TOURISM AND HOTEL INDUSTRY IN INDIA

1. OVERVIEW

1.1 Background

- Visitors are further sub-divided into two categories: tourists; who must stay one or more night in the place visited and same-day visitors; visitors who visit a place and return the same day.
- Comprises many industries like lodging, transportation, entertainment, meals, and financial services, among others.

It is boom time for India's Tourism and Hospitality sector. A 5,000 year history, culture, religion and alternative medicine fascinate both budget and luxury travelers alike. Driven by a surge in business traveler arrivals and a soaring interest in India as a tourist destination, the year 2005 has been the best year till date, with foreign visitor arrivals reaching a record 3.92 million, resulting in international tourism receipts of USD 5.7 billion.

The Department of Tourism's resolve in promoting Indian tourism has strengthened as it recognises its potential. Tourism in India is the third largest foreign exchange earner, accounting for 2.5 per cent of GDP. It also makes a direct contribution to economy with significant linkages with agriculture, horticulture, handicrafts and construction. The outlay on tourism development rose to Rs 7,860 million in 2005/2006, from Rs 3,500 million in 2003/2004, and continued to focus on the "Atithi Devo Bhavah" campaign, targeted at the inbound foreign tourists in the country. Translated literally this means "Guest is God".

1.2 Current Status

Commencing with a slow growth at the start of the millennium, the Indian tourism industry has performed quite well in the last couple of years. The Indian tourism industry has out performed the global tourism industry in terms of growth in the volume of international tourists as well as in terms of revenue. The World Travel and Tourism Council (WTTC) has named India along with China as one of the most fastest growing tourism industries for the next 10 to 15 years.

According to World Travel and Tourism Council (WTTC) the Travel & Tourism Industry contributes 2.1per cent to India's GDP. The industry employed an estimated 24,349,000 people in 2006 (5.4per cent of total employment, or 1 in every 18.4 jobs).

The key driver for this growth in the Indian tourism industry has been a fast growing economy for the last 3-4 years. Despite lagging in the basic infrastructure that supports the tourism industry, Indian tourism industry has been showing an impressive double-digit growth. In order to sustain this growth and meet the expectations, it is essential for the Government of India to invest in infrastructure such as transport and accommodations.

According to global hotel and hospitality consulting firm, HVS International, the strong performance in tourist arrivals in 2005 can be attributed to a strong sense of business and investment confidence in India inspired by:

- India's strong GDP performance
- Strengthening of ties with the developed world, and
- Opening of sectors of the economy to private sector/ foreign investment.

The efforts made by the Ministry of Tourism & Culture in the last few years have had a salutary effect on India's tourism industry.

- Foreign tourist arrivals witnessed a growth of 78 per cent in 2006 over 2001 (last 5 years)
- Growth in foreign exchange earnings was of the order of 122 per cent during this period.
- As per estimates (Ministry of Tourism), on an average, about 3.1 million additional jobs per year have been created directly and indirectly in the tourism sector in the last four years.

India is fast emerging as one of the most enticing destinations for the global leisure traveler. The Readers Travel Awards 2006, conducted by Condé Nast Traveller has recently placed India at number four among the world's must-see countries, up from number nine in 2003. The Incredible India campaign has also been a huge success.

As an engine for economic growth, the tourism and hospitality sector cuts across the rural-urban divide, and bridges economic boundaries. According to The World Travel & Tourism Council's 2006 Travel and Tourism Economic Research, the travel and tourism sector in India generated a total demand of USD 53,544.50 million of economic activity in 2006, accounting for nearly 5.3 per cent of GDP and 5.4 per cent of total employment.

The sector grew at a rate of 8.4 per cent in 2006 and is expected to grow by 8 per cent per annum, in real terms, between 2007 and 2016.

2. THE HOTEL INDUSTRY

The Hotel Industry comprises a major part of the Tourism industry. Historically viewed as an industry providing a luxury service valuable to the economy only as a foreign exchange earner, the industry today contributes directly to employment (directly employing around 0.15 million people), and indirectly facilitates tourism and commerce.

Prior to the 1980s, the Indian hotel industry was a slow-growing industry, consisting primarily of relatively static, single-hotel companies. However, the Asiad, held in New Delhi in 1982, and the subsequent partial liberalization of the Indian economy generated tourism interest in India, with significant benefits accruing to the hotel and tourism sector, in terms of improved demand patterns. Growth in demand for hotels was particularly high during the early 1990s following the initiatives taken to liberalize the Indian economy in FY1991, as per the recommendations of the International Monetary Fund (IMF). The euphoria of the early 1990s prompted major chains, new entrants and international chains to chalk out ambitious capacity additions, especially in the metropolitan cities. However, most of these efforts were directed towards the business travelers and foreign clientele.

In recent years, the hotels sector has grown at a faster rate than GDP. As a result, the share of hotels & restaurants in GDP at current prices has increased from 1.2per cent in FY2000 to 1.5per cent in FY2005. In constant (1999-2000) prices, the GDP from hotels and restaurants has increased from Rs. 222.65 billion in FY2000 to Rs. 335.49 billion in FY2005. As a result, the share of hotels and restaurants in total GDP at constant prices has increased from 1.24per cent in FY2000 to 1.40per cent in FY2005.

2.1 Structure of the Industry

Hotels in India are broadly classified into 7 categories (five star deluxe, five-star, four star, three star, two star, one-star and heritage hotels) by the Ministry of Tourism, Government of India, based on the general features and facilities offered. The ratings are reviewed every five years. As of December 2005 (latest available figure) there are following number and category of hotels.

Star Category	No. of Hotels	No. of Rooms
5-Star Deluxe	82	18764
5-Star	92	11332
4-Star	132	9401
3-Star	704	31039
2-Star	587	19031
1-Star	212	695
Heritage	83	2216
To be classified	50	5127
Total	**1934**	**103973**

Source: Ministry of Tourism, Government of India

The table excludes hotels in the unorganized sector that have a significant presence across the country and cater primarily to economy tourists.

2.1.1 *Premium and Luxury Segment*

This segment comprises the high-end 5-star deluxe and 5-star hotels, which mainly cater to the business and upmarket foreign leisure travellers and offer a high quality and range of services. The segment accounted for 29per cent of the total hotel rooms in the country in December 2005.

2.1.2 *Mid-Market Segment*

This segment comprises 3 and 4 star hotels, which cater to the average foreign and domestic leisure traveller. This segment also caters to the middle level business travellers since it offers most of the essential services of luxury hotels without the high costs since the tax component of this segment is lower compared with the premium segment.

2.1.3 *Budget Segment*

These comprise 1 and 2 star hotels referred to as 'Budget Hotels'. These categories do not offer as many facilities as the other segments but provide inexpensive accommodation to the highly price-conscious segment of the domestic and foreign leisure travellers.

2.1.4 *Heritage Hotels*

In the past four decades, certain architecturally distinctive properties such as palaces and forts, built prior to 1950, have been converted into hotels. The Ministry of Tourism has classified these hotels as heritage hotels.

2.1.5 *Others*

At any point in time, applications for classification are usually pending with the Ministry of Tourism because of which such properties remain unclassified. The number of hotel rooms pending classification has declined from historical 15-20per cent to 5per cent of the total rooms available in the recent past.

2.2 Key Consumer Segments

The market for the hotel industry can be divided into the following key consumer segments based on purpose of visit:

2.2.1 *The Business Traveler*

The Business Traveler is a businessman or a corporate executive travelling for business purposes. This segment includes corporates, both domestic and foreign, who open offices in the hotel premises during start-ups, corporate executives who make extended stay either for long duration projects or while waiting for permanent accommodation (primarily expatriates) and convention arrivals. While the senior executives usually stay in 5 star hotels, the middle level executives, who are much larger in number, stay in the budget hotels.

This segment offers better realizations, as they demand relatively smaller discounts on room rents (about 10per cent-15per cent), use more of facilities such as PCs, fax multi-media, conference halls. Also, the Food & Beverage (F&B) revenues are better as they usually eat in the hotel itself due to their busy schedules.

2.2.2 *The Leisure Traveler*

The Leisure Traveler could either be a foreigner or a domestic traveler whose primary purpose of visit is holiday and site seeing. Among non-business foreign tourists the primary motivation for visiting India is largely cultural attraction followed by conferences and conventions, tourist attractions like beaches, wild life, hill resorts etc. Usually, leisure travelers are part of a package run by a tour operator. The margins offered by leisure travelers tend to be lower because of two reasons. Firstly, they seek higher discounts and also provide less F&B revenues as they usually eat out. The business offered by this segment is highly seasonal and tends to peak in the September to March period.

2.2.3 *Airline Cabin Crew*

Airline Cabin Crew forms another important segment because of the repetitive and guaranteed nature of the business that they provide. Usually, these are a part of an annual contract whereby, in return for a fixed rate, a certain number of rooms are provided on demand for cabin crews. With discount rates in the range of 40per cent and 50per cent, this represents a low-yield segment for hotels in general.

3. DEMAND & SUPPLY SCENARIO

3.1 International Tourist Traffic

The foreign tourist arrivals in India increased at CAGR of 5.5per cent from 2.29 million in 1996 to 3.92 million in 2005. Significantly, the bulk of international arrivals into India, both in 2004 and 2005, have been business travelers.

Main reason for this increase has been following fundamental factors:

- India's strong GDP growth.
- Opening of sectors of the economy to private sector/ foreign investment.
- Strengthening of ties with the developed world.
- Reforms in aviation sector which led to better connectivity with many countries (such as ASEAN) and created additional capacity on existing routes (for e.g. USA, Middle East). Also, introduction of low cost airlines also contributed to the demand. The increase in international flights, seat capacity and frequency into the country and the decision to allow private airlines like Jet Airways and Air Sahara to fly overseas has had a positive impact on tourist and business arrivals into India, by way of providing additional seats to key destinations.
- Development of infrastructure by the Government
- India's emergence as an outsourcing hub.
- Success of "Incredible India" campaign and other tourism promotion measures.
- India's growing recognition as an exciting place to visit ('The Readers Travel Awards 2006', conducted by Condé Nast Traveller has recently placed India at number four among the world's must-see countries, up from number nine in 2003) has helped boost its image as a leisure destination.

3.1.1 Foreign Tourist Arrivals in India during 2007

Foreign Tourist Arrival (Nos.)				Percentage Change	
Months	**2005**	**2006***	**2007***	**2006/05**	**2007/06**
January	385977	444260	514453	15.1	15.8
February	369844	407198	462578	10.1	13.6
March	352094	390824	443976	11.0	13.6
April	248416	309775	334558	24.7	8.0
May	225394	258527	271454	14.7	5.0
Total	1581725	1810584	2027019	14.5	12.0

Source: Ministry of Tourism

3.1.2 Foreign Exchange Earnings in India during 2007

Foreign Exchange Earnings (in Rs. billion)				Percentage Change	
MONTHS	2005	2006*	2007*	2006/05	2007/06
January	23.26	27.22	33.00	17.0	21.2
February	23.43	26.36	30.04	12.5	14.0
March	22.11	24.34	27.99	10.1	15.0
April	16.50	21.27	23.41	28.9	10.0
May	14.53	16.74	18.59	15.2	11.0
Total	99.83	115.94	133.03	16.1	14.7

Source: Ministry of Tourism

3.2 Supply scenario

According to estimates by HVS International, around 10,856 hotel rooms in Delhi, 9,318 rooms in Mumbai, 7,794 rooms in Bangalore and 7,408 rooms in Hyderabad are expected to be added by 2011.

Promoter	Plan	Planned Expenditure
Sahara Group	To set-up 102 hotels in 3 & 4 star category, to be located within the 217 Sahara cities planned across A, B and C-grade cities	USD 7.34 - 36.72 million per hotel depending on size and category
Viceroy Hotels	To set up hotels in Chennai, Bangalore, Vizag and add one more hotel in Hyderabad. Viceroy would soon be known as Marriott Hyderabad following its management tie-up with the latter.	USD 200 million
UAE-based Istithmar Hotels	Tied up with Europe's easy Hotel to set up a chain of budget-class hotels in India.	Initial investment of USD 100 million
Netherlands-based Golden Tulip Hospitality Group	– To set up its Golden Tulip brand of hotels in India. – Golden Tulip Southern Asia (GTSA), a Joint Venture between Golden Tulip Hospitality Group and US-based Leyland Group, plans to set up 50 hotels across 40 cities in the country on both management contracts or franchisee system with the owners of existing properties.	-
The Indian Railway Catering and Tourism Corporation (IRCTC)	To float tenders for 13 sites for budget hotels on a Build-Operate-Transfer arrangement for 30 year periods.	-
Leela Palace & Resorts	To open a hotel each in the next three years in Delhi, Hyderabad, Chennai, Pune and Udaipur.	Estimated cost – USD 340 million
DLF Universal	– To make large investments in the hospitality sector and has already acquired 24 sites across the country with plans to acquire 15 more sites.	USD 2 billion

	– DLF acquires the 5.54-acre Calcutta Metropolitan Corporation plot in Kolkata. It plans to build a 16-storey five-star deluxe hotel on the plot in partnership with Hilton International. It tied up with Hilton to develop 100 hotels in the country.	

4. MAJOR PLAYERS

4.1 Major players in the Indian Hotel Industry

The Hotel Industry mainly has following major players:

4.1.1 Hotel Chains

They comprise major players including Indian Hotels Company Limited (the Taj Group) and associate companies, EIH Limited (the Oberoi Group), ITC Hotels Limited (the ITC Welcome Group), Indian Tourism Development Corporation (ITDC) and Hotel Corporation of India (HCI) (the latter two being under the Public Sector). Most of these chains had an established presence in one or more metro cities prior to the tourism boom of the 1980s. Subsequent to the tourism boom, these chains aggressively expanded their presence in other locations. The private players among the hotel chains are industry leaders and have well-established brand identities across the different industry segments.

4.1.2 Small Chains

They are companies that have come up after the tourism boom of the 1980s and 1990s. Due to lack of prior experience in the hotel industry, these players have preferred to opt for operating/management arrangements with international players of repute. Some of the companies in this category are Hotel Leela Venture (with Kempinski), Asian Hotels (Hyatt International Corporation), Bharat Hotels (formerly with Holiday Inn and Hilton and now with Intercontinental). As late entrants, most of these hotel companies have fewer properties, compared with the big chains. However most of these players have initiated expansion plans during the late 1990s.

4.1.3 Public Sector Chains

ITDC and HCI, boast of some of the best locations in major cities but are relative under-performers, as compared with their private sector counterparts.

4.1.4 International Hotel Chains

They are also looking at India as a major growth destination. These chains are establishing themselves in the Indian market by entering into joint ventures with Indian partners or by entering into management contracts or franchisee arrangements. Some of the players who have already entered or plan to enter the Indian market include Marriott, Starwood, Berggruen Hotels, Emaar MGF. Most of these chains have ambitious expansion plans especially with a strong focus on the budget segment and tier II cities.

4.1.5 Localized Hotel Companies

They are mainly comprise early entrants who have an established localized presence and who preferred not to expand during the tourism boom but focus on building and catering to a loyal customer base.

4.2 Profiles of some of the major players in the Hotel Industry

4.2.1 The Indian Hotels Company

The Indian Hotels Company and its subsidiaries are collectively known as Taj Hotels Resorts and Palaces, recognised as one of Asia's largest and finest hotel company. Incorporated by the founder of the Tata Group, Jamsetji N Tata, the company opened its first property, The Taj Mahal Palace Hotel, Bombay, in 1903. The Taj, a symbol of Indian hospitality, completed its centenary year in 2003. Taj Hotels Resorts and Palaces comprises 59 hotels at 40 locations across India with an additional 17 international hotels in the Maldives, Mauritius, Malaysia, United Kingdom, United States of America, Bhutan, Sri Lanka, Africa, the Middle East and Australia.

The company has had a long-standing commitment to the continued development of the Indian tourism and hospitality industry. From the 1970s through the 1990s, the Taj played an important role in launching several of India's key tourist destinations. Working in tandem with the Indian government, the Taj developed resorts and retreats while the government developed roads and railways to India's hidden treasures.

4.2.2 ITC/ Sheraton Corporation

ITC's Hotel division was launched on October 18, 1975, with the opening of its first hotel - Chola Sheraton in Chennai. ITC - Welcomgroup Hotels, Palaces and Resorts, is today one of India's finest hotel chains, with its distinctive logo of hands folded in the traditional Namaste is widely recognised as the ultimate in Indian hospitality. Each of the chain's hotel pays architectural tribute to ancient dynasties, which ruled India from time to time. The design concept and themes of these dynasties play an important part in their respective style and decor.

With more and more hotels being added at strategic destinations, the group has joined hands with the Sheraton Corporation to strengthen its international marketing base. A successful marketing franchise for almost 25 years now, there are currently 10 ITC - Welcomgroup Sheraton hotels, and more in the pipeline.

4.2.3 The Leela Group

Founded in 1957 by Capt. C.P. Krishnan Nair, the Rs.4.5 billion Leela Group is engaged in the business of ready-made garments and luxury hotels and resorts. The Leela Kempinski, Mumbai and The Leela, Goa are two of the best hotels in India, and have also won considerable international acclaim. For this to have been achieved in 12 short years is nothing short of remarkable.

Recently in 2001 Capt. Nair fulfilled his longstanding dream of constructing a palace hotel in the garden city of Bangalore. The Leela Palace Kempinski, Bangalore is built in art deco style recreating the grandeur of The Mysore Maharajas Palace. It is set amidst 8 acres of landscaped garden and waterfalls. It is a palace with the heart of a modern hotel. Its 254 rooms are opulently furnished and are befitting royalty. The newest addition The Leela Kovalam is Kerala's largest resort, built on a rock face cradled between two wide sweeping beaches with a stunning view of the famous Kovalam coastline.

4.2.4 *The Bharat Hotels Group*

The Bharat Hotels group is a major player in India's tourism and hotel sector. It operates its hotels under 'THE GRAND' banner and its present portfolio of hotels incorporates FOURTEEN luxury hotels in the five-star deluxe segment. These include InterContinental 'The Grand' hotels in New Delhi, Mumbai, Goa & Srinagar and The Grand Ashok Bangalore, The Grand Laxmi Vilas Palace Udaipur and The Grand Temple View Khajuraho. Additionally, soon to open hotels in 2008-09 are – The Grand Great Eastern Kolkata, The Grand Jaipur, The Grand Resort Bekal, The Grand Ahmedabad, The Grand Chandigarh, The Grand Noida and The Grand Fort Dubai.

By 2009, the company plans to open hotels in Hyderabad, Amritsar and other key locations.

4.2.5 *The EIH Ltd (The Oberoi Group)*

Asian elegance is the key to running hotels, if you ask EIH (better known as The Oberoi Group). The company owns and operates about 20 luxury hotels, about 10 mid-range hotels, and two inland cruises; The Oberoi Group operates primarily in India, but also in Australia, Egypt, Indonesia, Mauritius, and Saudi Arabia. Most of the company's luxury properties bear the Oberoi banner. The company in 2004 joined forces with Hilton International to rebrand most of its mid-range hotels as Trident Hiltons (the former Oberoi Towers is now known as the Hilton Towers Mumbai). The Oberoi Group also operates luxury cruises of the Nile River and India's Kerala region.

4.2.6 *India Tourism Development Corporation (ITDC) / The Ashok Group*

India Tourism Development Corporation (ITDC) was established in 1966 as an autonomous public sector corporation, entrusted with the task of helping develop tourism infrastructure and promoting India as a tourist destination.

The ITDC Ashok Group of hotel chains manages some of the best five star and luxury tour hotels in the Indian hospitality industry. The hotels run by the ITDC Ashok Group of hotel chains may be divided into different categories, these are elite hotels, comfort hotels and classic hotels. The ITDC Ashok Group of hotel chains manages 33 hotels in 26 different tourist destinations all over India. The management of Ashoka Group believes in offering the best in the hospitality industry and the staff at each of the hotels run by the group is especially trained to be courteous and efficient.

The Ashok Group of hotel chains boasts of running some of the best hotels in the Indian hotel industry. The hotels that are a part of the elite and classic category of the ITDC Ashok Group are the Ashok Hotel in New Delhi, the Kovalam Ashok Beach Resort in Kovalam, Kerala, the Agra Ashok in Agra, Hotel Jaipur Ashok in New Delhi and the Qutab Hotel in

New Delhi. Most of the hotels managed by the ITDC Ashok Group have had the privilege of playing host to several international and national dignitaries.

4.2.7 *The Hotel Corporation of India (HCI)*

The Hotel Corporation of India Limited (HCI) is a public limited company wholly owned by Air India Limited and was incorporated on July 8, 1971 under the Companies Act, 1956 when Air India decided to enter the Hotel Industry in keeping with the then prevalent trend among world airlines. The objective was to offer to the passengers a better product, both at the International Airports and at other places of tourist interest, thereby also increasing tourism of India.

4.2.8 *Jaypee Hotels Ltd.*

Jaypee Hotels Limited primarily engages in the ownership and operation of hotels in India. The company owns three Five Star Deluxe Hotels, namely Jaypee Palace Hotel at Agra, and Jaypee Vasant Continental and Jaypee Siddharth Hotel at New Delhi. It also manages the operation of the hotels Jaypee Residency Manor at Mussoorie and Jaypee Green Resorts. In addition, Jaypee Hotels involves in construction operations. The company is headquartered in New Delhi, India. Jaypee Hotels Limited is a subsidiary of Jaiprakash Associates Limited.

5. POLICIES & INITIATIVES

Tourism being a concurrent subject under the Indian constitution, both the central and state governments regulates the hotel industry. The regulations include statutory and regulatory sanctions (or approvals and licenses) from the Central and State departments or agencies. This includes license to operate a restaurant, a hotel license (issued by municipal authorities), license from police (issued by local police) and a bar license (issued by excise department).

5.1 Tourism Policy

In order to develop tourism in India in a systematic manner, position it as a major engine of economic growth and to harness its direct and multiplier effects for employment and poverty eradication in an environmentally sustainable manner, the National Tourism Policy was formulated in the year 2002. Broadly, the "Policy" attempts to:

- Position tourism as a major engine of economic growth
- Harness the direct and multiplier effects of tourism for employment generation, economic development and providing impetus to rural tourism
- Focus on domestic tourism as a major driver of tourism growth
- Position India as a global brand to take advantage of the burgeoning global travel trade and the vast untapped potential of India as a destination
- Acknowledges the critical role of private sector with government working as a pro-active facilitator and catalyst
- Create and develop integrated tourism circuits based on India's unique civilization, heritage, and culture in partnership with States, private sector and other agencies
- Ensure that the tourist to India gets physically invigorated, mentally rejuvenated, culturally enriched, spiritually elevated and "feel India from within".

The Government's major policy initiatives include:

- Liberalization in aviation sector
- Pricing policy for aviation turbine fuel which influences internal air fares
- Rationalization in tax rates in the hospitality sector
- Tourist friendly visa regime
- Immigration services
- Procedural changes in making available land for construction of hotels
- Allowing setting up of Guest Houses

The Indian Ministry of Tourism has identified 31 villages across the country to be developed as tourism hubs. The states in which these villages have been identified include Himachal Pradesh, Gujarat, Maharashtra, Bihar, Karnataka, Madhya Pradesh, Andhra Pradesh, Kerala, Tamil Nadu, Orissa, Assam, Sikkim, Rajasthan and West Bengal.

5.2 Government's Open Skies Policy

The Government's Open Skies policy, permission for domestic airlines to commence international flights, start-up of various low-cost carriers, and fleet expansion by domestic players has created a huge incentive for domestic travelers to explore far-off destinations within and outside India. The booming aviation business is bringing an ever-increasing number of passengers to India, and pulling Indians out of their homes and into hotels. The numbers, according to the Ministry of Tourism, speak for themselves:

- The number of domestic and international passengers has increased fifteen-fold to 73.34 million in 2005/06 since 1970.
- Domestic air passenger traffic grew by 16.8 per cent in 2005/06 compared to 2004/05.
- International passenger traffic observed a growth of 16.9 per cent in the same period.
- Private airlines accounted for 77.0 per cent of the total domestic traffic.

5.3 Foreign Trade Policy

The Foreign Trade Policy announced in April, 2006, offered following incentives to the hospitality industry:

Hotels and Restaurants are allowed to import duty free equipment and other items including liquor, against their foreign exchange earnings under the Served from India Scheme. As in previous years, this entitlement is 5per cent of previous year's foreign exchange earnings for hotels of one-star and above (including managed hotels and heritage hotels) approved by the Department of Tourism and other service providers in the tourism sector registered with it. The stand-alone restaurants will be entitled to duty credit equivalent to 10per cent of the foreign exchange earned by them in the preceding financial year (instead of the earlier 20per cent).

Service exports in Indian Rupees, which are otherwise considered as having been paid for in free foreign exchange by RBI, will now qualify for benefits under the Served from India Scheme. Also, foreign exchange earned through International Credit Cards and other instruments as permitted by RBI for rendering of service by the service providers shall be considered for the purposes of computation of entitlement under the Scheme.

Benefits of the Scheme earned by one service provider of a Group company can now be utilised by other service providers of the same Group Company including managed hotels. The measure aims at supporting the Group service companies not earning foreign exchange in getting access to the international quality products at competitive price and providing services of international standards. This new initiative allows transfer of both the script and the imported input to the Group Service Company. The earlier provision allowed transfer of imported material only.

5.4 FDI in Hotel and Tourism Sector

100 per cent FDI is permissible in the sector on the automatic route. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation

and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organizations.

For foreign technology agreements, automatic approval is granted if:

- up to 3 per cent of the capital cost of the project is proposed to be paid for technical and consultancy services including fees for architects, design, supervision, etc.
- up to 3 per cent of net turnover is payable for franchising and marketing/publicity support fee, and up to 10 per cent of gross operating profit is payable for management fee, including incentive fee.

5.5 Other Government Initiatives

Government has undertaken following initiatives to attract both inbound and outbound tourists:

- ***Incredible India*** **-** Under this program the Government promotes India through various integrated marketing programs.
- ***Atethie devo bhava (guests are equal to god)*** **-** Under this program the Government create awareness among Indian people who come in contact with the tourist.
- Various Infrastructure building initiatives
- Encourage religious tourism for instance promote various places in India as Buddhist abodes.
- Other projects are the Rs. 5,400 million National Highways Development Project, the 5,846 km Golden Quadrilateral and the 7,300 km north-south and east-west corridors. Sagarmala project which intends to create a network of seaports, which will change the way people discover and experience real India.

6. OPPORTUNITIES & CHALLENGES

6.1 Opportunities in the Sector

Considering India's size and unparalleled diversity - natural, geographic, cultural and artistic, there is vast room for growth in tourism industry. As travelers surge into India, the demand for rooms, across segments, has skyrocketed. Hotels in the luxury and business traveler segment are recording nearly 100 per cent occupancy, spiraling tariffs, and a strain on capacity and manpower. Anticipating this demand, around 10,856 hotel rooms in Delhi, 9,318 rooms in Mumbai, 7,794 rooms in Bangalore and 7,408 rooms in Hyderabad are expected to be added by 2011, according to estimates by HVS International.

The expected growth of the industry in future has provided its players with an opportunity to invest in new technologies such as CRM tools and latest security systems, and to venture into niche tourism segments like Medical, Religious, Cruise, Casinos, MICE etc. India can also develop infrastructure to host international conferences and trade shows, thus increasing its share of tourist traffic from such activities

6.1.1 Health tourism

India is gradually gathering popularity as a health tourist destination. At its current pace of growth, healthcare tourism alone can rake over USD 1.7 billion additional revenues by 2012. Medical tourism is now a USD 299 million industry, as about 100,000 patients come each year. The country needs to exploit the cost advantage it can offer to a health tourist, the study said. The biggest driver for healthcare tourism is the disparity in costs.

- A heart surgery in the US costs USD 30,000 as compared to USD 6,000 in India.
- A bone marrow transplant in the US costs USD 250,000 and USD 26,000 in India.

With yoga, meditation, ayurveda, allopathy, and other systems of medicine, India offers a unique basket of services to an individual that is difficult to match by other countries. Clinical outcomes in India are at par with the world's best centres since India has internationally qualified and experienced specialists.

6.1.2 Critical Success Factors

The key success factors for the Hotel Industry are mentioned as follows:

6.1.2.1 Site and Location

This can be considered the most critical factor in determining the success of a hotel property. In addition to identifying a city, the site location within the city also assumes significance and issues like distance from the Central Business District (for metro hotels) and connectivity (access to roads, proximity to airports) assume importance.

6.1.2.2 Positioning

Equally important is the positioning of the hotel according to the target guest segment. For example, business hotels set up to cater to the high yielding corporate clientele in metro cities would have a distinct competitive advantage over facilities targeted towards leisure travellers in the same city for attracting business travellers.

6.1.2.3 *Financial Flexibility*

Development of hotels is a highly capital intensive activity and new hotel properties, typically, have a high break-even point. Therefore, financial flexibility is essential, especially during early years of operations.

6.1.2.4 *Brand Equity*

Branded hotels can be further classified into chain hotels and independent hotels. Chain hotels would typically be affiliated to one of the large national or international hotel chains. Association with a hotel chains allows the property to be branded with one of the chain brands. In such cases the property benefits from the equity of the chain brand and promotion and advertising efforts made by the chain no only in India but also overseas. This way the property is able to attract tourists from areas where a independent hotels may not be able to reach effectively.

6.2 Challenges

India's poor domestic tourism infrastructure is leading to a threat of loosing foreign tourists to other competing countries. India is highly prone to prevailing socio-economic and political conditions. Like terrorist strikes, riots, epidemics, political uncertainty, slowdown in reforms etc. The growth in the Indian tourism sector is accompanied by the imminent destruction of local ecology and an increase in pollution, which, in the long run, is going to negatively impact the tourism industry of India.

The biggest challenge in the Indian tourism sector is that of entry of new players, the country's growing economy has attracted a host of new players, the number of which is expected to increase further. Aman Resorts, Shangri-la Hotels, Four Seasons Hotels and The Hilton group are some of the international players that are at various stages of establishing presence in India. As the number of player increases, the competitive intensity in the sector is likely to increase. Remarkably, unlike earlier, many new entrants are reportedly considering entry into the mid-market segment, which is currently dominated by non-chain properties.

7. FUTURE OUTLOOK

The Indian Hospitality sector is expected to show a healthy growth in the medium term. Strong economic growth, increased FDI, greater emphasis on tourism development, favorable Government policies, impending 2010 Commonwealth games, 2011 Cricket World Cup and other international events, will be the major drivers for the growth. There exists a lot of scope for growth in tourism sector. According to the Ministry of Tourism, the contribution of tourism to India's GDP is only 5.9 per cent as compared to the worldwide average of 11 per cent.

By 2020, the Government of India expects travel and tourism to contribute Rs 8,500 billion to GDP, almost four times the value in 2005. With successive Governments committed to reform, a strong manufacturing sector and a private sector that already has a critical mass that is needed to drive growth, it is unlikely that the strong growth in GDP is likely to be reversed. The rising middle class is also becoming increasingly affluent, mobile, Internet savvy and more sophisticated in terms of what is demanded in terms of tourism products and services, and more importantly the price they are willing to pay for it.

Entry of international brands through joint ventures and tie-ups is likely to enhance the service levels and will narrow demand-supply gap of rooms. But ICRA expects the shortage in rooms to remain for next five years leading to higher occupancy levels and increase in Average Room Rates (ARR). Currently, according to industry estimates, there are only 1,05,000 hotel rooms in India while in China the figure is much higher at 7,65,000 rooms. The annual growth rate of hotel rooms in India is only 6 per cent, compared to 22 per cent in China, 18 per cent in Thailand and 15 per cent in Malaysia.

Economic growth in tier II and tier III cities have put these on the hospitality industry map. ARR are likely to harden in these cities in next 2-3 years due to shortage of room. Niche areas like health tourism and spiritual tourism are emerging as lucrative business opportunity for the industry. The overall buoyancy in the market is attracting increased interest from investors and higher inflow of capital in the industry is expected. The growth for hotels is also likely to come from proliferation of Special Economic Zones.

Major impediments to the growth are sensitivity to business cycles and adverse political and social events (including terrorist attacks), high rate of tax, high land price, bureaucracy, and poor infrastructure. For instance, the effective rate of taxation on tourism in India is 21 per cent as compared to 7 per cent in Thailand, 4 per cent in Malaysia and 1 per cent in Hong Kong. Furthermore, owing to high land prices, there are more five star hotels than budget hotels, making India a high cost deluxe destination. Additionally, India still does not have facility of modernised e-visa. The existing visa process is cumbersome and comparatively more expensive than other destinations. Yields are expected to be low in coming years on account of continuing price-cutting and discounts.

The Government is planning to grant infrastructure status to all budget hotels and convention centres set up in Delhi and National Capital Region till 2010 Commonwealth Games. This will enable them to enjoy a 10 year tax holiday as in case of other infrastructure projects such as roads, ports and power.