For The Good Times...

It’s champagne time for India’s hotel industry, thanks to a booming economy and the resulting surge in business. The robust demand for accommodation has led to higher room tariffs and is attracting foreign investment, reports Abhijit Joshi.

Some believe that India is an ‘idea’ rather than a nation of people with different languages, traditions and culture. If so, India is an idea whose time has come. It is no longer just an ‘exotic’ country, but is now the destination of choice not just for foreign tourists, but also for business travellers.

The change in image has lead to a boom in hoteliering. While the industry had its vicissitudes in the recent past, the current boom looks like staying on. “The Indian hospitality sector is witnessing one of its rare sustained growth trends,” says Ajoy Misra, Senior Vice-President, Sales & Marketing, Indian Hotels, owners of the Taj group, the country’s largest hotel company.

There is a mismatch between demand and supply, leading to higher occupancies and average room rates. During 2004-5, revenue per available room in hotels across India increased by 29 per cent over the 2001-02 levels.

This seems to be just the beginning, judging by opinions from analysts and industry executives. Predicts Sudhir K Nair, Head of Research at CRIS INFAC, a prominent research consultancy firm, “Demand will outpace supply in the short to medium term, and ARRs are expected to increase by 13 to 14 per cent annually over the next two years. Due to the spurt in tourist inflows, occupancy rates are expected to reach 83 per cent by 2008-09, up from the present 72 per cent.” R Venkatachalam, director - Finance & CFO, Hotel Leelaventure, predicts a CAGR of 35 to 40 per cent every year, over the next five years for the sector.

A major reason for the demand for hotel rooms is the underlying boom in the economy, particularly the growth in the infor-
mation technology enabled services and information technology industries. Rising stock indices and new business opportunities are also attracting foreign institutional investors, funds, equity and venture capitalists. “The overall growth outlook appears to be very buoyant. Growth in demand in 2005, 2006 and 2007 will be 20 per cent year on year. Much of this growth will be driven by the BPO explosion, telecom, IT and energy,” says John Toomey, Director of Marketing, India, Marriott International Inc.

The hotel sector has also got a fillip from the entry of low cost airlines and the open skies policy — which has led to a dramatic increase in commercial flights into and out of India. All these developments have contributed to a phenomenal growth in commercial travel. Tourist arrivals are up 17 per cent for the first few months of this fiscal. “It is estimated that a majority of the tourists are business travellers,” says S S Mukherji, vice-chairman and managing director, East India Hotels, which owns the reputed Oberoi brand. Unlike leisure travel which is seasonal, the business travellers ensure year-round occupancy.

Indeed, the dollar-paying business travellers are the most sought after customers

### The supply demand gap in the premium hotels segment (Average of 10 cities)

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<tbody>
<tr>
<td>Room availability</td>
<td>16,378</td>
<td>17,656</td>
<td>18,976</td>
<td>22,247</td>
<td>23,010</td>
<td>24,246</td>
<td>24,620</td>
<td>25,773</td>
<td>27,703</td>
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<tr>
<td>Room demand</td>
<td>10,138</td>
<td>10,671</td>
<td>9,448</td>
<td>13,001</td>
<td>15,472</td>
<td>17,518</td>
<td>19,130</td>
<td>20,797</td>
<td>22,822</td>
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<tr>
<td>Surplus/ Shortage</td>
<td>6,240</td>
<td>6,985</td>
<td>9,528</td>
<td>9,246</td>
<td>7,538</td>
<td>6,728</td>
<td>5,490</td>
<td>4,976</td>
<td>4,881</td>
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<tr>
<td>Increase in room supply</td>
<td>1,278</td>
<td>1,320</td>
<td>3,271</td>
<td>763</td>
<td>1,236</td>
<td>374</td>
<td>1,153</td>
<td>1,930</td>
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<tr>
<td>Occupancy rate (%)</td>
<td>62</td>
<td>60</td>
<td>50</td>
<td>58</td>
<td>67</td>
<td>72</td>
<td>78</td>
<td>81</td>
<td>82</td>
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<tr>
<td>Av. Room Rate (Rs)</td>
<td>4,220</td>
<td>4,094</td>
<td>3,835</td>
<td>4,046</td>
<td>4,332</td>
<td>5,250</td>
<td>5,936</td>
<td>6,772</td>
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Note: The data pertains to the cities of Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad, Pune, Goa, Jaipur and Agra. P: projections

Source: CRIS INFAC
since they seek few discounts, entertain freely and make extensive use of the hotel’s facilities like restaurants, business centres, travel desk, car rentals etc. since they are pressed for time. The increased thrust on meetings, conventions and exhibitions helps hotels improve their earnings.

Historically, India has been a six or seven city market, including the four metros of Mumbai, Delhi, Kolkata and Chennai and tourist hotspots like Jaipur and Agra. However, the rise in economic activity across the country has led to an increase in demand in several other smaller cities including Ludhiana, Chandigarh, Ahmedabad, Pune, Kochi, Bangalore and Hyderabad. “India is now growing into a 16 to 18 city market,” says Siddharth Thaker, Senior Associate, HVF International, a hospitality consultancy firm.

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80,000 rooms in all categories over the next two to three years at an estimated cost of about $8 billion to $9 billion, out of which about 20 per cent should be in the premium segment.” According to some analysts, there’s demand for 150,000 new hotel rooms, which would cost $10 billion to build. Indian Hotels’ Misra estimates that over the next three to five years, new room demand is likely to be in the region of about 10,000 to 12,000 rooms with an investment of about $66,000 per room.

India’s unique advantage for the hotel industry, as is the case for most other industries, is that a huge chunk of demand is domestically generated. Just 16 to 18 per cent of its demand for rooms comes from foreign tourists. According to estimates, 100 million Indians travel within their country each year, enough to fill up the capacities being set up.

Several global hotel chains are racing to increase their presence in India. One such

hotel chain is the Marriott. “Marriott International is eager to grow its portfolio in the country consisting of full service and limited service hotels. With many different promoters/owners expressing interest, all seems very positive from the development

standpoint,” says Toomey. Currently Marriott has over 1,000 rooms spread across four properties in Mumbai and Goa.

Others planning to set up shop in India include Hilton, Conrad, Scandic and Hilton Residency from Hilton International; Shangri-La and Traders from Shangri-La Hotels and Resorts, Regent from the Carlson Hospitality stable; InterContinental, Crowne Plaza, Holiday Inn and Holiday Inn Express from the InterContinental Hotel Group, Movenpick from Movenpick Hotels and Resorts and Mandarin Oriental from the Mandarin Oriental Group. “At present, there are about 26 hotel brands in the country. By 2010, this number is expected to increase to over 40,” says Thaker.

The structure of global hotel chains is different from most Indian hotel groups. Globally the Hilton group manages about 340,000 rooms of which it owns only 17 per cent while 83 per cent are held under management contracts and franchisee agreements. This structure entails lower fixed capital commitment and lower risk.

Until recently, global hotel chains preferred the franchisee or management agreement route in India rather than invest their monies. That is changing now. The Grand Hyatt was among the first hotels in which the foreign partner invested in the equity of the company. According to reports, the French hospitality chain, the Accor group, has also planned an outlay of $188 million.

Even Indian hotel companies players are changing their strategy. “We have decided to adopt the management contract route for most of our future expansions, except where we have already committed,” says East India Hotels’ Mukherjee. Thus, the upcoming 175 room property at Gurgaon, near Delhi, will be a managed property. The Taj group has recently won the contract to manage The Pierre, a 75 year-old luxury hotel on New York’s Fifth Avenue. This is the fourth management contract the Taj group has signed for an international hotel property this year, after the ones in Bhutan, Langkawi (Malaysia) and Dubai.

The current good-times in the hotel business may be part of a larger business cycle, which occurs periodically in corporate history. But one spinoff is certain; it has heralded the coming-of-age of Indian hotel chains.