

# A Descriptive Study on Contribution of Hotel Industry in Indian Economy

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**Abstract:** *The Hotel industry in India has evolved remarkably over the decade and in effect parading quite a wide spectrum of benefits and opportunities for players of the service industry. The industry is statistically proven to have performed creditably countrywide and among its major cities. It is considered to a larger extent that the hotel industry flourishes on the wings of the tourism Industry. The Hotel and Tourism sector is considered among the top ten sectors in India. As a results of its contribution, the Hotel and Tourism sector attracted around US\$ 9.2 billion of FDI between April 2000 and March 2016 as released by the Department of Industrial Policy and Promotion (DIPP). The demand for travel and tourism in India is expected to grow annually by 8.2% which is expected to put India third in the world. Travel and tourism in India also accounted for 49,086,000 jobs in 2010 (about 10% of total employment) and is expected to rise to 58,141,000 jobs (10.4% of total employment) by 2020. According to the Economic Survey of India the Indian Hotel industry accounts for USD 17 billion, 70% (USD 11.85 billion) which take their origin from the unorganized sector and the remaining 30% (USD 5.08 billion) from the organized sector. In 2000, India hosted only 2.6 million international visitors. By 2009, the figure had already increased to 5.13 million arrivals. Over the years, a sustained increase in the tourism industry with increase in number of foreign and domestic tourists has serve as a booster to the Hotel industry. This study makes an exploratory attempt to study the Hotel industry as it relates to India and analyses its contributory effects on the economy on the heels of the various reforms that have hit the country. The objectives of the study are to analyze and assess the performance of the Hotel Industry in India and to identify the challenges and setbacks of the industry. It was concluded that India's hotel sector has unequivocally entered the next up-cycle with impressive performance suggesting that players of the industry have the onerous responsibility and duty to capitalize on this and make the best out of the industry.*

**Keywords:** Hotel, Industry, Economic reforms, Contributor, Tourism, Performance, Challenges

## I. INTRODUCTION

The economy of India continues to undergo various reforms in the bid to position the country among great nations capable of meeting the everyday needs of its citizenry. In the light of this, it is very crucial to make sure the various sectors are up and running. This study basically looks at how the Hotel industry is contributing its quota to these economic reforms. The Travel and Tourism sector of the Indian economy is rigorously undergoing its fair share of sustained growth rate. As a major interlinking industry, the Hotel industry have also had to experience a ripple effect of this all important growth which is very crucial to Indian's economic prospects. A significant motivation for the demand of hotels and their related accessories is the overwhelming performance of some indispensable economic drivers, particularly the upsurge significance in the Computer and Information Technology enabled services and Information Technology businesses. Despite the gruesome challenges that the Hotel industry in India has had to intercept, it still remains a huge contributor considering the overarching significance it plays in all facets of the Tourism industry and in the economy as a whole. The Hotel and Tourism sector is considered among the top ten sectors in India. As a results of its contribution, the Hotel and Tourism sector attracted around US\$ 9.2 billion of FDI between April 2000 and March 2016 as released by the Department of Industrial Policy and Promotion (DIPP).

## II. REVIEW OF LITERATURE

Hotel is often referred to as a 'home away from home'. It is a place where the tourist pauses being a traveler and becomes the guest. A hotel usually offers a full range of accommodations and services, which includes suites, public dining, banquet facilities, lounge and entertainment facilities. In addition, a variety of other services like auto/taxi rental, airline ticketing, tour, reservation booking and postal services are also taken care of at the hotel. Hotels have long been an important element in the economics of many countries. The enormous increase in tourism of the 20<sup>th</sup> century has caused the hotel business to outgrow national boundaries and become global in character. Hotels are directly linked to and are an integral part of many other economic activities. The hotel industry is indispensable for the success of tourism. It is said, "no hotels, no tourism" (Kannan, 2005).

According to Srinibas (2015), the Hotels & the Catering Industry started in the 19th century with the development of major cities, easier sea travel & coming up of railways. During the Mogul rule, the forts & their surroundings would cater to the needs of the traveler often in exchange for no more than the story of their adventures during their travel or any news from other towns and villages they passed by. Srinibas (2015) added that in India, resting houses called serais/sarais and dharamshala were established on high ways by kings and emperors of ancient and medieval periods. Movement of people both political and pilgrimage stressed the need for better and improved facilities to cater to the varied needs of the various classes of the society. Most of modern hotels that sprouted were managed by European families. The Bombay hotel was opened in 1799. The British brought modern hotels to Kolkata. The Oldest was John Spence's Hotel. Spence's, the first ever hotel in Asia was opened to the public in 1830. The credit for opening the first Western style hotel under the name of British Hotel in Bombay in 1840, goes to Pallonjee Pestonjee who was the first hotel to give a la carte and table d'hôte menu. Then came the Auckland hotel by David Wilson in Calcutta in the year 1840-41 (now - The Great Eastern Hotel - officially Lalit Great Eastern Hotel) is a colonial era hotel in the Indian city of Kolkata - formerly Calcutta) and Connemara hotel in Madras in the year 1870 by E. A. Oakshroff. But now this property belongs to Taj group (Srinibas, 2015).

The hotel industry in India thrives largely due to the growth in tourism and travel. Due to the increase in tourism with rising foreign and domestic tourists, the hotel sector is bound to grow. There is an emergence of budget hotels in India to cater to the majority of the population who seek affordable stay. International companies are also increasingly looking at setting up such hotels. Imbalance in increase in tourists both domestic and foreign not being supported with equal number of rooms is a latent source of opportunity for growth (Hotel Sector Report, 2016).

## III. PERFORMANCE OF THE HOTEL INDUSTRY

Sharing his opinions, Lamda (2017) expressed that as far as hotel real estate transactions in India go, 2017 has started off with a big bang. After a relatively quieter 2016, this year saw the acquisition of a majority stake in India's foremost hotel management company, Sarovar Hotels, by The Louvre Hotel Group (part of Jin Jiang International Holding), he added.

This transaction alone has paved the way for 2017 to set a new record in India's fledgling hotel transactions' market. The last significant year for the hotel transaction market was 2015, in which the market witnessed over INR 24,233 million worth of trade in existing and brownfield hotel assets – a 44.8% increase over the second-highest year of 2012, which had witnessed nearly INR 16,730 million worth of trade.

While 2016 lacked the big bang announcements of 2015, it witnessed five hotel-related asset transactions – some of which were undertaken to convert the underlying assets to alternate developments. The more significant contribution of 2016, however, has been the commencement of major transactions which are likely to fructify in 2017.

In addition to the Sarovar deal, around 12 to 15 more hotel asset transactions – either in the form of portfolios or single assets – are currently in the works. JLL Hotels' team is confident of closing about 10 to 12 such deals in 1H 2017.

The ongoing trend in the hotel transactions market is in line with our belief that the Indian hospitality market today is a fertile field for strategic acquisitions. This trend will immensely help players keen on establishing a footprint in the Indian hospitality sector without taking the risks associated with development of new hotels in the country. Most hotel transactions today are occurring at replacement, or a slight discount to replacement cost, keeping both the seller and the buyer content with the target price. Hotel buyers in the market today are strategic investors who firmly believe in and understand the hotel segment's economic cycle.

As in all business cycles, the hotels economic cycle has started to trend upward. Performance metrics like ADR (Average Daily Rate) and Occupancy have resumed strong growth for most hotelmarkets in India.

#### **IV. HOTEL INDUSTRY IN THE NINETEENTH CENTURY**

The British introduced hotels in India mainly for their own use or for foreign visitors. There are references about the Race Banquet held at Bombay Hotel and Tavern in 1799 and the dinner at the Maclean's Hotel to commemorate the capture of Srirangapatnam in 1800. The existence of Auckland Hotel was as far back as 1843 and was later renamed as the Great Eastern Hotel in 1858. In 1871 John Wakson who had earned huge fortune as silk drapper, opened his Esplanade Hotel. It was said that he was himself the architect and builder of the hotel. In 1866 Great Eastern Hotel Calcutta was stated with an authorized capital rupees ten lakhs. By the end of the nineteenth century there were many western style hotels in South, like Imperial, New Woodland, Ashoka Oceanic, Savera, Esplanade, Pandyan, Bangalore International, Ritz Dasaprakash, etc ((**Kannan, 2005**)).

#### **V. HOTEL INDUSTRY IN THE TWENTIETH CENTURY**

The twentieth century was a turning point in the history of the hotel industry in India. It is in this century we find the real growth and development of the accommodation industry. The Indian Hotel Company, Bombay was incorporated on 1<sup>st</sup> April 1902 with an authorized capital of Rupees thirty Lakhs. Mr. Jamsetji Tata opened the Taj Mahal Hotel in Bombay. The hotel was completed at a cost of ₹5,00,000 in 1904 but Tata did not live to preside at the opening ceremony Today there are many hotels in the chain including the President Hotel, the Fort Aguada Beach Resort, the Lake Palace (Udaipur), the Rambagh Palace. In 1912 Spencers entered into the hotel industry by purchasing Connemara Hotel and opened at Bangalore the West End Hotel and Malabar Hotel at Cochin and Mascot Hotel at Kothagiri in 1942 and Savoy Hotel at Ootacamund in 1943 (**Kannan,2005**).

#### **VI. CHALLENGES AND SETBACKS OF THE HOTEL INDUSTRY**

Despite the overwhelming performance of the Hotel Industry in India over the past five years, mention can be made of the numerous challenges and setbacks that have dragged the industry from attaining its desired output. It can be observed that Hotels survive and continue to exist in business by the patronage of its paying guests and the products they (Hotels) offer. This is reiterated in the words of **Kashyap (2014)** that no matter how magnificently any hotel is built, its revenue flows from the number of guests staying in the hotel's room or utilizing any other services of hotel like its restaurants, bar, banquets, conference halls, spa, gym, beauty salon, swimming pools etc.

In his views, **Kashyap (2014)** makes mention of the following major factors as huge challenges and setbacks to the Hotel Industry in India.

##### **Taxation Policies of the Government of India**

The hotel industry can be described as increasing in a decreasing pace for approximately five years now. It is facing relatively low occupancy and declining revenue-par over the few years. Over the last two years, average room rates have definitely reduced and occupancy has been stagnant," said SM Shervani, president of the Federation of Hotels and Restaurant Associations of India (FHRAI) as reported by Khosla & Sathyanarayanan in 2014. In India, hotels are taxed anywhere between 20% and 25% depending on the state that they are operating in, when other Asian countries are levying 8-10%. The Hotel and Restaurant Association of Western India (HRAWI) moved a petition to the Government to level the playing field and bring a tax uniformity to all players in the industry. HRAWI argues that while five star hotels pay 38% of the room revenue as direct and indirect taxes, some hotel aggregators do not pay a single rupee. "We welcome competition in any form, but this kind of disparity is unhealthy for the industry. It is almost as if we are doing our business with our hands tied" said Dilip Datwani, President (HRAWI) – The Economic times, 2017.

##### **Debt-funding by the Indian Banks**

HVS India in September 2013 researched the lending parameters prevalent in select other countries of the world for hotel debt-funding and compared them to the prevailing conditions in India. Expectedly, it was found that in cities such as New York, London, Dubai and Moscow, the term period of the loan ranges from 20-30 years with interest rates of 5-

7%. In other cities such as Beijing and Buenos Aires, while the length of the loan term is around 10 years, the interest rate is in the range of 9-10%. In clear contrast, debt-funding for hotel projects in India is characterized by a relatively short loan term, typically of 10-12 years, but with high interest rates of 12-14%. "In the last decade, interest rate for new projects has been hiked from 8.00-8.25% to 12.50%," said Ashish Jakhanwala (in 2014), managing director of SAMHI Hotel Investment. Debt financing is therefore seen as not entirely attractive and beneficial to the Hotel industry, Jakhanwala added.

### Visa Issues

According to Vivek Nair 2014, India was able to attract a mere 6.85 million foreign tourists in 2013, ranking 41<sup>st</sup> in the world. It is indeed disappointing to compare this performance with some of our competing destinations: Singapore –15.5 million, Malaysia –25.7 million, Thailand –26.7 million and Turkey –35.6 million. "Over the years, the onerous visa application process which has always been fraught with long delays, excessive documentation, and outdated bureaucratic procedures have had to deter potential tourists. It has thus become vital for India to urgently address the entrenched inefficiencies in its existing visa structure in order to position itself favorably against competitors", said Vivek (2014).

### Safety and Security

Shweta Ramsay in 2014 has reported that, since the 26/11 attack the hospitality industry has continuously been fighting with every challenge in respect with terrorism and other security risks by adapting to new technologies and training the security personnel and other employees as well. Today, there is a sea change in terms of security to protect guests and property from any kind of damage. Business travelers and corporations, especially, are more concerned with the safety of their traveling employees. Safety and security is becoming a sales differentiator for many hotels. In recent years, wireless internet access has become a standard for the hospitality industry. Most hotel guests prefer to stay in the hotel where Wi-Fi access is not provided. However, offering free or paid internet is at the discretion of the hotel, but offering secured and managed internet is the need of the hour.

## VII. CONCLUSION

Hotels are the vital and essential component of the tourism industry. They are the keynotes in the arch of global tourism. It is a miniature country representing to the tourist from distant, far-off lands, the feel and flavor of a country's cuisine, culture and its way of life. Without the adequate development of hotel resources, all the national scenery, all the climatic virtues and all the sporting and recreational facilities do not suffice to sustain a good volume of tourist trade. The persuasive influence of the travel and tourism, the infiltration of national and international attitudes and increasing leisure associated with higher income groups has made the environment more conducive for the growth of hotels. India's hotel sector has now unequivocally entered the next up-cycle. Prudent, measured, yet assertive decision making by the industry's stakeholders is now required. The only thing worse than a bad decision is taking no decision! It is therefore concluded with the hope that hotel owners, operators, lenders and advisors will all jointly appreciate the opportunity ahead and make decisive plans to capitalize on it as the industry has quite a spectrum of benefits not only to the government and the nation but also to the private sector.

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