

## **Indian Hotel Industry – “Huge inventory addition to put an anchor on improvement in the ARR and OR across major cities...”**

The hotel industry in India witnessed a tremendous boom during the period FY06-08. India has emerged as a one of the most enticing destinations for the international tourists. The growth in tourist arrivals was primarily led by the upsurge in the economy and increased business opportunities. The arrival of low-cost airlines and the associated price wars also led to the growth in domestic and foreign tourists. Rising disposable income, popularizing weekend culture, attractive packages and easy access to travel-related information are the few other factors which fuelled the growth in the Indian hotel industry in the past. The Ministry of Tourism's 'Incredible India' campaign and the 'Atithi Devo Bhava' campaign have also helped in the growth of the Indian travel & tourism industry and consequently the hotel industry. However, the global economic slowdown and slew of militant activities in the country turned the market dynamics in the reverse swing, and the occupancy levels and ARRs saw a sharp decline in FY09-10. Also, a huge amount of addition in the hotel rooms across segments acted as the key deterring factor for the fall in occupancy levels.

### **The upscale hotel – room revenue to grow at a CAGR of 7.5 per cent...**

The upscale hotel industry - room revenues are expected to grow at a Compounded Annual Growth Rate (CAGR) of 7.5 per cent from Rs. 94 billion in FY12 to Rs. 117 billion in FY15. Huge inventory addition is expected to put an anchor on improvement in the Average Room Rate (ARR) and Occupancy Rate (OR).

CARE Research expects the demand for the upscale hotel industry to remain buoyed due to the growing economy, rising discretionary income, growing culture of weekend vacation and increased business travel. Domestic leisure tourists will continue to dominate the demand for hotel rooms especially in the mid-market segment, whereas the foreign tourists would continue to drive demand for the hotels in the upscale category.

### **Revenue from room segment will continue to remain the highest contributor to the overall revenue of the hotel industry**

Revenue from renting out of rooms accounted for almost 55 per cent of the total revenue of the hotel industry in FY12 followed by food and beverages segment, which accounted for 28 per cent, while banqueting services contributed 10 per cent to the total revenue in FY12, others such as parking charges, laundry, gift shop etc. accounted for the balance in FY12.

Rooms segment, primary business of the hoteliers, will continue to remain the highest revenue contributor for the hotel companies. However, with growing number of conferences and conventions, the revenue from banqueting services is expected to grow at a faster rate. Also, Food and Beverage segment, the second largest revenue earner for the industry is also expected to show a decent growth in the coming years.

### **The Foreign Tourists Arrivals (FTAs) to grow at a moderate rate of 5 per cent upto CY15**

CARE Research expects the FTAs to grow at a CAGR of 5 per cent to 7.7 million in CY15. The key growth drivers for the FTAs include:

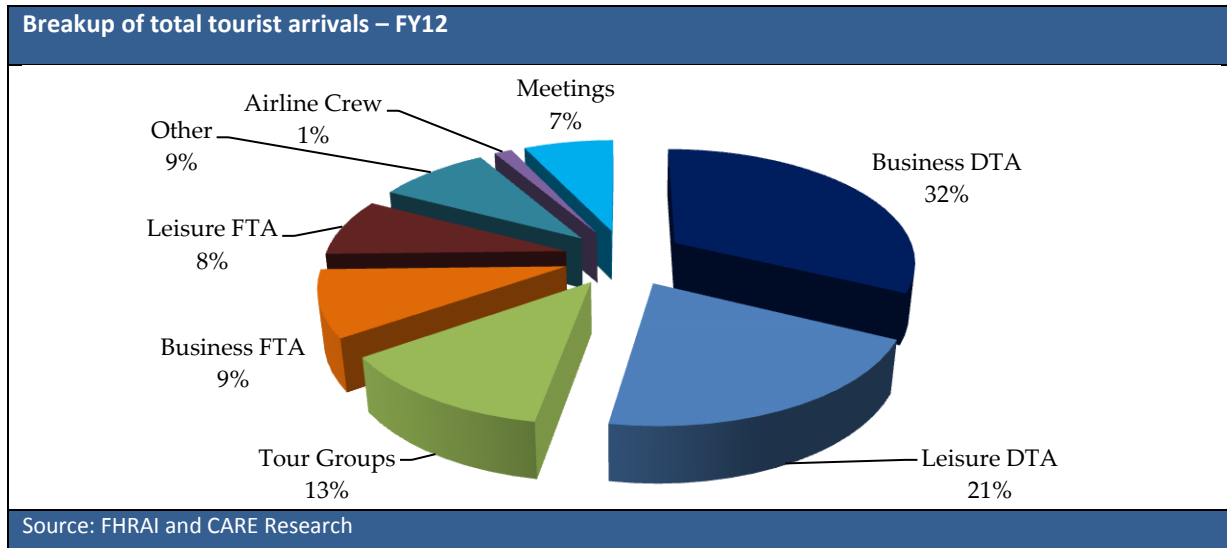
- Increased business travel due to the growth in world trade,
- Multinational companies setting up their operations in India,
- Organizing of international events and trade fairs,
- Rise in the global per capita disposable income,
- Success of “Incredible India” and the “Atithi Devo Bhava” campaigns and other tourism promotion measures.

India witnesses the maximum number of tourists from United States of America (USA) followed by United Kingdom (UK) and Bangladesh. However, arrivals from Bangladesh are mainly migrants. CARE Research expects the trend to continue and USA and UK to dominate the flow of FTAs in India. States like Maharashtra, Tamil Nadu, Delhi and Uttar Pradesh are expected to attract more foreign tourist. Mumbai and NCR hosts both, business and leisure tourists but the share is skewed towards business tourists. However, Tamil Nadu attracts mostly leisure and medical tourists. Uttar Pradesh which boasts of the Taj Mahal, is a preferred destination for the leisure tourists from various countries.

### **Domestic Tourist Arrivals (DTAs) to dominate the total tourist traffic in India**

## Industry Update – Cement

In FY12, DTAs from business and leisure segments taken together accounted for about 53 per cent, the largest share in total tourist arrivals followed by business FTA and Leisure FTA put together accounted for 17 per cent. The share of FTAs both business as well as leisure segments taken together is expected to reach a level of 20 per cent by the end of FY15.

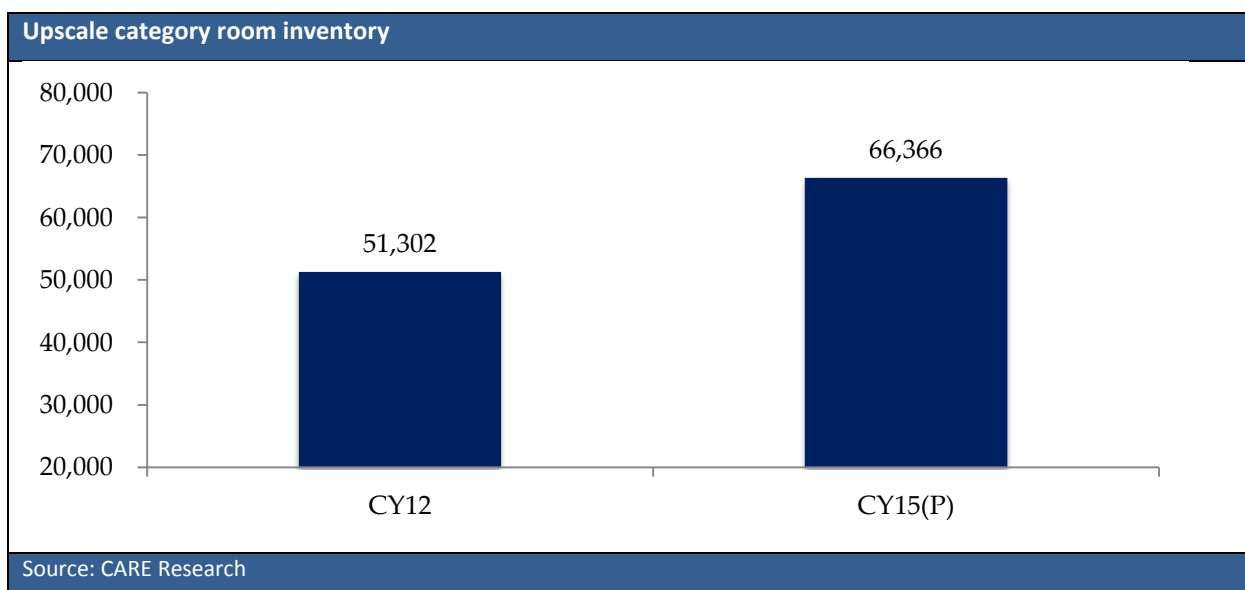


Domestic tourists, both from business and leisure segments will continue to remain the largest customer base for the hotel industry in India. Key growth drivers for the domestic travellers in the business segment include increase in trade and commerce, increase in the number of multinational companies – especially IT/ITeS and BFSI, growing Meeting-Incentives-Conferences-Exhibitions (MICE) culture, increase in the number of conferences and seminars, increasing geographical spread of domestic companies, etc. While the key growth drivers for the domestic travellers in the leisure segment include, diverse topography and rich cultural heritage, rising personal discretionary income, evolving lifestyle, growing number of multiple earner families, popularizing weekend vacation culture and improvement in air, rail and road connectivity.

However, foreign tourists, both from business and leisure segments, will grow at a faster rate due to the increasing international trade, and India fast developing into a popular tourist destination. Medical tourism is also growing at good pace in India, mainly due to the equivalent medical services offered and lower costs as compared with the western countries.

## Upscale hotel segment to see a net addition of about 15,064 rooms in the top 10 cities over the next 3 years

CARE Research estimates the upscale hotel room inventory to grow at a CAGR of 9 per cent, from the level of 51,302 rooms at the end of CY12 to 66,366 rooms by CY15. The key hotel brands coming up with new supply are IBIS, Westin, Novotel, Radisson, Hyatt, Lalit, Orchid, ISTA, Aloft, JW Marriott, Dusit D2, Sofitel, Ritz Carlton, W Retreat & Spa and Shangri-la.



The players in the upscale category hotels had announced to add around 21,047 rooms. However, due to the deferment by players, delay in getting the number of approvals required to set up a hotel and overall slowdown in the economy, CARE Research expects only 72 per cent of the announced inventory to come on board. Thus, the net addition of room inventory is expected at about 15,064 numbers of keys by the end of CY15.

National Capital Region (NCR) tops the list followed by Bangalore, Kolkata and Mumbai in terms of absolute number of keys expected to be added over the next three years. However, in terms of percentage increase in no of keys from CY12 to CY15, Noida and Kolkatta are expected to witness a substantial growth.



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