

Hotel Industry in India – City wise

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INTRODUCTION

The number of hotel rooms in India is less than 100,000. We estimate the figure to be at most around 80,000. The actual calculation shows that the number of 3, 4 and 5 star hotels rooms to be around 55,000. Apart from these rooms there could be few more hotel rooms in heritage category of similar quality. The remaining rooms would be in unrated hotels. This compares with about 120,000 rooms in Las Vegas alone and 4.3 Mn rooms in whole of USA. With the rapid increase in demand from business travelers in last few years the room rents in major Indian cities have shot up. At one point of time Bangalore had close to highest room rent in the world. In places like New Delhi and Mumbai it is still not uncommon to find a rent of around \$500 per day. The rents have encouraged many new players to enter the market and encouraged many existing players to go for an expansion in capacity. The expansion of capacity has led to some fears of drop in rents. This report evaluates the kind of room supply that will hit major Indian cities in next few years. It then attempts to look at the effect of supply on average room rents in these cities. In near future we will use this report to estimate the equity value of various listed entities in Indian stock market.

Buoyant Economy and Business Travelers

For the past few years the boom in India's hospitality industry has been fuelled by a favorable economic and political situation. India has witnessed a strong GDP growth of more than 8 percent in the past 4 years, thus creating a trickle down effect for the growth of support industries such as hospitality. If the Indian economy continues to grow anywhere near its current growth rate there are reasons to be optimistic about demand for hotels rooms for business travelers even at these high room rents.

Bangalore is also known as the Silicon Valley of India because of firms like Infosys, TCS, Wipro and HCL which are now global names in IT Services. Bangalore has seen room rates shooting close to highest across the world. This is a supply demand mismatch, as no one could have estimated the demand that these IT service firms would create 10 years ago. The outsourcing boom has increased the demand for the hospitality segment. Apart from those directly employed, it has led to a surge in executives of client companies traveling to India for better transition and operation of processes. This has created a need for better hospitality services. With the addition of places like Jaipur, Ahmedabad, Chandigarh and Pune the demand seems to be robust on this front, not only for the existing locations but for locations which are coming up.

The financial sector arena has also seen a lot of action in recent years with many global players setting up offices in India. With the growth of the banking and insurance businesses a lot of demand for hotel rooms has come from the sector as well. As a matter of fact, whenever investments will flow into a country through direct or indirect routes, travel increases. So, does the demand for quality hotel rooms.

Foreign tourist arrival on a Rise (though moderately)

Indian tourism data shows that foreign tourist arrivals in India have been growing at a CAGR of 14 per cent over the past 5 years. The 'Incredible India' campaign has further enabled the destination to penetrate global markets and reach the global tourist through electronic, print and internet media. On account of the spurt that India has witnessed in tourist arrivals in the recent times and given the unique and immense potential the country has as a 'vacation destination', the World Travel and Tourism Council has identified India as one of the foremost tourism growth centers in the world, in the coming decade. Still much more needs to be done to attract global tourists. The number of foreign tourists coming to India is less than 5 million while for a country like Thailand it is close to 15 million. A lack of quality hotel rooms and the resultant high

tariff rate has to take some blame for this. The rate of increase of tourists has slowed because of high rents for hotel rooms. If India has to grow as a tourist destination for global travelers there is a need to develop quality hotel rooms at cheaper prices.

Domestic Tourism on a High

A thriving economy has lead to creation of more jobs and increase in the per capita income of households. A new breed of young professionals is emerging, who are contributing to the demand for travel and tourism. With disposable incomes on the rise and economic activity going up, travel within the country is on a rise. It is expected to be so in future. There can be moderation in case of the economy slows down and problems in aviation continue.

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