



Investigating the Hotel Sector's Contribution to India's Economic Modernization



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ABSTRACT

India's hotel industry has emerged as a significant contributor to the nation's economic transformation in recent years. This sector boasts impressive growth across the country, often intertwined with the success of the tourism industry. Recognized as a top ten economic sector in India, hospitality has attracted substantial foreign direct investment (FDI) exceeding US\$9.2 billion.

Fueled by a projected annual growth rate of 8.2%, India's travel and tourism industry is poised to become the world's third-largest. This translates to significant job creation, with estimates suggesting an increase from 10% to 10.4% of the total workforce by 2020. The industry itself is a fascinating mix, with the unorganized sector accounting for a significant portion (70% or US\$11.85 billion) compared to the organized sector (30% or US\$5.08 billion) according to the Economic Survey of India.

This growth is further amplified by a surge in tourist arrivals, both domestic and

international. From a mere 2.6 million international visitors in 2000, India has witnessed a remarkable rise to over 5 million by 2009. This sustained growth in tourism directly benefits the hotel industry, creating a positive feedback loop.

This exploratory study delves into the Indian hotel industry, analyzing its contributions to the economy in the wake of various economic reforms. The research objectives are twofold: to assess the performance of the industry and to identify any existing challenges. Utilizing secondary data sources, the study reveals a significant improvement in operational performance indicators like revenue, coupled with a decrease in national departmental expenses. This suggests that the Indian hotel sector is undoubtedly entering a new phase of growth. The onus now lies on industry players to capitalize on this momentum and maximize its potential.

KEYWORDS: Hospitality Industry, Economic Reforms, Tourism, Performance, Challenges

RESEARCH PAPER

INTRODUCTION

India's ongoing economic reforms aim to elevate the nation's standing and improve the lives of its citizens. To achieve this, a thriving private sector is essential. This study explores how the Hotel industry is actively contributing to these reforms.

The Travel and Tourism sector, experiencing consistent growth, has had a significant ripple effect on the Hotel industry. This interconnectedness positions hospitality as a crucial driver of India's economic prospects.

Several factors fuel the demand for hotels, including the impressive rise of the IT (Information Technology) sector and its associated services. Despite facing challenges, the Hotel industry remains a major contributor due to its vital role in tourism and the broader economy. Its importance is reflected in its ranking among India's top ten economic sectors. This significance is further underscored by the substantial Foreign Direct Investment (FDI) of US\$9.2 billion attracted by the Hotel and Tourism sector between 2000 and 2016 (as reported by the Department of Industrial Policy and Promotion).

OBJECTIVES OF STUDY

The researcher intends to pursue the following objectives;

- To analyze and assess the performance of the Hotel Industry in India
- To identify the challenges and setbacks of the Hotel Industry in India

SIGNIFICANCE OF THE STUDY

This research goes beyond simply investigating the hotel industry in India. Given the critical role hotel management plays in tourism, the study's findings have the potential to influence various stakeholders.

- **Travelers and Tourists:** The research can provide valuable insights into the current state of the Indian hotel industry, empowering travelers to make informed decisions about their accommodations.

- **Ministry of Tourism:** By identifying any shortcomings in the hotel sector, the study can equip the Ministry of Tourism with the knowledge needed to implement targeted improvements.
- **Businesses:** The research findings can be a valuable resource for businesses seeking to identify potential opportunities within the Indian hotel industry. This information can guide strategic decisions and fuel growth.

In essence, this research aims to create a ripple effect, positively impacting travelers, policymakers, and the hotel industry itself.

METHODOLOGY

This exploratory research delves into the Indian hotel industry and its contributions to the nation's economic growth. To achieve this, the study relies on secondary data sources.

A comprehensive review of existing literature was conducted. This included textbooks, relevant articles, journals, and online resources. By analyzing these materials, the research identified key trends within the industry. These trends will be used to forecast the hotel industry's future prospects and its continued impact on the Indian economy.

REVIEW OF LITERATURE

Hotels have long served as a "home away from home" for travelers, offering a haven with a variety of services beyond just accommodation. This industry plays a crucial role in the Indian economy, intricately linked to tourism. As Kannan (2005) aptly states, "no hotels, no tourism."

The history of hospitality in India stretches back centuries. During the Mughal era, forts provided basic amenities to travelers in exchange for stories and news from afar. Ancient and medieval rulers established resting houses (serais/sarais and dharamshalas) along major routes to cater to diverse travelers.

European influence in the 19th century marked a shift towards modern hotels. The Bombay Hotel (1799) and Kolkata's Spence's Hotel (1830) were early examples. The iconic British Hotel (1840) in Bombay, opened by Pallonjee Pestonjee, offered a la carte and table d'hôte menus, a novelty at the time. Other historical landmarks include the Great Eastern Hotel (1840) in Kolkata and the Connemara Hotel (1870) in Madras (now Chennai), currently part of the Taj Group.

Today, the Indian hotel industry offers a diverse range of options, as identified by Steffi (2016): business hotels, suite hotels, resorts, airport hotels, extended stay hotels, and more. This variety

caters to a broad spectrum of travelers, solidifying the industry's importance to both tourism and the Indian economy (Khanna et al., 2016).

Fueled by a growing tourism sector with increasing numbers of domestic and foreign visitors, the hotel industry is poised for continued expansion. The emergence of budget hotels caters to a wider audience seeking affordable stays, attracting the attention of international companies as well. As highlighted in the Hotel Sector Report (2016), a potential for growth lies in bridging the gap between tourist influx and available rooms.

This text effectively condenses the original passage, highlighting the historical evolution, current offerings, and economic significance of the Indian Hotel Industry. It also incorporates citations for a more scholarly tone.

PERFORMANCE OF THE HOTEL INDUSTRY

Lamda (2017) observes a surge in Indian hotel real estate transactions in 2017, following a relatively slow 2016. This upswing is exemplified by the acquisition of a majority stake in Sarovar Hotels, a leading Indian hotel management company, by The Louvre Hotel Group. This deal alone suggests that 2017 could be a record-breaking year for hotel transactions in India.

The previous high point for the market was 2015, with over INR 24,233 million worth of existing and brownfield hotel assets changing hands. This represented a significant increase (44.8%) compared to the second-best year (2012) with nearly INR 16,730 million in transactions. While 2016 lacked major deals, it saw five hotel asset transactions, some involving conversions to other uses. However, a key development in 2016 was the initiation of several large transactions expected to close in 2017. In addition to the Sarovar deal, an estimated 12 to 15 hotel asset deals (individual hotels or portfolios) are in the pipeline, with JLL Hotels confident of finalizing 10 to 12 of these in the first half of 2017.

This trend aligns with the view that India's hospitality market presents fertile ground for strategic acquisitions. These transactions offer an attractive alternative to developing new hotels, which carries inherent risks.

Current hotel transactions are typically priced at replacement cost or slightly below, satisfying both sellers and buyers. Hotel buyers are strategic investors who understand the cyclical nature of the hotel industry and are confident in its current upswing.

Key performance metrics like Average Daily Rate (ADR) and occupancy have rebounded strongly in most Indian hotel markets. Nationally, hotels are experiencing record highs with ADRs ranging from INR 4,200 to 7,900 and occupancy rates between 54% and 75%. Room revenue is nearly 12% higher than in 2015, which itself saw an 11% increase over 2014.

Markets like Pune and Hyderabad, previously considered less promising, are now experiencing double-digit growth (12% to 18%). Notably, leisure destinations and tier-II and III cities are surpassing more established commercial hotel markets.

With approximately 70 to 80 hotels currently available for acquisition, India's under-served hospitality sector presents a significant opportunity. This is further bolstered by the slowdown in new hotel construction (projected to be 3-4% annually over the next 3-5 years, down from 6-8% in the past five years) and India's improving macroeconomic indicators. Lamda (2017) expresses optimism that hotel markets will see strong performance growth in the short to medium term.

This paraphrase condenses the original text while highlighting key points about the increase in hotel real estate transactions in India, the factors driving this growth, and the positive outlook for the hotel industry.

Indian Hotels See Positive Performance Trends

The Indian hotel industry is experiencing positive growth. This is reflected in two key performance indicators:

- **Average Daily Rate (ADR):** The average room rate in 2015-16 was Rs. 5,128, the highest recorded since 2009-10. This signifies a significant increase in room rates over the past few years.
- **Occupancy Rate:** Occupancy rates also continued to rise, reaching 62.1% in the previous fiscal year. This indicates a strong demand for hotel rooms across India.

These positive performance indicators suggest a thriving hotel industry in India

A Shift in Revenue Streams

Traditionally, hotel room revenue has been the major contributor to overall hotel income. However, in recent years, this contribution had been declining steadily. This trend reversed in 2015-16, with Rooms Revenue rising to 51.7% of total revenue.

Conversely, the contribution from Food & Beverage and Banquets declined slightly, dropping from 42.6% in 2014-15 to 41.5% in 2015-16. Revenue from other departments remained relatively stable over the past five years.

A chart (not included in the paraphrase) is likely available to illustrate this shift in revenue contribution across various hotel departments.

Controlling Expenses: A Mixed Picture

For the third consecutive year, departmental expenses have decreased as a percentage of total revenue. This positive trend is largely driven by reductions in Rooms and Other Expenses. However, there is a counterpoint: Food & Beverage (F&B) expenses have risen sharply, reaching an all-India average of 64.1% in 2015-16. This increase needs to be addressed to maintain overall profitability.

Indian Hotel Industry: A Deeper Look at Costs, Revenue, and Guests

Cost Analysis:

- Overall departmental expenses as a percentage of total revenue have decreased for three years in a row, driven by reductions in Rooms and Other Expenses. However, Food & Beverage (F&B) expenses rose significantly to an all-India average of 64.1% in 2015-16.
- Analyzed on a per available room (PAR) basis, marketing costs, rental & other income, and management fees all increased compared to 2014-15, while fixed expenses showed an 18% decline on PAR basis.

Food & Beverage:

- F&B and Banquets revenue as a percentage of total revenue declined in 2015-16, while F&B expenses increased as a percentage of total revenue.
- Revenue from food and beverage outlets decreased on a PAR basis, whereas banquet revenue increased. F&B expenses on a per available room basis also rose by 9%.

Guest Analysis:

- Domestic travelers remain the primary source of room night demand, with domestic business travelers growing to 34.4% of total demand.

- Domestic tourist or leisure traveler contribution declined from 21.7% in 2014-15 to 19.8% in 2015-16.
- Foreign demand remained stable at 20.6% across business, leisure, and tour groups.

Online Reservations:

- Online reservation systems are playing an increasingly important role in advance bookings, with a rise from 8.5% in 2014-15 to 12.4% in 2015-16. This trend is expected to continue.

Net Income:

- The all-India average net income as a percentage of total revenue surpassed 30% in 2015-16. This increase, driven by higher average room rates and revenue, reversed a three-year downward trend and applies to most hotel categories.

This paraphrase condenses the original text while highlighting key findings on cost control, revenue streams, guest demographics, online booking trends, and overall profitability in the Indian Hotel Industry.

Domestic Tourism: A Driving Force for Indian Hotels

Domestic travel has consistently been the backbone of demand for hotels in India. This is fueled by a combination of factors:

- **Rising Spending Power:** Increasing disposable income among Indians allows them to travel more frequently.
- **Low-Cost Carriers:** The proliferation of budget airlines has made domestic travel more affordable, leading to a surge in domestic trips.
- **Government Initiatives:** Efforts like capping airfare for short flights further encourage domestic travel by making it more accessible to the growing middle class.

These factors all contribute to a significant share of domestic travel spending. In 2015, domestic travel spending accounted for a staggering 82.5% of the direct Travel and Tourism GDP in India. This dominance is expected to continue, with a projected growth of 6.6% in 2016. While business travel generates hotel demand, leisure travel is a major contributor. The World Travel and Tourism Council (WTTC) estimates that leisure travel spending, both domestic and

inbound, comprised a significant 83.2% of the direct Travel and Tourism GDP in 2015. This stands in contrast to business travel spending, which accounted for only 16.8%.

In conclusion, domestic tourism is a powerful driver for the Indian Hotel Industry, fueled by rising incomes, affordable travel options, and government initiatives.

Newer vs. Established Hotels: A Performance Comparison

The text compares the performance of established hotels (those operating since before 2011/12) with newer hotels (opened in the last five years).

- **Occupancy:** Established hotels consistently outperform newer hotels in occupancy rates. In 2015/16, established hotels achieved an average occupancy of 65.5% to 66.2%, while hotels opened in the last five years averaged a lower occupancy rate, reaching a high of 43.1% only in their first year (2015/16).
- **Average Daily Rate (ADR):** Established hotels also command slightly higher ADRs. While the national average ADR was Rs. 5,541 in 2015/16, hotels operating since 2011/12 achieved an ADR of Rs. 5,815, and those operating since 2012/13 reached Rs. 5,696. Newer hotels typically have lower ADRs in their initial years, although the ADR for hotels opened in 2015/16 showed some improvement compared to the previous two years.

Performance Across Indian Cities

The text acknowledges limitations in directly comparing hotel market performance across cities due to variations in survey participants year-to-year. However, it provides a table (not included) with average occupancy rates for 30 Indian cities/regions over the last five years based on FHRAI survey results.

Following the table, the text mentions that HVS will offer its own insights on the demand-supply scenario and performance of 20 specific hotel markets based on their internal research.

An European Influence: The Rise of Hotels in Colonial India

The 19th century witnessed the arrival of Western-style hotels in India, primarily catering to the British and other foreign visitors. These establishments were a novelty compared to traditional rest houses.

- Early examples include the Bombay Hotel and Tavern (1799), where a "Race Banquet" was held, and Maclean's Hotel (established before 1800) which hosted a celebratory dinner.
- The prominent Auckland Hotel, established in 1843, was later renamed the Great Eastern Hotel in 1858.
- John Wakson, a successful businessman, built and opened the Esplanade Hotel in 1871.
- The Great Eastern Hotel in Calcutta, established in 1866, highlights the growing trend of Western-style hotels.

By the end of the 19th century, Southern India also saw a rise in such hotels, with names like the Imperial, New Woodland, Ashoka Oceanic, Savera, Esplanade, Pandyan, and Bangalore International.

The 20th century marked a significant shift for the Indian hotel industry, witnessing its true growth and development.

A pivotal event was the incorporation of The Indian Hotel Company, Bombay, in 1902. Under the leadership of Jamsetji Tata, they opened the iconic Taj Mahal Hotel in Bombay (now Mumbai) in 1904. This luxurious establishment, costing £500,000, set a new standard for Indian hospitality. The company's success continued, expanding to include renowned hotels like the President Hotel, the Fort Aguada Beach Resort, the Lake Palace (Udaipur), and the Rambagh Palace.

Another notable player, Spencers, entered the industry in 1912 with the acquisition of Connemara Hotel. They further diversified their portfolio by opening hotels across India, including the West End Hotel in Bangalore, the Malabar Hotel in Cochin, the Mascot Hotel in Kothagiri, and the Savoy Hotel in Ootacamund (Kannan, 2005).

This paraphrase highlights the key developments of the 20th century: the establishment of major hotel chains like The Indian Hotel Company and the expansion of hotel offerings across India. It also includes a citation for the source (Kannan, 2005).

The Roadblocks to Success: Challenges for Indian Hotels

- Despite the positive performance of the Indian Hotel Industry in recent years, there are significant challenges that hinder its ability to reach its full potential.

- As Kashyap (2014) aptly states, a hotel's success hinges on attracting guests and utilizing its various services. These services include guest rooms, restaurants, bars, banquet halls, conference facilities, spas, gyms, beauty salons, and swimming pools.
- Kashyap (2014) identifies several major challenges faced by the Indian Hotel Industry: (The specific challenges are not mentioned in the provided text, but the paraphrase sets the stage for their introduction in the following text).

Taxation Woes Hinder Hotel Industry Growth

India's hotel industry has experienced a slowdown in recent years, with declining occupancy rates and revenue per available room (RevPAR). Industry leader SM Shervani (2014) attributes this to factors including stagnant occupancy and a decrease in average room rates. One significant challenge is the tax structure. Hotels in India are subject to taxes ranging from 20% to 25% depending on the state, significantly higher than the 8-10% rates common in other Asian countries.

The Hotel and Restaurant Association of Western India (HRAWI) has petitioned the government to implement a uniform tax structure across the nation. This would create a fairer playing field for all industry participants. HRAWI further argues that five-star hotels pay a hefty 38% of their room revenue in direct and indirect taxes, while some online hotel aggregators pay nothing. Dilip Datwani, President of HRAWI, emphasizes that healthy competition is welcome, but the current tax disparity significantly disadvantages traditional hotels (The Economic Times, 2017).

This paraphrase condenses the original text, highlighting the concerns regarding high and uneven hotel taxes in India compared to other Asian countries. It emphasizes how this tax burden is seen as a major hurdle for the hotel industry's growth.

Debt Financing:

A 2013 study by HVS India compared hotel loan terms in India with those in other countries. The results were discouraging for India:

- **Loan Terms:** In major international cities like New York and London, loan terms are typically 20-30 years with interest rates of 5-7%. Even in other Asian cities like Beijing, loan terms are around 10 years with lower interest rates (9-10%).

- **Indian Scenario:** In contrast, Indian hotels receive shorter loan terms (10-12 years) with significantly higher interest rates (12-14%). This makes debt financing a less attractive option for Indian hoteliers.

2. Visa Issues:

- **Tourist Arrivals:**** India's tourist arrivals are lagging behind competitors. In 2013, India attracted only 6.85 million foreign tourists, ranking 41st globally. This pales in comparison to destinations like Singapore (15.5 million), Malaysia (25.7 million), Thailand (26.7 million), and Turkey (35.6 million).
- **Visa Challenges:**** Vivek Nair (2014) blames India's cumbersome visa application process for deterring potential tourists. The process is lengthy, requires excessive documentation, and is bogged down by outdated bureaucracy. Streamlining the visa process is critical for India to compete effectively.

3. Safety and Security:

- **Security Concerns:**** Since the 2008 Mumbai attacks, the hospitality industry has actively addressed security challenges. This includes adopting new technologies, training staff, and implementing stricter procedures. Safety has become a top priority for hotels, especially for business travelers concerned about the well-being of their employees.
 - In today's digital age, secure and reliable internet access is essential for most hotel guests. While offering free or paid Wi-Fi is a hotel's decision, secure internet is becoming a necessity.
- This paraphrase condenses the original text while highlighting three key challenges for the Indian Hotel Industry: unfavorable loan terms, complex visa processes that discourage tourism, and the need to prioritize safety and security measures.

The Cornerstone of Tourism: The Indian Hotel Industry

Hotels play an irreplaceable role in the tourism industry, acting as a gateway for international tourists to experience a country's culture, cuisine, and way of life. Without a well-developed hotel sector, even stunning landscapes, pleasant weather, and recreational activities cannot guarantee a thriving tourist trade.

Several factors are fueling the growth of the Indian Hotel Industry:

- **Rising Incomes and Increased Leisure Time:** Growing disposable income and more leisure time among Indians are creating a favorable environment for hotel development.
- **Global Tourism Trends:** The positive influence of travel and tourism, along with a growing interconnected world, is fostering a more welcoming environment for hotels in India.

Looking Ahead: A Call to Action

India's hotel sector is poised for significant growth. To capitalize on this opportunity, key stakeholders – hotel owners, operators, lenders, and advisors – need to make thoughtful, yet decisive, investments. Indecision can be more detrimental than a well-planned course of action. By working together, stakeholders can unlock the vast potential of the Indian Hotel Industry, benefiting not only the government and the nation as a whole, but also the private sector. The industry offers a broad spectrum of advantages, making it a worthwhile area for strategic investment.

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