Indian Hotel Industry – Review & Prospects

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Author

Darshini Kansara
Deputy Manager – Industry Research
darshini.kansara@careratings.com
91-22-6754 3679

Mradul Mishra
mradul.mishra@careratings.com
91-022-6754 3515

Overview

The Indian hospitality industry has emerged as one of the key industries driving the growth of the services sector and, thereby, the Indian economy. According to IBEF, the tourism & hospitality sector's direct contribution to GDP surged by 23.6% in 2017, raising the share of the industry (direct & indirect) was Rs 5.9 trillion (US$ 91.3 billion). Also, tourism in India accounts for 9.4% of the GDP & is the 3rd largest foreign exchange earner for the country and ranked 7th in terms of tourism total contribution to GDP in 2017.

At the close of 2018, the country saw macroeconomic stability owing to a decline in inflation, current account deficit etc. The Union Budget FY19 had identified some major pillars that will support economic growth for the country that includes tax reforms, fiscal discipline, investment in infrastructure, ease of doing business, agriculture and farmer welfare, rural sector, social sector, education and job creation. This is said to have translated into an overall pick up in economic activities, thereby having a positive impact on the demand for hotels industry in the country.

Outlook:

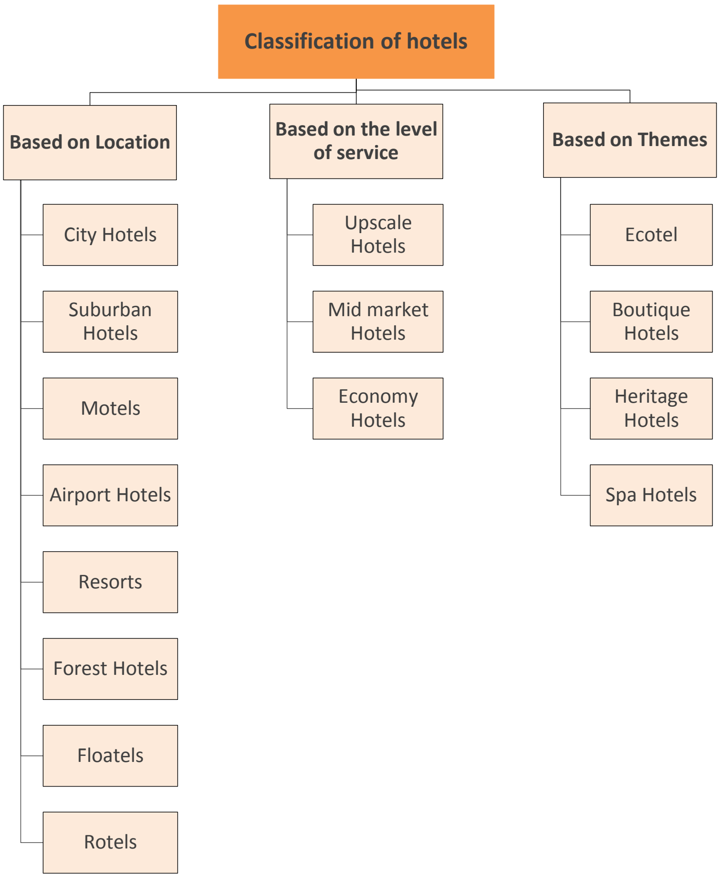
Going forward, CARE expects the industry to register an overall healthy growth in revenue on back of economic growth and consistently growing middle class along with increasing disposable income. There are various other key factors that drive the market, including India's attractiveness as a medical tourism destination; steadily growing Meetings, Incentives, Conferences and Exhibitions (MICE) segment; and, an increasing fondness among millennial to travel.

Also, the expected future inventory in 11 major markets (across categories - only branded) is lower at around 49,400 rooms for the next 5 years (FY18 to FY23). Therefore, with increasing demand on back of improvement in economic activities and lower room additions, **we expect the major markets in the industry to sustain the average room rates (ARRs) going forward and grow at an average of 3.5-4.5% per annum. Also, we expect the occupancy to inch up to an average of about 68-70% by the end of FY23 compared with 66.6% in FY18. Accordingly, the hotel industry is expected to see an increase in room revenue at the rate of about 10-12% CAGR over the 5 years.**

Classification of Hotels

The Indian Hotel Industry can be broadly classified under 3 major heads:

Chart 1: Classification of Hotels



Source: CARE Ratings

Other concepts

Timesharing industry

- A timeshare is a form of vacation ownership of property. Units may be on a partial ownership, lease or a 'right to use' basis where the sharer has no claim to the ownership of the property. The concept of 'timeshare' as an innovative way for increasing holiday choice became popular in Europe in the 1960s. Under this concept, the use and costs of running the property (hotel) are shared among the owners.
- Instead of booking a resort every year for a week or two, or purchasing a property, timeshare offers buyers the ability to buy rights of occupancy in a property, usually in multiples of a week, for a set period. After purchasing their holiday time and using it, they can pass it to their friends and relatives, or rent it out.

The industry offers various purchase options to meet consumers' requirements for vacation variety and flexibility.

1. Fixed-week: The most common type of timeshare where units are sold for use during a fixed week of the year.
2. Floating week: This could be any week during a certain season of the year.

3. Rotating or flex-week: Under this, in an attempt to give all owners a chance for best weeks, the weeks are rotated forwards or backwards through the calendar, so in year 1 the owner has week 25, then in year 2 the owner has week 26 and week 27 in the week after that.
4. Points Program: Annually, the program gives the owner the points equal to the level of ownership and the owner has the flexibility to use these points as currency to make their travel arrangements.

Timeshare owners have the option to holiday in different resorts if the memberships are affiliated to an exchange company. Resort Condominiums International (RCI) and Interval International are the major players amongst the existing exchange companies.

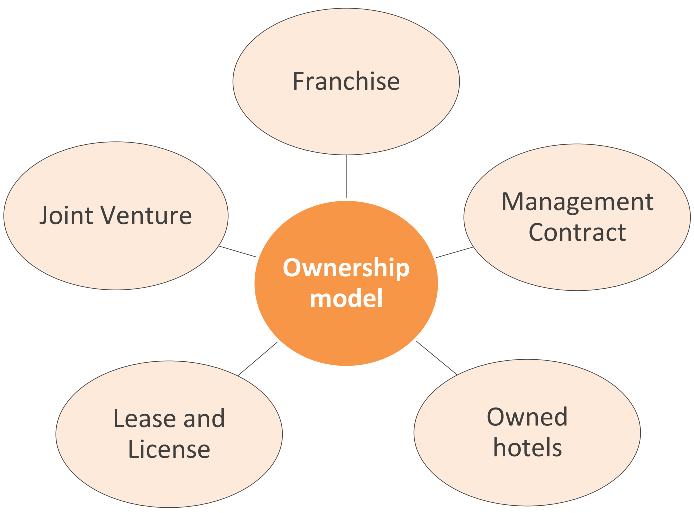
Service Apartments

- Service apartments are fully furnished apartments available for short-term or long-term stay providing all the luxuries of a premium hotel such as room service, laundry service, fitness centre, etc. and have larger rooms and more space at a far more competitive rate. The apartments are usually equipped with full kitchens, wi-fi and other in-house amenities.
- These apartments are ideal for people who do not have to stay for long durations to set up a home but also long enough to want to live a normal life while experiencing luxuries of a 5-star hotel. Also, no rental deposits are required in this case unlike ordinary residential leases which typically binds people for a year or and involve an 11 month rental deposit.
- Business professionals, executives who may be on local or international work assignments (project related) are frequent users of this facility. However, they are available to general public as well.

Although this concept is picking up in some business destinations, we at CARE Ratings do not see it becoming a threat to the demand for existing premium segment hotels, as the average length of stay (ALOS) in hotels is still lower at 2-3 days and are preferred over service apartments.

Operating models

Chart 2: Operating models



Source: CARE Ratings

Classification of Customer segments

1. Business traveller

- The business traveller is a businessman or a corporate executive travelling for business purposes. This segment includes corporates, both domestic and foreign. This practice is on a rise due to the economic upswing in India. It can also be attributed to the increased business opportunities internationally.
- The business travellers can be divided into two categories based on their duration of stay; first, the business traveller who travels for a short duration. These travellers come mostly for a meeting or a conference. They are time-conscious and willing to be price-insensitive. Such customers are ready to pay higher price in exchange for flexibility of being able to book a room at the last minute.
- The other category is the business traveller who travels for a mid-to-long-term duration. They travel mostly for working on a project. Such customers may or may not have a pre-planned journey; therefore, they may or may not be price sensitive. Nowadays, such people prefer serviced apartments.

2. Leisure travellers

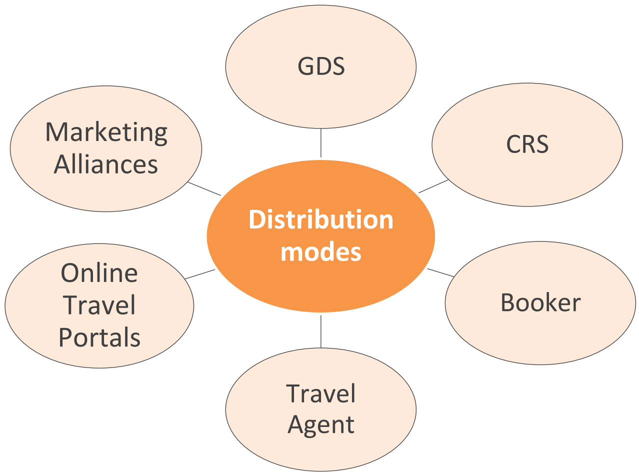
- The leisure traveller could either be a foreigner or a domestic traveller whose primary purpose of visit is holiday or site seeing. Among non-business foreign tourists, the primary motivation for visiting India is largely cultural attraction followed by conferences and conventions, tourist attractions like beaches, wild life, hill resorts, etc.
- Usually, leisure travellers are part of a package run by a tour operator. Their duration of stay varies from short to medium term. Such customers are price-sensitive and are willing to give up some flexibility for the sake of a more inexpensive room.
- Most of these travellers are domestic travellers. Due to growing economy and rising income levels, the number of such travellers is increasing.

3. Airline Cabin Crew

- Airline cabin crew forms another important segment because of the repetitive and guaranteed nature of the business that they provide.
- Usually, these are a part of an annual contract whereby, in return for a fixed rate, a certain number of rooms are provided on demand for cabin crews with discount rates in the range of 40% and 50%, this represents a low-yield segment for hotels in general.

Distribution channels

Chart 3: Distribution channels



Source: CARE Ratings

Industry characteristics

The industry can be classified as business and leisure destinations from the point of view of the hospitality sector. It should be noted that the two are not mutually exclusive as some locations have a fair mix of business and leisure travellers. The demand dynamics are quite different for both the segments.

Cyclicality

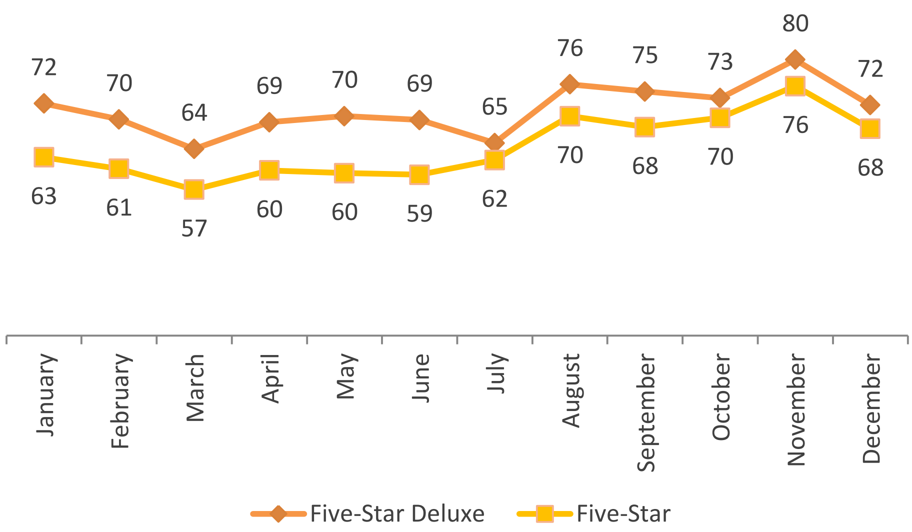
The hospitality industry is cyclical in nature. i.e., during positive cycles the industry witnesses periods of sustained growth and sees healthy average room rates (ARRs) and occupancy rates (ORs). Until the economy goes through a downturn or if there is excess supply, the trend continues. When recession sets in, the ORs begin to decline followed by the ARRs. In the recovery phase, ORs starts to move up and eventually the ARRs also start to increase.

While the macro-economic factors affect the business destinations (RevPARs – revenue per available room, growth is sensitive to the macro-economic indicator such as the nominal GDP), the leisure destinations show a greater sensitivity to non-economic factors such as terror attacks, health related travel warning, etc. (decline in FTA in 2008-09 was largely on account of the Mumbai terror attacks on November 26, 2008 and the swine flu linked travel advisories). Consequently, the average RevPARs of 12 major cities had registered a decline of about 13.9% in 2008-09 and 9.7% in 2009-10. While in 2010-11, with higher growth in nominal GDP and an increase in FTAs post-recession, these 12 major cities recorded an average increase of about 2.6% in RevPARs. Similarly, due to increased domestic and international trade activities and various initiatives taken by the government post 2015-16, the number of foreign travellers in the country has increased. This has been reflecting in the overall RevPARs in India that registered a CAGR growth of about 5% between 2014-15 and 2017-18.

Seasonality

The hotel industry demand is seasonal in nature. Though the peak season for both business and leisure destinations is the same (January – March), during the remaining year both demonstrate different behaviours. While the business destinations maintain constant ORs (5-10% lower than Jan-Mar period) from April – November. However, in December, a sharp correction is witnessed in the business destinations as it coincides with the international holiday period. Leisure destinations on the other hand register lower ORs during May - October period, while the occupancy rates improve in December on account of holiday season.

Chart 4: Seasonal nature of hotels industry in India (Occupancy rates - %)



Source: FHRAI, Hotelivate

Average length of stay (ALOS)

The demand for hotel rooms in business destinations is usually concentrated around weekdays, i.e., the ORs are generally lower on weekends. The ALOS for business hotels is usually in the range of 2-2.5 nights with low levels or double occupancy (fewer occasions where more than one person shares the room). While the hotels in leisure destinations the ORs are higher during the weekends and have ALOS of around 2-3 days. The occurrence of double occupancy is also typically higher in leisure destinations.

Existing Inventory

The upscale segment of the hotel industry in India is highly organized and concentrated in few key cities. The total number of ‘keys’ (rooms) in the top 11 key cities covered by CARE Ratings is estimated at 92,537 as at the end of FY18. Of this, about 53% of the room inventory is concentrated in Mumbai, NCR and Bengaluru.

The existing room supply for the country grew by 7.5% y-o-y in FY18 totaling to 128,163 rooms (as of 31 March 2018). This considers the 8,944 new rooms that entered various markets during the year, as well an expansion of the existing properties.

Table 1: Existing inventory (Major cities and across categories – Only branded)

Sr no.	City	Existing inventory at the end of 2012-13	2016-17	2017-18	Y-o-y Growth	CAGR
1	New Delhi*	16,738	20,981	22,159	5.6%	5.8%
2	Mumbai	12,807	13,494	13,726	1.7%	1.4%
3	Bengaluru	8,536	11,995	12,659	5.5%	8.2%
4	Chennai	6,330	8,332	9,211	10.5%	7.8%
5	Hyderabad	5,411	6,254	6,772	8.3%	4.6%
6	Goa	4,406	6,400	6,741	5.3%	8.9%
7	Pune	5,317	6,445	6,330	-1.8%	3.5%
8	Jaipur	4,129	5,058	5,426	7.3%	5.6%
9	Kolkata	2,163	3,199	3,860	20.7%	12.3%
10	Ahmedabad	2,477	3,117	3,393	8.9%	6.5%
11	Agra	1,299	2,092	2,260	8.0%	11.7%
	Total	**69,613**	**87,367**	**92,537**	**5.9%**	**5.9%**
12	Other Cities**	24,642	31,852	35,626	11.8%	7.7%
	Total	**94,255**	**119,219**	**128,163**	**7.5%**	**6.3%**

Note: *NCR includes New Delhi, Noida and Gurugram

** Other cities includes all other hotel markets across India

Source: Hotelivate

Looking at the major markets analyzed in this report, Kolkata saw the highest increase in supply (20.7%) in FY18, adding to the relatively small base of hotels, followed by Chennai (10.5%) and Ahmedabad (8.9%).

Table 2: Top Brands in Hotel Industry in India

Domestic Hotels	International Hotels
Bharat Hotels Ltd	Accor
EIH Ltd	Swissotel Hotels & Resorts*
Hotel Leelaventure Ltd	Four Seasons Hotels Inc
Taj Hotels Palaces Resorts Safaris	Intercontinental
ITC Ltd	Best Western Hotel
Neesa Leisure Ltd	Hyatt
Pride Hotels	Carlson Rezidor
Park Hotels	Berggruen Hotels
Lemon Tree Hotels	Hilton Hotels
Sarovar Hotels & Resorts	Wyndham Hotels
Royal Orchid Hotels	Choice Hotels
Concept Hospitality	Marriott International
	Starwood Hotels & Resorts**

Note: *Swissotel has been taken over by Accor

**Starwood Hotels & Resorts has been acquired by Marriott International

Source: CARE Ratings

Upcoming Supply

The future supply landscape is ever-changing and subject to several external forces that may often delay project openings. It is noteworthy that the pipeline for proposed supply totaled 114,466 rooms back in FY08 – the highest in a decade, whereas in FY18 it contracted significantly to just 49,380 rooms.

Table 3: Proposed Branded Hotel Rooms across Major Cities and Categories (FY18 – FY23)

	Existing Supply (FY18)	Proposed Supply*	Increase in Future Supply	Luxury	Upscale	Upper-Midmarket	Mid-market	Budget
Agra	2,260	428	19%	0.0%	0.0%	7.5%	65.0%	27.5%
Ahmedabad	3,393	1,343	40%	22.9%	27.4%	37.7%	4.3%	7.7%
Bengaluru	12,659	5,698	45%	17.3%	28.0%	22.8%	13.3%	18.6%
Chennai	9,211	978	11%	11.2%	12.0%	50.0%	26.8%	0.0%
New Delhi	14,724	1,492	10%	14.3%	26.3%	28.6%	5.6%	25.2%
Gurgaon	5,920	1,727	29%	0.0%	34.9%	9.7%	19.3%	36.1%
Noida	1,515	1,174	77%	0.0%	0.0%	51.6%	26.6%	21.8%
Goa	6,741	3,028	45%	0.0%	24.4%	28.1%	30.0%	17.5%
Hyderabad	6,772	1,149	17%	25.2%	0.0%	41.7%	10.4%	22.7%
Jaipur	5,426	1,086	20%	4.3%	23.0%	38.6%	30.5%	3.6%
Kolkata	3,860	1,768	46%	27.7%	8.9%	35.4%	10.3%	17.7%
Mumbai	13,726	4,039	29%	16.4%	13.4%	39.7%	11.4%	19.1%
Pune	6,330	894	14%	28.0%	15.5%	30.1%	11.2%	15.2%
Other cities	35,626	24,576	69%	4.7%	16.1%	31.3%	28.8%	19.1%
Total	128,163	49,380	39%	9.1%	17.9%	31.3%	22.8%	18.9%

Note:*Proposed Supply includes 7,210 rooms which have been open for less than six months, and therefore, not included in the existing supply
Source: Industry, Hotelivate

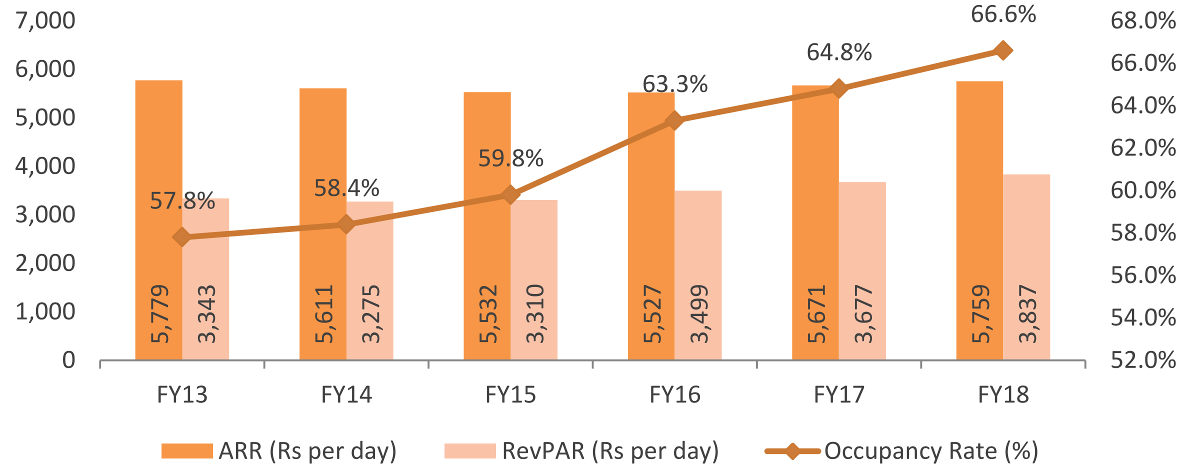
Performance of major markets in India (11 cities)

The Overall average Occupancy rates (ORs) increased by about 180 basis points y-o-y during FY18 in 11 major cities in India. ORs increased from 64.8% in FY17 to 66.6%% in FY18 on back of increased demand from domestic and foreign travellers for business and leisure activities. However, the average room rates (ARRs) increased by only about 1.6% during the same period to Rs 5,759 per day due to stiff competition faced by players in the market. This increase in ORs and ARRs led to the all India RevPAR performance of major markets to record a growth of about 4.4% over the preceding fiscal and reach Rs 3,837 per day in FY18. This rate was last achieved in the year FY11.

Occupancy rates (OR):

ORs for 5 star hotels witnessed the sharpest growth of about 240 basis points y-o-y during FY18. This was followed by 3 star hotels that registered a growth of about 200 basis points and 4 star hotels that registered a growth of 180 basis points during FY18 while the 5 star D hotels witnessed lower growth of only 110 basis points y-o-y. 2 star hotels however, witnessed a decline of about 10 basis points in their occupancy rates during the year.

Chart 5: Performance of Hotels – Overall average



Source: Hotelivate

Average Room Rates (ARR):

Despite registering a decline in occupancy rates, 2 star hotels witnessed the maximum growth in the group in average room rates increasing by about 8.5% y-o-y during FY18. This was followed by 3 star hotels that registered a growth of about 5% y-o-y in FY18. 4 star and 5 star D hotels recorded a growth of 3% y-o-y each in average room rates. 5 star hotels, however, registered the lowest growth about 1.8% y-o-y in the group during the year. This may be attributed to the gradual escalation of commercial activity in Tier II and Tier III cities as well as increased domestic travel.

RevPAR:

Each star category witnessed a y-o-y increase in RevPAR in FY18, with the 3 star category leading the pack, recording a 8.2% growth during the year. The improvement in RevPAR across all star categories can be attributed to both occupancy and average rate, with the exception of 2 star hotels.

Chart 6: ARR, RevPAR and OR (FY17)

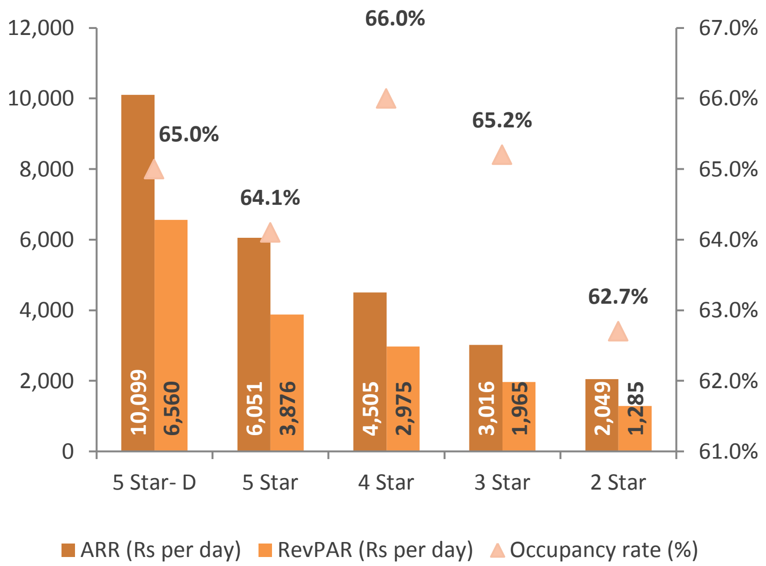
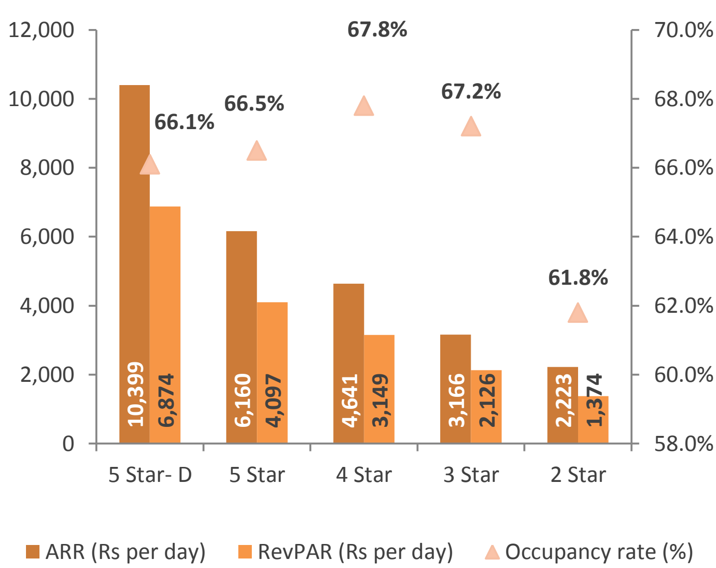


Chart 7: ARR, RevPAR and OR (FY18)



Source: Hotelivate

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City-wise performance (Premium hotels)

1. Mumbai

- Business travellers account for about 80% of the total room demand in the city.
- Mumbai's hotel market achieved the highest occupancy recorded over the past few years amongst all major markets across the country and also recorded the second highest average room rate (Rs 7,740), further consolidating its position as the best performing hotel market in terms of RevPAR too. This was primarily backed by strong growth in corporate travel from industries such as BFSI, pharmaceuticals, FMCG, etc along with an upswing in meetings, incentives, conferences and exhibitions (MICE) demand in major commercial hubs such as BKC, Powai, Goregaon and Airoli, CBD Belapur in Navi Mumbai and the promising growth in the Extended-Stay segment – have favourably impacted Mumbai's hotel market
- In terms of future supply, Mumbai is expecting an addition of about 4,000 rooms by FY23.

2. Bengaluru

- Business travellers constitute about 85-90% of the premium segment room demand in Bengaluru. BFSI and PSU companies mainly account for room demand in CBD area while Whitefield and Electronic city areas have demand from IT/ITeS companies
- Hotels in Bengaluru witnessed a surge of 9.4% in marketwide RevPAR in FY18, surpassing the other major hotel markets in the country. Driven mainly by robust growth in occupancies, the city's hotels also exhibited an increase of about 3.7% y-o-y in average rates. The fact that the resilient market performance was accompanied by a 5.6% growth in supply bodes well for the city that is expected to add approximately 5,700 rooms in a phased manner over the next five years.

3. NCR

- Business travellers account for about 70% of the demand while the balance comes from the leisure travel demand. Demand mainly comes from the BFSI and PSU segments in Delhi while in Gurugram, IT/ITeS, BPO and telecom sector drive demand. Hotels in Noida region majorly cater to demand from IT, BPO and consumer durables companies. Aerocity district caters to demand from corporates, MICE activities and transient clients. Social events – marriages also contribute to the room demand in NCR. The demand previously catered to by the unorganised sector in the area has been absorbed by the branded mid-market and budget hotels located within the district.
- NCR is home to the largest branded hotel market in the country. New Delhi continues to record a y-o-y growth in RevPAR during the year, while Gurugram and Noida being under supply pressure, recorded marginal decline in RevPARs during the year on account of marginally lower room rates
- NCR is expected to witness an addition of about 4,400 rooms in the next five years, with maximum rooms (~1,800) expected in Gurugram alone.

4. Chennai

- 85% of the room demand in Chennai comes from business travellers.
- Demand in CBD area comes mainly from BFSI and PSU companies, IT/ITeS companies drive demand in the OMR region. Proximity to electronics and the auto industry players in and around the Sriperumbudur area, makes hotels near airport area attractive for business travellers
- It also enjoys demand from other major business sectors including manufacturing, port and port-related activities, the government and embassies, etc along with a growing MICE demand base owing to the recent expansion of room inventories including large-scale meeting facilities in the city
- Despite an increase of about 10.6% in supply in FY18, the market continued on its path to recovery with room rates registering a y-o-y growth of about 2.2% during the year. The city witnessed the opening of new hotels, including the Novotel & Ibis Chennai OMR. All the micro-markets in Chennai recorded a marginal decline in occupancy in FY18, while average rates marginally increased during the year
- Going forward, only about 1,000 rooms are expected to be added to Chennai market in the next five years.

5. Pune

- Demand from business travellers account for about 90-95% of overall demand in the city for premium hotels.
- In addition to serving as a manufacturing hub in Western India, the city has developed into an important IT/ITeS centre. Availability of large commercial floor plates along with a young and educated workforce has driven the rapid development of the city. Proximity and ease of connectivity to Mumbai, the country's financial capital, has also helped the city
- In the past few years, a staggering increase in room supply resulted in a downward spiral in both occupancy and average rate performance which overshadowed the y-o-y double-digit growth in demand, and questioned the strength of the market
- However, the silver lining is that the slowdown in new supply coupled with the robust and continuous increase in demand has helped the city's hotels perform well in occupancy. Occupancy rates registered a sharp expansion of about 500 basis points during FY18. Also, room rates have witnessed an increase of about 5% y-o-y leading to a sharp growth of 13.5% y-o-y in RevPAR during the year.

6. Ahmedabad

- Despite an 8.9% increase in room supply, Ahmedabad market witnessed healthy occupancy with over 300 basis points expansion during FY18. Also, room rates increased by over 6% y-o-y on back of number of developments taking place both within the city and on the outskirts including places like SEZs in Sanand and Becharaji. A proposed logistics park in Godhavi, Smart City project in Dholera and the completion of third terminal of the Ahmedabad Airport have attracted major automobile, pharma and engineering companies to the city
- Around 1,350 rooms are expected to be added to the Ahmedabad market by FY23.

7. Hyderabad

- About 85-90% of premium segment hotel demand comes from business travellers.
- CBD area room demand is primarily dominated by business travel segment from sectors such as BFSI and PSU companies while the Hitech city caters to demand from IT/ITes
- Corresponding to the rebound in commercial activity, the Hyderabad hotel market witnessed an expansion of about 270 basis points in occupancy rates while the average rates increased only marginally by about 1% y-o-y in

FY18. With opening of Grade-A commercial spaces and major global conglomerates setting up office in HITEC city, demand has been on the upward trajectory
- 1,150 rooms are expected to be added to the existing supply between FY18 and FY23.

8. Kolkata

- About 75% of room demand for premium segment comes from business travellers.
- Kolkata is driven primarily by commercial activity emanating from PSUs, PSBs, manufacturing, IT/ITeS, engineering, medical activity and the telecom industry
- In FY18, Kolkata witnessed the highest increase of about 20.7% in room supply. However, despite the increase in supply, the city ORs reached 71.9% (y-o-y 100 bps expansion) and the average room rates witnessed about 4% y-o-y increase to reach Rs 6,050 per night
- The city demand was supported by events such as Under-17 FIFA World Cup, IPL, Global Bengal Business Summit and some national medical conferences during the year. Also, as per Airports Authority of India (AAI) data, the highest increase of about 25.7% in passenger traffic was witnessed by Kolkata amongst the top airports in India during FY18
- Kolkata market is expected to add about 1,800 rooms between FY18 and FY23

9. Jaipur

- Popularly known as the 'Pink City' and an integral part of the Golden triangle itinerary, Jaipur's rich culture and its spectacular forts, palaces, and havelis continue to attract tourists from all over the world, making it one of the top leisure destinations in the country
- Also, the city has become a major MICE destination, primarily known for its destination weddings and large scale conventions
- In FY18, the city witnessed about 7.3% growth in room supply. Despite the increase in supply, the city ORs reached 67.3% (an expansion of close to 300 bps) and witnessed about 6% growth in average room rates. In line with the ORs and ARRs, RevPARs registered about 10.8% y-o-y growth during the year.
- Going forward, about 1,100 rooms are expected to be added to Jaipur hotel market.

10. Goa

- Goa continued to exhibit growth witnessing the highest average room rates of Rs 7,844 per night during FY18, 4.1% higher than the previous fiscal, surpassing the rate leader of India for the past 5 years – Mumbai. Occupancy rates reached 72.1% during the year leading the RevPARs to witness an increase of about 5.1% y-o-y.
- However, Goa continues to face competition from beach destinations in South and Southeast Asia
- The up-tick in the occupancy can be attributed to the increased domestic travel and the booming MICE and wedding business. Also, room demand was further supported by large-scale annual events such as the International Film Festival of India (IFFI) and the Serendipity Arts Festival.
- The proposed Mopa Airport that is likely to be ready by 2020, is further expected to make significant demand contribution.
- Going forward, about 3,000 rooms are expected to be added to Goa market by FY23.

11. Kerala

- Room demand in Kerala is driven by both leisure and business travellers, each accounting for 50% share
- Kochi is known as the commercial capital of Kerala comprising of shipbuilding and port operations, chemicals, spices, construction, fertilizers and IT industries. Also, large oil corporations such as Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum have plants located at Irumpanam, a suburb of Kochi
- Trivandrum comprises of industries such as IT and medical
- Apart from this, leisure travellers also drive room demand in Kerala
- In H1 FY19, demand in the state was affected on account of floods (August 2018) that impacted the tourism industry. Also, the ripple effects were felt for a few months post that and demand moved to neighbouring destinations such as Sri Lanka, Thailand, etc.

12. Agra

- Room demand is usually driven by leisure travellers
- Any macroeconomic conditions have an impact on demand in tourist destinations such as Agra where FTAs constitute majority
- In FY18, OR registered an expansion of over 600 bps to reach 65.8%, city's highest in over 20 years. However, on account of intense competition from the branded mid-market segment, the room rates remained under pressure and declined by about 3% to average at Rs 5,340 per night. This higher occupancy/demand translated into a growth of over 7% in RevPARs during the year.
- Introduction of the Gatimaan Expressway, Yamuna Expressway and the recently opened Agra-Lucknow Expressway has increased the demand from MICE segment and individual domestic leisure travellers.

Tourism

A. Domestic Tourists

Domestic tourist arrivals (DTA) are the tourists within India who travel to different places both for business and leisure purposes. The domestic tourist arrivals grew by a marginal 2.4% y-o-y from 1,614 million in 2016 to 1,653 million in 2017. The growth in the domestic tourist arrivals can be attributed to the, rising disposable income, popularizing weekend culture, the eagerness to spend amongst the youth, government campaigns, introduction of low-cost airline services, increased trade and booming service sector. The travel to religious places like Vaishno Devi and Tirupati amongst many and travel to leisure destinations like Goa, Shimla, Kerala, Jaipur etc. also are the key growth drivers for hotels in the upscale category. Coupled with this, marriage at traditional locations amongst the rich and the royal families is also a key growth driver for the upscale and heritage hotels in India, especially in Jaipur, Jodhpur and Udaipur.

Cities like Mumbai, Bengaluru and Delhi hosts both, business and leisure tourists but the share is skewed towards business travellers. However, Tamil Nadu receives mostly leisure and medical tourists. Uttar Pradesh which boasts of the Taj Mahal is a preferred destination for the leisure tourists. Tamil Nadu, Uttar Pradesh and Karnataka witnessed highest DTA flow during CY17.

Domestic travellers continue to be the majority generators of room night demand in India. It is imperative to highlight that the Domestic Business Traveller segment has displayed a y-o-y growth to form 33.4% of the total demand accommodated by Indian hotels, whereas the contribution of Domestic Tourists or Leisure Travellers has increased from 19.8% in FY16 to

22.2 in FY17. Foreign Demand, on the other hand, has remained largely stable, contributing 19.4% between the Business, Leisure and Tour Groups segments as per Federation of Hotels & Restaurant Associations of India (FHRAI) and Hotelivate. *Going forward, with the rise in spending by domestic travellers, domestic demand is also likely to grow at a healthy pace.*

Chart 8: State-wise DTA (in Lakhs)

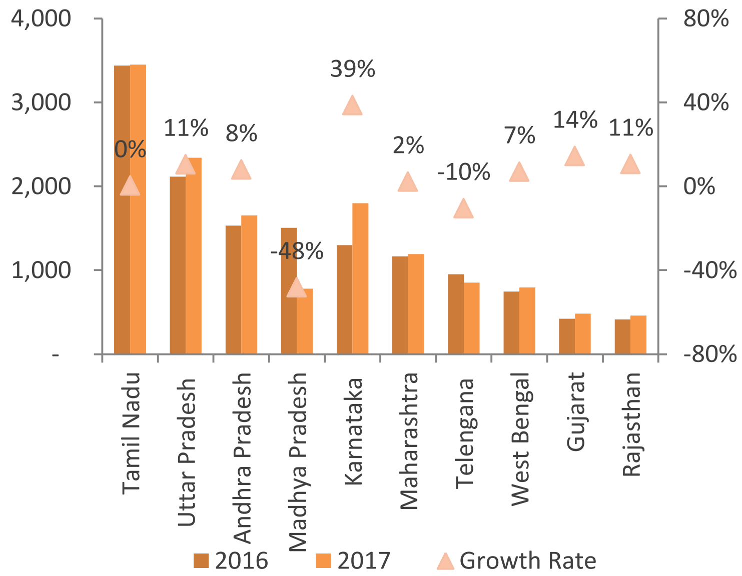
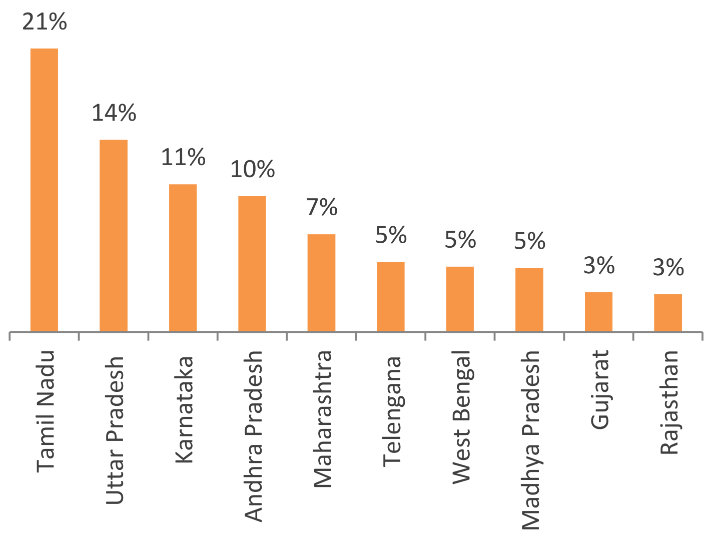


Chart 9: State-wise Percentage share of Total DTA



Note: Top 10 States
Source: Ministry of Tourism

B. Foreign Tourists

Foreign tourist arrivals (FTA) are the tourists that come and stay in India for a period exceeding 24 hours. Of the Top 10 countries, tourists from Bangladesh accounted for about 21% while from USA and UK accounted for approximately 14% and 10% respectively of the total foreign tourists flowing into India in CY17. Of the Top 10 states, Punjab has seen the highest growth of about 68% in FTA arrivals followed by Goa and Uttar Pradesh. Tamil Nadu witnessed highest FTA arrivals, although y-o-y growth was only 3% due to high base effect followed by Maharashtra where the y-o-y growth was about 9%.

Chart 10: State-wise FTA (in Lakhs)

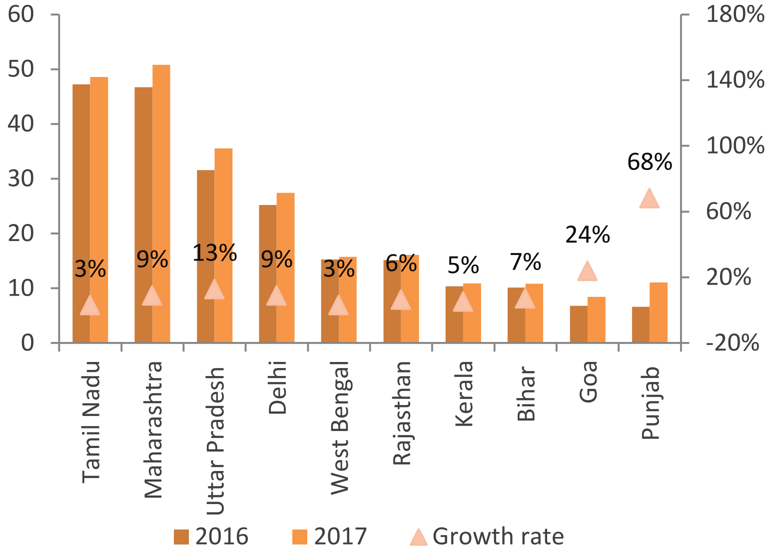
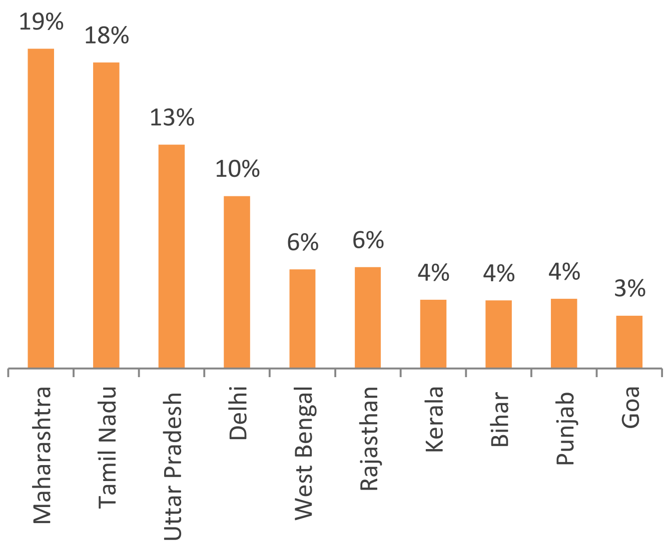


Chart 11: State-wise Percentage share of Total FTA

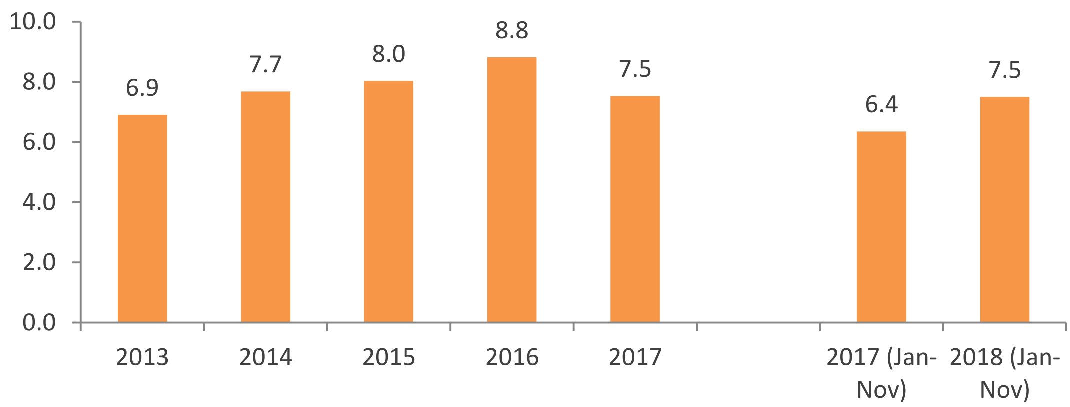


Note: Top 10 States
Source: Ministry of Tourism

On a y-o-y basis, the FTAs in CY18 (Jan-Nov) increased by a sharp 18% y-o-y to 7.5 million. This has been the highest growth since 2008. This growth is backed by various Government of India (GoI) initiatives such as introduction of e-visa in November 2014, development of rail & road infrastructure, along with promotion of medical and cruise tourism. In June 2016, the Indian government approved 150 countries under the Visa on Arrival scheme to attract additional foreign tourists. The Visa on Arrival scheme registered an average growth of 134% over 2010–16. Electronic tourist authorisations, known as E – Tourist Visa, launched by the Government of India have resulted in increase in number of tourist visa issued in the country. The facility has been extended to citizens of 166 countries, as of December 2018. During January-October 2018, arrivals through e-visa increased 44.80 per cent year-on-year to 1.80 million (Source: IBEF).

Foreign exchange earnings (FEEs) (in rupee) increased by 10% y-o-y in CY18 (Jan-Nov). However, foreign exchange earnings (in dollars) in CY18 (Jan-Nov) increased by only 5.4% from $24,430 billion to $25,761 billion. The lower growth in dollar terms can be attributed to about 4.6% y-o-y depreciation of rupee against the dollar during the period.

Chart 12: Foreign Tourist Arrivals (FTAs) Trend (in millions)



Source: Ministry of Tourism

The FTAs are expected to reach a level of 12-13 million by CY20, the key growth drivers for growth in FTAs flowing into India include increasing international trade, multinational companies setting up their operations in India, strong share of India in the global IT/ITeS sector, increasing number of airports and airline connectivity with all prominent locations across the globe and increasing tourism campaigns by the Government of India both at the central and state level.

Challenges faced by Hotels

1. Government approvals and licenses

- Major issues for most of the industries in India are related to multiple windows of clearances, even for the hotel industry. Hoteliers face regulatory constraint at every step in the process of development of hotels beginning from land acquisition stage (for which laws differ from state-to state) to approval by various ministries & association on various matters.
- A company requires approximately 100 clearances for setting up an upscale category hotel in India. The clearances have to be taken from multiple government bodies. It is tedious and a time-consuming process.

2. Land availability and cost issues

- The process of identifying new land parcels as per the requirement for hotels is a tedious task in India. Compared to international standards, where land costs accounts for 15-20% of the total project cost, in India this is often in the range of 40-50%. This is also one of the reasons for low development of budget & mid-market hotels in comparison to upscale luxury hotels as budget hotels with lower average rates are unlikely to become viable with such high land cost. As a remedy to the problem, hoteliers have started mixed-use development projects comprising hospitality, commercial, residential and retail components.

3. Human Capital

- Indian hotels face the continued challenge of shortage of trained employees, especially at the manager and supervisor levels. Most of the companies are falling short of skilled employees for their hotels. Major reason for this shortage is absence of organized training and educational institutes for development of skilled employees like in aviation and other service sectors. Only few major Indian players like Taj, Oberoi and ITC have set up their training institutes with a few international brands like IHG, Carlson etc. Also, hotel and catering management institutes approved by All India Council of Technical Education (AICTE) is less than adequate and much of the talent graduating each year is unsuited for direct employment in the industry due to lack of required skills.
- Retaining the workforce even through training and development in the hotel industry is a tedious task as attrition levels are too high. One of the reasons for this is unattractive wage packages. Though the industry has been growing at a fast pace, hotel management graduates opt to join other sectors like aviation and catering services where they are paid higher.

4. Management Contract related issues

- Performance clause in management contracts is one of the most debated clauses between owners and operators of the hotel. It is most often the only clause that provides a window for an owner to terminate the management contract with the brand. However, unlike in other industries where a client has the choice to reject/ discontinue a product/ service if he/she is dissatisfied with the performance, hotel owners do not enjoy such a privilege and in turn have to pay a hefty termination fee to disengage with the operator.

- Also, owners are seldom informed/ involved in the hotel operations. Non-involvement of owners in hotel operations and lack of transparency can result in a gap for desired objectives. Such non coordination between owners and operators pose a threat to the industry.

Emerging market trends

Indian Online Travel Market

India's total internet subscribers' base as of June 2018 stood at about 512 million. The penetration of internet stands at about 35% which is comparatively lower than developed markets like the United States and the United Kingdom but is growing at a much faster rate. India's e-commerce market was worth about $2.5 billion in 2009, it went up $38.5 billion in 2017. Approximately about 75% of this is travel related. Also, as per the telecom regulator Trai, at the end of June 2018, India had 1,147 million wireless subscribers. With this increased emergence of smartphone in India, providing an easy access to internet and various applications, it is readily becoming a major source of travel bookings including hotel bookings.

Online Travel Market has always been predominantly known for Air Ticketing followed by Rail Ticketing. However, with the infusion of global travel brands, increased number of internet savvy people and large number of new hotel openings by various national and international brands at different domestic locations, online hotel bookings has emerged as a prospective opportunity for both online travel companies and hoteliers. In addition to online air ticketing, online hotel bookings has become a major revenue contributor to the online travel company in the recent past.

Going digital

The Indian Ministry of Tourism has started using social media to promote tourism sites throughout the country. It joined Facebook in January 2013. 70% of all 4 and 5 star hotels in first tier cities in India had established their presence in social media by August 2013. Leading Indian airline Jet Airways put social media at the centre of its marketing, involving 10 different departments in its social media activities targeting consumers.

A considerable increase has been seen across all star categories in reservations using Online Reservation Systems and Other Websites, with the All-India average increasing from meagre 10.3% in FY13 to 24.5% in FY17. At the same time, Direct Enquiries or reservations made through Hotel Representatives, Travel Agents and Tour Operators have declined. In keeping with the growing importance of maintaining a positive and impactful online presence, hotels have redirected their marketing efforts towards digital marketing mediums. Hotels are now using their Hotel Website to reach customers where marketing media measures such as Pay per Click increased to 27% in FY17 from 15% in FY13 and Promotions have gone up to 74.9% in FY17 vis-à-vis 67.3% in FY13.

Financial Performance

CARE has analysed the basic revenue and cost structure of the organised hotel industry in India. After increasing marginally by about 0.8% in H1 FY18, net sales of the industry witnessed 5.5% increase during H1 FY19. Revenue registered a CAGR growth of about 3.1% for the 3 year period between FY17 and FY19. The demand slow down for hospitality industry in

FY18 could be the outcome of the general slowdown in the economy. Also, GST implementation in the country and various rate revisions further had a significant impact on the travellers' sentiment.

Table 4: Industry Sales and Margins

51 companies		Rs crore		Growth rates (%)	
H1	FY17	FY18	FY19	FY18	FY19
Net sales	4,260	4,293	4,527	0.8	5.5
Operating Profits	742	763	738	2.7	-3.2
Operating Profit Margin (%)	17.4	17.8	16.3		
Net Profits	-119	-6	-27	*	*
Net Profit Margin (%)	-2.8	-0.1	-0.6		

Note: The industry margins are based on the financial results of 51 listed hotel, restaurants and resorts players
Source: AceEquity

However, going forward, the sentiments look positive and demand is expected to pick up on back of increased economic activities due to recovery in the global conditions resulting in higher movement in the MICE segment. ***We expect the momentum to pick up and the industry to register a growth of about 7-9% in revenues for FY19.***

Revenue and Cost structure of Hotels

Revenues in hotels can be classified under three broad headers - room revenue (revenues received as room tariffs), food & beverages (F&B) revenue and other revenue. While the room revenues are a direct function of room rates and occupancy rates, the F&B revenues comprise revenues from restaurants and banquets/convention centres. Other revenues mainly consist of income from auxiliary services provided by the hotel such as laundry, spa services, telephone services and transport. In terms of expenses, employee cost is the largest cost component for hotels.

Room revenue:

The total room revenue for a property can be calculated as:
Room revenue = Room nights sold * Average room rate,
Where, Room nights sold = No. of rooms * Occupancy rate *No. of days (Time period)
Generally, the revenues from rooms constitute about 50 – 55% of total hotel revenues.

F&B Revenues:

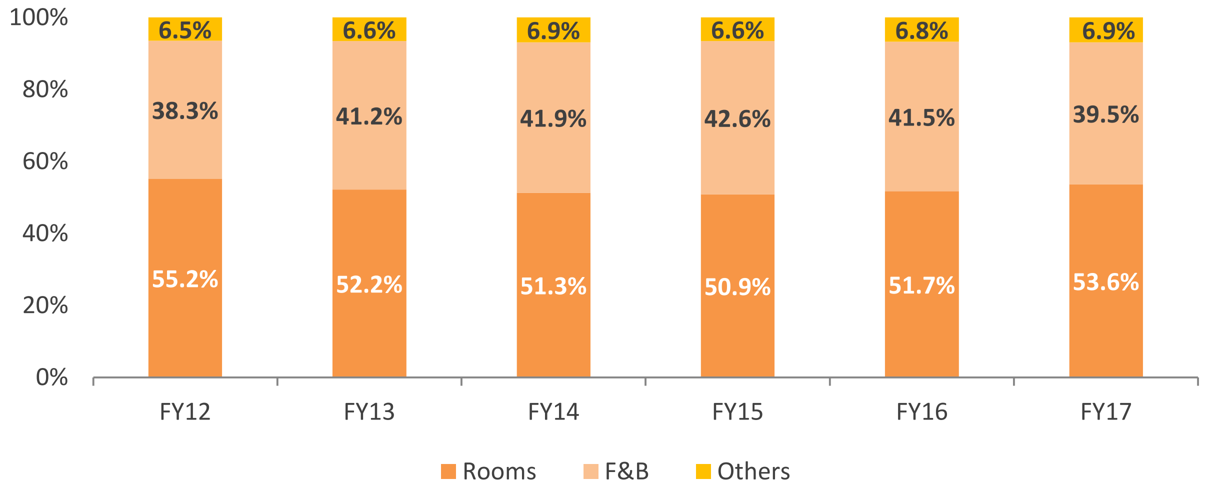
It includes revenues from restaurants and banquets. Usually the revenues from F&B division are about 35-40% of the total hotel revenues. It depends on various factors such as occupancy rates of the property, size of banquets and conferences, connectivity and technology in the banquet area, hotel location, etc

Other revenues:

Other revenues include revenues from telecom services, spa services, dry cleaning and laundry services and transport facilities offered by the hotel. These revenues usually constitute about 10-15% of the total hotel revenues.

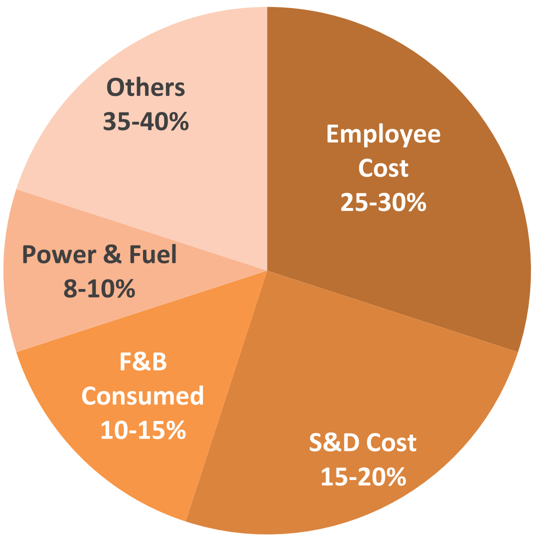
In FY17, the Rooms Revenue witnessed an increased contribution of 53.6% y-o-y to the total revenue. On the other hand, contribution from Food & Beverage and Banquets declined to 39.5% from 41.5% recorded in FY16. The contribution of the other operating departments has remained range-bound for the past few years.

Chart 13: Revenue structure



Source: FHRAI, Hotelivate

Chart 14: Cost Structure



Source: AceEquity, CARE Ratings

Employee costs are one of the largest cost components of the hotels accounting for about 25-30% of the total expenditure. Hotels therefore have large fixed costs and marginal costs per additional guests are comparatively low. Selling & distribution costs account for about 15-20% of the operating costs which includes advertising expenses and marketing costs. Power & fuel account for 8-10%. Also, the F&B consumes about 10-15% of the costs on an average. Other operating costs account for the remaining 35-40% of the costs that include the repairs and maintenance, travelling expenses, etc. among others.

Investments

The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-June 2018, the hotel and tourism sector attracted around US$ 11.39 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP).

GST implications on Hotel industry

The GST Council decided that the 28% tax would be imposed on hotel rooms with a tariff of Rs 7,500 above against the previous proposal of Rs 5,000 and above. Rooms with tariffs between Rs 2,500 and Rs 7,500 will attract 18% tax rate.

The GST on restaurants in five-star and luxury hotels has been brought down from 28 to 18%, bringing it at par with standalone air-conditioned restaurants. Food & beverages form 30-40% revenue for five-star hotels.

Table 4: GST rates for Hotels and Restaurants (Applicable as of July 1, 2017)

Services	Pre GST Regime		Post GST Regime
	Central Taxes	State Taxes	
A/c restaurant in 5 star or above rated hotel	15% on service component^^	12.5% for food bill 20.0% for alcohol bill	18.0%^
Accommodation in hotels, guest houses, etc. where room tariff is less than Rs 1,000 per day	-	-	-
Accommodation in hotels, guest houses, etc. room tariff Rs 1,000/- and Rs 2,500/- per day			12%^
Accommodation in hotels, guest houses, etc. room tariff Rs 2,500/- and Rs 7,500/- per day	9%	10%	18.0%^
Accommodation in hotels, guest houses, etc. where room tariff is above Rs 7,500/- per day	9%	10%	28.0%^

Note: ^ With full input tax credit

^^ Considered to be 40% of the bill amount + service charges.

Source: CBEC

- Under GST regime, the overall tariffs for premium hotels (four star and above) may see an increase, which may have some impact on the demand which had seen a pick-up in the last financial year.
- Further, the practice of bundling of meals with room tariffs may see a decline, especially for four star category hotels, as higher tariffs above the stipulated levels of Rs 7,500 per day may attract higher tax rates.
- Hotels having centralized registration will have to get registered in each state whether providing hotel services on own account or through agent (franchise)
- The biggest relaxation for the industry is the ease of compliance for the industry as there would be no different taxes for the different services provided by the industry.
- Also, GST would benefit the industry by the input credit system by reducing the overall tax flow for the industry, as earlier they did not have the option to set-off the taxes already paid on inputs of the industry.

Outlook:

- Going forward, CARE expects the industry to register an overall healthy growth on back of economic growth due to recovery in the global conditions resulting in higher movement in the MICE segment and consistently growing middle class along with increasing disposable income. There are various other key factors that drive the market, including India's attractiveness as a medical tourism destination; steadily growing Meetings, Incentives, Conferences and Exhibitions (MICE) segment; and, an increasing fondness among millennial to travel.
- On back of positive sentiments and expected pickup in demand, **we expect the momentum to pick up and the industry to register a growth of about 7-9% in revenues for FY19.**
- The expected future inventory in 11 major markets (across categories - only branded) is lower at around 49,380 rooms for the next 5 years (FY18 to FY23). Therefore, with increasing demand on back of improvement in economic activities and lower room additions, **we expect the major markets in the industry to sustain the average room rates (ARRs) going forward and grow at an average of 3.5-4.5% per annum. Also, we expect the occupancy to inch up to an average of about 68-70% by the end of FY23 compared with 66.6% in FY18.**
- **Accordingly, the hotels industry is expected to see an increase in room revenue at the rate of about 10-12% CAGR over the next 5 years.**
- The sector also faces several challenges in terms of complex regulatory environment and inadequate tourism infrastructure.
- Goods and Services Tax (GST) has been implemented from July 1, 2017, with the aim of replacing the indirect taxes on all goods and services. Initially, room tariff above Rs 5,000 was to attract the higher tax rate of 28%, however, this has been revised now and only tariff above Rs 7,500 would fall in the highest tax slab under the GST regime. Accordingly, we at CARE Ratings believe that the effective tax rate would not have any major impact on the Average room rates (ARRs) and Occupancy rates (ORs) of the hotels given GST players would be able to avail the input tax credit for both goods and services.

Annexure

Hotels - Star Category Classification

Criteria	1 & 2 Star	3 Star	4 Star	5 Star & 5-D	Comments
General					
24 hour lifts for buildings higher than ground plus two floors	N	N	N	N	Mandatory for all hotels. Local laws may require a relaxation of this condition. Easy access for differently abled guests
All floor surfaces clean and in good shape	N	N	N	N	Floor may be of any type
Parking facilities	D	N	N	N	Should be adequate in relation to the number of rooms & banquet / convention hall capacities. Exclusively earmarked accessible parking nearest to the entrance for differently abled guests
Guest Room					
Minimum size of bedroom excluding bathroom in sq. ft.	120	130	140	200	Single occupancy rooms may be 20 sq. ft. less. Rooms should not be less than the specified size.
Air-conditioning - % of Rooms	25%	50%	100%	100%	Air-conditioning / heating depends on climatic conditions & architecture. Room temp. Should be between 20c to 28c.
Suites	D	D	N	N	2% of room block with a minimum of 1 suite room
Minibar/Fridge	D	D	N	N	All 3 Star hotels shall have the facility of a mini fridge and all 4 Star, 5 Star and 5 Star deluxe shall have the facility of mini bar with effect from 1.4.2014. Contents must conform to local laws
Shelves/Drawer space	N	N	N	N	Necessary for hotels of 1, 2 & 3 Star category to have a wardrobe.
Wardrobe with minimum 4 clothes hangers per bedding	N	N	N	N	In 1 star or 2 star hotels this may be without doors
Sufficient lighting, 1 per bed	N	N	N	N	
A 5 amp earthed power socket	N	N	N	N	
A bedside table and drawer	N	N	N	N	1 per two twins and two for a double bed.
Opaque curtains or screening at all windows	N	N	N	N	All 4 Star, 5 Star and 5 Star deluxe hotels shall install blackout curtains by 1.4.2015

TV - cable if available		N	N	N	Mandatory for 3*, 4*, 5* and 5* Deluxe category and TV must have remote. Exception: For Eco and Nature Resort, TV Cable is not mandatory for 3*,4*,5*,5* Deluxe category. However, it is mandatory that they provide a Television with cable in lobby or other common area.
Bathroom					
Number of rooms with attached bathrooms	All	All	All	All	It will be mandatory w.e.f. 01.09.2010 for all 1 & 2 Star category hotels to have attached bathrooms. All bathrooms to have sanitary bin with lid
Minimum size of bathroom in sq ft	30	36	36	45	25% of bathroom in 1 & 2 Star hotels to have western style WC. No higher ceiling / cap on the maximum size
Guest toiletries to be provided - minimum 1 new soap per guest	N	N	N	N	Quality products depending on the star category
Bottled toiletry products to be provided	D	D	N	N	
Floors and walls to have non - porous surfaces	N	N	N	N	
All Star hotels shall provide water sprays or bidets or washlets or other modern water based post-toilet-paper hygiene facilities.	N	N	N	N	This condition shall be applicable to all new hotels that will start operating from 1.4.2016. For the hotels which have come into operation or will come into operation before 31.3.2016, these facilities will be mandatory from 1.4.2022.
Hot and cold running water available 24 hours	N	N	N	N	It will be mandatory w.e.f. 01.09.2010 for all 1 & 2 Star category hotels to provide hot & cold running water
Public Area					
Valet (Parking) services to be available	D	N	N	N	
Lounge or seating area in the lobby	N	N	N	N	Lobby shall have furniture and fixtures which shall include chairs /arm chairs, sofa, tables and fresh floral display.
Food & Beverage					
1 Star & 2 Star category					1 & 2 Star categories should have minimum one dining room serving all meals. Room service not necessary

3 Star category	One Multi-cuisine Restaurant cum Coffee Shop open from 7 a.m. to 11 p.m. and 24 hr. Room Service
4 Star category (with alcohol service or with no alcohol service)	*Grade A cities:* One Multi Cuisine Restaurant cum coffee shop open from 7 a.m. to 11 p.m., one Specialty Restaurant and 24 hr. room service *Other than A cities:* One Multi Cuisine Restaurant cum Coffee Shop open from 7 a.m. to 11 p.m. and 24 hours . Room Service
5 Star category (with alcohol service or with no alcohol service)	*Grade A cities:* One 24 hours Multi Cuisine Restaurant cum Coffee Shop, one Specialty Restaurant and 24 hours. Room Service. *Grade B cities:* One Multi Cuisine Restaurant cum Coffee Shop open from 7 a.m. to 11 p.m., and 24 hours. Room Service. One. Specialty Restaurant would be desirable *Other than A &B cities:* One Multi Cuisine Restaurant open from 7 a.m. to 11 p.m. and 24 hours Room Service.
5 Star Deluxe category	*Grade A cities:* One 24 hours Multi Cuisine Restaurant cum Coffee Shop, one Specialty Restaurant and 24 hours. Room Service. *Grade B cities:* One Multi Cuisine Restaurant cum Coffee Shop open from 7 a.m. to 11 p.m., and 24 hours. Room Service. One. Specialty Restaurant would be desirable *Other than A &B cities:* One Multi Cuisine Restaurant cum Coffee Shop open from 7 a.m. to 11 p.m. and 24 hours Room Service. One Specialty Restaurant would be desirable.

Grade A: Delhi,** Mumbai, Kolkata, Chennai, Bangalore, Pune, Hyderabad, Secunderabad *Grade B*: Cities in the rest of the country excluding Grade 'A' cities *Grade C:* Cities in the rest of the country			Note: The Ministry of Tourism may review and revise the cities falling under the Grade 'A' – Grande 'B' from the time to time. **Delhi would include the hotels falling in Gurgaon, Faridabad, Ghaziabad, NOIDA, and Greater NOIDA"		
Kitchen/Food Production Area					
Refrigerator with deep freezer	N	N	N	N	Capacity based on size of F & B service
Segregated storage of Meat, fish and vegetables	N	N	N	N	Meat, fish and vegetables in separate freezers
Drinking water	N	N	N	N	Water treated with UV + filtration
Garbage to be segregated - wet and dry	N	N	N	N	To encourage recycling
Wet garbage area to be air-conditioned	D	N	N	N	
Guest Services					
Iron and Iron Board facility	D	D	N	N	Iron and iron board to be made available on request in 1 to 3 Star category hotels on complimentary basis. For 4, 5, 5 Star Deluxe categories to be available in the room on complimentary basis.
Dry- cleaning /laundry	D	D	D	N	In house for 5 Star Deluxe hotels. For 5 Star category and below may be outsourced
Paid transportation on call	D	N	N	N	Guest should be able to travel from hotel
Acceptance of common credit cards and facility / infrastructure for accepting/ making payments by digital transactions.	N	N	N	N	
Wake - up call service on request	N	N	N	N	
Name Address and telephone numbers of doctors with front desk	N	N	N	N	
Newspapers available	D	D	N	N	This may be placed in the lounge for 1, 2 & 3 Star hotels
Stamps and mailing facilities	D	N	N	N	
Access to travel desk facilities	N	N	N	N	This need not be on the premise for 1, 2 & 3 Star categories
Health - Fitness facilities	D	D	D	N	Indian system of treatments should preferably be offered
Conference Facilities	D	D	D	N	
Safety & Security					
CCTV Cameras at strategic locations	N	N	N	N	
Smoke Detectors	N	N	N	N	These can be battery Operated

Utility shop / kiosk	D	D	D	N	The presence of a utility kiosk/shop will not be a mandatory condition for classification under one to four Star categories. For 5 Star & 5 Star Deluxe categories one utility kiosk or shop will be a must. No separate book shop shall be necessary
Metal detectors (door frame or hand held)	D	N	N	N	
Security arrangements for all hotel entrances	N	N	N	N	
Communication Facilities					
Telephone facility within arm's reach of the toilet seat.	D	D	N	N	All hotels in the categories 4 Star, 5 Star & 5 Star Deluxe shall provide a telephone within an arm's reach of the toilet seat. This condition shall be applicable to all new hotels that will start operating from 1.4.2016.
A telephone for incoming & outgoing calls in the room.	N	N	N	N	4 star and above should have direct dialing and STD / ISD facilities. 1,2 and 3 Star category hotels may go through a telephone exchange
PC available for guest use with internet access	D	N	N	N	This can be a paid service. Up to 3 Star, PC can be in the executive offices, Internet subject to local access being available
Swimming Pool	D	D	D	N	This can be relaxed for hill destinations. Mandatory to have trained Life Guard. Board containing Do's & Don'ts, No Diving sign, pool depth etc. should be displayed at a strategic location in the pool area All 4 Star, 5 Star and 5 Star Deluxe hotels shall provide a luminous LED wall clock with numerals of three inches or more on display near their swimming pools. It will be desirable for all 5 Star Deluxe hotels to have air-conditioned porches and heated swimming pools.

Note: D – Desired, N - Necessary
Source: Ministry of Tourism

CORPORATE OFFICE:
CARE RATINGS LIMITED (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I **Website:** www.careratings.com

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