Hospitality Sector: Present tense future uncertain

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For hospitality sector, which began the year with uncorking of champagne, is closing 2008 on a dry note, jolted not only by the global economic downturn but also to a great extent by the Mumbai terror attacks.

Looking back, the year had a perfect start with the then Finance Minister P Chidambaram announcing special five-year tax holidays for setting up of two, three and four-star hotels in his Budget speech.

What followed was investments worth Rs 34,000 crore by as many as 25 companies - existing hospitality groups and new real estate player entrants - through the course of the year, not only for lower segment hotels but also for five-stars and luxury hotels.

The happy state of affairs for the sector in the start of the year was also reflected by the increase in the number of foreign tourist arrivals in India. According to the Ministry of Tourism, January saw a rise of 10.4 per cent, February 11.9 per cent and March 14.6 per cent in foreign arrivals.

The party was, however, short-lived as the global financial crisis cast its long shadow over the industry thereafter. In April itself, the arrivals came down to 9.6 per cent and got worse with each passing month to an all-year low of 1.8 per cent in October, though slightly improving to 2.1 per cent in November.

Adding to the problems was the 60-hour siege of Mumbai by terrorists, in which three of the city's top hotels - Taj Mahal Palace & Towers, The Oberoi and The Trident - turned into battlefields.

Even travel advisories by various countries, including Canada, Australia, Israel and the US, after the attacks did little to help the sector that was already shaken. However, on December 21, in a typical resilient Indian style, the Trident and the Tower wing of the Taj re-opened.

While it will take a while for inbound tourists volumes to swell after the attacks, thankfully foreign tourist arrivals during the January November 2008 stood at 4.84 million as compared to 4.48 million during the corresponding period of 2007.
In terms of foreign exchange earnings, 2008 also fared better as compared to last year. The January-November period saw a total of Rs 45,647 crore this year as against Rs 39,281 crore in the same period in 2007, up 16.2 per cent.

Despite the setbacks, India managed to attract global firms to invest in its hospitality sector. French hotel group, Accor signed a joint venture pact with InterGlobe Enterprises to set up a series of economy hotels.

UK-based InterContinental Hotels Group also announced plans to open 20 hotels in India with over 5,000 rooms under its different brands, including the InterContinental, Crowne Plaza and Holiday Inn, to complement its existing portfolio of 13 hotels.

Also, US hospitality major Hilton entered into an agreement with India's largest real estate developer DLF Ltd for managing seven new hotels. Besides, Sri Lanka's leading conglomerate Aitken Spence acquired four Indian hotels and four resorts with 1,400 rooms in Delhi, Madurai, Trivandrum, Cochin and the Andaman Islands.

Homegrown real estate developers also saw the opportunity and announced plans to enter the sector. Parsvnath

Developers tied up with ITC Welcomgroup for developing 50 hotels over a three to five year period with an investment of Rs 2,500 crore across the country. Unitech also said it would invest Rs 2,500 crore for setting up 35 hotels.

Emaar MGF has announced a Rs 15,000-crore spend for developing hotels in value, mid-market and luxury segments with a total of 26,000 rooms by the end of 2010, besides signing an agreement with the Marriott Group for developing properties in Kolkata and Amritsar.

In their bid to outdo the industry rivals, existing hospitality players announced plans for as many as 250 new properties in various segments with investments to the tune of of Rs 11,000 crore.

These include The Leela Group (Rs 2,000 crore for six hotels), Bird Group (Rs 1,600 crore for 10 hotels), Landmark (Rs 700 crore for three hotels), The Oberoi Group (10 hotels, investments not disclosed), Lemon Tree (Rs 2,150 crore for 18 hotels), Royal orchid (Rs 500 crore for 10 hotels), Ginger Hotels (Rs 100 for 70 properties) and Uppal Group (Rs 500 crore for seven hotels).

Even the government was not far behind saying it would invest Rs 500 crore in developing 20 tourist destinations across the country over the two-three years, apart from initiating steps to improve security arrangements.

The question that remains to be answered is at a time when travelers have tightened their purse string due to the economic slowdown and security concerns, how would the Indian hospitality sector fare in the year to come? Well, that only time will be able to tell.

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