

The challenge of our times: Taking stock

With the Indian economy geared up to grow by 8%, the hospitality industry is predicted to grow by 10-12% annually. However, issues like high land cost, complex taxation structure and shortage of skilled manpower amongst others are deterring the growth.

Indian hospitality industry still facing recession blues Although there are definite signs of recovery in the global economy, the hospitality industry has not completely come out of the global recessionary impact. Players in the industry believe that occupancy levels are still down by around 20 percent compared to the pre-recession period. "We are still witnessing a drop in arrivals in inbound tourists," Sushil Gupta, Managing Director, Asian Hotels (West) said adding, "Although we have seen some recovery in the US economy, we are unsure about the recovery in the European market." Rajinder Kumar, President, FHRAI, echoed a similar opinion. "We have not recovered from recession. Occupancies in hotels during the summer season was low compared to pre-recession period. The current booking indications suggest that the coming season will also be bleak, he said. Patu Keswani, CMD, Lemon Tree Hotels, agreed that the Indian hospitality industry is yet to bounce back owing to a financial crisis in some European countries. "This is adversely impacting occupancies and ARR in the hotel industry in India," he confirmed.

Moreover, higher room rates charged by hoteliers in India have also contributed to the lower occupancy. People in the industry believe that higher room rates in India are diverting India-centric inbound traffic to other competitive destinations. S M Shervani, MD, Shervani Hospitalities opined that hotels in India should rationalize room rates in India, to combat the aftereffects of the global economic recession which is adversely impacting hotel occupancy in the country. "We are facing challenges from Thailand, Malaysia, Singapore and China owing to their hotel rates and the superior infrastructure they offer," he added. Exorbitant land cost is the biggest concern

There is an undoubted need for additional hotel rooms right across India, but the main problem is locating suitable land. Nonetheless, even when land becomes available, it is phenomenally expensive, making it hard to justify the investment. Often, the inflated costs have to be pushed on to the room rates and this subsequently impacts capacity levels. Although the rise in land prices is perhaps a by-product of the rapid development of the Indian economy, it often discourages an investor from putting in money for the construction of new hotels. "Increasingly, the land cost has become a significant portion of the development cost for any project, accounting for 30-50 percent of the total development cost, while the same equates to about 15-20 percent internationally," Rajinder Kumar informed. Once of the big players in the mid-market sector in India, Patu Keswani says, "High land prices and tight building restrictions create tough barriers to India's burgeoning hotel sector. Moreover, the low floor space to land ratio forces developers to build up-market hotels that would enable them to charge higher prices to recover their land costs." Rajesh Mishra, Vice President, FHRAI also feels that higher land cost is a major deterrent to the growth of Indian hotel industry. "Land is unavailable in metros. In the promising tier-II cities which are becoming increasingly important for the hospitality industry, land that is available is so exorbitant that any hotel project will not be commercially viable for at least 10 years," According to Ramesh Kapur, CMD, Radisson Hotel Delhi, "External factors like land prices, which are astronomically high, ensure that building quality hotels is virtually out of the reach of family or individual type entrepreneurs." Moreover, the construction of hotels is highly capital intensive. Estimates suggest that a single five-star room costs over Rs 1.25 crore in metro cities. Unsurprisingly, this provides little incentive to construct new hotel properties. Licensing a major hurdle for hoteliers

The challenge of multiple agency clearances both during the project and pre-commissioning stages is one of the deterrents for new players to set-up hotels. "The tiresome process of obtaining clearances makes it difficult for the hospitality industry to set up new hotels quickly, given the need - with the Commonwealth Games round the corner," Ramesh Kapur said. Currently, hoteliers have to approach around 35 to 40 agencies to obtain around 70 to 110 licenses. Experts feel that it often takes less time to build hotels than to get the necessary permits for hotels. Different procedures for licensing among different states pose yet another stumbling block. "While some states have relaxed

bar timings, other states, particularly those that are otherwise tourism friendly states have not followed suit. This too undoubtedly forms a hurdle for growth in hotel occupancy. We need to have a common policy regarding bar timings, licensing and taxation of liquor," M.P. Purushothaman, President SIHRA, Vice President FHRAI and chairman Empee Group clarified.

Higher interest rates keeping investors away from hotel industry Unlike other sectors, the hospitality industry in India is unable to enjoy relief from the many restrictions imposed upon it. High interest rates are a significant issue. Unlike the US or UK, where a developer can obtain 75-85 percent of his construction costs in the form of debt from banks on a long-term basis, Indian banks have typically lent only up to 60 percent of the construction cost and that too for a much shorter duration. "High cost of capital inputs and high rates of interest render the hotel project in metros and tier-II cities to an uneconomic level of long pay back period. In addition, the high inflation rate also results in higher input costs," Kapur informed.

"The government's unwillingness to give industry status to the hotel sector is another noteworthy issue. This has deprived hotels of accessing loans at lower rates of interest, which in turn retards the growth of hotels thereby preventing hoteliers from further expansion," opined Purushothaman. However, there has been some respite for hoteliers with Reserve Bank of India's new guidelines asserting that the hospitality sector would no longer be treated as a part of Commercial Real Estate and risk exposure would be based on the profile of the borrower and the nature of the project. "These new guidelines will be particularly significant for the more established hospitality players who will now benefit from a lower risk weightage and consequently, lower RBI's decision is a step in the right direction, what is really required is the conferring of infrastructure status to the hospitality sector which will make debt financing much cheaper and give further impetus to new hotel projects around the country." Multiple taxations hurting the hospitality industry

Another vital challenge that the Indian hotel industry is facing is the presence of multiple taxation regime. Currently, there is no uniformity in taxes imposed in hotels across the country. Every state has a different taxation slab and charges different rates. Moreover, introduction of new taxes like value added tax has further compounded the problem. "There is a multiplicity of taxes being imposed on hotels by the Central and State Governments which makes room tariffs much higher and uncompetitive when compared to our neighbouring countries. This discourages visiting tourists and business travelers from long stays which are essential if we want tourism in the country to grow," Purushothaman asserts. Mishra feels that the irrational taxation structure and sales tax regime is a discouraging policy measure for the hospitality industry in the country. "Despite the introduction of VAT, a lot of states have not done away with the sales tax. The dual taxation structure and sales tax regime is a discouraging policy measure for the hospitality industry," Mishra elaborates. To make matters worse for hoteliers, the government, it appears is all set to implement GST (Good & Services Tax) as well. "Since the sales tax regime will remain, isn't it irrational from the government's side to impose GST as well," he questioned. However, Sushil Gupta sees no problem with the Centre on the taxation issue. "We do not have any problem with the Centre on the issue. But currently state governments are over taxing the hospitality industry which makes it very difficult for us to operate," Gupta opined. Other players of the industry also support this view. "The state governments, directly or indirectly have charged 40 percent in the form of different taxes. Hence, where can hoteliers get their profit," asked Ranjit Goel, CMD, Best Western Resort Country Club. Tax holidays are available only to hotels at heritage sites and hence this measure is restrictive to the growth of the hotel industry. Players of the industry also believe that electricity tariffs applied to hotels are not at concessional rates nor are they at par with the tariffs offered to manufacturing industries. "Hotels offer hospitality services to guests for which good lighting and air-conditioning are a basic and essential need. Naturally, enormous and unavoidable overhead expenditure is incurred owing to high electricity tariffs," Purushothaman explained.

Scarcity of trained manpower is the biggest worry Despite the plethora of institutes in the country, India is able to provide merely 12,000 trained personnel for absorption into hospitality related enterprises. This experts say, is against the existing demand for over two lakh trained manpower annually. Consequently, the current level of supply can hardly keep pace with demand. Industry analysts estimate that by 2012, just the premium segment of the

hospitality industry in India will require more than 50,000 trained employees.

While the lack of training facility is one of the main reasons for poor supply of skilled manpower in India, the existing salary structure in the hotel industry is less than inspiring. "Students coming out of the different hospitality institutes are not being rewarded with proper employment. Fresh graduates get something in the range of Rs 7,000 to Rs 12,000 which is less than their monthly college fee which they spent while qualifying for a hospitality carrier," Mishra pointed out. Moreover, the industry average of people servicing a hotel room is 2:1 in India compared to 0.5:1 overseas. "There is no proper training, induction or a proper understanding of the hotel industry. As a result, there is faster rate of burnout as people are clueless about what to expect, leading to a high rate of attrition," said Vijai Pande, President, Hotel and Restaurant Association of Northern India and Managing Director of Hotel Pandit. This lack of trained manpower will hurt a country which is expected to see a huge number of hotels-both foreign and Indian - open up in the next few years. That said, the hospitality industry will play a key role in India's tourism development, It's time the authorities took serious note of how they can enable India's hospitality industry to compete with the world at large.

SUGGESTED SOLUTIONS:

Government should create a land bank for the hotel industry:

According to Ramesh Kapur, the government should earmark parcels of their land in good locations and allot them on a long term lease of 60 to 99 years to the hospitality industry. Patu Keswani suggested that the government should make a special provision to allot land to hotels in their urban planning. "As the government is the biggest landowner today in the country, it should not sell land plots to hoteliers outright but rather give hoteliers land on long-term lease," he added. Gupta also feels that policymakers must derive some kind of formula where the surplus land is given to hotel and restaurant projects. "The Government must also come forward in providing land banks to hoteliers at important tourist places to facilitate them to build hotels at less capital intensive costs and thereby mitigate the current acute shortage of rooms in the country," Purushothaman said. Kumar sees an increased FAR as one of the solutions for tackling the higher land cost. "We are happy that FAR was increased from 1.75 to 2.25 around seven months ago. However, it is still too low in comparison to other countries. Our endeavour has brought some results with FAR increasing to five in Mumbai and we are striving for the same in other cities of India too," Rajinder Kumar explained. Rationalise the taxation structure and accord infrastructure status:

The general opinion among the players is that hotels should not be considered as luxury. "To remain competitive with other destinations in Asia, like Malaysia, Thailand, Singapore, amongst others, which have a low level of taxation, hotels in India, need to be subjected to a rational tax structure. I hope GST will take note of the current taxation problems that the hotel industry is facing," Gupta said. According to Rajesh Mishra, the current taxation structure must be drastically overhauled. "The government needs to induct qualified finance professionals while planning the taxation structure in the country," he stressed. Ramesh Kapur urged the various industry associations to make the government aware that regulations and taxations need to be simplified. "We must make the government understand that simplifying taxation and regulations will not only help the industry grow faster but also bring additional revenue for the government," he asserted. Patu Keswani opined that the government must accord infrastructure status to the hotel sector so that hoteliers can take debts on easier terms and for longer periods. M P Purushothaman urged various hotel associations to come together and work even more closely with the central and state governments towards reaching a better understanding on the importance of giving industry status to hotels in India. "This has been a longstanding demand from the hotels which is yet to be fulfilled," Vijai Pande asserted. Rajinder Kumar, however, is more concerned about the luxury tax currently imposed by government on hotels. "We have been regularly urging the government to get luxury tax levied on actuals during the Games. I am of the opinion that if our demand is not heeded soon, we will lose the tag of favourable destination in the near future," Rajinder Kumar pointed out.

Improve physical and social infrastructure: According to Vijai Pande, the full potential of the hotel industry can not be tapped unless a proper infrastructure exists in the country. The main limitation to growth is that the infrastructure is

not keeping pace with the economic growth. "Despite government's repeated assurance, nothing much is happening on the infrastructure front. Whatever we plan for five years, we achieve them in 10 years and by that time additional demand is created. Hence, our plan is always behind the demand," Sushil Gupta pointed out." According to S M Shervani, although we have built some of the world-class airports, our road and rail infrastructure is not at par with the international standards. "Moreover, we also need to maintain cleanliness at our railway stations and various tourists destinations," S M Shervani suggested. Ramesh Kapur feels that the industry needs to improve the pace of creating good quality infrastructure. "We also need to educate the general public, by promoting in them a civil sense that would improve hygiene, their social habits and ethics to strengthen India's positive image," he said. Patu Keswani also emphasized the need to build adequate infrastructure to support growth in the tourism industry.

Tourism ministry launches several initiatives to address the manpower shortage: The massive expansion in the hotel sector or for that matter the restaurant segment in the country has generated enormous demand for well-trained, competent and qualified employees. The shortage of skilled workers would impact the overall service levels across hotels in India.

All these players are of the opinion that the government should focus on creating large numbers of quality manpower to address the shortage of skilled manpower in the hospitality industry. "There is a need to take several initiatives like 'Hunar so Rojgar' Programme. The programme with a pro-poor focus envisages engaging young persons constructively by giving them employable skills," Rajinder Kumar said. The scheme offers 6 to 8 weeks training in F & B services and culinary skills. Moreover, the Ministry has recently sanctioned 12 new State IHMs and 11 new FCIs. In the remaining period of the 11th Plan, the Ministry intends to sanction five more state IHMs and 14 FCIs. These institutes will have a collective capacity to train over 27,000 persons annually. Patu Keswani suggested that hoteliers talk to the government about vocational training. "We should also enter into an alliance with international hospitality institutes to produce quality manpower for the hospitality industry," Patu Keswani added.

CONCLUSION:

Despite all these challenges, the growth prospects of the Indian hotel industry are enormous, promising, and exciting. "The sector has now come of age and is on par with International standards. The biggest International hotel brands have also now been entrenched firmly in India and more are yet to come which itself is proof of the rapidly growing potential of the hotel sector in the Indian economy," said Purushothaman. Ramesh Kapur also feels that the existing hotels will see better occupancy rates and the industry will continue to attract new investments especially from other well known global brands. Rajinder Kumar also sees a huge growth opportunity for the Indian hospitality industry. "Currently, India has 90,000 rooms in the branded category and there is a requirement of another 1,50,000 rooms in the country. The new inventories which are going to be added in the next 2-3 years will rationalise the room rates and we will emerge as a competitive destination," he declared.

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