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The Indian Tourism and Hospitality Industry

An Overview



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Tourism and Hospitality Industry

- Hospitality, as an industry segment in itself, is a **US\$ 3.5 trillion service sector within the global economy.**
- In India, the tourism and hospitality industries are witnessing a period of exponential growth; the world's leading travel and tourism journal, "**Conde Nast Traveller**", ranked **India as the numero uno travel destination** in the world for 2007, as against fourth position in 2006.
- The year 2007 also marked the fifth consecutive year during which India has witnessed **double-digit growth in foreign tourist arrivals.**
- Along with the rise in foreign tourist arrivals, **foreign exchange earnings** have shown a **robust growth of 25.6%** during January-October 2007 to touch US\$ 6.32 billion as against US\$ 5.03 billion during January-October 2006.
- **Tourism has now become a significant industry in India, contributing around 5.9 per cent of the Gross Domestic Product (GDP) and providing employment to about 41.8 million people.**
- As per the World Travel & Tourism Council, the tourism industry in India is likely to generate **US\$ 121.4 billion of economic activity by 2015** and Hospitality sector has the potential to earn US\$ 24 billion in foreign exchange by 2015.
- Additionally, India is also likely to become a major hub for **medical tourism**, with revenues from the industry estimated to grow from US\$ 333 million in 2007 to **US\$ 2.2 billion by 2012**, says a study by the Confederation of Indian Industry (CII) and McKinsey.
- The booming tourism industry has had a cascading effect on the hospitality sector with an increase in the occupancy ratios and average room rates. While **occupancy ratio is around 80-85 per cent** – up nearly 10 percent from three years back, the average **increase in room rates** over the last one year has hovered around **22-25%.**



- It is pertinent to mention in this context, that according to recent estimates, there are a **total of 110,000 rooms in India, as against a total requirement of approximately 250,000** – demonstrating the untapped potential that continues to exist in this industry.
- With a view to **stimulating domestic and international investments** in this sector, the government has implemented the following initiatives:
 - i. **100% FDI** under the automatic route is now permitted in all **construction development projects** including construction of hotels and resorts, recreational facilities and city and regional level infrastructure.
 - ii. **100% FDI** is now permitted in all **airport development projects** subject to the condition that FDI for upgradation of existing airports requires FIPB approval beyond 74%.
 - iii. A **five year tax holiday** has been extended to Companies that set up hotels, resorts and convention centers at specified destinations, subject to compliance with the prescribed conditions.
 - iv. Plans for **substantial upgradation of 28 regional airports** in smaller towns and the privatization and expansion of Delhi and Mumbai airports
- The aforementioned initiatives have resulted in **increasing FDI inflows** being witnessed by this industry. For the period April 2000 to November 2007, a total of **US\$ 636 million** in foreign direct investments was channelised towards development of hotels and tourism.
- **The hospitality industry has also been receiving increasing interest from the Private Equity Sector – investments have tripled from US\$ 60 million in 2004-05 to over US\$ 180 million in 2006-07.**
- It is estimated that the hospitality sector is likely to see a further **US\$ 11.41 billion in inbound investments** over the next two years.
- Several global hospitality majors such as Hilton, Accor, Marriott International, Berggruen Hotels, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have already announced major investment plans in India in recent years.



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