

# Hospitality Industry

November 2018



*B. Prakash & Associates*

## **Disclaimer**

The conclusions reached, and views expressed in the study are matters of opinion. Our study is based on the general understanding and the dynamics of the hotel industry prevailing as on the date of the study and our experience. However, since the hotel industry, just like any other industry is impacted with changes in the political, economic, environmental and regulatory factors, there can be no assurance that the market may not take a contrary position to our views.

This study covers the hotel industry, both in India and globally, its background, dynamics of the industry, sectorial performance and future growth and potential of India. This study is based on the information gained from various industry reports, news articles and journals. We have no responsibility to carry out any review of our comments for changes in the industry dynamics occurring after the date of issue of this study.

Further, this study shall not be used or quoted in whole or in part or otherwise referred to in any document or delivered to any other person or entity without our prior written consent.

This study contains observations and comments based on our review and neither B Prakash & Associates nor its employees and associates are responsible for any loss or damage occurring on implementation of views expressed in this report.

## **Aim and Objective of the Study**

The aim and objective of this study is to understand the background, current fundamentals and the future growth aspects of India's hotel industry and study the different hotel tiers operating in India to ascertain the future growth prospects. In the process, the study aims to identify the growth areas in the years ahead as well as the impact that this has on the Indian economy.

## **Basis for the Study**

The basis for the entire study is continuous accumulation of knowledge and data through various reports, news articles and journals.

## **Scope of Work**

The scope of our work specifically includes the following:

- (i) Overview of the global hospitality industry
- (ii) Impact of the hospitality industry on GDP and Employment
- (iii) Evolution of the Hotel Industry in India
- (iv) Impact of the hotel industry on the Indian Economy – GDP and Employment
- (v) In-depth analysis of the hotel industry in India
- (vi) Future growth prospects
- (vii) SWOT Analysis and Forecasting

# Contents

1. Hospitality Industry .....	4
1.1. Introduction .....	4
2. Hospitality Industry - World .....	5
2.1. Impact – Direct, Indirect and Induced .....	5
2.2. Impact on GDP .....	8
2.3. Impact on Employment .....	9
3. Technological Impact .....	10
3.1. Airbnb and Uber .....	10
3.2. Capsule Pod Hotels .....	11
3.3. Terrorism and Immigration Uncertainty .....	11
3.4. Climate Change and Pandemics .....	12
3.5. Trends and Patterns .....	13
4. Hospitality Industry – India .....	17
4.1. Introduction .....	17
4.2. Evolution of the Hotel Industry in India Post Independence .....	18
4.3. Impact – Direct, Indirect and Induced .....	20
4.4. Impact on GDP .....	21
4.5. Impact on Employment .....	22
4.6. Impact on Foreign Exchange Earnings .....	24
4.7. Hotel Industry .....	25
4.8. Cyclical Nature .....	26
4.9. Top Hotel Brands Operating in India .....	26
4.10. Existing Room Supply .....	27
4.11. Proposed Room Supply .....	28
4.12. DTA (Domestic Tourist Arrivals) and FTA (Foreign Tourist Arrivals) .....	30
4.13. Financial Performance: ARR, OR and RevPAR .....	33
4.14. Revenue and Cost Structures of Hotels .....	33
4.15. Investments .....	37
4.16. Government Initiatives .....	38
4.17. India: Relative country and region wise ranking .....	42
4.18. Swot Analysis – Indian Tourism .....	45
4.19. Forecasting .....	46

5. The Road Ahead .....	50
6. About the Authors .....	53

# 1. Hospitality Industry

## 1.1. Introduction

The hospitality industry consists of a wide variety of fields within the service industry. These include hotels, restaurants, lodging, event planning, theme parks, transportation, cruise line as well as other fields within the tourism industry. The multi-billion-dollar hospitality industry depends on the availability of leisure time and disposable income for its growth. This industry is very sensitive to global events that might deter travelers such as terrorism, climate change (hurricanes and floods), pandemics and recessions.

This report aims to analyze the trends and patterns emerging out of the sector worldwide as well as in India. The last 30 years has been studied based on which an assessment has been made regarding the direction this industry will take in the next 10 years. For this purpose, certain parameters are used to make forecasts for the hospitality industry for India and the World. At the same time, the challenges this sector faces in terms of local and global developments are also incorporated to give a fair and accurate forecast.

Travel and tourism comprise the majority share in the hospitality industry. Studying the hospitality industry by focusing on travel and tourism is important since it considers most of the sectors involved in the hospitality industry that include transportation, cruise line, lodging and accommodation. This is done while focusing on the World as this approach gives a broad understanding of the hospitality industry taking a macro view. The key growth regions worldwide are examined, and the trends and patterns are analyzed.

For India, the study is focused on the hotel industry with the availability (demand and supply) of rooms as a parameter to establish the direction the hospitality sector is moving in. This is done by focusing on major cities and the parameters such as Average Daily Rate (ADR), Occupancy rate and Revenue per Available Room (RevPar) along with the existing and proposed supply in India to identify and where the untapped potential lies. Concurrently, the efforts being made by the Government is considered to see whether the hospitality industry and government are working in tandem and what steps can be taken to augment growth and development in this sector.

## 2. Hospitality Industry - World

The global hospitality industry is undergoing a transformation since the last decade as countries around the world are achieving higher growth rates and this has resulted in higher disposable income with people. Travelers are eager to travel and explore the world which has been a boon for the hospitality industry. Asian countries have been at the forefront of this change both in terms of inbound and outbound travelers.

As these countries grow and develop, they have recognized the potential that travel, and tourism brings in terms of foreign exchange earned to the country and the boost to employment in the host country catering to the tourists. This includes developing parks, museums, heritage sites and showcasing the country to attract more travelers in the future. Governments in these countries also make a conscious decision to develop landmarks, make the cities cleaner and safer and invest in upgrading the destinations to global standards to reap the long-term benefits of increased number of tourists.

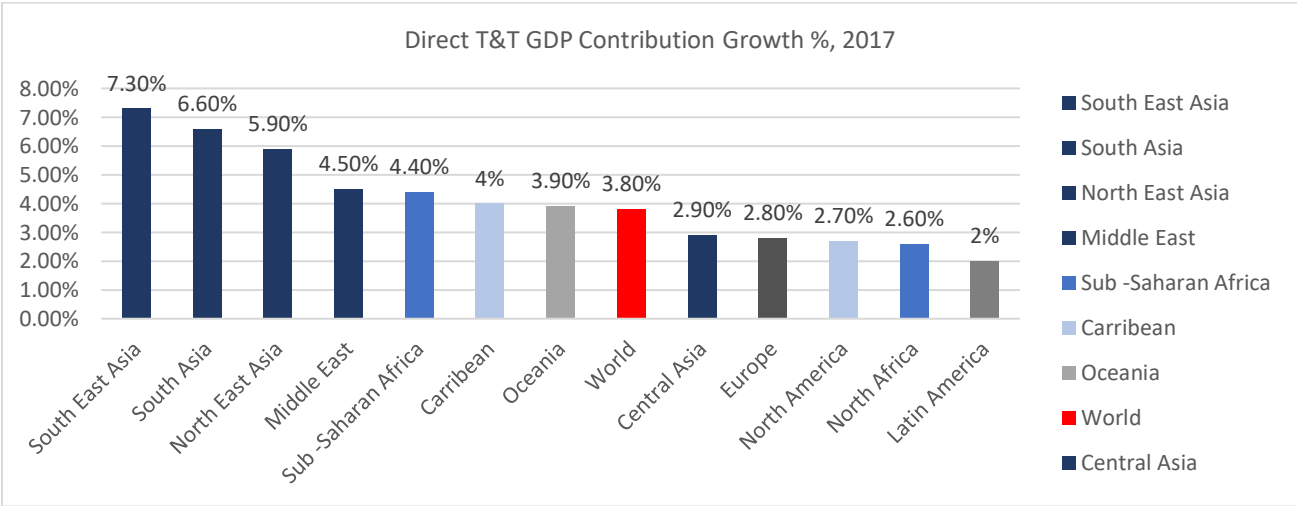
### 2.1. Impact – Direct, Indirect and Induced

The total economic impact of Travel & Tourism can be gauged from its direct, indirect and induced impacts and includes people travelling for both business and leisure domestically and internationally. The direct element includes only direct transactions by tourists for tourism services such as accommodation, recreation, transportation and other related sectors. These activities include airlines, rentals, coaches, trains, cars, cruise lines, travel agents, hotels, convention centers, restaurants, shopping centers, sports arenas, entertainment, theatre, recreation etc. The indirect element includes the supply chain impact, and this includes outside goods and services such as marketing and PR, cleaning and maintenance, energy providers, catering and food production, design and print etc. The induced element measures the impact of money spent in the local economy by employees working in jobs supported by tourism both directly and indirectly. This creation of jobs by both direct and indirect impact helps pay into infrastructure, agriculture, technology, real estate, communication, education, banks, healthcare and more which leads to a continuous virtuous cycle of development benefitting various sectors of the economy. The government is also an active stakeholder in this cycle since it earns foreign

exchange and receives higher tax collections. This in turn gives it more leeway to spend on the development of the economy.

The travel and tourism sector are vital for economic development and job creation worldwide having directly contributed \$2.3 trillion and 109 million jobs in 2016. Taking the wider indirect and induced impacts into account, this sector contributed \$7.6 trillion to the global economy and supported 292 million jobs which was equivalent to 10.2% of the world’s GDP and approximately 1 in 10 of all jobs.<sup>1</sup> It is anticipated that by 2027 the Travel and Tourism sector will increase its economic contribution and support over 380 million jobs which equates to 1 in 9 of all jobs in the world and the sector is expected to contribute around 23% of the total global net job creation over the next decade.

All world sub-regions have experienced growth in direct Travel and Tourism (T&T) contribution to GDP in 2017. The direct contribution of T&T to GDP reflects the internal spending on T&T (total spending within a country on T&T by residents and non-residents for business and leisure purposes) as well as government individual spending i.e. spending by government on T&T services directly linked to visitors, such as cultural (museums) or recreational (national parks).



Source: *Travel and Tourism: Global Economic Impact & Issues 2017*

The table shows the robust growth of direct T&T contribution to GDP exhibited by the various regions in Asia followed by Sub-Saharan Africa. South East Asia and South Asia are expected to

<sup>1</sup> <https://www.wttc.org/-/media/files/reports/economic-impact-research/2017-documents/global-economic-impact-and-issues-2017.pdf>

be the fastest growing world regions with growth of around 6.5-7%. South Asia is expected to be the fastest growing region over the next 10 years with expected growth of 6.7% and India and China being at the forefront growing at 6.8% and 7.5% respectively. This is primarily due to the high growth rates experienced in this region as rapid urbanization and industrialization activities have boosted disposable income and led to an inflow of tourists with improving infrastructure. Latin America and North Africa have grown at the slowest pace at 2% and 2.6% respectively and are expected to bounce back with modest growth in 2017 after a weak 2016. While the world average in 2017 was at 3.8%, Europe and North America averaged slightly below at 2.8% and 2.7%. However, this is likely to improve in the years ahead with the increasing growth rates being witnessed worldwide.

Visitor exports is another important parameter that indicates the strength and direction that this sector will take going forward. It is the money spent by foreign visitors in a country and it is a key component of the direct contribution of T&T.

**WORLD:VISITOR EXPORTS AND INTERNATIONAL TOURIST ARRIVALS**



Source: *Travel and Tourism: Global Economic Impact & Issues 2018*

The foreign visitor exports as a percentage of total exports has also been steadily increasing reaching close to 6.5% in 2018 and expected to reach 7% by 2028. This shows a stable increasing trend for this sector going ahead. In 2017, the world generated \$1494.2 billion in visitor exports which is expected to grow by 3.9% in 2018 to reach \$1550 billion. This is forecasted to reach \$2311.4 billion by 2028. This will be supported with a worldwide rise in international tourist

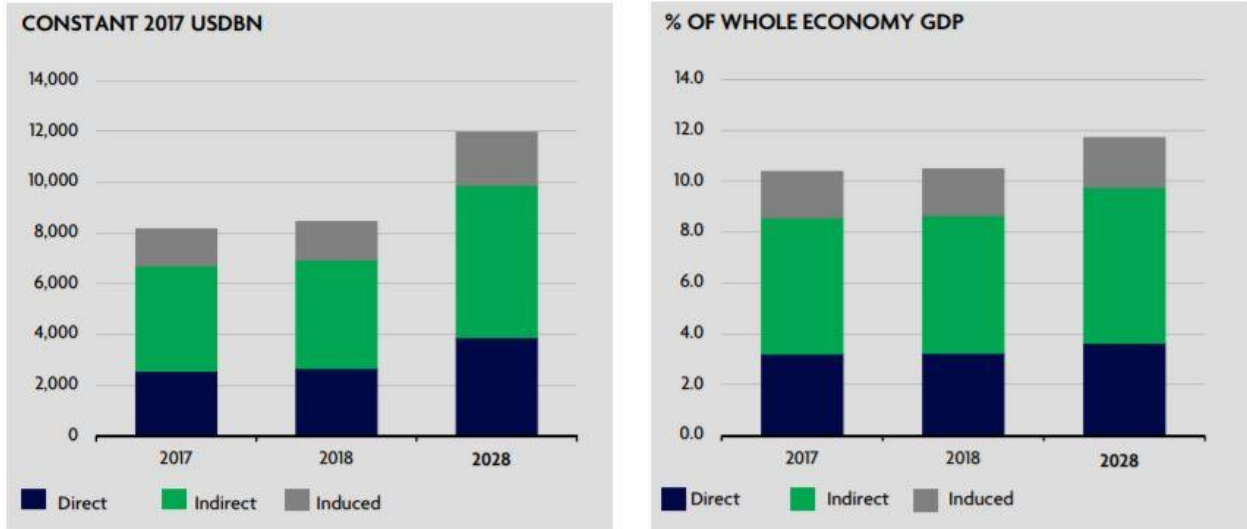


arrivals from 1,395,660,000 in 2018 to 2,094,210,000 by 2028. Another aspect to take into consideration is that while the international tourist arrivals is increasing, the amount spent by them will also correspondingly increase since this growth is being fueled by developing countries from Asia where rising growth rates have led to a rise in disposable incomes. Every passing year, as the country is growing, the disposable income rises, and this will be reflected in the rising visitor imports. There is a rise in travelers from the Asian subcontinent and this is combined with the steady rise in tourists from the developed world as well which together combined have ensured that the forecast for this sector remains robust going forward.

## 2.2. Impact on GDP

The total contribution that T&T has had on GDP (in absolute and percentage terms) can be explained with the help of the following graphs:

**WORLD:TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO GDP**



Source: World Travel & Tourism Council, Travel & Tourism Economic Impact 2018

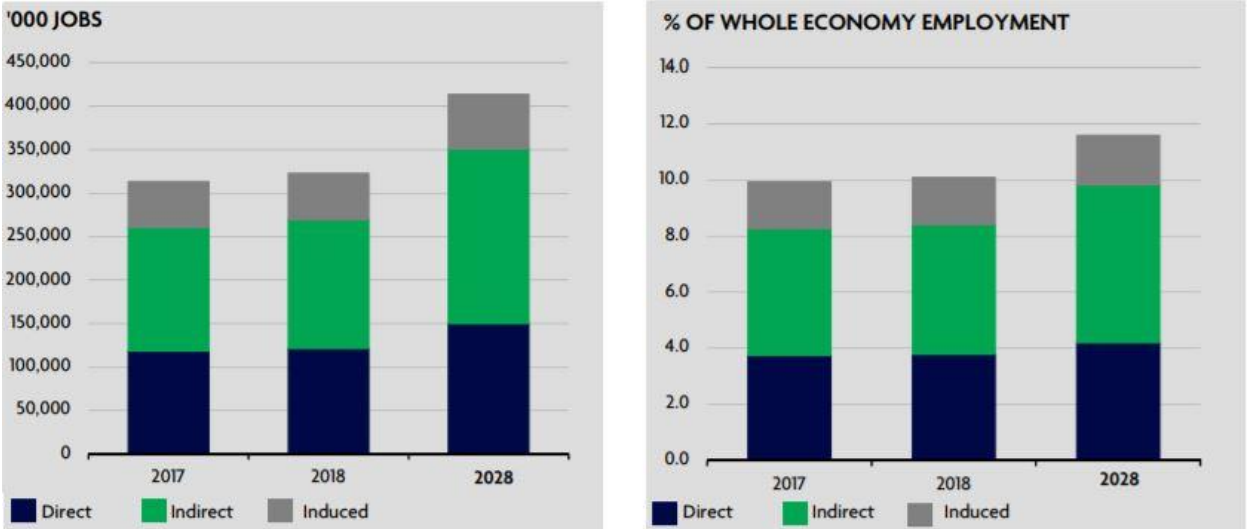
The graph shows the growth of direct, indirect and induced contribution of travel and tourism to GDP including the wider effects from investment, the supply chain and induced income impacts. This stood at \$8272.3 billion and was 10.4% of GDP in 2017. It was expected to grow by 4% to \$8604.5 billion and 10.5% of GDP in 2018. This is forecasted to further grow by 3.8% per annum to reach \$12450.1 billion and account for 11.7% of GDP by 2028. This reinforces the fact that the hospitality industry is on an uptrend with healthy growth being witnessed across all 3 sectors.

From 2017-2027, direct contribution is slated to grow over 59% reaching \$3900 billion, indirect contribution to grow 47% reaching \$6012.9 billion and induced contribution to grow at 25% reaching \$2000 billion. Together the total contribution in percentage terms of the world economy GDP is also set to rise from 10.2% to 11.4%. This again demonstrates the solid footing that the hospitality industry is on, even after considering the uncertainty in the western countries regarding the economy and the immigration restrictions being imposed. The Asian subcontinent is one of the primary drivers of this growth followed by range bound growth in the Western countries and above World average rise in growth in the Sub-Saharan subcontinent.

### 2.3. Impact on Employment

The total contribution and impact that Travel and Tourism has had on employment can be explained with the help of the following graphs:

**WORLD:TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT**



Source: World Travel & Tourism Council, Travel & Tourism Economic Impact 2018

The growth in travel and tourism leads to holistic development that is not just superficial and restricted to rising GDP numbers. The table shows that the total contribution of travel and tourism to employment was 313,221,000 jobs in 2017 which was 9.9% of total employment. This is expected to rise by 3% in 2018 to 322,666,000 jobs in 2018 consisting of 10.1% of total employment. This is forecasted to grow by 2.5% per annum to reach 413,556,000 jobs in 2028 comprising 11.6% of the total employment. This is further evidence of the fact that this sector

cannot be taken for granted given the plethora of advantages that come with its growth. More jobs, more salaries and wages, more taxes, more money to spend on development activities leading to more jobs and growth is a virtuous cycle that touches every aspect of the economy. It also bolsters the country's foreign exchange reserves which play a vital role for developing countries during recessions and acts as a buffer during challenging financial conditions especially given the decade since the financial meltdown in 2007/08. The slight decline in GDP growth rates in the Western countries have been more than negated with the rise in growth in the Asian and African continent which has been the primary reason for the surge in the hospitality industry.

The seriousness with which governments and the private sector are taking this sector can be gauged from the fact that the T&T sector has attracted capital investment of \$882.4 billion in 2017 which is expected to rise by 4.8% to \$924.75 billion in 2018. It is forecasted to grow at 4.5% per annum till 2028 reaching \$1408.3 billion by 2028. In fact, the T&T sector not only outpaced global economic growth, but also several other major global economic sectors such as financial and business services, healthcare, manufacturing, public services, retail & distribution, transport and was only marginally behind the information and communication sector.

### 3. Technological Impact

#### 3.1. Airbnb and Uber

Technology has played a big part in developing the hospitality industry as well as disrupting the way this industry was functioning till a decade ago. The rise of travel agents and online travel agencies have been game changers. These include companies such as Yatra, MakeMyTrip, Golbibo, Trivago, Expedia and TripAdvisor. Simultaneously the rise of companies like Uber, Airbnb have challenged the status quo and made a niche for themselves catering to millions of customers daily. This has eaten into the profit margins of hotels who must aggressively market themselves and provide discounts to ensure they do not lose loyal customers to cheaper alternatives. Occupancy rates have been affected with the rise of Airbnb giving consumers more options to choose from with attractive rates. With the rise of Uber and Airbnb, a lot of customers prefer to go along with cheaper alternatives that reduces their expenses significantly. The reason

why price sensitivity has taken over brand loyalty is due to the severe recession that countries worldwide have been grappling with and this led to a situation whereby consumers would not mind a slight downgrade in terms of quality if there is a decent saving to be made. As a result, hailing taxis via apps such as Ola and Uber have been a gamechanger and consumers do not need to be restricted to overpriced hotel taxis. Airbnb offers excellent discount for rooms located at the heart of the city. Tourists, who prefer to get a feel of the city invariably choose such options. It has gained a lot of traction very fast and this has been another major disruptor in the hospitality industry. The hospitality industry needs to adapt swiftly and come up to speed with these rapid developments. Governments have been slow to these changes and it is only recently that laws are being passed and implemented which tax these activities to ensure a level playing field. As these activities are commenced with a commercial purpose they need to be made a part of the tax system and these regulatory changes are making the industry more balanced and competitive. This was witnessed with the slowdown in growth in Airbnb. <sup>2</sup>

### 3.2. Capsule Pod Hotels

Capsule pod hotels are gaining traction and acceptability worldwide and slowly becoming a viable option for business and leisure travelers. They have the potential to cause a serious disruption in the hospitality industry if they are not taken seriously. Backpack travelers also prefer pod hotels as compared to hostels and going ahead traditional hotels need to re-brand and offer better packages to avoid any further erosion of their guests and visitors after the entry of Airbnb.

### 3.3. Terrorism and Immigration Uncertainty

Europe and U.S.A have been the most affected with the issue of terrorism. Consequently, the government has imposed a variety of restrictions to restrict the flow of people to their countries. Events such as Brexit and protectionist policies imposed due to the rise in immigrants from poorer countries have impacted the hospitality industry. The travel policies enacted in U.S.A has not helped the hospitality industry since this is a major destination for travelers and has

---

<sup>2</sup> <https://www.cnn.com/2017/04/13/airbnb-growth-slowing-regulation-ubs.html>

negatively impacted the industry. Terrorism leads to uncertainty whereby travelers look for other safer destinations and this means other locations get a higher inflow of tourists. Terrorism also leads to situations whereby the travelers travel in their home country exploring places unseen as this is a safer and cheaper alternative. This is another feature of the modern day and age which the hospitality industry has to take into consideration to avoid facing a harsh situation in the future.

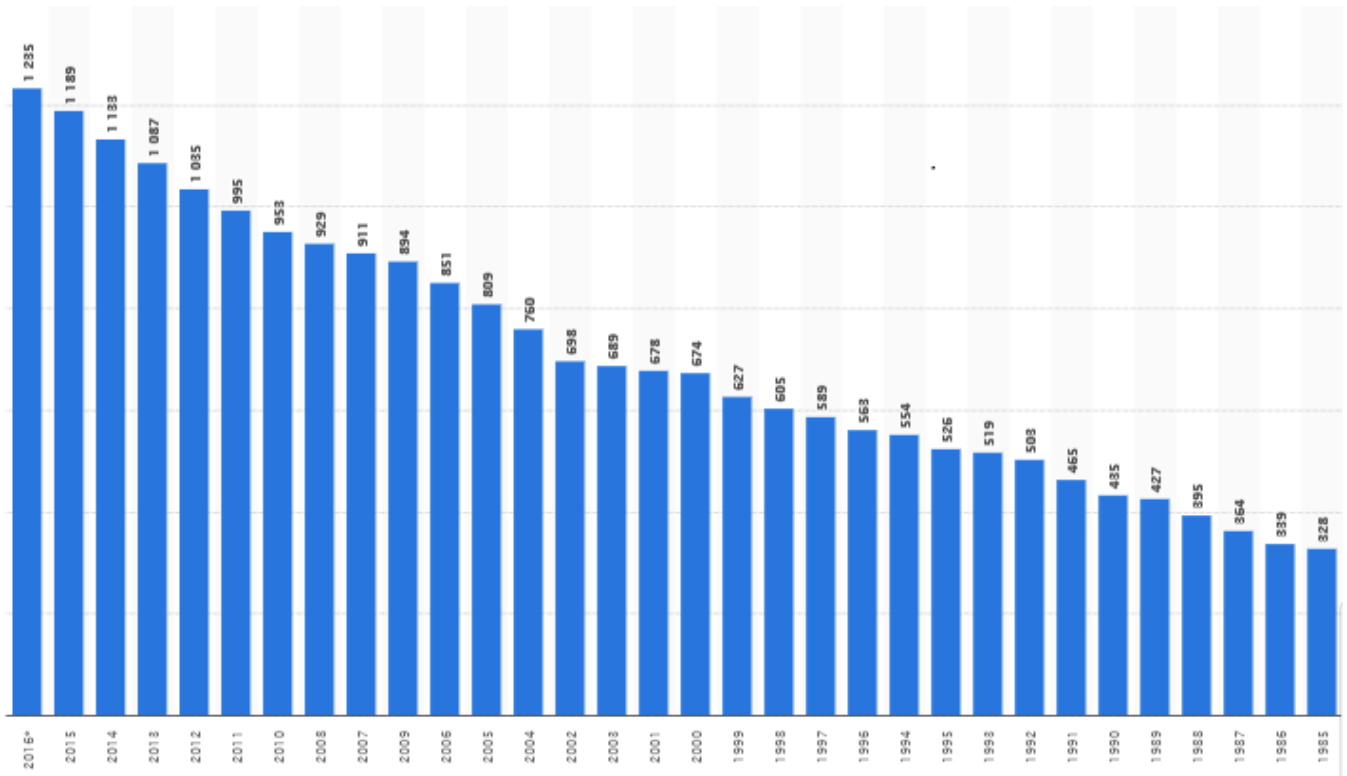
### 3.4. Climate Change and Pandemics

At the same time, there have been hurdles going forward. A variety of issues have affected the hospitality industry, and these include climate change and pandemics. Climate change induced natural disasters such as earthquakes (in Haiti), floods (in the US), hurricanes and forest wildfires in the past few years have seen a rise which has again not been favorable for the industry. Right from the Tsunami in 2004 to the recent floods and earthquakes, lives are lost. This is something that travelers consider when making plans and given the volatile and uncertain climate changes, travelers think twice before visiting places that are susceptible to such natural disasters. Once again, it is the hospitality industry that is most affected and along with it, all the other industries that form part of the hospitality industry

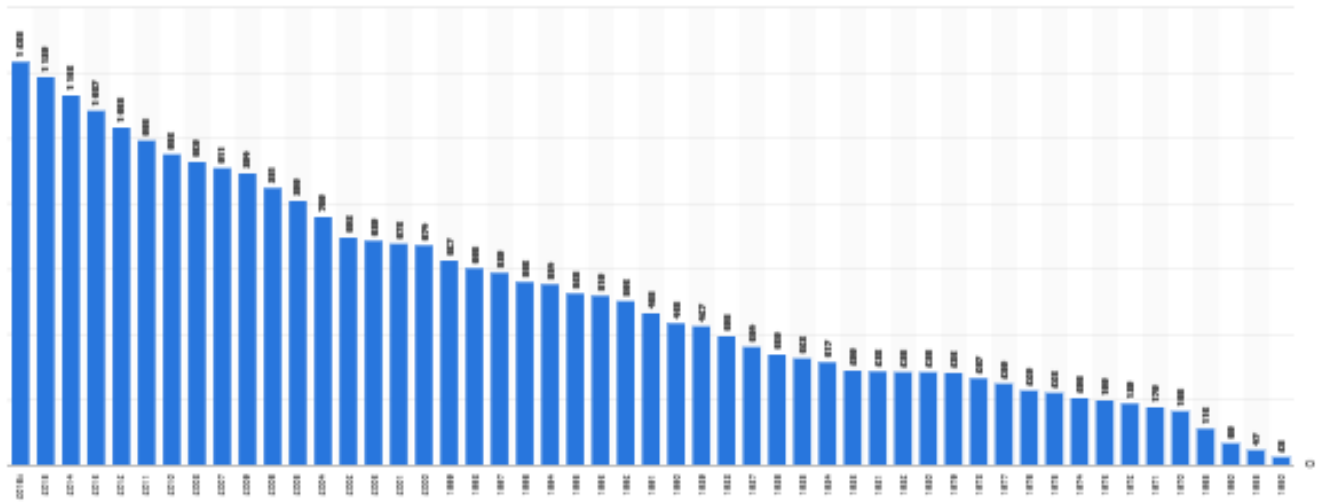
Further, the rise in the sudden outbreak of pandemics in various regions worldwide such as Zika virus, Ebola and H1N1 to name a few have also led to sub-optimal expenditures made by consumers for travelling and tourism purposes. When the cause and source for such outbreaks cannot be confirmed with certainty it leads to confusion and chaos and a lot of short term pain for the hospitality industry who must face the brunt of reduced business. Such pandemics take a toll on the industry as they are unannounced and until and unless they are resolved at the earliest, they could cause severe short-term pain.

However, taking all these factors into consideration, the World Travel and Tourism Council, in its report on the economic impact for 2017 has gone ahead and made forecasts which has been discussed in the section that show a healthy future for this industry.

### 3.5. Trends and Patterns



This table shows the number of tourist arrivals worldwide from 1985 to 2016 in millions. There were 328 million tourist arrivals in 1985 and this rose to 1189 million in 2015, projected to reach 1235 million in 2016. This is close to a 4-time jump in 3 decades indicating the giant leaps and bounds taken by this sector. In fact, there were only 25 million international tourist arrivals in 1950 and this rose around 50 times to reach 1235 million tourist arrivals expected in 2016. A snapshot of the international tourist arrivals from 1950-2016 can be seen below:



As international travel has become more accessible, the number of international tourist arrivals has greatly increased. The availability of air travel to the public has been one factor in increasing the number of international tourist. The first commercial jet debuted in 1950, when there were around 25 million international tourist arrivals worldwide. Since then the commercial aviation industry has grown greatly, with 6,861 commercial air carriers in the U.S. alone. Tourism has grown alongside the aviation industry, reaching with about 1.24 billion international tourist arrivals worldwide in 2016. In the same year, the region with the largest number of international tourist arrivals was Europe, with 616.2 million tourists arriving from abroad, followed by Asia Pacific with 308.4 million.<sup>3</sup> The increase in tourism can partly be attributed to the Chinese outbound travelers that nearly quadrupled from 34.5 million to 127.86 million between 2006 and 2015. China accounted for 23.2% of the total international tourism expenditure in 2015.

<sup>3</sup> <https://www.statista.com/statistics/262750/number-of-international-tourist-arrivals-worldwide/>

# International Tourist Arrivals

International Tourist Arrivals, 1950-2005\*

	World	Africa	Americas	Asia and the Pacific	Europe	Middle East	World	Africa	Americas	Asia and the Pacific	Europe	Middle East
	International Tourist Arrivals (million)						Change over previous year (%) <sup>1</sup>					
1950	25.3	0.5	7.5	0.2	16.8	0.2						
1960	69.3	0.8	16.7	0.9	50.4	0.6						
1965	112.9	1.4	23.2	2.1	83.7	2.4						
1970	165.8	2.4	42.3	6.2	113.0	1.9						
1975	222.3	4.7	50.0	10.2	153.9	3.5						
1980	278.1	7.2	62.3	23.0	178.5	7.1						
1981	278.6	8.1	62.5	24.9	175.5	7.6	0.2	13.2	0.3	8.0	-1.7	7.3
1982	276.9	7.6	59.7	26.0	175.3	8.3	-0.6	-6.6	-4.5	4.5	-0.1	8.8
1983	281.8	8.2	59.9	26.6	179.6	7.5	1.8	8.4	0.4	2.3	2.4	-9.5
1984	306.8	8.9	67.4	29.5	193.4	7.7	8.9	7.5	12.5	10.8	7.7	2.3
1985	320.1	9.7	65.1	32.9	204.3	8.1	4.3	9.2	-3.4	11.6	5.7	5.6
1986	330.2	9.4	70.9	36.8	206.2	6.9	3.2	-3.1	8.9	12.1	0.9	-14.9
1987	359.7	9.9	76.6	42.1	223.9	7.2	8.9	5.1	8.0	14.3	8.6	4.0
1988	385.0	12.6	83.0	48.7	231.6	9.1	7.0	27.7	8.4	15.8	3.4	26.2
1989	410.1	13.9	86.9	49.4	250.7	9.2	6.5	10.3	4.7	1.4	8.3	1.9
1990	439.5	15.2	92.8	56.2	265.6	9.6	7.2	9.7	6.8	13.7	6.0	4.3
1991	442.5	16.3	95.3	58.0	263.9	8.9	0.7	7.2	2.7	3.3	-0.7	-7.1
1992	479.8	18.3	102.2	65.8	282.2	11.3	8.4	12.2	7.3	13.4	6.9	25.9
1993	495.7	18.9	102.2	72.3	290.8	11.4	3.3	3.3	0.0	10.0	3.0	1.4
1994	519.8	19.3	105.1	80.1	303.1	12.1	4.9	1.9	2.9	10.7	4.2	6.3
1995	540.6	20.4	109.0	82.4	315.0	13.7	4.0	5.9	3.7	3.0	3.9	12.9
1996	575.0	22.2	114.5	90.4	332.1	15.8	6.4	8.9	5.0	9.7	5.4	15.0
1997	598.6	23.2	116.2	89.7	352.9	16.7	4.1	4.2	1.5	-0.8	6.3	5.8
1998	616.7	25.6	119.1	89.4	364.6	18.0	3.0	10.4	2.5	-0.4	3.3	7.9
1999	639.6	27.0	121.9	98.7	370.5	21.5	3.7	5.5	2.4	10.5	1.6	19.5
2000	687.0	28.3	128.1	110.5	395.9	24.2	7.4	4.7	5.1	12.0	6.9	12.4
2001	686.7	29.1	122.1	115.7	395.2	24.5	0.0	3.0	-4.7	4.7	-0.2	1.4
2002	707.0	30.0	116.7	124.9	407.0	28.5	2.9	2.8	-4.4	7.9	3.0	16.1
2003	694.6	31.6	113.1	113.3	407.1	29.5	-1.7	5.3	-3.1	-9.3	0.0	3.7
2004	765.1	34.5	125.7	144.2	424.4	36.3	10.1	9.1	11.1	27.3	4.3	22.8
2005*	806.8	37.3	133.5	155.4	441.5	39.0	5.5	8.3	6.2	7.8	4.0	7.6

## Average annual growth (%)

1950-2000	6.8	8.3	5.8	13.1	6.5	10.1
1950-2005*	6.5	8.1	5.4	12.5	6.1	10.1
1950-1960	10.6	3.7	8.4	14.1	11.6	12.3
1960-1970	9.1	12.4	9.7	21.6	8.4	11.5
1970-1980	5.3	11.6	4.0	13.9	4.7	14.3
1980-1990	4.7	7.8	4.1	9.3	4.1	3.1
1980-1985	2.9	6.1	0.9	7.4	2.7	2.7
1985-1990	6.5	9.5	7.3	11.3	5.4	3.5
1990-2000	4.6	6.4	3.3	7.0	4.1	9.6
1990-1995	4.2	6.1	3.3	8.0	3.5	7.3
1995-2000	4.9	6.7	3.3	6.0	4.7	12.0
2000-2005*	3.3	5.7	0.8	7.1	2.2	10.0

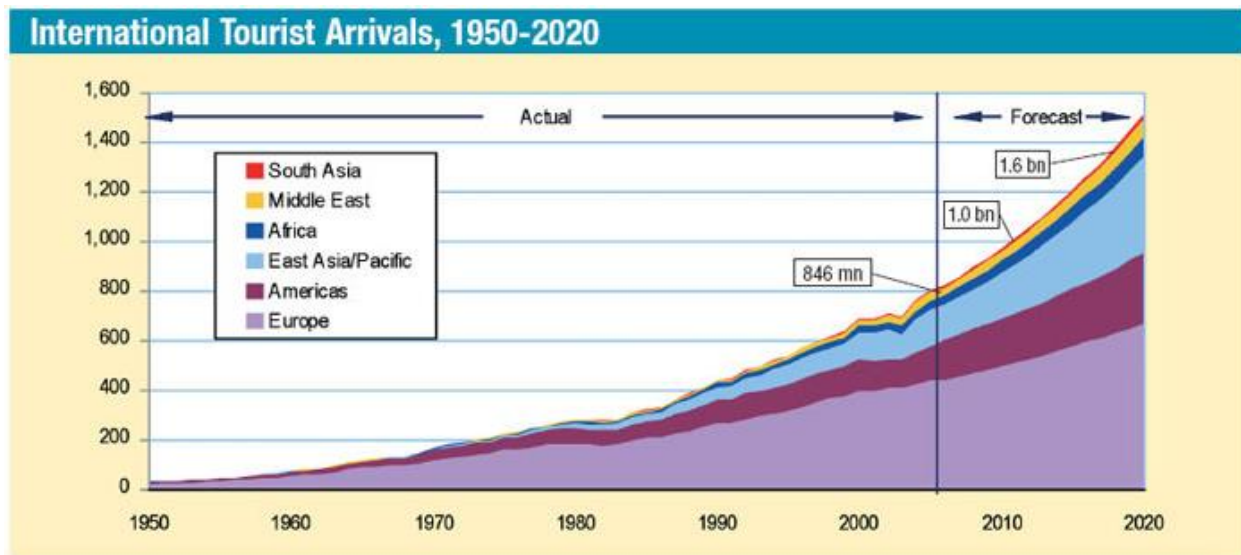
Source: World Tourism Organization (UNWTO) ©

(Data as collected in UNWTO database November 2006)

\* Before 1995, data are simple aggregates of country results and are not corrected for changes in series, so changes on previous year might not be in all cases correct.



The table above shows that from 1950-2005, the Asia Pacific market had the fastest annual growth rate of 12.5%, followed by Middle East and Africa at 10.1% and 8.1% respectively. This is in line with the current trends as it is these regions that are witnessing a spurt of growth due to a lot of development activities which leads to higher growth rates and this in turn leads to higher disposable incomes.<sup>4</sup>



Source: World Tourism Organization (UNWTO) ©

The graph shows that while Europe and America are still the major contributors to the total international tourist arrivals, Asia, Middle East and Africa are on the ascendancy. The forecast also shows a favorable uptick in the total international tourist arrivals and the graph also shows that from virtually negligible tourist arrivals in 1980 to a substantial improvement by 2020. These regions will grow at a much faster rate as compared to Europe and America.

Travel & Tourism is the biggest contributor to the growth of the hospitality industry. The social life and lifestyle of people is changing and there is a wave of new trends emerging worldwide. This coupled with higher disposable income, new travel trends, better work life balance, more female workers are all contributing to the growth of the tourism industry. An exploration of new cities, places, history, and ancient times, people are looking forward to making a trip every year.

<sup>4</sup> [http://www.ontit.it/opencms/export/sites/default/ont/it/documenti/archivio/files/ONT\\_2006-01-01\\_01014.pdf](http://www.ontit.it/opencms/export/sites/default/ont/it/documenti/archivio/files/ONT_2006-01-01_01014.pdf)

## 4. Hospitality Industry – India

### 4.1. Introduction

The Indian Government has undertaken sustained efforts over the past few years to ensure that the hospitality industry reaches its full potential. India was ranked 3<sup>rd</sup> among 184 countries in terms of travel and tourism's total contribution to GDP in 2016. The tourism and hospitality sector's direct contribution to GDP in 2016 was \$47 billion and is forecasted to grow at 7.9 per cent annum from 2016-26. The travel and tourism sector accounted for 9.3 per cent of the total employment opportunities generated in 2016, providing employment to about 40.3 million people. This is expected to increase by 2 per cent per annum to 46.42 million jobs by 2026. The dynamic growth has led to a rise of 20.8% in foreign exchange earnings from tourism during CY 2017 to reach \$27.69 billion.

The Government also launched E-Tourist Visa, which led to a massive increase in the total number of tourist visa issued in the country, with arrivals increasing 57.2 per cent to almost 1.7 million during CY 2017. To tap the unfulfilled potential of the hospitality sector, the government has undertaken a slew of measures that include extending the 'Visa on Arrival' scheme to 150 countries in 2015, offering a 5 year tax holiday for 2,3 and 4 star category hotels located around UNESCO World Heritage sites (excluding Delhi and Mumbai), actively developing 13 thematic circuits in the country for tourism infrastructure, showcasing the country's geographical diversity, 30 World Heritage Sites, 25 bio-geographic zones as well as the attractive beaches that dot the country's vast coastline. At the same time, the government is aggressively marketing and advertising the medical tourism industry which is expected to reach \$9 billion by 2020. These measures have resulted in 10.17 million foreign tourists visiting India in CY 2017 which was an increase of 15.6% from CY 2016.

These measures taken by the government show the faith that they repose in this sector and with the right incentives and support this will be one of the major sectors that can alleviate unemployment to a certain extent given the direct, indirect and induced impact of this sector. Emerging trends can be better understood in the following graphs which provide the performance of the hospitality sector till 2017 with a 10-year forecast till 2027.

## 4.2. Evolution of the Hotel Industry in India Post Independence

India gained independence in 1947, yet the hotel industry went through a period during which no hotel development activities took place. This situation remained so until 1956, when India's first Prime Minister, Jawaharlal Nehru returned from the Non-Aligned Movement Conference and recognized that tourism could be an engine for the country's growth and was inspired to build quality hotels in India for visiting foreign dignitaries. This paved way for the first ever government investment in the hotel industry with the building of the Ashoka Hotel in New Delhi.

The India Tourism Development Corporation (ITDC) was set up in 1966 as a corporation under the Indian Companies Act of 1956, with the merger of Janpath Hotel India Ltd. and India Tourism Transport Undertaking Ltd. Today, ITDC provides a complete range of tourism services, including accommodation, catering, entertainment and shopping, hotel consultancy, duty free shops, and an in-house travel agency. The government gave the tourism industry a boost when it created the Ministry of Tourism and Civil Aviation in 1967, separating it from the Ministry of Transport and Shipping, thereby recognizing that tourism was more than simply transporting people from point A to point B but had a much wider role to play in the nation's economy.

In 1975 ITDC launched its hotel business with the acquisition of a hotel in Chennai, which was rechristened "Hotel Chola." The objective of ITDC's entry into the hotel industry was rooted in the concept of creating value for the nation. ITDC chose the hotel industry because of its potential to earn high levels of foreign exchange, create a tourism infrastructure, and generate large-scale direct and indirect employment.

When India agreed to host the 1982 Asian Games, the country's hotel industry got a shot in the arm. The government announced a national policy on tourism and outlined the country's tourism development objectives. This policy was timed to help the country meet the huge need for hotel rooms in New Delhi, the venue of the Asian Games. The Government officially recognised tourism as an "industry" in 1986. This made the industry eligible for several government incentives including tax incentives, subsidies, priorities in the sanctioning of loans by state and financial institutions, and preferences in acquiring water and electricity connections.

In 1987, after a critical evaluation, the government permitted an Indian firm to franchise 3 and 4-star hotels, with the purpose of helping the emerging group of individual entrepreneurs whose means were just sufficient to build and run small and medium size 3 and 4-star hotels. The goal was to extend to these hotels the benefit of proper technical planning, international standards of comfort, assured hygienic services and a focus on customer satisfaction.

Tourism was made a priority sector for foreign direct investment in 1991, making the industry eligible for automatic approvals of hotels in which up to 51% of the equity was provided by a foreign partner. A National Strategy for the development of Tourism was announced in 1996, which advocated the strengthening of human resource development, the creation of an Advisory Board of Tourism Industry and Trade, the integrated development of tourist destinations, and the promotion of the private sector in tourism development. Tourism was granted "Export House" status in 1998, making hotel owners, travel agents, tour operators, and tourist transport operators eligible for various government incentives. This encouraged the entry of several major international hotel chains into India.<sup>5</sup>

While the National Tourism Policy was announced in 1982, the government formulated a comprehensive plan in 1988 to promote tourism. In 2002, a national policy on tourism was announced which focused on developing robust infrastructure as online travel portals and low-cost carrier airlines gave a boost to domestic return. In the past few years, some of the steps taken by the government include undertaking various marketing initiatives to attract tourists as well as forming the National Medical & Wellness Tourism Promotion Board in 2015, 12 Institutes of Hospitality Management sanctioned in North-East states in August 2016, launching the E-tourist Visa which facilitated the arrival of 1.697 million tourists in India and consequently the T&T sector accounted for 9.3% employment opportunities in India.

The T&T industry has been a major contributor to the economic growth in India and is fundamental in creating employment and generating income for both skilled and unskilled labor. India has witnessed steady growth over the past few years, aided by rising purchasing power of the expanding middle class and the shift from foreign to domestic tourism. While the industry

---

<sup>5</sup> Journal of Hospitality Financial Management, *The Hotel Industry in India-The Past and the Present* by Amitabh Devendra

contributed 9.3% of the total employment (both direct and indirect), it was also the fastest growing among G20 countries, growing by 8.5% in 2016. The Government of India has launched several branding and marketing initiatives such as 'Incredible India' and 'Athiti Devo Bhava', which have provided a focused drive to growth. It has also made serious efforts to boost investments in the tourism sector by allowing 100% FDI through the automatic route. Moreover, 'Incredible India 2.0' aims at showcasing the country as a spiritual and wellness destination; with this, the country is poised to emerge as an important wellness destination in South Asia.

### 4.3. Impact – Direct, Indirect and Induced

Visitor exports as mentioned earlier in the report are a key component of the direct contribution of T&T and in 2017, India generated INR 1777.1 billion in visitor exports which is estimated to grow by 8.8% in 2018 to reach INR 1933.48 billion.

**INDIA: VISITOR EXPORTS AND INTERNATIONAL TOURIST ARRIVALS**



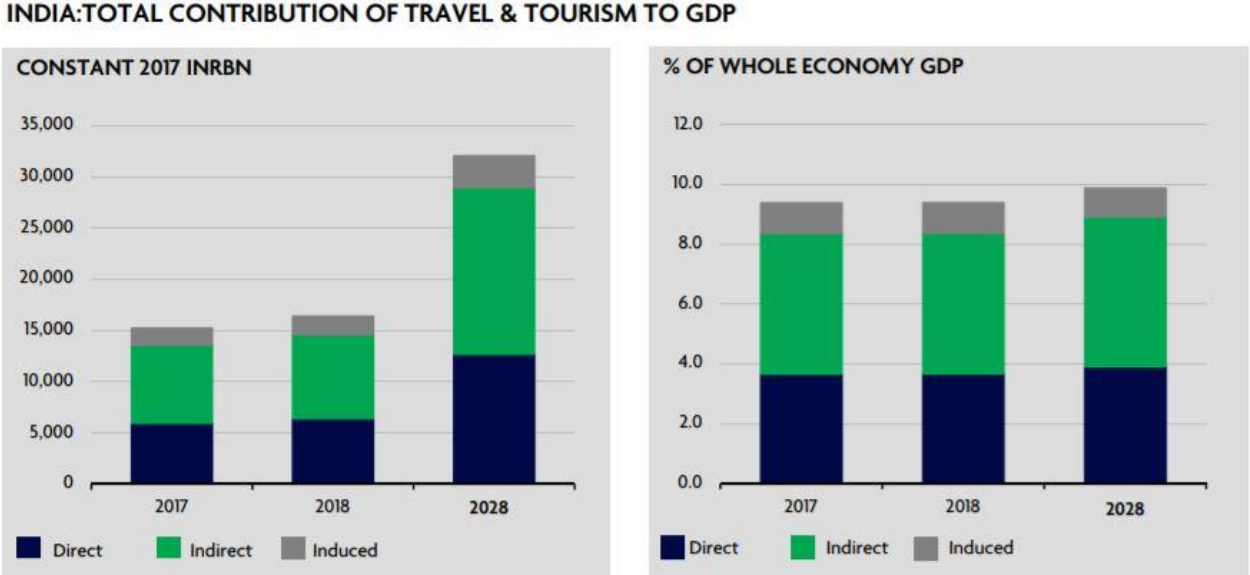
Source: World Travel & Tourism Council, Travel & Tourism Economic Impact 2018, India

India is estimated to attract 18.65 million international tourist arrivals in 2018 which is projected to reach 30.469 million by 2028 with a growth of by 5.5% per annum generating revenue of INR 3316.4 billion. These forecasts are made on the back of the efforts being undertaken by the government reflecting strong growth forecasts. The total foreign visitor exports were ~ 5.5% of total exports and this is expected to rise to 7% by 2027 showing good growth momentum. The growth in tourist arrivals has been due to the flexible government policies, developed road and

rail infrastructure and the ease in availability of e-visas to foreign tourists. The Indian Government has set a target of 20 million foreign tourist arrivals (FTAs) by 2020 and to double the foreign exchange earnings as well.<sup>6</sup>

#### 4.4. Impact on GDP

The total contribution that Travel and Tourism has had on GDP (in absolute and percentage terms) can be explained with the help of the following graphs:



Source: World Travel & Tourism Council, *Travel & Tourism Economic Impact 2018, India*

The total contribution of T&T to GDP was INR 15239.6 billion in 2017 which constitutes 9.4% of GDP and is expected to grow by 7.5% to INR 16386.5 billion (9.4% of GDP) in 2018. It is further forecasted to grow at 6.9% per annum to INR 32053.3 billion by 2028 constituting 9.9% of GDP. The T&T contribution almost doubles in absolute terms in a decade which augurs well for the sector.

In a developing country like India which requires massive amount of funds for its development, T&T should be encouraged wholeheartedly given the wide array of benefits it provides touching almost every sector in the economy. Starting from a low base with exponential potential this industry is poised to register strong growth in the years to come. This can be seen from the charts

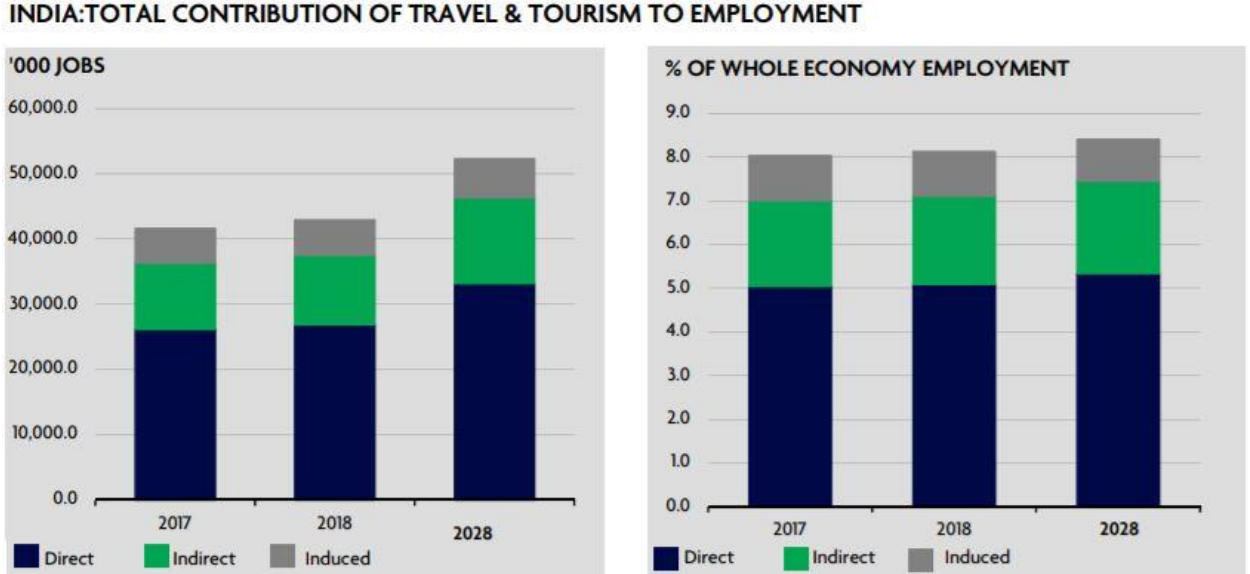
<sup>6</sup> IBEF: *Tourism and Hospitality, February 2018*

where the indirect growth contributes the highest amount to GDP which indicates that the development of this sector gives a fillip to the catering industry, transportation industry, cleaning and maintenance, PR, marketing, food and beverages, generates revenues for landmarks and heritage sites as well as the local domestic industry that produce a wide variety of indigenous goods.

This sector is growing at a similar rate to the country’s GDP which is one of the fastest growing in the World and subsequently in the years ahead, it is expected to maintain its share to the GDP at 10%. Given the neglect which this sector faced earlier, the government is now taking all the necessary steps to support and push this sector to its potential and reaping the benefits of higher foreign exchange earnings, GDP and jobs.

### 4.5. Impact on Employment

The total contribution that Travel and Tourism has had on employment (in absolute and percentage terms) can be explained with the help of the following graphs:



Source: World Travel & Tourism Council, Travel & Tourism Economic Impact 2018, India

The importance of supporting and encouraging this sector can be seen from the number of jobs that it provides directly and indirectly. This is vital for a country like India, with a fast-growing young population that is actively seeking employment. In such a scenario, incentivizing and

supporting this sector will reap rich dividends. The T&T sector supported 41.62 million jobs in 2017 which constituted 8% of the total employment and expected to rise 3.1% in 2018 to 42.9 million jobs constituting 8.1% of total employment. By 2028, T&T is forecasted to support 52.28 million jobs growing at 2% per annum and constituting 8.4% of total employment. While its share in the total economy employment has not increased sharply, it is important to note that in a country growing as fast as India with rising number of people looking for jobs, T&T plays a vital role by maintaining its percentage share with a marginal increase.

To analyze the hospitality industry in India in detail and to understand the direction that it will take in the years going ahead, this report will study the hotel industry as this will be a good barometer to forecast the long-term trends. The hotel industry also incorporates some of the major components of the hospitality industry that include lodging and accommodation, food and beverages and readily available data can be analyzed for this purpose. Availability of reliable information is also paramount for forecasting and keeping this in mind, the hotel industry is studied in-depth.



## 4.6. Impact on Foreign Exchange Earnings

The Ministry of Tourism has also been actively promoting India as a tourist destination to boost the inflow of international tourists. As a developing country, India is in dire need of funds for its ambitious development activities in the infrastructure space. At the same time, the accumulation of foreign reserves is another benefit which will be derived, signs of this are already visible. This can be seen from the following graph:



Source: Ministry of Tourism, Sourced from IBEF

The foreign exchange earnings from tourism in India witnessed growth at a CAGR of 10.4% during 2006-17. The foreign exchange earnings (FEE) from the tourism sector stood at \$23.15 billion in 2016 and rose to \$27.69 billion in 2017 registering a y-o-y growth of ~ 20%. The FEEs in December 2017 was \$3.038 billion compared to \$2.439 billion in December 2016 and \$2.126 billion in November 2015. This healthy upward trend is likely to continue in the future.

## 4.7. Hotel Industry

The hotel industry in India has been on the path to recovery over the past few years since the financial meltdown in 2007. The Great Recession caused a sharp drop in disposable incomes worldwide. Since then, the hotel industry has registered a modest recovery, though not quite to the pre-crisis levels.

The parameters used to analyze the performance of this industry include ADR (Average Daily Rate), RevPAR (Revenue per Available Room) and Occupancy rate. The occupancy rate gives us the percentage of rented rooms to total rooms and the higher this number, the better it is for the hotel. The average daily rate is the rate charged per room. The revenue per available room is a performance metric calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate.

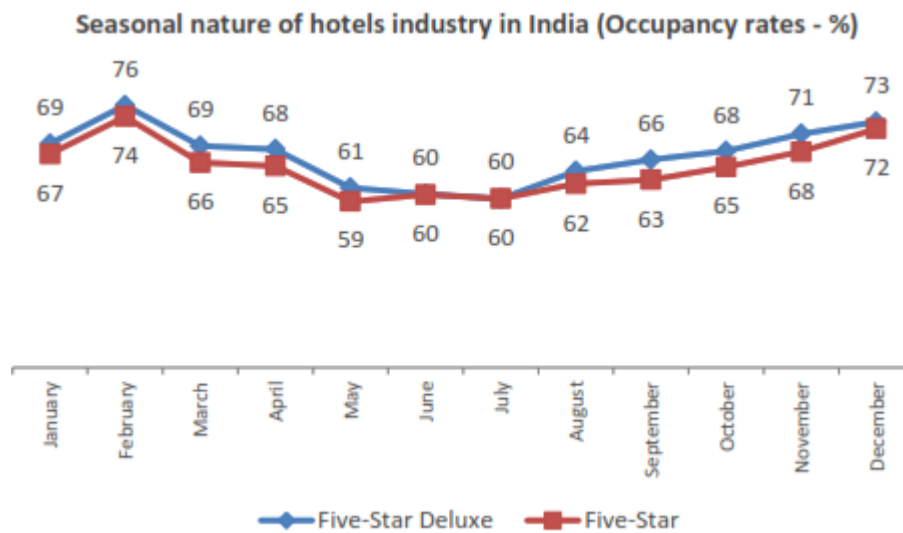
The Ministry of Tourism classifies hotels into 5-Star Deluxe, 5-star, 4-star, 3-star, 2-star, 1-star and Heritage hotels. Heritage Basic, Heritage Grand and Heritage classic hotels also include havelis, posh residences, hunting lodges, forts and palaces built prior to 1950 and 1935 respectively. The ministry re-classifies hotels every 5 years.

Hotels are also classified according to the level of service they provide into Upscale/Luxury which include hotels with a rating of 5 star and above such as 5-D star rated hotels, Mid segment hotels offer services equivalent to 4-star hotels and Economy hotels that have a 3-star rated hotels equivalent services.

The industry can also be classified as business and leisure destinations from the point of view of the hospitality sector. While the macro-economic factors affect the business destinations (RevPAR's – revenue per available room, growth is sensitive to the macro-economic indicator such as the nominal GDP), the leisure destinations show a greater sensitivity to non-economic factors such as terror attacks, health related travel warning, etc. (decline in FTA in 2008-09 was largely on account of the Mumbai terror attacks on November 26, 2008 and the swine flu linked travel advisories).

## 4.8. Cyclical Nature

The hospitality industry is cyclical in nature. i.e., during positive cycles the industry witnesses periods of sustained growth and sees healthy average room rates (ARRs) and occupancy rates (ORs). Until the economy goes through a downturn or if there is excess supply, the trend continues. When recession sets in, the ORs begin to decline followed by the ARR. In the recovery phase, ORs starts to move up and eventually the ARR also start to increase.



Source: FHRAI, HVS Research

The average occupancy for 5-Star Deluxe hotels was 67% whereas for the 5-Star hotels it was 65%. The occupancy rates during the year ranged from mid-70's to around 60% averaging at mid-60%.

The upscale segment of the hotel industry in India is highly organised and concentrated in few key cities since that is where their target audience resides. The total number of 'keys' (rooms) in the top 11 key cities covered by CARE Ratings is estimated at 84,396 as at the end of FY16. Majority of the room inventory is concentrated in Mumbai, NCR and Bengaluru.

## 4.9. Top Hotel Brands Operating in India

The growth and promise that the Indian market holds has led to some of the top brands operating in the hotel industry in India. Rise in disposable income and the efforts being undertaken to boost tourism are further complementing this industry. The domestic and international hotels which are operating in India can be summarised in the table below:

### Top Brands in Hotel Industry in India



Domestic Hotels	International Hotels
Bharat Hotels Ltd	Accor
EIH Ltd	Swissotel Hotels & Resorts*
Hotel Leelaventure Ltd	Four Seasons Hotels Inc
Taj Hotels Palaces Resorts Safaris	Intercontinental
ITC Ltd	Best Western Hotel
Neesa Leisure Ltd	Hyatt
Pride Hotels	Carlson Rezidor
Park Hotels	Berggruen Hotels
Lemon Tree Hotels	Hilton Hotels
Sarovar Hotels & Resorts	Wyndham Hotels
Royal Orchid Hotels	Choice Hotels
Concept Hospitality	Marriott International
	Starwood Hotels & Resorts**

Note: \*Swissotel has been taken over by Accor

\*\*Starwood Hotels & Resorts has been acquired by Marriott International

Source: CARE Ratings

Some of the top international brands have invested in India and continue to do so with mergers and acquisitions over the past decade to consolidate their position vis-à-vis their Indian counterparts. They bring expertise and know-how in this field and this is a re-affirmation of their faith in the Indian markets.

#### 4.10. Existing Room Supply

The existing room supply for the country grew by 5.5% in FY16 totalling to 113,622 rooms (as of 31 March 2016). This considers the 5,619 new rooms that entered various markets during the year, as well an expansion of the existing properties.

### Existing inventory (Major cities and across categories – Only branded)

Sr no.	City	Existing inventory at the end of			Y-o-y Growth	5 year CAGR
		2011-12	2014-15	2015-16		
1	NCR	15,006	19,838	20,680	4.2%	8.3%
2	Mumbai	12,052	12,865	13,054	1.5%	2.0%
3	Bengaluru	7,713	11,117	11,799	6.1%	11.2%
4	Chennai	4,904	7,444	7,787	4.6%	12.3%
5	Pune	5,672	6,137	6,287	2.4%	2.6%
6	Hyderabad	4,797	5,954	6,262	5.2%	6.9%
7	Goa	3,885	5,298	5,596	5.6%	9.6%
8	Jaipur	3,054	4,822	5,040	4.5%	13.3%
9	Ahmedabad	1,975	2,944	3,154	7.1%	12.4%
10	Kolkata	1,787	2,701	2,701	0.0%	10.9%
11	Agra	1,739	1,755	2,036	16.0%	4.0%
	<b>Total</b>	<b>62,584</b>	<b>80,875</b>	<b>84,396</b>	<b>4.4%</b>	<b>7.8%</b>
12	Other Cities	21,729	26,820	29,226	9.0%	7.7%
	<b>Total</b>	<b>84,313</b>	<b>107,695</b>	<b>113,622</b>	<b>5.5%</b>	<b>7.7%</b>

Note: \*NCR includes New Delhi, Noida and Gurugram

\*\* Other cities includes all other hotel markets across India

Source: HVS Research

Looking at the major markets analysed in this report, Agra saw the highest increase in supply (16%) in FY16, adding to the relatively small base of hotels, followed by Ahmedabad (7.1%) and New Delhi (6.4%). Kolkata, Ahmedabad, Jaipur, Chennai and Bengaluru witnessed double digit 5-year CAGR whereas Mumbai and Pune witnessed muted growth at 2% and 2.6% respectively. However, overall the 5-year CAGR for the cities analysed in this report as well as the “other cities” in India grew at almost identical rates at 7.8% and 7.7% respectively showing a clear upward trend. Concurrently, the total inventory increased from 84,313 rooms in 2011/12 to 113,622 rooms in 2015/16. Tier II cities like Agra are growing at a healthy rate given the rise in tourism. Being a Wonder of the World, the Taj Mahal is attracting a number of tourists from around the globe and this is the reason for rise in hotels.

#### 4.11. Proposed Room Supply

The next table shows the planned increased in the supply of branded rooms across the major cities and what this means for the hotel industry in general.

**Proposed Branded Hotel Rooms across Major Cities and Categories (FY16 – FY21\*\*)**

City	Existing Supply (FY16)	Proposed Supply (FY21)*	Increase in Future Supply	Luxury	Upscale	Mid-market	Budget	Extended stay
Agra	2,036	622	31%	16%	32%	0%	52%	0%
Ahmedabad	3,154	1,238	39%	24%	33%	37%	7%	0%
Bengaluru	11,799	5,209	44%	13%	39%	28%	17%	4%
Chennai	7,787	2,312	30%	0%	0%	44%	44%	12%
New Delhi	14,035	2,792	20%	20%	49%	27%	4%	0%
Gurgaon	5,323	1,959	37%	0%	35%	30%	18%	17%
Noida	1,322	2,561	194%	0%	46%	32%	15%	7%
Goa	5,596	2,062	37%	0%	37%	29%	34%	0%
Hyderabad	6,262	2,464	39%	0%	15%	49%	27%	10%
Jaipur	5,040	960	19%	0%	27%	65%	8%	0%
Kolkata	2,701	3,209	119%	15%	34%	27%	24%	0%
Mumbai	13,054	4,166	32%	24%	20%	32%	19%	6%
Pune	6,287	1,965	31%	26%	20%	37%	17%	0%
Other cities	29,226	25,393	87%	1%	22%	49%	26%	3%
<b>Total</b>	<b>1,13,622</b>	<b>56,912</b>	<b>50%</b>	<b>7%</b>	<b>27%</b>	<b>40%</b>	<b>23%</b>	<b>4%</b>

Note: \*Proposed Supply includes 4,286 rooms which have been open for less than six months, and therefore, not included in the existing supply

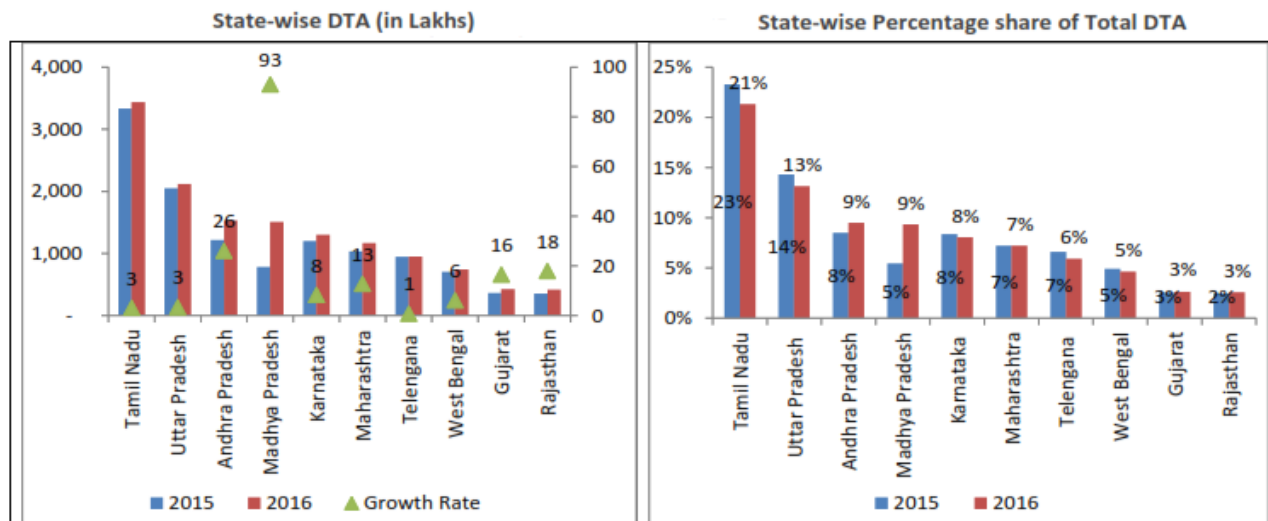
\*\*The supply for FY21 has been calculated by adding the active future supply to the existing base of rooms in FY16

Source: FHRAI, HVS Research

The existing supply of hotel rooms in FY16 stood at 1,13,622 and this is forecasted to increase by 56,912 rooms which is almost 50% of the existing supply within the next 5 years by 2021. Cities set to witness the highest increase in room supply are Noida and Kolkata at 164% and 119% respectively which is due to their lower base of existing rooms. At the same time, cities like Bangalore, New Delhi and Mumbai with 11,799 rooms, 14,035 rooms and 13,054 rooms are also poised to register modest growth of 44%, 20% and 32%. However, an interesting trend that emerges from this table is the proposed increase in the Mid-market segment at 40%, followed by Upscale at 27% and budget at 23%. This indicates the growing middle class of India which is asserting themselves with rising disposable incomes and travelling across the length and breadth exploring the country. The domestic tourists have been on an upward trajectory and this can be seen in the proposed supply pipeline which is a response to rising demand in these segments. While the increasing foreign tourist arrivals is a byproduct of the efforts of the government, the mid-market segment is also witnessing growth in part due to the rising growth rates as well as the government initiatives such as the 100 smart cities programs which aims to ensure that the cities develop with amenities of a global standard. These combined efforts are reasons for this

segment witnessing large increase in supply of rooms. Starting from a lower base and catering to a growing middle class makes this an attractive proposition.

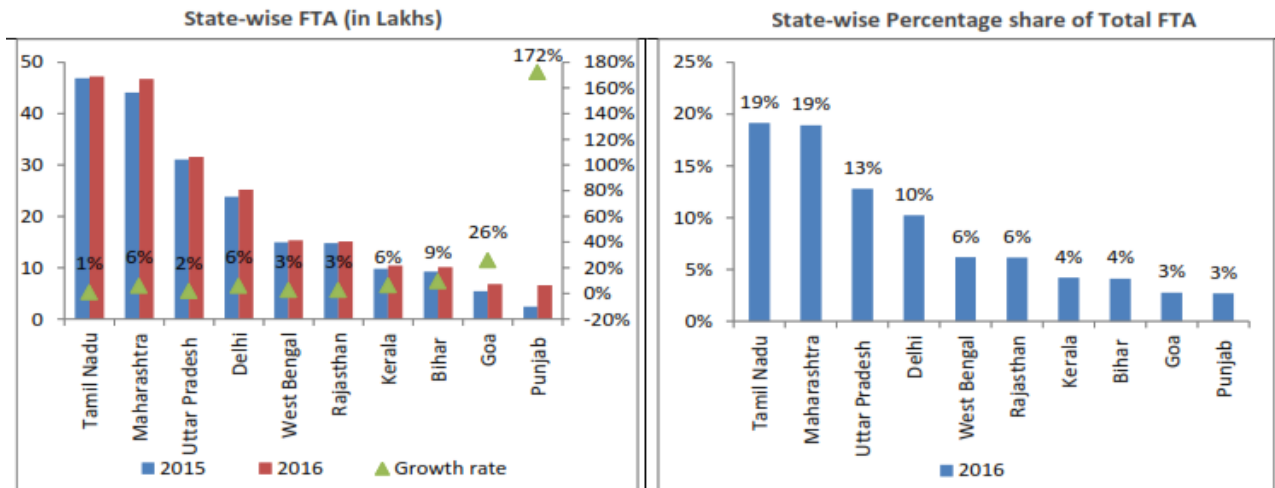
#### 4.12. DTA (Domestic Tourist Arrivals) and FTA (Foreign Tourist Arrivals)



Note: Top 10 States

Source: Ministry of Tourism, CARE Ratings

Domestic tourist arrivals (DTA) are the tourists within India who travel to different places both for business and leisure purposes. The domestic tourist arrivals grew by 12.7% from 1,432 million in 2015 to 1,614 million in 2016. The high growth in the domestic tourist arrivals can be attributed to the rising disposable income, popularizing weekend culture, the eagerness to spend amongst the youth, government campaigns, introduction of low-cost airline services, increased trade and booming service sector. The travel to religious places like Vaishno Devi and Tirupati amongst many and travel to leisure destinations like Goa, Shimla, Kerala, Jaipur etc. are the growth drivers for hotels in the upscale category. Coupled with this, marriage at traditional locations amongst the rich and the royal families is also a key growth driver for the upscale and heritage hotels in India, especially in Jaipur, Jodhpur and Udaipur. Tamil Nadu, UP, AP, MP comprise over 50% of the total domestic tourists' arrivals within India with an increase in volume y-o-y but a decrease in percentage terms y-o-y.



Note: Top 10 States

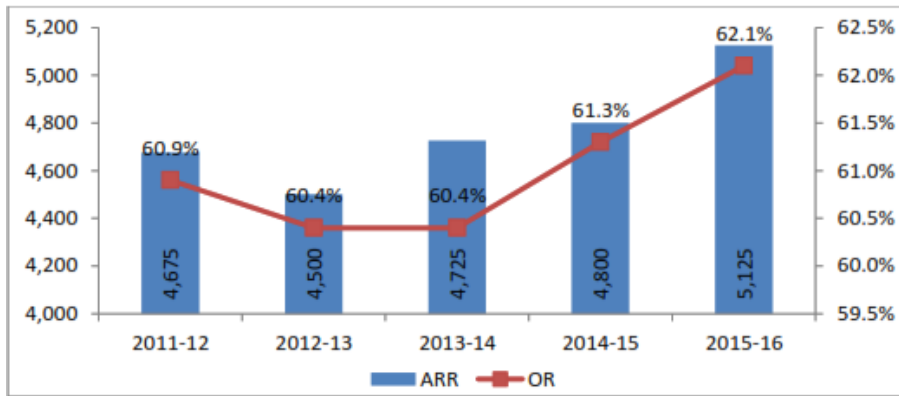
Source: Ministry of Tourism, CARE Research

Foreign tourist arrivals (FTA) are the tourists that come and stay in India for a period exceeding 24 hours. Tourists from USA and UK accounted for approximately 47% of the total foreign tourists flowing into India in CY16. Punjab has seen the highest growth in FTA arrivals followed by Goa, Bihar and Maharashtra. Tamil Nadu witnessed highest FTA arrivals, although y-o-y growth was only 1% due to high base effect followed by Maharashtra where the y-o-y growth was about 6%. Along with UP and Delhi, these 4 states receive more than 60% of the total foreign tourists coming to India with y-o-y growth ranging from 1%-6%. Other states are picking up momentum and their growth in FTAs have come at the cost of the well performing states.

On a y-o-y basis, the FTAs in CY16 increased by 10% from 8 million in CY15 to 8.8 million in CY16. This has been the highest growth since 2008. This growth is backed by various Government of India initiatives such as introduction of e-visa in November 2014, developed rail & road infrastructure, along with promotion of medical and cruise tourism. In June 2016, the Indian government approved 150 countries under the Visa on Arrival scheme to attract additional foreign tourists. The Visa on Arrival scheme registered an average growth of 134% over 2010-16. Also, the Indian government has released a fresh category of visa- the medical visa or M visa to encourage medical tourism.



Chart 5: Pan-India Performance



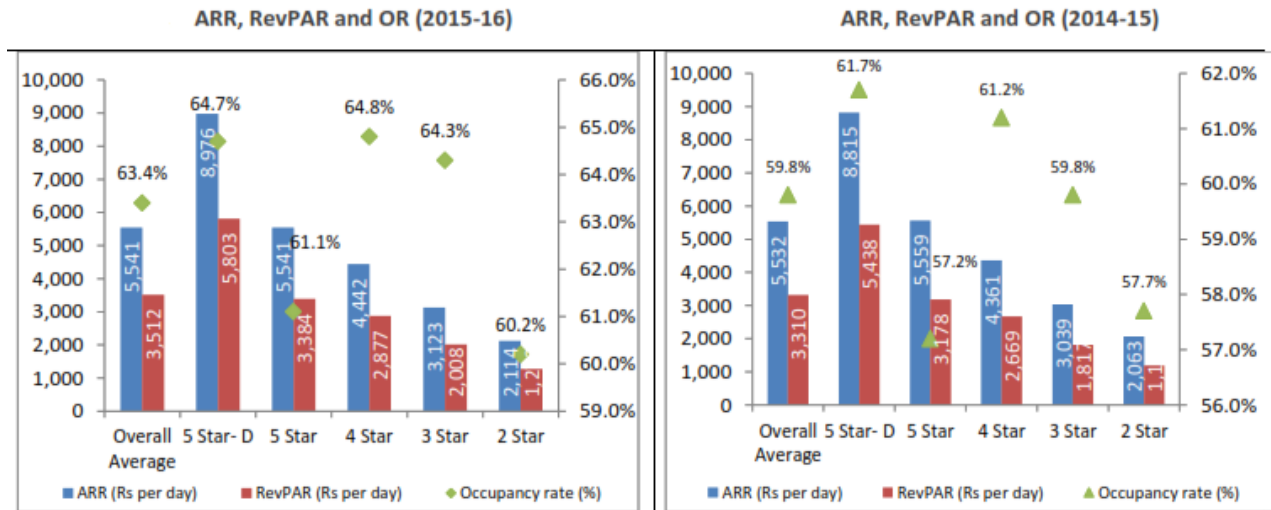
Note: Numbers have been rounded off to the nearest whole number, wherever applicable  
Source: FHRAI, HVS Research

The pan India performance is on an upward trajectory with occupancy rates and average room rates both steadily increasing which translates into higher revenue per available room.

The reasons attributed for this improved performance post 2014/15 has been the renewed focus on this sector by the present government. In a bid to create millions of jobs it promised, boosting the hospitality sector was a low hanging fruit. Consequently, the Average Room Rates increased by ~7% from 4800 to 5125 and the occupancy rate rose from 61.3% to 62.1%. These changes have manifested in a year showing the potential that lies if proper attention is given. Continuing with the various schemes implemented and ensuring the best of support will significantly improve this sector in the years ahead and reap rich dividends.

This pan India performance can further be scrutinized by analyzing the performance according to the hotel classification of 5-Star Deluxe, 5 Star, 4 Star, 3 Star and 2 Star.

### 4.13. Financial Performance: ARR, OR and RevPAR



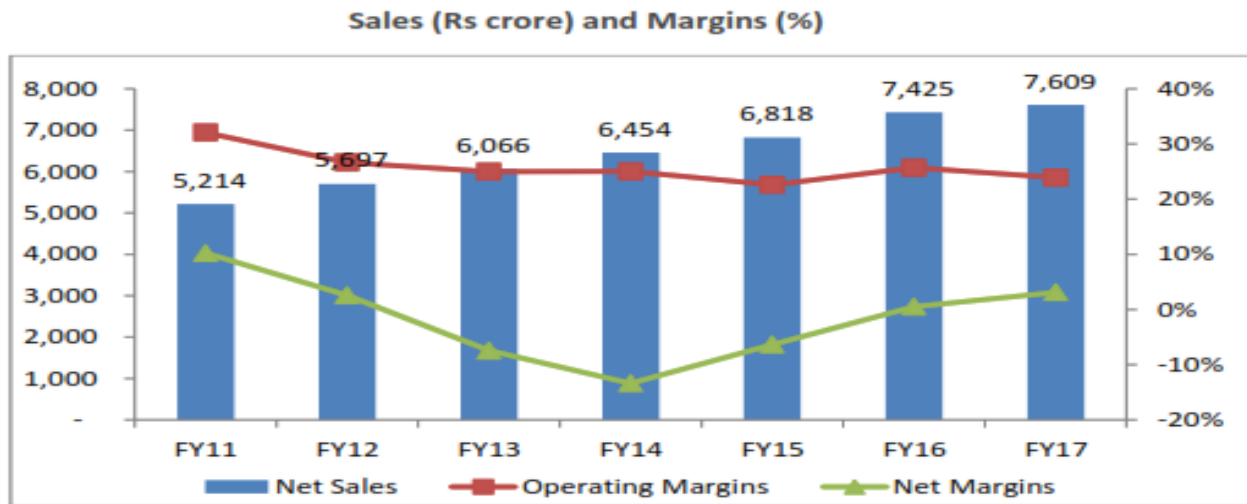
Note: Major markets include 13 major cities – Agra, Ahmedabad, Chennai, Bengaluru, Mumbai, NCR (New Delhi, Gurugram & Noida), Goa, Hyderabad, Jaipur, Kolkata and Pune.

Source: FHRAI, HVS Research

The parameters such as ARR, OR and RevPAR have shown an upward trend and have grown at a healthy rate. Each hotel segment has done well vis-à-vis the last year reaffirming the long-term growth forecast of the hospitality industry. The expected future inventory in 11 major markets (across categories - only branded) is lower at around 57,000 rooms for the next 5 years (FY16 to FY21). Therefore, with increasing demand on the back of improvement in economic activities and lower room additions, the industry is expected to sustain the average room rates (ARRs) going forward and grow at an average of 3.5% per annum. Also, the occupancy is expected to inch up to an average of about 66% by the end of FY21 compared with 63.4% in FY16.

### 4.14. Revenue and Cost Structures of Hotels

A report by CARE ratings analysed the basic revenue and cost structure of the organised hotel industry in India. Net sales witnessed a marginal increase of about 2.5% y-o-y in FY17 as compared to growth of about 8.9% in FY16. However, the revenue registered a CAGR growth of about 6% for the 5-year period between FY12 and FY17. The demand slow down for hospitality industry in FY17 could be the outcome of the terrorist attacks in various International locations such as Paris, Brussels, and Orlando that had a significant impact on the travellers' sentiment. Also, unrest in Kashmir could be a spanner to the demand.

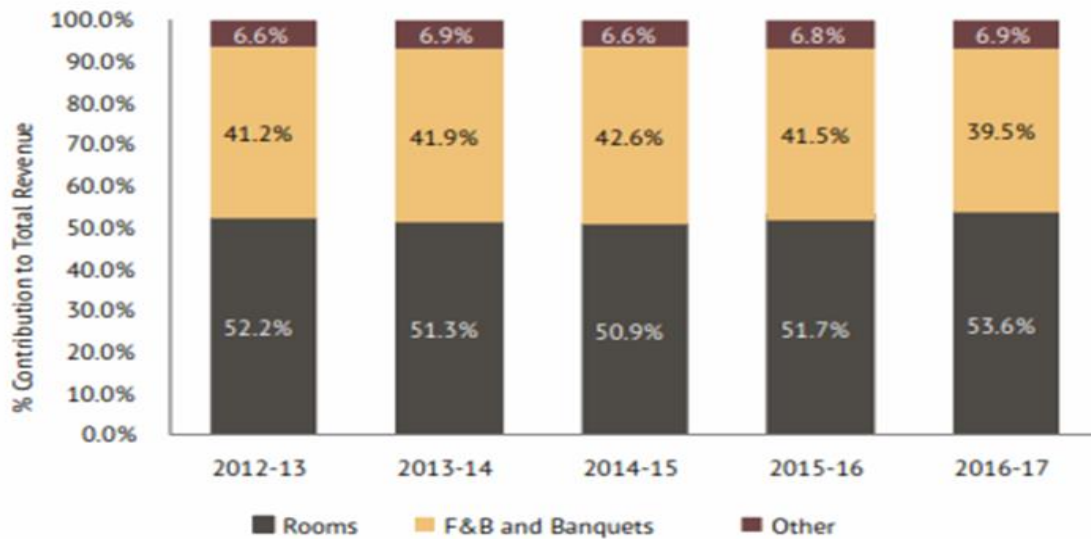


*Note: The industry margins are based on the financial results of 21 listed hotel players*

However, going forward, the sentiments look positive and demand is expected to pick up on back of increased economic activities due to recovery in the global conditions resulting in higher movement in the MICE segment. The momentum is expected to pick up with the industry poised to register a growth of about 7-9% in revenues for FY18. However, the liquor ban in some states would restrict the growth to some extent.

Revenues in hotels can be classified under three broad headers - room revenues (revenues received as room tariffs), food & beverages (F&B) revenues and other revenues. While the room revenues are room tariffs and occupancy rates, the F&B revenues comprise revenues from restaurants and banquets/convention centers. Other revenues mainly consist of income from auxiliary services provided by the hotel such as laundry, spa services, telephone services and transport. In terms of expenses, employee cost is the largest cost component for hotels. Some of the other expenses that hotels incur include the food and beverage expense as well as the maintenance of the rooms. Hotels have large fixed costs and marginal costs per additional guests are comparatively low. Operating costs include selling and distribution costs, advertising expenses and marketing costs. Power and fuel costs also constitute operating costs whereas the other costs include repairs and maintenance and travelling expenses.

### Sources of Revenue (2012-13 to 2016-17)



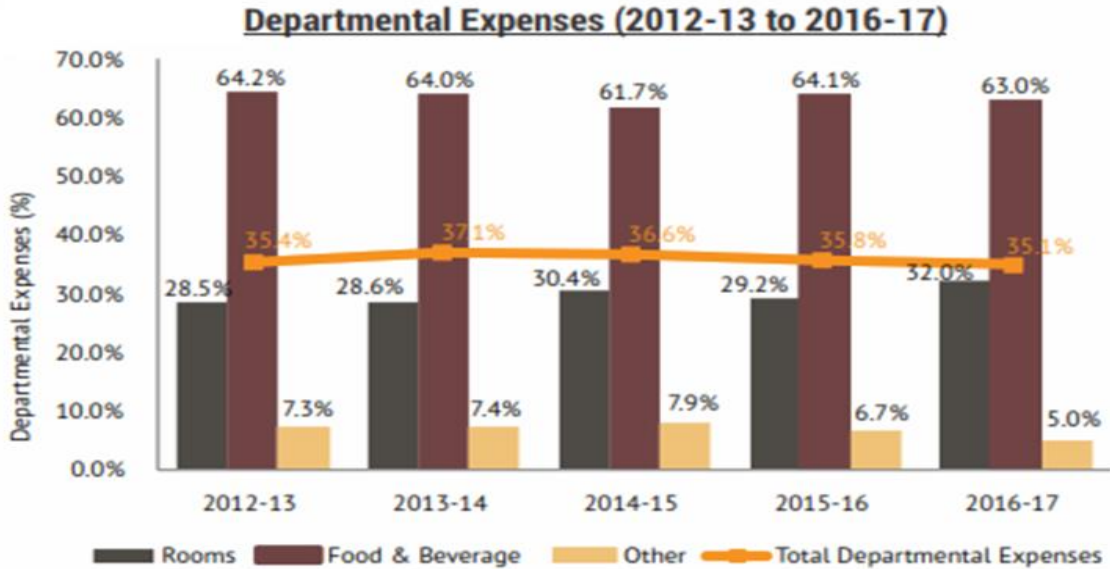
Source: FHRAI Indian Hotel Survey 2016-17

Room Revenue = *Room Nights sold* \* Average Room Rate

*Room Nights Sold* = No. of rooms \* Occupancy Rate \* No. of days (Time Period)

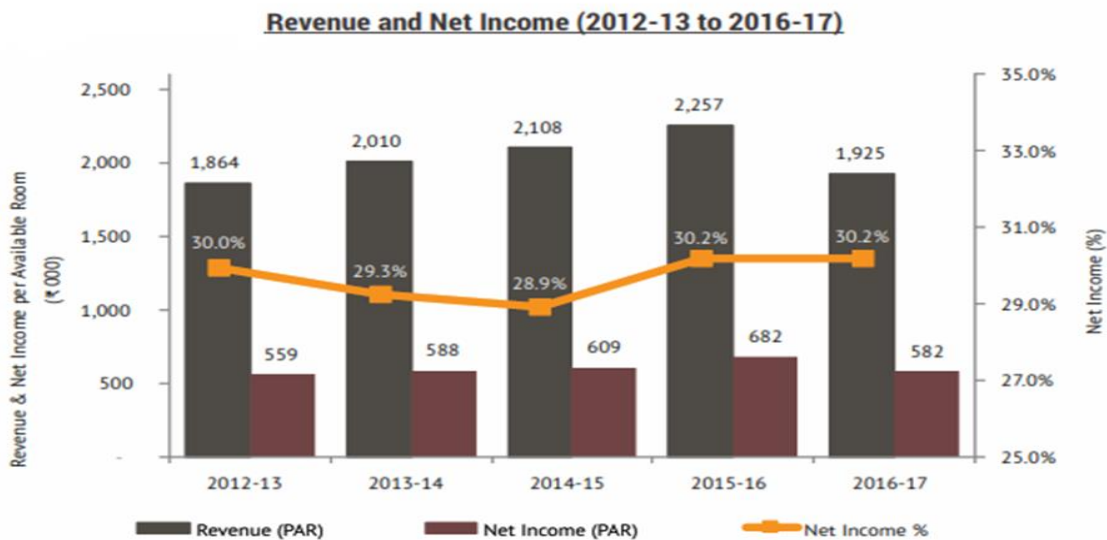
Room revenues constitute around 50%-55% of the total hotel revenues. F&B (Food and Beverage) revenue constitute revenues from restaurants and banquets and this constitutes around 35-40% of the total hotel revenues. Other revenues include revenues from telecom services, spa services, dry cleaning and laundry services and transport facilities offered by the hotel. These revenues usually constitute about 5%-7% of the total hotel revenues.

The contribution by rooms revenue to the top line had been declining in the past few years on the cost of F&B and Banquets though this trend has been reversed from 2015-16. On the other hand, contribution from F&B and Banquets declined to 39.5% in 2016-17 from 42.6% recorded in 2014-15. The contribution of the other operating departments has remained range-bound for the past five years. The rise in share of room revenue to total revenue is indicative of rising ADR and occupancy rate which results in a higher RevPAR and this augurs well for the hotel industry in the long run as it is a positive sign. Hotels primarily earn revenue by renting rooms and a rise in revenue from this segment is a sign of improving economic conditions.



Source: FHRAI Indian Hotel Survey 2016-17

A decreasing trend of total departmental expenses as a percentage of Total Revenue has been observed at an All-India level since 2013-14. This is primarily attributed to the drop in F&B and other expenses. The rooms expense has increased though not substantially enough to offset the gains made by the drop in Room and F&B expense. This is another positive sign for the industry since a reduction in expenses as a percentage of total revenue means that the industry is becoming profitable. From 2013/14 to 2016/17, this percentage has dropped from 37.1% to 35.1% and this is an encouraging sign for the industry.



Source: FHRAI Indian Hotel Survey 2016-17

All India average Net Income as a percentage of Total Revenue remained stable at 30% primarily driven by the increase in room revenue for hotels across all categories. From 28.9% to 30.2% in a few years indicates a turnaround is in progress. As seen previously, this turnaround began in 2014/15 and ever since the industry has turned a new leaf.

#### 4.15. Investments

The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-March 2017, the hotel and tourism sector attracted around US\$ 10.14 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). With the rise in the number of global tourists and realising India's potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

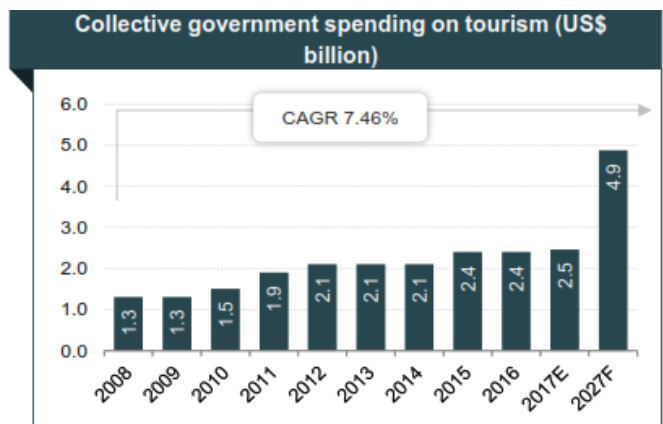
- MakeMyTrip raised US\$ 330 million from Ctrip.com International Ltd, Naspers Ltd and few undisclosed investors, in a bid to withstand competition in the ticketing segment.
- MakeMyTrip has agreed to buy Ibibo Group's India travel business at a deal value of US\$ 720 million, thus creating India's largest online travel firm with a value of US\$ 1.8 billion, as estimated by Morgan Stanley.
- Chaudhary Group (CG) Hotels & Resorts aims to have 200 hotels operational by 2020.
- As per industry experts, mid-hotel segment in India is expected to receive investments of Rs 6,600 crore (US\$ 990million) excluding land over next five years, with major hotel chains like Marriott, Carlson Rezidor and ITC planning to set up upscale, budget hotels in state capitals and tier-II cities.
- AccorHotels, a French multinational hotel group, plans to expand its footprint in Guwahati and Kolkata by adding 550 more rooms to its portfolio of hotels in the next three years.<sup>7</sup>
- India's tourism sector attracted capital investments of Rs 2,284.9 billion which was 5.7 per cent of total investment (US\$ 34 billion) received during 2016. They are expected to grow by 5.7 per cent over the next 10 years.<sup>8</sup>

---

<sup>7</sup> IBEF

<sup>8</sup> IBEF, Tourism and Hospitality, February 2018

- Berggruen Hotels is planning to add around 20 properties under its midmarket segment 'Keys Hotels' brand across India, by 2018.
- International hotel chains are increasing their presence in the country, as it will account for around 47 per cent share in the Tourism & Hospitality sector of India by 2020 & 50 per cent by 2022, increasing from 44 per cent in 2016.



- Hilton plans to add 18 hotels pan India by 2021, along with 15 operational hotels under its brands namely Hampton, Hilton Garden Inn, Conrad, Hilton Hotels & Resorts & DoubleTree by Hilton.
- In 2018, Marriott International plans to add 20 more properties to its existing portfolio of 98 hotels in India.
- Government's collective spending on tourism & hospitality sector, in 2016 stood at around US\$ 2.4 billion.
- The government's collective spending is expected to increase to Rs 320.1 billion (US\$ 4.87 billion) by 2027.
- In December 2017, the World Bank agreed to provide US\$ 40 million for the development of tourism facilities in Uttar Pradesh.

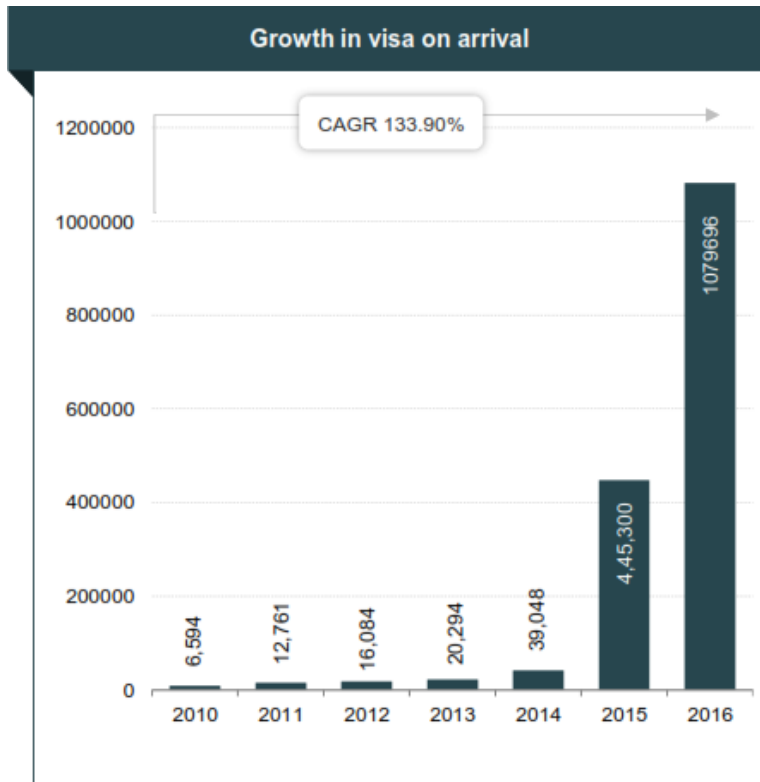
#### 4.16. Government Initiatives

The Government, under the Ministry of Tourism has taken a host of initiatives to ensure the growth of the travel and tourism industry which can be summarised below as follow:

- The government has identified 13 circuits which include Krishna Circuit, Buddhist Circuit, Himalayan Circuit, North East Circuit and Coastal Circuit
- Taj Mahotsav: the 10-day celebration provide a platform to experience India's arts, craft, culture, cuisine, dance & music.
- Under Budget 2018-19, the government allotted Rs 1,250 crore (US\$193.08 million) for Integrated development of tourist circuits under Swadesh Darshan and Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD).
- National Mission on Pilgrimage Rejuvenation & Spiritual Augmentation was implemented by the Ministry for enhancing the facilities provided & infrastructure at pilgrimage centres of all cities.
- Formulation of National Tourism Policy 2015 that would encourage the citizens of India to explore their own country as well as position the country as a 'Must See' destination for global travellers.
- Under Union Budget 2017, USD14.87 million was allocated for promotion & publicity of various programmes & schemes of the Tourism ministry.
- Under Union Budget 2017-18, the government allocated USD15.25 million for development of Umiyam Lake-Ulum Sohpetbneng-Mawdiangdiang under North East Circuit of Swadesh Darshan Scheme & USD11.53 million for development of Buddhist sites of MP (Mandsaur- Dhar- Sanchi- Satna- Rewa)
- The Ministry, in consultation with state/UT administrations, has proposed to employ tourist police at prominent tourist spots
- An investment-linked deduction under Section 35 AD of the Income Tax Act is in place for establishing new hotels in the 2-star category and above across India, thus permitting a 100 per cent deduction in respect of the whole or any expenditure of a capital nature
- Assisting in large revenue generating projects, supporting public private partnerships in infrastructure development such as viability gap funding and schemes for capacity building of service providers.



- Under 'Project Mausam' the Government of India has proposed to establish cross cultural linkages & to revive historic maritime cultural & economic ties with 39 Indian Ocean countries. In 2015, Government of India linked China Silk Road project with Project Mausam.

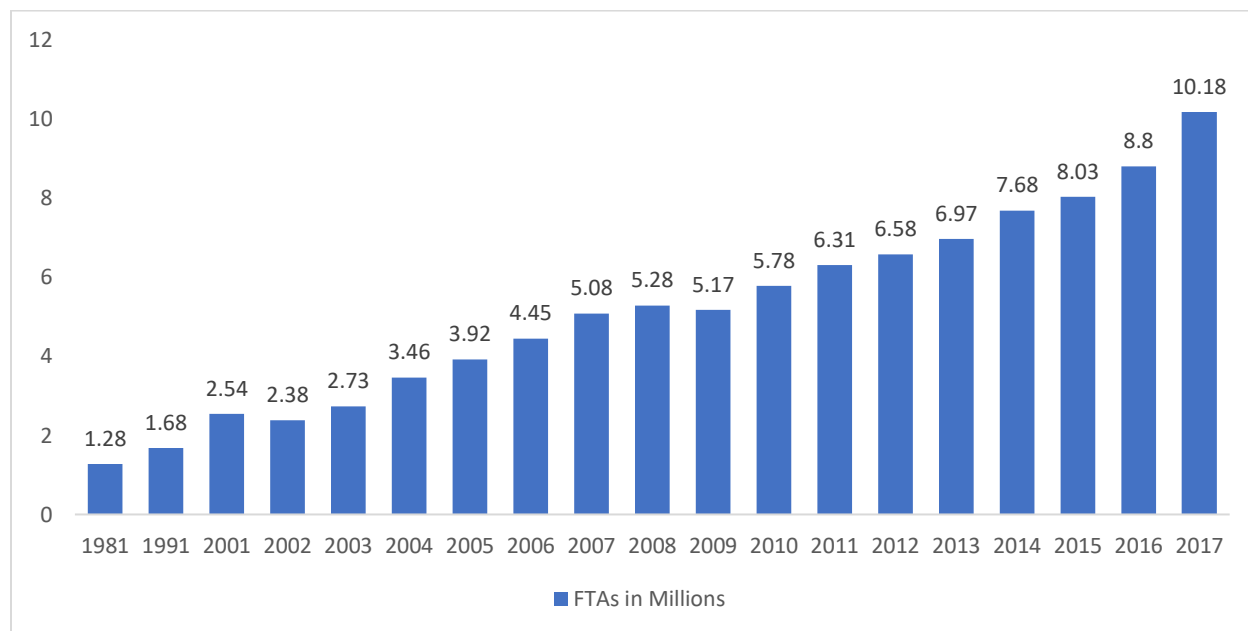


Source: IBEF, Tourism and Hospitality, February 2018

The Visa on arrival scheme adopted by the government has been revolutionary and the impact can be seen from the increase in number of tourists who have availed this facility. From a meagre 6,594 visa on arrivals issued in 2010 to 39,048 issued in 2014, the visa on arrivals skyrocketed to 1,079,696 which is an astronomical increase and represents a CAGR of 133.90% over the past 6 years.

- The Ministry has set up a Hospitality Development & Promotion Board, which will monitor & facilitate hotel project clearances/approvals
- Since April 2017, the E-Tourist Visa facility has been made available to citizens of 161 countries.
- Year-on-year growth of 48.3 per cent was registered during the month of December 2017, as a total of 241,000 tourists arrived in India on E – Tourist Visas.
- Foreigners travelling to India on e-tourist visa will receive a BSNL SIM card which will be pre-activated and loaded with talk time and data.

## Inbound Tourism: Foreign Tourist Arrivals (FTA's), Arrivals of Non-Resident Indians (NRIs) and International Tourist Arrivals (ITAs) 1981-2017



Source: India Tourism Statistics, 2017

The graph shows that from 1981-2001, the growth in foreign tourist arrivals was tepid and took two decades to double 1.28 million in 1981 to 2.54 million in 2001. However, post 2001, there has been a healthy surge in growth with foreign tourist arrivals more than quadrupling from 2.54 million in 2001 to 10.18 million in 2017 (from January to November) which is bound to rise further.

Some of the major reasons for this rise in growth is attributed to a variety of factors. The most important factor is the rise in GDP growth rates as the economy started growing at a healthy rate. This meant the government had more financial resources to upgrade and modernise the tourist sector. At the same time, since 2014, the government has taken a variety of steps to tap the potential that this sector offers if it is properly nurtured. Consequently, with the visa on arrival scheme being extended to over 150 countries, there has been an exponential rise of tourists availing this facility leading to much higher growth numbers. The government is also tirelessly working to promote India as a cultural and medical destination and has come out with schemes to address this latent demand. Taking into account these measures that have been adopted, the government has set the stage for phenomenal growth in this sector, which is bearing fruit.

## 4.17. India: Relative country and region wise ranking

The Travel and Tourism competitiveness report analyzed 136 countries to gain a unique insight into the strengths and weaknesses to identify areas for development of each country to enhance its industry competitiveness. Not only does it allow for cross-country comparison but also for tracking the progress of policies that are implemented.

Country/Economy	Global rank	Enabling environment				
		Business environment	Safety and security	Health and hygiene	Human resource and labour market	ICT readiness
<b>EASTERN ASIA AND PACIFIC</b>						
Japan	4	5.3	6.1	6.4	5.2	6.1
Australia	7	5.1	6.1	6.1	5.1	6.0
Hong Kong SAR	11	6.2	6.5	6.6	5.4	6.5
China	15	4.2	5.0	5.4	5.2	4.6
New Zealand	16	5.6	6.3	5.7	5.5	6.0
Korea, Rep.	19	4.7	5.8	6.4	4.9	6.2
Taiwan, China	30	5.2	6.0	6.1	5.3	5.5
Mongolia	102	4.4	5.7	5.8	4.5	4.0
Eastern Asia and Pacific		5.1	5.9	6.1	5.1	5.6
<b>SOUTH-EAST ASIA</b>						
Singapore	13	6.1	6.5	5.5	5.6	6.1
Malaysia	26	5.4	5.8	5.2	5.2	5.2
Thailand	34	4.7	4.0	4.9	4.9	4.8
Indonesia	42	4.5	5.1	4.3	4.6	3.8
Sri Lanka	64	4.7	5.5	5.3	4.5	3.7
Vietnam	67	4.4	5.6	5.0	4.9	4.2
Philippines	79	4.3	3.6	4.8	4.8	4.0
Lao PDR	94	4.7	5.4	4.3	4.6	3.1
Cambodia	101	3.7	5.1	4.0	4.1	3.6
South-East Asia Average		4.7	5.2	4.8	4.8	4.3
<b>SOUTH ASIA</b>						
India	40	4.3	4.1	4.4	4.4	3.2
Bhutan	78	4.7	6.1	4.6	4.3	3.9
Nepal	103	4.1	4.8	5.0	4.2	2.6
Pakistan	124	3.9	3.1	4.5	3.1	2.5
Bangladesh	125	4.1	3.7	4.3	3.8	3.1
South Asia Average		4.2	4.4	4.6	4.0	3.1

Colors are determined by the relative position of each score in the global distribution of each pillar, taken individually.

This table shows that India is well placed among its compatriots in the region though there is a definite scope for improvement. It is primarily lagging in the ICT (Information and Communications Technology) sphere though it is catching up. It should aim to emulate and reach the levels of Singapore and Hong Kong to ensure more visitors as there are enabling factors which create an atmosphere and are conducive to ensure more tourists into the country.

Country/Economy	T&T policy and enabling conditions				Infrastructure			Natural and cultural resources	
	Prioritization of T&T	International Openness	Price Competitiveness	Environmental Sustainability	Air Transport Infrastructure	Ground and port infrastructure	Tourist Service Infrastructure	Natural Resources	Cultural Resources & Business Travel
<b>EASTERN ASIA AND PACIFIC</b>									
Japan	5.4	4.4	4.6	4.4	4.6	5.4	5.3	4.3	6.5
Australia	5.1	4.8	3.8	4.5	5.7	3.6	6.1	5.2	5.0
Hong Kong SAR	5.8	3.9	4.2	4.3	5.5	6.4	4.4	3.5	3.0
China	4.8	3.0	5.3	3.2	4.3	4.0	3.2	5.3	6.9
New Zealand	5.6	4.5	4.4	4.7	4.7	3.7	5.7	4.5	2.3
Korea, Rep.	4.6	4.3	4.7	4.2	4.3	5.0	4.6	2.3	4.9
Taiwan, China	4.7	4.2	5.2	4.1	3.5	5.2	4.5	3.4	3.2
Mongolia	4.0	1.9	5.7	3.4	2.2	2.1	2.7	2.7	1.8
Eastern Asia and Pacific	5.0	3.9	4.7	4.1	4.4	4.4	4.6	3.9	4.2
<b>SOUTH-EAST ASIA</b>									
Singapore	6.0	5.2	4.7	4.3	5.3	6.3	5.4	2.4	3.1
Malaysia	4.7	4.1	6.1	3.5	4.5	4.4	4.7	4.1	2.9
Thailand	5.0	3.8	5.6	3.6	4.6	3.1	5.8	4.9	2.8
Indonesia	5.6	4.3	6.0	3.2	3.8	3.2	3.1	4.7	3.3
Sri Lanka	5.2	3.1	5.6	3.9	2.6	3.9	3.2	4.1	1.6
Vietnam	4.0	3.0	5.3	3.4	2.8	3.1	2.6	4.0	3.0
Philippines	4.8	3.4	5.5	3.6	2.7	2.5	3.4	4.0	1.9
Lao PDR	4.7	3.0	5.7	3.8	2.1	2.4	3.5	3.0	1.3
Cambodia	5.1	3.5	5.1	3.3	2.1	2.4	2.9	3.2	1.6
South-East Asia Average	5.0	3.7	5.5	3.6	3.4	3.5	3.9	3.8	2.4
<b>SOUTH ASIA</b>									
India	3.9	3.7	5.8	3.1	3.9	4.5	2.7	4.4	5.3
Bhutan	5.0	2.9	6.0	4.6	2.7	2.5	2.7	3.5	1.3
Nepal	4.8	2.8	5.6	3.4	2.0	1.9	2.3	4.2	1.3
Pakistan	3.4	2.2	5.4	3.1	2.1	3.0	2.3	2.2	1.9
Bangladesh	3.2	2.5	4.7	3.4	1.9	3.1	1.9	2.4	1.6
South Asia Average	4.1	2.8	5.5	3.5	2.5	3.0	2.4	3.3	2.3

Colors are determined by the relative position of each score in the global distribution of each pillar, taken individually.

The table clearly highlights the areas where India needs to improve and some of the most important parameters include environment sustainability, tourist service infrastructure, air transport infrastructure, prioritization of T&T as well as international openness. As mentioned earlier in this report, these are in fact some of the areas the government is focusing on to ensure that the hospitality industry gets all the support. Focusing on the weaknesses will ensure that the right policies are implemented. The yearly T&T report is also an important document to peruse to track the performance and understand whether the implemented policies are having the desired impact and the reasons if they are not. India's advantages include its cultural resources, business travel since it is one of the fastest growing economies, ground and port infrastructure as well as price competitiveness which is a major advantage given that most travelers are price

sensitive and look for reasonable packages when planning their trips with families. India can further work on this front to market attractive packages at discounted prices to continue this trend.

Travel & Tourism Competitiveness Index 2017 edition



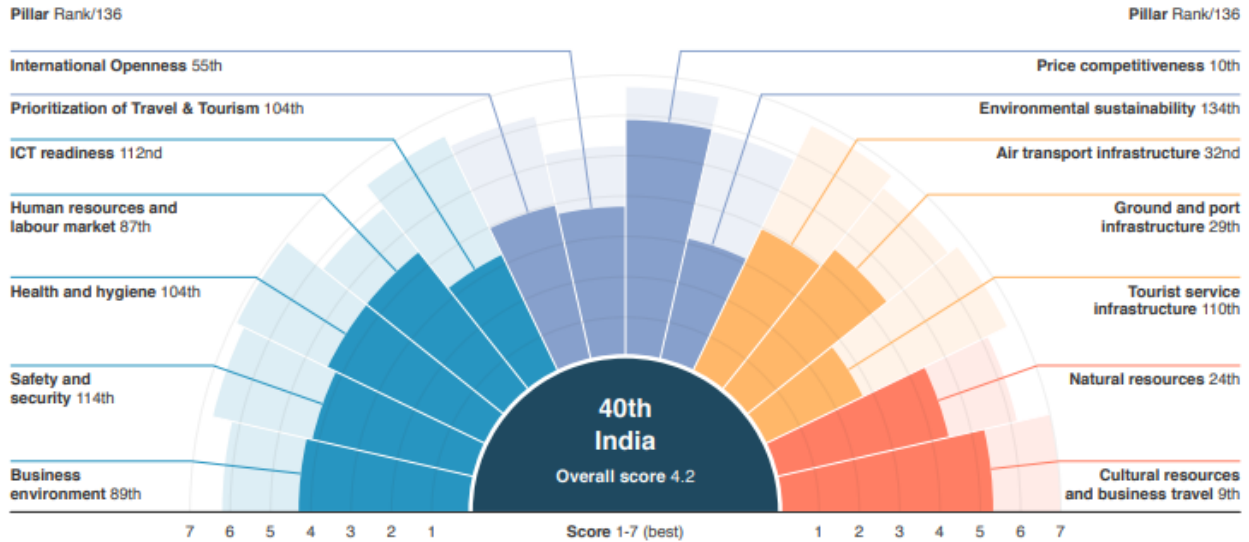
**Key Indicators**

Sources: World Tourism Organization (UNWTO) and World Travel and Tourism Council (WTTTC)

<b>International tourist arrivals</b>	8,027,133	<b>T&amp;T industry GDP</b>	US \$41,582.4 million
<b>International tourism inbound receipts</b>	US \$21,012.7 million	% of total	2.0%
<b>Average receipts per arrival</b>	US \$2,617.7	<b>T&amp;T industry employment</b>	23,454,400 jobs
		% of total	5.5%

**Performance Overview**

Key Score Highest score



The T&T Competitive Index, 2017 ranks India 40<sup>th</sup> worldwide with a score of 4.2. India needs to drastically improve safety and security, health and hygiene, business environment, tourist service infrastructure and by doing so seriously focus on the prioritization of Travel & Tourism in order to reap sustained long-term benefits. While India is on the cusp of a revolution in the hospitality industry, it needs to ensure that this opportunity is not lost and make the best use of it. With a huge demographic dividend and rising number of youth in the workforce, it is essential that the hospitality industry plays its part. At the same time, the contribution to government finances is another added benefit. Finally, the government should also create a conducive environment by encouraging and incentivizing companies to adopt the latest technology.

#### 4.18. Swot Analysis – Indian Tourism

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Price Competitiveness</li> <li>• Rich culture and history</li> <li>• Vast number of landmarks and destinations</li> <li>• Upcoming medical destination with quality and affordable healthcare</li> <li>• Visa on arrival has reduced bureaucratic red tape and encourages tourists</li> <li>• Strong government support in the development of this sector such as GST</li> <li>• International players present and expanding in India given lower costs</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• Poor existing infrastructure, transportation and connectivity</li> <li>• Safety and security a primary concern for families travelling to India</li> <li>• Health and hygiene not up to global standards leading to outbreaks – H1N1</li> <li>• High cost of land escalates cost</li> <li>• Too many bureaucratic hurdles hampering speedy development</li> <li>• No policies for many years have left the industry with a lot of catching up to do</li> </ul>
<p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>• Untapped tourist destinations in India need to be aggressively marketed such as the North East</li> <li>• Quality and affordable healthcare has not taken off in a manner to reach its potential with world class hospitals and skilled professionals</li> <li>• Cruise tourism is underutilized given India’s 7,500 km coastline</li> <li>• India’s biodiversity and rich natural heritage have yet to be explored, Ecotourism is yet to take off</li> </ul>	<p><b>Threat</b></p> <ul style="list-style-type: none"> <li>• South East Asian countries are already ahead of India in the medical tourism space</li> <li>• Aggressive marketing of various destinations at attractive packages has left India with a lot of catching up to do</li> <li>• Political turbulences reduce tourists visiting such as the insurgency in Kashmir</li> <li>• Rising crime levels will deter travelers and put a spanner in all the hard work of the Government</li> </ul>

## 4.19. Forecasting

Forecasting is the process of predicting or estimating the future growth trajectory with the help of statistical tools. This industry study has given 10-year forecasts of the tourism industry for India and the World using the “World Travel and Tourism Council – Economic Impact 2017” for India and “World Travel and Tourism Council – Global Economic Impact & Issues 2017” the World which has been incorporated in this report.

The WTTC promotes sustainable growth for the Travel & Tourism sector, working with governments and international institutions to create jobs, to drive exports and to generate prosperity. It produces annual research that include comprehensive reports that quantify, compare and forecast the economic impact of Travel & Tourism on 185 countries around the world.

The WTTC is assisted by Oxford Economics which provides the tools for analysis, benchmarking, forecasting and planning. Oxford Economics was founded in 1981 as a commercial venture with Oxford University’s business college.

STR contributes data to the WTTC Economic Impact Model. STR is the source for premium hotel data benchmarking, analytics and marketplace insights. STR maintains a presence in 16 countries and collects data for over 55000 hotels over 180 countries.<sup>9</sup>

In 2017, there were 10 reports for special economic and geographic groups with GCC and the Organization of Islamic Cooperation being included for the first time.

---

<sup>9</sup> World Travel & Tourism Council – *Travel & Tourism Economic Impact 2017, India*

## ECONOMIC AND GEOGRAPHIC GROUPS

### APEC (ASIA-PACIFIC ECONOMIC COOPERATION)

Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russian Federation, Singapore, Taiwan, Thailand, USA, Vietnam.

### FORMER NETHERLANDS ANTILLES

Bonaire, Curacao, Sint Maarten, Saba and Sint Eustatius.

### G20

Argentina, Australia, Brazil, Canada, China, European Union, France\*, Germany\*, India, Indonesia, Italy\*, Japan, Mexico, Russian Federation, Saudi Arabia, South Africa, South Korea, Turkey, UK\*, USA.

### GCC (GULF COOPERATION COUNCIL)

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE

### OAS (ORGANIZATION OF AMERICAN STATES)

Argentina, Antigua and Barbuda, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, St Kitts and Nevis, Nicaragua, Panama, Paraguay, Peru, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago, USA, Uruguay.

### OECD (ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT)

Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, USA.

### (OIC) ORGANISATION FOR ISLAMIC COOPERATION\*\*

Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Brunei Darussalam, Burkina Faso, Cameroon, Chad, Comoros, Egypt, Gabon, Gambia, Guinea, Guyana, Indonesia, Iran, Iraq, Ivory Coast, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Libya, Malaysia, Maldives, Mali, Morocco, Mozambique, Niger, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Senegal, Sierra Leone, Sudan, Suriname, Syria, Tajikistan, Togo, Tunisia, Turkey, UAE, Uganda, Uzbekistan, Yemen.

### OTHER OCEANIA

American Samoa, Cook Islands, French Polynesia, Guam, Marshall Islands, Micronesia (Federated States of), New Caledonia, Niue, Northern Mariana Islands, Palau, Samoa, Tuvalu.

### PACIFIC ALLIANCE

Chile, Colombia, Mexico, Peru.

### SADC (SOUTHERN AFRICAN DEVELOPMENT COMMUNITY)

Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

The Tourism Satellite Account: Recommended Methodological Framework 2008 is an exhaustive document that gives a detailed account of the forecasting methodology.

The WTTC report has used 3 methods to estimate indirect and induced effects of tourism:

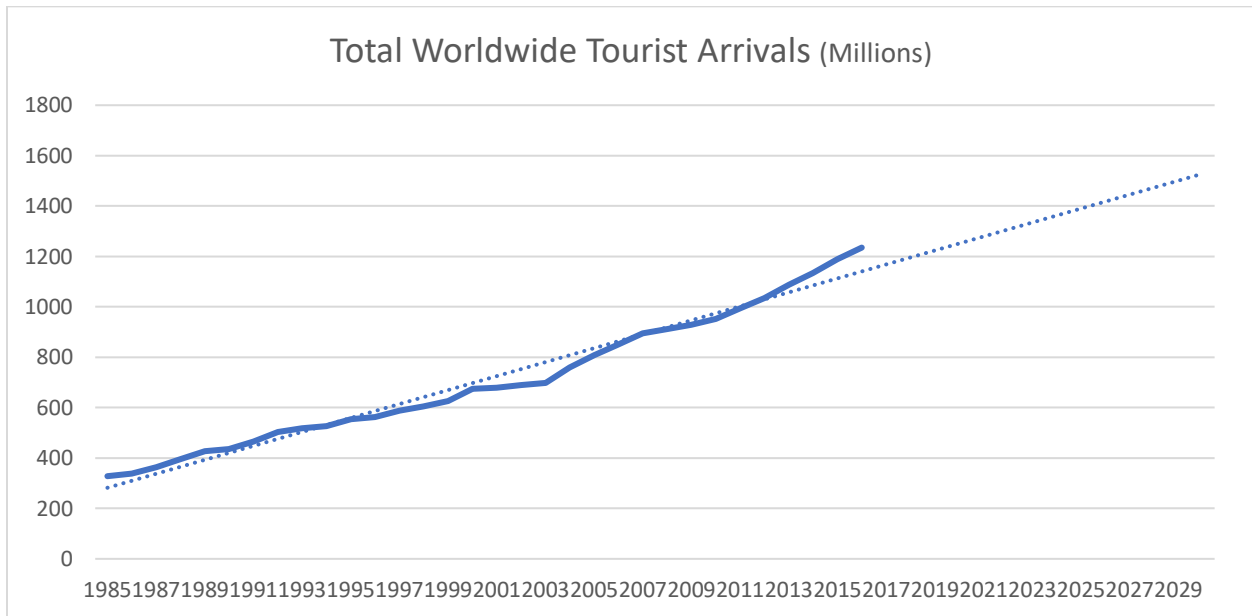
- Models based on Input-Output analysis: An input-output table is a widely used matrix framework to supply detailed and coherently arranged information on the flow of goods and services and on the structure of production costs.
- Computable General Equilibrium Models: Although based on similar types of data and assumptions, computable general equilibrium models are designed to relax some of the constraints inherent in input output models, in particular price variation constraints.



- Multipliers: Both procedures are technically complex and have enormous information needs. For this reason, analysts sometimes use exogenous multipliers (estimated from other economies or regions) that convert the value of tourism consumption (total or by product categories) into estimates of the indirect and induced effects.

A 2014 report by the World Trade and Tourism Council – Travel and Trade linkages, Analysis of trends worldwide and within Asia-Pacific shows that the tools used during their analysis involved linear regressions, correlation as well as identifying relationships between variables using econometric modelling.<sup>10</sup>

Forecasting the growth in the total number of worldwide tourists by 2029<sup>11</sup> using data from 1985-2016 and adopting linear progression yields the following result:

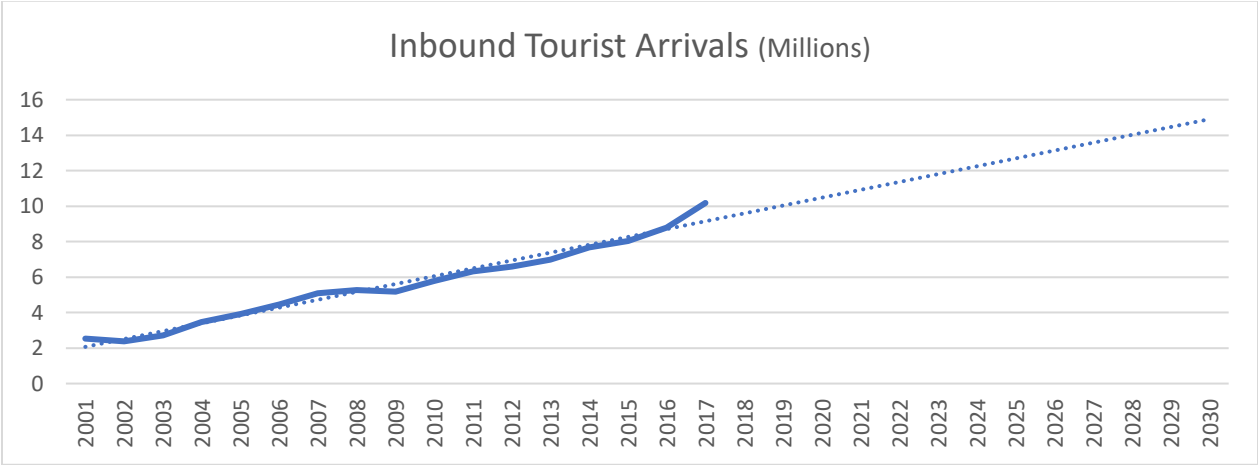


The results indicate that by 2029, the world can expect to cater to more than 1500 million international travelers. This would appear as a conservative estimate given the huge rise being witnessed since 2011 with no signs of reversing.

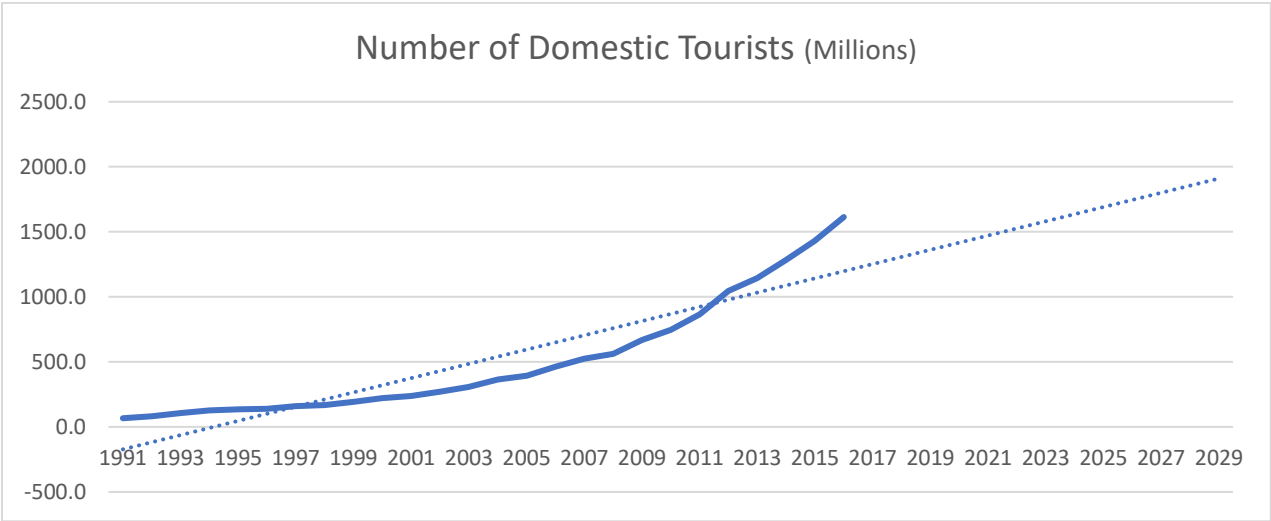
<sup>10</sup> World Travel & Tourism Council: Travel and Trade Linkages – Analysis of trends worldwide & within Asia-Pacific, April 2014

<sup>11</sup> <https://www.statista.com/statistics/262750/number-of-international-tourist-arrivals-worldwide/>

Forecasting the rise in the total number of inbound tourist arrivals in India, which includes total foreign international tourist arrivals and non-resident Indians, using data from 2001-2017<sup>12</sup> and adopting linear progression yields the following result:



Forecasting the rise in total number of domestic tourist arrivals in India using data from 1991-2016<sup>13</sup> and adopting linear progression yields the following result:



The forecast shows the total number of domestic tourists could reach approximately 2 billion by 2029. This is further evidence that the domestic tourism industry has untapped potential waiting to be taken advantage of. The total worldwide tourist arrivals are set to rise and at the same time, inbound tourist arrivals as well as domestic tourists are set to rise setting the industry up for a period of high growth.

<sup>12</sup> India Tourism Statistics, 2017

<sup>13</sup> India Tourism Statistics, 2017

## 5. The Road Ahead

The last decade has seen technology evolution at a rapid pace bringing about unprecedented changes. This has led to a drastic change in the way industries world over function. They have had to improvise and adapt to stay relevant in the changing landscape. Technological innovations cannot be ignored as they permeate into daily lives of millions of people. Resisting this change is not a prudent move in the long term and has rendered, those companies unwilling to change with times, redundant.

Till about a decade ago room reservations were made by calling the hotel operator and reaching out to travel agents whereas today millions of people do so by simply using specific apps. The same is true for booking taxis and tables at a restaurant. The advent of technology has simplified the lives and is continually improving. As a result, companies have also adapted to this change.

Growth in travel and tourism has been a by-product of increasing wealth and prosperity in the developing nations, mainly in Asia. As a result, there has been a surge in travelers worldwide. Higher disposable incomes have led people to travel and explore the world. Taking into consideration the possible roadblocks, the hospitality sector is set to enter a period of record high growth. A mix of rapidly improving technology which has led to more affordable travel combined with increasing disposable incomes is set to ensure the growth of this sector in the long term.

The Indian economy has been one of the fastest growing economies in the world and will continue to witness robust growth for the next couple of decades given the huge infrastructure spending that is being undertaken as well as the massive urbanization and industrialization which will automatically translate to higher growth. Tourism is a very important sector which will play a vital role going forward. This is because India holds a massive untapped hospitality sector which going ahead will be instrumental in generating foreign exchange. At the same time, this will also address the unemployment since this is a labor-intensive sector. This report had earlier mentioned the magnitude of people employed in this industry and if nurtured properly has massive scope to absorb many more. The 10-year forecasts carried out paint a positive picture with no reason to doubt any slump going forward.

On the international stage, growth has been rebounding with higher growth rates globally. The worst of the financial crisis is over, and the world is on the path to recovery. The USA, China and Europe are exhibiting growth trends that are likely to continue in the future and this bodes well for India as it aims to be a destination catering to tourists from the globe around. Higher growth rates lead to higher disposable incomes and this translates into rising prosperity and living standards. This is the perfect time for India to step up and become a global destination hub.

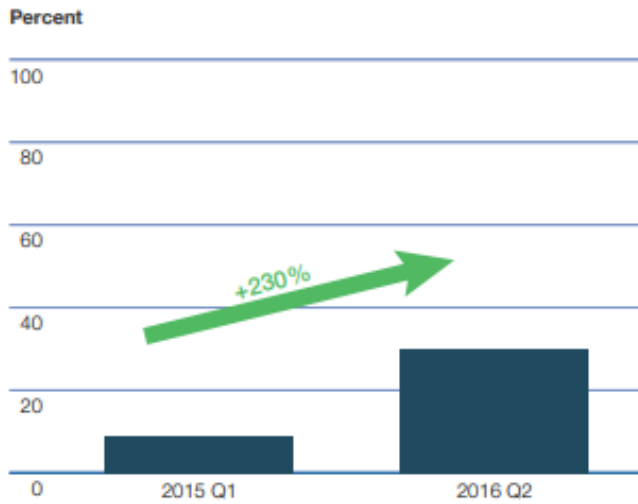
The Indian economy is perfectly poised to take full advantage of this opportunity. The government has undertaken a host of steps to ensure that the tourism and hospitality sector gets all the support it needs to take advantage of its untapped potential. Developing theme parks, historical and cultural places, rural places, pilgrimage sites, as well as promoting medicinal tourism has been at the forefront of the government's initiative. This has resulted in rising number of tourists over the years and it seems that the government will not only sustain but also build on this momentum as there is no better time to take advantage of the current situation given the global and domestic scenario.

The global middle class is forecasted to grow by another three billion people between 2011 and 2031, the majority of which will come emerging markets, with China and India leading the way. This newfound buying power will give the middle-class access to travel. While travel is already booming in China, it is estimated that, at present, only 5% of Chinese nationals have passports. Similar trends are apparent in other emerging markets. What is clear, is that new consumers like the millennials, as well as older baby boomers are not only demanding, but looking for experiences, albeit very distinct ones.<sup>14</sup> Studies show that millennials are more tech-savvy and connected than any previous generation and are changing the way travel is consumed. Keeping this in mind, the hospitality sector should move ahead into very interesting times.

---

<sup>14</sup> World Economic Forum, *The Travel & Tourism Competitiveness Report 2017*

**Figure 6: Mobile travel service bookings as a share of total online bookings worldwide**



**Source:** Criteo, *Travel Flash Report 2016*, <http://www.criteo.com/media/5717/criteo-travel-flash-report-october-2016.pdf>.

This table clearly shows that the share of mobile travel service bookings as a share of total online bookings worldwide has more than doubled in a little over a year. This is a trend that is likely to continue and gain momentum in the years ahead. Affordable smartphones and increasing penetration in the rural areas of developing countries has led to a huge untapped market that is set to enter this space soon.

## 6. About the Authors

**Vishal Verma** (MS in finance)

**Assistant Consultant – Trainee**

**Ramya Gowda** (M.B.A - Finance)



**Deputy Consultant**

Email: [ramya@bpaindia.com](mailto:ramya@bpaindia.com)



*B. Prakash & Associates*

**B. Prakash & Associates**

Financial Consultants & Investment Banker

315, Hubtown Viva,

Western Express Highway,

Jogeshwari (East),

Mumbai – 400060

**Tel:** +91 22 6725 2872/73

**Fax:** +91 22 2839 2875

**Website:** [www.bpaindia.com](http://www.bpaindia.com)