

# 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**.

**S**ome 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 led 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 ARR's 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-



**WITNESSING A SUSTAINED GROWTH TREND:** Indian Hotels' Ajoy Misra



**THE CRUSH FOR ROOMS HAS SPELT BUSINESS OPPORTUNITIES:** Breakfast on a rainy morning at Mumbai's JW Marriott

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 explo-

sion, 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 P	2006-07 P	2007-08 P
<b>Room availability</b>	16,378	17,656	18,976	22,247	23,010	24,246	24,620	25,773	27,703
<b>Room demand</b>	10,138	10,671	9,448	13,001	15,472	17,518	19,130	20,797	22,822
<b>Surplus/ Shortage</b>	6,240	6,985	9,528	9,246	7,538	6,728	5,490	4,976	4,881
<b>Increase in room supply</b>		1,278	1,320	3,271	763	1,236	374	1,153	1,930
<b>Occupancy rate (%)</b>	62	60	50	58	67	72	78	81	82
<b>Av. Room Rate (Rs)</b>		4,220	4,094	3,835	4,046	4,332	5,250	5,936	6,772

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, Cochin, 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.

Although India has over 1,800 properties comprising more than 84,000 rooms, the hospitality industry is highly fragmented with a large unorganised sector accounting for over 60 per cent of the market. The majors in the organised segment are the Taj, Oberoi, ITC Hotels, Leela and Asian Hotels, among others.

Indian Hotels and its subsidiaries, collectively known as Taj Hotels, Resorts and Palaces, comprises 71 hotels with over 8,000 rooms and is the largest hotel chain in south Asia. East India Hotels has about 30 properties worldwide with about 5,000 rooms, and is focusing its Oberoi brand in the luxury segment. Besides, the company also has a marketing and management agreement with the Hilton group for eight of its hotel properties. ITC has 66 hotels under four brands across 50 destinations in India with a total of about 5,000 rooms. The Leela group of hotels operates in the luxury segment and owns three properties in Mumbai, Bangalore and Goa with over 800 rooms. The Leela group has tied up with Germany based Kempinski for the business segment and with Singapore based GHM group for the leisure segment.

"The demand and supply gap differs from city to city," points out B Hariharan, vice president sales and marketing, hotels division, ITC. For instance, Bangalore, India's silicon valley, is the most lucrative market in the country today. Hotels in Bangalore reported the highest average room rates of \$266 in the five star niche compared to about \$155 for Delhi and \$111 in Mumbai. Hotels in Bangalore have been reporting 80 per cent occupancy compared to over 70 per cent in Delhi and Mumbai. Apart from the four and five stars, even the three stars in Bangalore have done well. Due to the difficulty in getting rooms, software giant Infosys is building a 500 room hotel in the city for its guests.

There is thus a clear and urgent need for more hotel rooms. What is however not quite clear is the quantum of investment required. Leela's Venkatachalam points out, "According to government estimates, India needs about

## MORE ROOMS WITH A VIEW



**ADDING TO NUMBERS:** Mumbai's new futuristically designed Taj Wellington Mews

THE HOTEL INDUSTRY is on an expansion spree. Several companies are scouting for properties in cities like Bangalore and Chennai and in the states of Kerala and Goa, apart from expanding overseas. "On an average, we have been adding about three to four hotels each year," says Ajoy Misra of Indian Hotels.

Indian Hotels' expansion plans include a mix of built and managed properties. These include the 100 room hotel at Thimpu in Bhutan (coming up next year), an 80 room hotel at Malaysia, Lankavi, another 80 room palace-hotel at Hyderabad called the Falaknuma Palace (2007), the Pierre Hotel in New York and the 200 room hotel at Dubai's Palm Island. Then there is the group's initiative into budget hotels.

The Leela group has planned a 190 room

hotel in the southern state of Kerala (expected to be completed by August 2005), Udaipur (70 rooms, April 2007), Chennai (400 rooms, April 2008) and Hyderabad (300 rooms, April 2008) besides adding 130 rooms at Bangalore (April 2007). "Our capital outlay is about \$200 million over the next three years," says R Venkatachalam.

The Oberoi hotel group is planning a 437 room hotel at Bandra Kurla complex in Mumbai (2007), besides hotels in Bangalore, Gurgaon, Hyderabad and Pune. As part of its expansion plans, ITC had earlier announced that it will build three new super deluxe luxury hotels in Chennai, Bangalore and Hyderabad at a cost of \$220 million which would be functional in the next three years.

### On the Web

**Indian Hotels:** [www.tajhotels.com](http://www.tajhotels.com)

**Hotel Leelaventure:** [www.theleela.com](http://www.theleela.com)

**ITC:** [www.welcomgroup.com](http://www.welcomgroup.com)

**East India Hotels:** [www.oberoihotels.com](http://www.oberoihotels.com)



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**HOTELIERING HAS RECEIVED A BOOST FROM THE OPEN SKIES POLICY:** Privacy for a cosy meeting is rare in crowded hotel lobbies today

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

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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. 🌈