessional ticket for private journey, etc.

The abolition of the FBT has become major advantage to the Hospitality industry.

Opportunity & Challenges:

Opportunity:

In the Financial Year 2008-2009, India's GDP recorded a growth rate of 6.7 % according to the Central Statistical Organization. The GDP growth in the 2008-2009 can be attributed to a strong service sector, steady foreign direct investment, as well as the government policies that helped to sustained growth rate.

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The market size of Hotel industry has more than doubled from about USD 1 billion in 2004 to USD 2.3 billion in 2008. It is estimated that India is likely to have around 40 international hotels brands by 2011.

The growth of the Hotel Industry is largely due to the rising business opportunities, strong economic performance and cross border investments. India has currently base of 110,000 hotels rooms and still face the shortage of 150,000 rooms. There is a mismatch between demand and supply, leading to higher occupancies and average room rates.

Occupancy rates across India have improved from 52 percent in 1999 to 67 percent in 2007-2008. Average Room Rates across cities have improved from USD 51.6 to USD 76.4 in the same period.

Despite the global economic recession, foreign tourist arrival increased to 5.37 million in 2008 from 4.98 million in 2007.

Sports events like IPL and the Commonwealth games have a potential to create demand for both Tourism and Hospitality industry in India.

Challenges:

- Poor on – ground infrastructure
- Multiple License required with a lengthy approval process
- Slowdown in demand due to global economic slowdown and security concerns.

Statistical Data – Indian Hotel Industry

Size of the Hotel Industry	USD 3.8 Billion
Share of premium segment in the overall hotel market (2008)	USD 2.3 Billion
Expected growth rate from 2008 to 2009	12 percent
Key Players	Indian Hotels, Leela Ventures, ITC Hotels, Oberoi Hotels, Bharat Hotels, ITDC, Kamat Hotels.
Rooms Current Supply Current Demand	About 110,000 hotels rooms About 150,000 hotels rooms

Source: Crisil research Annual Review 2009

Market Trends:

Hotels Classification – Occupancy

Particular	2004 - 05	2005-06	2006-07	2007-08	2008-09
Overall Average	69.0 %	71.5 %	71.4 %	68.8 %	60.3 %
Five Star - Deluxe	71.4 %	73.8 %	73.0 %	71.7 %	62.3 %
Five – Star	71.1 %	70.4 %	70.2 %	67.2 %	59.9 %
Four – Star	71.8 %	72.7 %	71.7 %	68.9 %	59.5 %
Three - Star	56.7 %	65.9 %	68.9 %	64.7 %	57.5 %

Hotel Classification – Average Rate (US Dollars)

Particular	2004 - 05	2005-06	2006-07	2007-08	2008-09
Overall Average	95.73	122.34	162.17	198.52	170.71
Five Star - Deluxe	124.86	161.08	224.26	278.33	241.05
Five – Star	86.79	112.03	149.22	190.16	165.29
Four – Star	68.78	86.45	117.23	142.20	126.35
Three - Star	40.71	49.71	69.09	86.67	79.83

Hotel Classification – RevPAR (USD Dollars)

Particular	2004 - 05	2005-06	2006-07	2007-08	2008-09
Overall Average	66.05	87.47	115.79	136.66	102.85
Five Star - Deluxe	89.15	118.88	163.71	199.51	150.27
Five – Star	61.71	78.87	104.75	127.83	98.98
Four – Star	49.38	62.85	84.05	98.02	75.14
Three - Star	23.08	32.76	47.60	56.11	45.92

Conclusion:

India, in recent years, started observing huge growth in quality budget and mid market hotels and luxury segment will continue to perform extremely well over the next few years.