

Investment opportunities in Hotel and Tourism industry

Welcome to this presentation on Investment opportunities in Hotel and Tourism industry. The Indian tourism and hospitality industry is contributing more to national economy. It act as the key drivers of growth among the services sectors in India. This industry has been comprised of two major parts. One is Tourism industry and the other one is Hotel industry. Both are mutually inevitable and allied sector. This Tourism and Hospitality industry is capable of creating more jobs per million rupees of investment. It can provide employment to a wide range of job seekers at all levels. WTTC says that India's travel and tourism sector is expected to be the second-largest employer in the world, employing approximately 50 lakh people, directly or indirectly by 2019. Indian government also shows much interest on this ever green industry by means of motivating the investors inside and outside the country through laying down policies. The learning objectives of this episode are to understand the following:

1. Investment opportunities in Hotel Industry.
2. Investment opportunities and Government policies for investment in Hotel Industry.
3. Investment opportunities in Tourism Industry.
4. Investment opportunities and Government policies for investment in Tourism Industry.
5. Source of Funding (TFCI) incentives and concession for Hotel and Tourism Projects.

You know very well that the tourism and Hospitality industry of India is interlocked with the country's fiscal development. The contribution of this industry to country's Gross Domestic Product(GDP) is continuously increasing. This is the third largest sub-segment of service sector contributed nearly 12.5% to the GDP in 2014-15, while Compound Annual Growth Rate(CAGR) is 11.7% for the period 2011-12 to 2014-15.

Already you would have studied about India's tourism potential such as rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty. This potentiality leads to tourism opportunities, large employment generation and a basic source of foreign exchange earnings for the country. Since tourism is a great revenue generator and an infrastructure developer, it attracts many entrepreneurs inside and outside the country to invest on it and on hotel business which is its allied industry.

1. Investment opportunities in Hotel Industry:

Now we will analyse about the investment opportunities in this sector. Hotel industry in any country is growing in a fast track and it is a major allied industry to tourism sector. Very well you can understand that it is also one of the high profitable sector through foreign exchange earnings. This profit has attracted a considerable amount of foreign inflows inside the country. According to the report released by India Brand Equity Foundation (IBEF) the tourism and hospitality sector is among the top 15 sectors in India to attract the highest Foreign Direct Investment (FDI). As per the data released by Department of Industrial Policy and Promotion (DIPP), during the period April 2000-May 2015 This sector has attracted around US\$ 8.1 billion of FDI.

The hospitality industry in India has been occupied by many foreign players. They are Accor, Starwood, Marriott, Premier Travel Inn (PTI), Cabana Hotels, Mandarin Oriental, Hampton Inns, Banana Tree, Satinwoods, Amanda and many more. Some reputed Indian companies leading in the hospitality sector include Asia Hotels, ITC, East India Hotels (EIH), Bharat Hotels, Hotel Leela venture and last but not the least, Indian Hotels Company (IHCL).

The Planning Commission report said that Indian hospitality sector is the second largest employer in the country as it has the potential of offering

employment opportunities to a wide range of job seekers from professional to unskilled workers.

Why to invest in Hotel Industry?

When you analyse the market size of Tourism in India, you can find the strong reasons to invest in Hotel Industry in India. They are as follows :

- India is the third largest foreign exchange earner.
- In terms of foreign tourist arrivals, India ranks 42nd in the United Nations World Tourism Organization ranking
- India is the 16th most visited country in the world, with a share of 1.56% in the world's tourism receipts.
- India offers geographical diversity, attractive beaches, 30 World Heritage Sites and 25 bio-geographic zones.
- India offers a diverse portfolio of niche tourism products – cruises, adventure, medical, wellness, sports, MICE, eco-tourism, film, rural and religious tourism.
- As per IBEF report, during January-July 2015 the number of Foreign Tourist Arrivals(FTAs) has reached 4.48 million. In the same period the Foreign exchange earnings (FEEs) from tourism in terms of US dollar was 3.2 per cent as compared to 1.9 per cent over the corresponding period of 2013. Actually the growth rate of FEEs in terms of rupees was 6.9 percent.
- The contribution of domestic tourism is three-fourths of the tourism economy.
- The UNWTO forecast said that the travel and tourism industry in India will grow by 8% per annum between 2008 and 2016.

Recent investments in Hotel Industry:

Following are the recent investments made in hotel industry.

- Carlson Rezidor Hotel Group announced that it would have over 50 operational Park Inn by Radisson properties in India by 2024.
- Starwood Hotels & Resorts has announced that it has plans to have up to 65 operational properties by end of 2015 in India.
- 39 hotels in India under six brands, including Luxury Collection, Westin, Sheraton, Le Meridien, Four Points by Sheraton and aloft. It is looking to have a total of 100 hotels in its Indian portfolio by 2015.
- Luxury hotels chain Kempinski has also announced plans to operate three new hotels in India by 2020 in Kolkata, Mumbai and Kerala if the on-going negotiations were successful.
- InterGlobe Hotels has announced the opening of ibis brand hotel in Delhi with plans to have 19 ibis hotels operational in India by 2016.
- Lemon Tree Hotel Company has also announced plans to invest around Rs 4,500 crore (US\$ 730.51 million) to add 5,200 rooms across India in the next four years. "Our ramp-up will include rooms in our upscale brand Lemon Tree Premier, mid-scale brand Lemon Tree Hotels and economy brand Red Fox," said Mr Sumant Jaidka, COO, and Lemon Tree Hotels.
- India's largest integrated travel company Thomas Cook's human resources and staffing arm Ikya Group plans to buy Hofincons InfoTech and Industrial Services. The deal is estimated to be valued around Rs 75-100 crore (US\$ 12.47-16.63 million).
- Hyatt has announced the opening of Hyatt Raipur, its sixth Hyatt branded property in India.
- Oberoi Realty plans to bring iconic luxury brand Ritz-Carlton to Mumbai. The American brand hotel is being planned in Worli and is expected to come up by 2016 at a cost of Rs 750 crore (US\$ 124.75million).
- Movenpick Hotels and Resorts have signed a management agreement to operate a new hotel in Kochi, its third property in India. The hotel will be

owned by ITMA Hotels India Pvt Ltd, an associate company of Jomer Properties and Investments.

2. Investment opportunities and Government policies for investment in Hotel Industry.

First we will analyse the available opportunities for investing in hospitality industry and then we will study the government policies related to it.

Opportunities available for investors to invest in Indian Hospitality industry

- The estimated requirement of hotel rooms in India is more than 2,00,000 during 2016. There is an actual opportunity for investing in this regard will meet the demand.
- The entry of famous foreign players like Kentucky Fried Chicken, McDonald's, Pizza Hut and Domino's gave an international glitz to Indian hospitality sector and it invites more foreign players to India.
- Meetings, Incentives, Conferences and Exhibitions (MICE) is a kind of service available to cater the different forms of international conferences, business meetings, conventions, exhibitions and events. The stable role played by foreign players in Hospitality sector reveal the market potential of Indian Hospitality.
- As leisure tourism gaining the popularity in India, investing on setting theme parks will also give good revenue.
- India stands in the front for medical tourism. This encourages the investors to set Corporate hospitals in the metropolitan cities of India.

Government policies and support to motivate Foreign Direct Investment in Indian Hospitality Sector

- Government of India Ministry of Commerce & Industry Department of Industrial Policy & Promotion says that FDI up to 100% is permitted on the automatic route in hotel and tourism sector.
- 100% FDI is now permitted in all airport development projects subject to the condition that FDI for up gradation of existing airports requires FIPB approval beyond 74%.
- The provisions made under Income Tax Act, Section 194-1 are applicable to any payments made by travel agents and tourist operators to hotel on behalf of any foreign tourists for services offered by hotel to tourists.
- The section 10(5)(B) of Income Tax Act defines that concession should be offered to hotel industry on the income taxes paid by employer on salaries and wages of specified class of employees.
- The Indian government has introduced several campaigns like Atithi Devo Bhavah, Colors of India, the Wellness and Incredible India in order to promote Indian hospitality and tourism industry across the world.
- The Indian government is also planning to rationalize the taxation charged on hospitality industry and follow the single tax structure across the whole country. The provision of single window clearance at Central, State and local government level will help to reduce the bureaucracy and procedural delays in the sector.
- Tax holidays will help to attract FDI in the hospitality sector as more players will try to penetrate the industry in order to bridge the current gap of availability of rooms and services.
- Five year tax holiday has been allowed for 2, 3 and 4 star category hotels located around UNESCO World Heritage sites.
- The governments of Japan and India are planning to strengthen their relations in order to enhance the hospitality sector. Both the nations are

planning to explore new opportunities in the sector by focusing on Human Resource Development and quality of services in hotels.

- In recent times, the Indian government has focused on easing the licensing requirement and cleaning up property records to attract more investment in the hospitality sector.

3. Investment opportunities in Tourism Industry.

Already we have gone through the data regarding tourists inflow and foreign exchange earnings in the previous segments. According to the government report, the Tourist Visa on Arrival (TVoA) scheme enabled by Electronic Travel Authorisation (ETA), launched by the Government of India on November 27, 2014 for 43 countries has led to a growth of FTA. For example, during the month of January 2015, a total of 25,023 tourist arrived by availing TVoA as compared to 1,903 TVoA during the month of January 2014.

Now we will analyse about the investing opportunities in Tourism sector.

Reasons to Invest In Tourism Sector in India:

- a. The number of domestic travelers in India exceeds one billion and is continuously growing.
- b. There are 30 world heritage sites in India.
- c. India has 21 hotel management institutes.
- d. 25 bio geographical zones and about 25 world class beaches are present in India.
- e. Tourism in India accounts for about 7% of the GDP.
- f. India is in 16th place in most visited country in the world, and its share is about 1.56% in the world tourism receipts.
- g. Geographical diversity, attractive beaches, diverse cultures and religions are strengths of Indian tourism.

h. India is having one of the seven wonders of modern world i.e. THE TAJ MAHAL.

i. India has diverse portfolios of Niche tourism products like cruises, adventure, wellness, sports, MICE, eco-tourism, film, golf, polo rural and religious tourism.

j. A new boost to the tourism industry is economic liberalization.

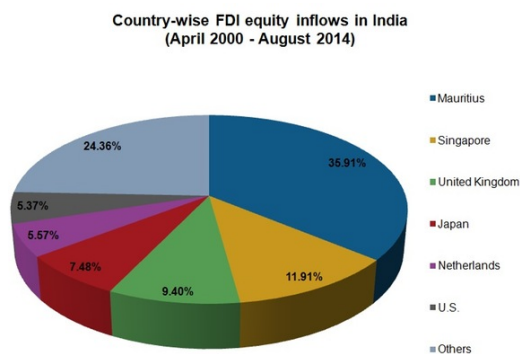
k. Due to economic, political and social stability, it attracts investments.

l. Encouraging and investor friendly policies in this sector.

m. Growing middle class group, the introduction of corporate incentive travel and the entry of multinational companies into India has brightened prospectus for tourism.

n. The present government in its process has taken a few projects like opening of the partial sky policy. This allows private domestic airline operators to fly on the Indian skies.

q. The 5 star hotel sector has increased the fastest during the last five years at a CAGR of 12 per cent. In the coming years, this sector can be divided into three sub segments Luxury, Business and Leisure.



4. Investment opportunities and Government policies for investment in Tourism Industry.

Recent Investments in Tourism in India:

According to the data released by Department of Industrial Policy and Promotion (DIPP), this sector attracted around US\$ 7,862.08 million of FDI, during the period April 2000 – February 2015.

Some of the recent investments in this sector are as follows:

- US-based Vantage Hospitality Group has signed a franchise agreement with India-based Miraya Hotel Management to establish its mid-market brands in the country.
- Lalit Suri Hospitality Group is soon going to open its first international hotel in London. The company has acquired a heritage building called St Olave's near Tower Bridge in central London, which is now undergoing restoration to be converted into a five star hotel.
- Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture (JV) to open seven hotels in the country by 2018 for which the JV will raise US\$ 100 million.
- In Carlson Rezidor Hotel of Guwahati, Dharmpal Satyapal has invested close to Rs 300 crore (US\$ 47.51 million) in the hotel for which they will get Rs 30 crore (US\$ 4.75 million) annually.
- ITC is planning to invest about Rs 9,000 crore (US\$ 1.42 billion) in the next three to four years to expand its hotel portfolio to 150 hotels. ITC will launch five other hotels - in Mahabalipuram, Kolkata, Ahmedabad, Hyderabad and Colombo - by 2018.
- Goldman Sachs, New-York based multinational investment banking fund, has invested Rs 255 crore (US\$ 40.37 million) in Vatika Hotels.

Government proposal:

The Indian government has realised the country's potential in the tourism industry and has taken several steps to make India a global tourism hub. Some of the major initiatives taken by the Government of India to give a boost to the tourism and hospitality sector of India are as follows:

- The Government of India has set aside Rs 500 crore (US\$ 79.17 million) for the first phase of the National Heritage City Development and Augmentation Yojana (HRIDAY). The 12 cities in the first phase are Varanasi, Amritsar, Ajmer, Mathura, Gaya, Kanchipuram, Vellankani, Badami, Amaravati, Warangal, Puri and Dwarka.
- Under 'Project Mausam' the Government of India has proposed to establish cross cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.
- Prime Minister Shri Narendra Modi has approved to enter into a memorandum of understanding (MoU) between India and Oman for strengthening cooperation in the field of tourism.
- Announcement by Mr Arun Jaitley, Minister of Finance, to extend Visa on Arrival Facility (VOA) to 150 countries in stages from the current 43, is a big step to promote tourism. The revenue from tourism sector can be utilized for the development of the country and can boost the economy of country.

As per the words of Mr Madhavan Menon, Managing Director, Thomas Cook India, the introduction of E-visa scheme will double the tourist inflow to India. Also the enforcement of Electronic Travel Authorisation(ETA) will increase the FTA by 15%.

5. Source of Funding (TFCI) incentives and concession for Hotel and Tourism Projects:

Tourism Finance Corporation of India(TFCI) is a public limited sponsored by nationalized banks, IFCI and All-India Financial Institutions. From February 1989 onwards TFCI had started its operations. The main goal is to cater the financial requirements of the escalating and successful tourism industry. It functions as a specialized All-India Financial Institution for tourism industry. TFCI offers monetary help for setting up and developing of tourism related activities, facilities and services. It render fiscal assistance to projects like hotels, restaurants, holiday resorts, amusement parks and complexes for entertainment, education and sports, safari parks, rope-ways cultural centers, convention halls, all forms of transport industry, air-taxis, travel and tour operating agencies, tourism emporia, sports facilities etc. Moreover TFCI formulates and co-ordinates policies and guidelines for funding these projects. Ministry of Tourism, Government of India, Trade associations and Trade bodies organizes seminars through TFCI for development of tourism activities.

Below are the services rendered by TFCI:

- Financial help in delivering or setting up of activities related to tourism
- Surveys on flow of tourists
- All kinds of services and facilities given to tourists
- Preparing master plans for tourism
- Catering to individual products on tourism
- Exercises on project evaluation and privatization support services
- Planning the construction and maintenance of amusement parks and nature parks
- Making tourism and environment a subject of study

New, expansion, diversification and modernization projects in tourism industry are funded by TFCI. The financial assistance are in the following forms:

- Rupee Loans

- Underwriting of public issues of share/ debentures and direct subscription of such securities
- Guarantee for deferred payments and credits raised in India and/or abroad
- Equipment Finance
- Equipment Leasing
- Assistance under Suppliers of Credit
- Advisory Services

TFCI plays a role in Identifying, conceptualizing, promoting and implementing of specified projects related to tourism at both micro and macro level. For example projects with concepts on water bodies and lakes, making amusement parks with multi-facilities etc are funded by TFCI.

Conclusion: Tourism and its allied activities play an important role in national economy. So analyzing and taking steps to invest rightly in this industry will definitely elevate the national economy and standard of living of the citizens.