

Critical Issues Facing Indian Hospitality

An HVS White Paper

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Foreword

During HVS's past 12 years in India, we have had the opportunity to play a critical role in the decision-making process for a vast number of existing hotels for valuations or hotel feasibility projects under different stages of development. We have also become a powerhouse for research and information related to the hospitality industry. All through this, we have remained a silent observer and preferred not to comment on the dynamics of the tourism sector or matters relating to infrastructure and regulatory issues that touch upon hospitality.

Recently, with the sudden economic downturn followed by the terror attacks in Mumbai we were inundated by enquiries from government departments and trade associations – both business and hospitality - for our opinions. These enquiries related to potential losses to the sector, suggestions for recommendations on the tax structure and other infrastructure-related issues. We realised that perhaps the time was right for us to draw from our knowledge base and experiences to put together a research paper, '**Critical Issues Facing Indian Hospitality - An HVS White Paper**'. This would, in addition to hospitality, cover some critical issues in aviation, as the latter is important for the growth of hospitality, and together they are instrumental for the growth of the tourism sector in India.

The recent crises have jolted us all out of our comfort zones. A time of crisis is also the best time to eschew an isolated business outlook in favor of a collaborative approach that focuses on the larger picture and deals with long-term and wide-ranging ramifications for all stakeholders. We believe that through this white paper, we would be able to trigger the much awaited process of a 'tourism renaissance' in India and emerge better and stronger than ever before!

The inspiration, and ironically, the spark to this research paper came from two sources; both are not named here but are well known in their own ways to carry forward the cause of the industry. The first was an official in the Ministry of Tourism who said we needed a political czar for tourism who can fight for issues challenging the sector at the policy level. The person also said that the industry often speaks in discordant notes and while everyone has complaints and suggestions for improvement no one is willing to research and put together the needs of the industry in a systematic manner. The second was a senior politician who tomorrow maybe in a position of great influence to help address these issues. He specifically asked if we could put together something that highlights the losses being faced by the industry in addition to the other challenges.

The tourism ministry in India needs to be equipped with executive powers. At present, its role is limited to that of a facilitator and that does not allow the ministry to effectively implement a national level tourism policy. Tourism policies and strategies need to be in line with global trends as well as responsive to local factors such as the changing socioeconomic conditions in the country. India needs a tourism master plan, which should aim at joining Singapore, Hong Kong and Bangkok as the 'Gateway to Southeast Asia'. HVS is of the view that the hospitality sector has collectively failed to impress upon the central and state governments on the actual unrealised potential of this sector in terms of generating employment, and thereby poverty alleviation. The industry must use all forums available to it to advocate these facts to the governments. The political class and decision makers in India must be informed about the tremendous potential of tourism in the development of the country so that concrete measures are taken in the direction of enhancing tourism in India.



Obviously our focus is more on the hotel sector as this is where our specialist skills lie. We need a paradigm shift, as regards tourism, in the mindsets of governments at both the central and state levels. In the past five to seven years, the aviation industry has undergone an immense transformation, so why can't other sectors of tourism like hospitality change as well? With a more powerful tourism ministry, which is less reliant on other ministries taking decisions that impact tourism maybe we will get better results in terms of tourist arrivals, rationalisation of taxes, classification of hotels, lesser number of licenses and other such limiting factors for growth of the industry.

If there were a few macro things we could put on the wish list it would be **infrastructure status** for the hotel sector and that tourism be added as a subject in the **Concurrent List** of the Constitution of India.

We have recently observed that it has become particularly difficult to raise capital for hotel development through public sector financial institutions and banks. Most banks are susceptible to herd mentality, which makes them impose tough conditions for lending purposes. We also need to make banks aware of the cyclical nature of hotel business and how every trough actually brings with it good opportunities for investment at attractive valuations. We are aware that numerous hotel projects with favorable location, branding and prospects are stuck due to the unavailability of debt. Our experience of over 28 years in all major international markets clearly indicates that economic downturns are probably the best times to invest in hotels. We encourage banks to employ a thorough due-diligence process on each project, but at the same time, allow for the sector to convert the challenges brought about by the tough times to another opportunity.

Rather than sitting on the bench, let's try and collectively work as an informal alliance for the long-term sustainability and growth of the industry. Through this document we aim to arm the tourism ministry with ammunition in the form of data which is relevant and comparable to some of the best global practices. This document has been specifically kept at a macro level as we feel that this needs to be addressed before we get into the specifics. Lastly, I suspect that this document may invite feedback from other stakeholders regarding some pertinent lacunae that may have not been covered. For this, I would like to reiterate that this is essentially an insight on the challenges to hospitality and will request you to send us feedback which we can perhaps incorporate subsequently for a more comprehensive report that will be released later.

We also will like to confirm that HVS was neither asked nor has been paid for this document from any source and this is purely our own initiative to help the tourism industry. Over the past few days we have put in a lot of effort over this document to prepare it at the earliest. This would not have been possible had it not been for Saurabh Gupta, Associate Director at HVS Hospitality Services, New Delhi Office, who has spent a lot of time and effort in putting this together.

As always we want to thank all our clients for their continued support.

Manav Thadani
Managing Director
HVS India

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1. Executive Summary

Introduction

Tourism industry is cyclical in nature and highly susceptible to macroenvironmental changes. Aviation and hospitality are amongst the first to get impacted by an adverse environment and also the last to recuperate. The present global economic crisis and the unfortunate attacks in Mumbai have dented the short-term growth prospects of the country and adversely impacted the Aviation and Hospitality sectors. HVS predicts the financial year 2008/09 as a year that started off with great potential but ended up with huge fiscal deficits at the stakeholder level. The year 2009/10 is also poised for a major downturn in the tourism economy and calls for objective measures to arrest the level of damage to the industry.

Objective

This white paper attempts to estimate the loss of profit or revenue to aviation and hospitality sectors and also highlight the long and short-term issues/challenges that have been impeding the growth of these two major constituents of the tourism industry. The paper tries to explore the relevance of these issues in a fast-changing socioeconomic environment. Comparisons are drawn from the best global practices to offer a larger perspective to the reader. The paper also takes a prescriptive approach and lists down recommendations and measures that it perceives as vital for the growth of the tourism industry in India.

Caveat

This document has been prepared in a draft format. Industry-specific assumptions have been employed to arrive at the numerical values of the losses. All information obtained from parties not employed by HVS is assumed to be true and correct. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein and the same is submitted subject to error and omissions without notice.

Losses to the Aviation Sector

Global aviation currently faces what is probably its most challenging environment ever – more so even than post 9/11 or SARS. In India, the decline in demand has been driven by a combination of the slowing economy and higher airfares resulting from the dramatic increases in fuel prices in the middle of 2008.

According to Centre for Asia Pacific Aviation (CAPA), the Indian aviation sector is expected to lose around INR8,930 crore for the financial year 2008/09. The consolidated loss estimated for this sector between 2005 and 2009 is expected to be in the range of INR15,000 crore.

Aviation – Key Issues

CAPA, our aviation knowledge partner in this endeavour, highlights the following issues as barriers to growth in aviation:

- Absence of a civil aviation policy
- Tough norms for granting international flight licenses
- Funding issues hampering the operations and growth of most airlines
- High cost of aviation turbine fuel (ATF)
- High cost of operation due to inefficient airport infrastructure
- Insufficient air-traffic management
- Poor infrastructure support in the form of hangars, hotels, cargo set-ups

Decline in Business - Hospitality Sector

Hospitality industry is projected to witness a severe decline in its revenue in 2008/09 and 2009/10, when compared with 2007/08 figures. The adverse impact on hotel economy has been assessed on the total nationwide room count of 120,000 rooms. Separate set of assumptions have been utilised to project the occupancy and rates for the financial years 2008/09 and 2009/10 for the branded and unbranded hotels. The resultant annual revenues have been compared against the revenue in 2007/08 to understand the level of decline in business.

HVS estimates the Indian hotel industry to face a consolidated revenue decline of around INR9,062 crore between 2008/09 and 2009/10, from its base year (2007/08) revenues.

Hospitality – Key Issues

The hospitality sector in India continues to face the following challenges:

- Tourism ministry not equipped with executive powers to bring about sweeping changes in the system
- Absence of an updated master plan for tourism to take into account a changing global scenario
- Tourism considered a state subject, which leads to fragmented and piecemeal approach to address the needs of the sector
- Absence of 'Infrastructure' status to hotel sector
- 'Industry' status to tourism not granted by all states
- Tough lending norms by Indian banks
- Multiplicity of taxes; local governments unaware of the potential
- Luxury tax computed on published rates in many states

- Lack of enough fiscal incentives for entrepreneurs to invest in this capital-intensive industry
- Opaque licensing process a major reason for delay in project execution
- Archaic laws governing the operations of hotels
- Hotel classification/rating system outdated
- Acute lack of value-for-money propositions
- Poor tourist infrastructure and on-ground support

HVS Recommendations

Tourism remains a neglected part of the Indian economy, though it has the potential for explosive growth. Hotel development in India has faced multiple impediments. In order to address multiple pain points of the hotel industry, HVS recommends the following measures:

Recommendations:

- **Include Tourism as a subject in the Concurrent List of the Constitution of India**
- **Grant hotels infrastructure status under Sec 80-IA of IT Act**
- **Grant hotels industry status across India**
- **Impose a single uniform luxury tax, based on the actual room tariff only, across all Indian states**
- **Impose uniform tax rates on rooms, food and beverages, and liquor across the country**
- **Give incentives, in the form of tax breaks, to reinvested capital in hotel industry**
- **Extend the benefits of Sec 80-ID to other parts of India**
- **Rationalise and increase transparency for the entire license/approval process, with minimum documentation**
- **Develop a more scientific rating system to truly benchmark hotel quality**
- **Grant special incentives for budget hotels across the country to alleviate funding issues**
- **Ease restrictions on franchisors operating in India**
- **Envision a national tourism master plan with a broad outlook**
- **Augment infrastructure at all touch points for tourists**
- **Advocate the potential of MICE to state governments (by Ministry of Tourism) to rationalise local taxation guidelines in favour of the sector**

2. Indian Tourism: The Ground Reality

Introduction

In this section, we highlight the importance of tourism as a sector to the Indian economy. Later, the growth of aviation and hospitality sectors (as principal components of tourism) has been discussed. As a Consulting leader to the hospitality sector, HVS has focused mainly on the issues pertaining to hotels. We are grateful to Centre for Asia Pacific Aviation (CAPA) for contributing the aviation-related information in this document.

Tourism in India: An Overview

The tourism industry in India, despite being an important component of the economy, is expected to contribute only 6.1% of the gross domestic product (GDP) in 2008. This has immense potential for improvement when one considers the impact of tourism on the economies of other emerging nations. Table 2-1 compares important indicators of tourism in emerging economies.

Table 2-1 Tourism in Emerging Economies

	Emerging Economies			
	BRAZIL	RUSSIA	CHINA	INDIA
Population estimates (in million) for 2007	189.3	142.3	1,321	1,110.4
GDP				
Nominal GDP in 2007 (in US billion \$)	1,313.7	1,289.6	3,242.0	1,146.9
GDP Growth in 2007	5.4%	8.1%	11.9%	9.0%
Expected GDP Growth (next 5 years)	5.2%	7.2%	10%	7.7%
Tourism				
Contribution to GDP	6.2%	6.9%	12.2%	6.1%
Inbound Tourist arrivals in 2007 (in million)	5.25	3.7*	125	4.97
Travel & Tourism Receipts (US billion \$) in 2008	88.3	103.5	508.6	73.6
Travel & Tourism Receipts (US billion \$) Expected by 2018	137.6	308.6	2,097.0	171.5
Percent Growth	55.8%	198.2%	312.3%	133.0%
Tourism Industry - Real GDP Growth - (Expected for the next decade)	4.8%	6.9%	8.7%	7.6%
Employment generation in 2008	0.55 crores	0.41 crores	7.5 crores	3 crores
Source: HVS Research, EIU, WTTC, CIA, JLL				
* Moscow Inbound				

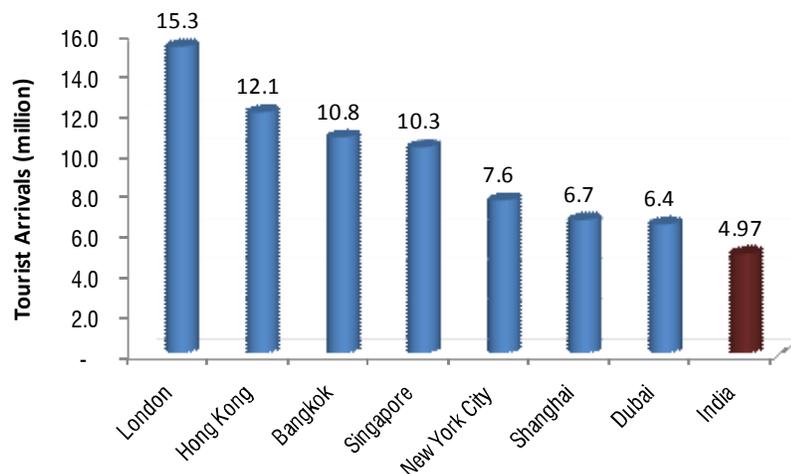
According to estimates of the Country Report - India 2008 of World Travel & Tourism Council (WTTC), Indian tourism demand will grow at 7.6% from 2008 to 2018 in real terms, which would place India as one of the most rapidly growing tourism markets in the world.

Travel & Tourism, a labor-intensive industry, generated three crore jobs in India in 2008 or one in every 15.6 jobs in the country. China benefited by 7.5 crore jobs for the same year. Thus, the world's most populous nations – China and India - have been benefitting from the employment generating potential of this sector. This is even more relevant in India, as the country's economic transformation relies on the services model, while that of China relies on manufacturing-for-export industries. The Indian Union Budget had proposed an outlay of approximately Indian rupees (INR) 1,000 crore for development of tourism infrastructure in 2008/09, an increase of nearly 50% over the last year. However, even with this figure, it led to only 1% of the total government spending on a sector that contributes 6% to the GDP and generates millions of jobs.

HVS is of the view that the hospitality sector has collectively failed to impress upon the central and state governments the actual unrealised potential of this sector in terms of generating employment, and thereby poverty alleviation. The industry must use all forums available to it to express these facts to the governments. The political class and decision makers in India must be made aware of the industry's tremendous potential so that concrete measures are taken in the direction of advancing tourism in India.

Though the growth rates predicted by WTTC for India look very aggressive, this is a case of low foreign tourist visitation base. Exhibit 2-1 compares the total foreign tourist arrivals into India with that of some major cities across the world in 2007. It is to be noted that these international cities are able to attract equal or more tourists than the whole of India. It highlights the immense potential for growth of a historically and naturally rich and culturally diverse country like India, given the regulatory environment and infrastructure development - the key facilitator of tourism.

Exhibit 2-1 International Tourist Arrivals - 2007



Source: Euromonitor 'Top 150 City Destinations', WTTC and HVS Research

Current Trends

Foreign tourist arrivals to India have been showing an increasing trend estimated at 5.3 million in 2008 (Source: Ministry of Tourism, GOI). Over the last eleven years, foreign tourist arrivals into India have recorded a growth of 124% (2.37 million in 1997 to 5.3 million in 2008). However, at this

visitation level, India accounts for less than 1% of the global tourism market. Domestic travel, both business and leisure, had also benefited from a strong performance of the corporate sector in India, and the overall sense of optimism with regard to the economy that prevailed in the country until recently.

Exhibit 2-2 illustrates the key milestones connected with the hotel industry in India over the past decade (1998-2008) and the industry outlook for the immediate future.

Exhibit 2-2 Milestones – Indian Hotel Industry

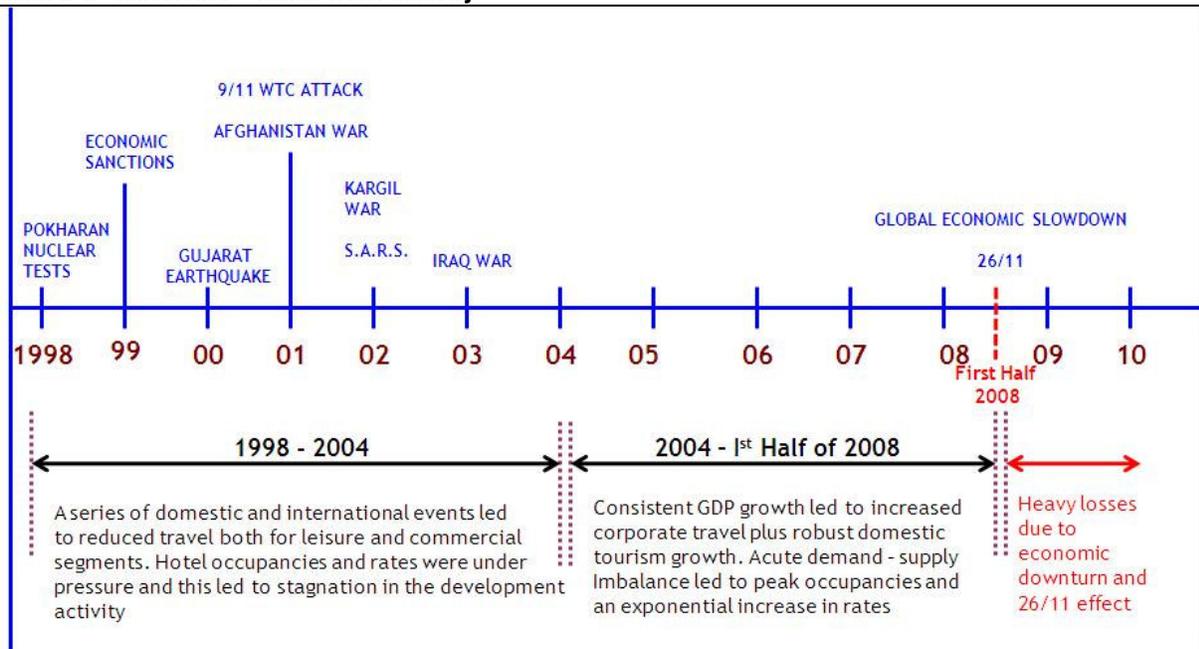


Table 2-2 depicts the international and domestic visitation trends in India during 2003-07.

Table 2-2 International and Domestic Visitation Trends (2003-07)

	2003	2004	2005	2006	2007
International Visitors	2,726,214	3,406,623	3,918,610	4,429,915	4,977,193
% Growth	15%	25%	15%	13%	12%
Domestic Visitors	308,328,560	366,200,000	382,100,000	461,701,531	529,109,954
% Growth	14%	19%	4%	21%	15%
Total	311,054,774	369,606,623	386,018,610	466,131,446	534,087,147

Source: Ministry of Tourism, Government of India

Foreign tourist arrivals (January-September 2008) were up by approximately 10% in comparison to the same period in 2007. However, the last quarter (October-December) experienced a decline of 9% in tourist traffic over Q4-2007 figures due to extraneous factors like global recession and the growing security/ terrorism concerns (Table 2-3).

Table 2-3 Comparison of Foreign Tourist Arrivals – 2007 and 2008

	2007	2008	Percent Change
Q1	1,509,817	1,694,208	12%
Q2	937,931	1,025,202	9%
Q3	1,060,224	1,151,753	9%
Q4	1,573,552	1,428,837	-9%

Source: Ministry of Tourism, Government of India

The industry is cyclical in nature and highly susceptible to macroenvironmental changes. Though 2008/09 started off with great potential, it will end with huge fiscal deficits at the stakeholder level. HVS predicts 2009/10 is poised for a major downturn in the tourism economy and calls for certain concrete measures to arrest the level of damage to the industry.

The Challenges

The growth of tourism in India is predominantly hampered by factors such as:

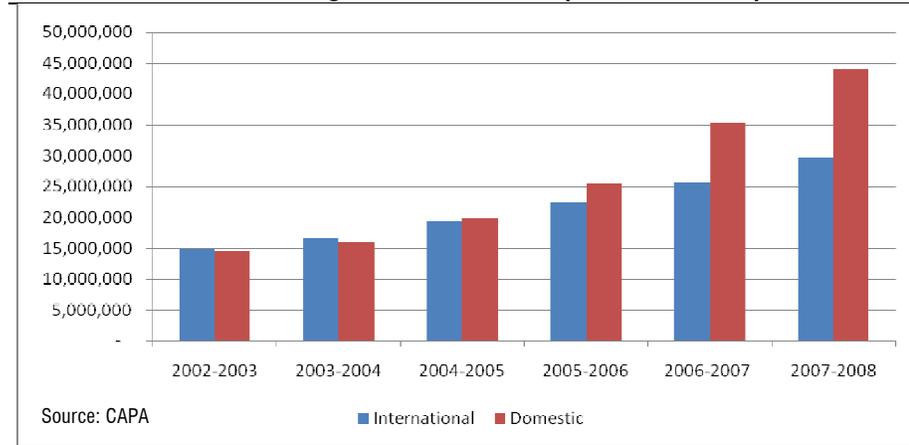
- Poor connectivity (air, rail and road)
- Poor on-ground infrastructure
- Red tapism in procuring visas
- High levels of taxation and multiplicity of the same
- Acute lack of value for money propositions
- Security concerns

The country needs to encourage international and domestic tourism and continue aggressive international marketing that would change public perception, especially in the wake of the recent events in Mumbai that have raised concerns regarding security issues.

The Indian Aviation Sector

In the last five years Indian aviation has undergone a virtual revolution with international traffic having doubled and international traffic tripled. Exhibit 2-3 reflects growth in aviation through increase in passengers.

Exhibit 2-3 Growth of Passengers – Indian Aviation (2002/03-2007/08)



Apart from the traffic growth, the structure of India’s airline market has changed dramatically in the last few years. From just three airlines with two dominant players, the sector has grown to ten carriers in 2008, becoming much more fragmented in the process.

Trips per capita in India remain amongst the lowest in the world suggesting that there is massive potential for growth – at 43 million passengers, the Indian domestic air market is slightly smaller than that of Australia’s, despite the latter having a population just 1/50th that of India. China’s domestic market is over 170 million, almost four times that of India, despite having a population only 15% larger (Source: CAPA).

CAPA research, further, projects that domestic passenger traffic has the potential to reach 150-180 million by 2020 while international traffic will exceed 50 million. This has huge implications for airport infrastructure requirements in the country. India’s airlines currently have a fleet of 376 aircrafts, with a further 393 on order.

An estimate of potential loss to the aviation sector has been explained in Section 3, *Financial Loss Estimates to Aviation and Hospitality*.

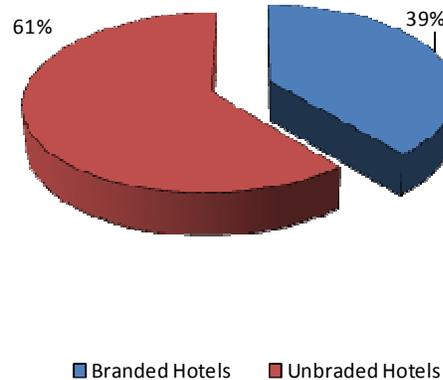
The Indian Hospitality Sector

The Indian hospitality sector resembles the tourism sector to a very large extent: small and underutilised. Exhibit 2-4 highlights the total number of registered hotels in India and their rooms’ inventory (across all categories). As can be seen, approximately 61% of the entire room inventory of hotels in India falls in the unorganised sector of unrated, one star and two-star hotels. This sector, while witnessing the bulk of domestic consumption, has a major shortfall of quality hotels and ancillary facilities.

Exhibit 2-4 Registered Hotels and Room Inventories - 2007

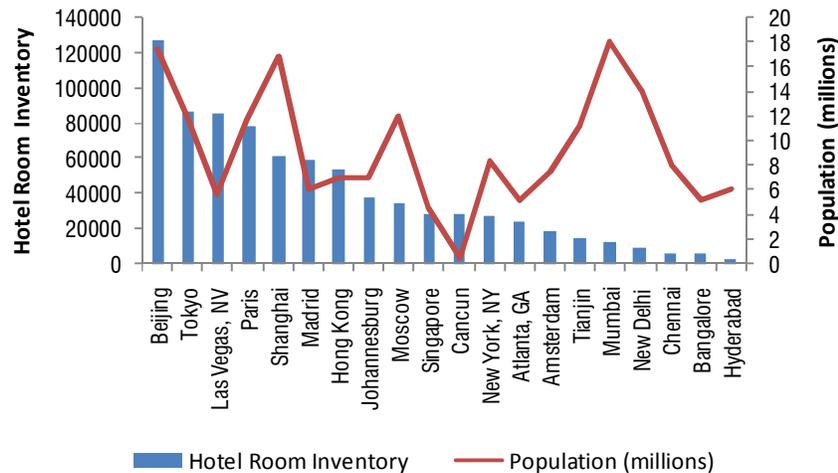
Current Room Inventory (All India)*	120,000
Estimate of Branded Hotels	46,642
Hence, Unbranded Hotels	73,358

*Source: HVS Trends & Opportunities, 2008



For a country of India's size and potential, it is astonishing to see the ratio of hotel rooms in comparison to the population. India has approximately 2,000 registered hotels with a total room count of approximately 120,000 rooms. As evident from Exhibit 2-5, there is a dearth of hotels across every category and city in India. Tianjin, a suburb of Beijing has more rooms than Indian cities like Mumbai and New Delhi.

Exhibit 2-5 Hotel Rooms Inventory versus Population: Major International Cities



Source: HVS Research

While the Indian economy is growing at a record-breaking pace, the cities remain starved for quality hotels and room accommodation. Apart from

the four major cities noted in Exhibit 2-5, there are at least 35 other cities in the country with a population of one million and more. Thus, demand fundamentals for the country are strong.

The current performance of hotels is expected to further decline in the year 2009/10. Incidents such as the Mumbai terror attacks, global financial recession, increased cost pressures and increased airfare are expected to have a strong negative effect on the performance of hotels across India. The Mumbai terror attacks are also expected to dampen performance of hotels, especially in the tourist locations.

An estimate of potential loss to the hospitality sector has been explained in *Section 3, Financial Loss Estimates to Aviation and Hospitality*.

Conclusion

The growth prospects of India remain buoyant, supported by a democratic political system, stable financial structure, professional and highly efficient local businesses and increasing domestic demand. India remains a favoured investment destination to the international investment and business community. Tourism, though, remains a neglected part of the Indian economy, inspite of its potential for explosive growth.

The present global economic crisis and the unfortunate attacks in Mumbai have slowed down the short-term prospects of the country and adversely impacted the aviation and hospitality sectors. HVS considers this an opportune time to invite all stakeholders in tourism to discuss short and long-term measures that can help realise the true potential of these sunshine sectors.

3. Financial Loss Estimates for Aviation and Hospitality

Introduction

This section estimates the expected losses and declines to aviation and hospitality sectors in the current year and for 2009/10.

The Aviation Sector

Global aviation currently faces what is probably its most challenging environment ever – more so even than post 9/11 or SARS. Around 30 carriers globally have entered bankruptcy in the last six months and more are expected to follow. The airline sector in India has confronted an imbalance in supply and demand in 2008 as airlines increased carriers and flights in anticipation of a heavier traffic; on the other hand domestic traffic has contracted steadily, declining by as much as 19% in September 2008. The decline in demand has been driven by a combination of the slowing economy and higher airfares resulting from the dramatic increases in fuel prices in the middle of 2008. In response to this situation, airlines have been cutting capacity for the last few months – industry capacity declined 17% year-on-year, in the six months to 30 September 2008, to approximately 164,000 seats per day. Clearly, the scenario for 2009/10 looks particularly bleak for the aviation sector.

Table 3-1 presents an estimate of potential loss to the aviation sector.

Table 3-1 Estimate of Potential Loss to Aviation Sector

	2008/09
Potential Loss of revenue (in Rs crores)	8,930

Source: CAPA

For the financial years 2008/09, the aviation sector is expected to lose around INR8,930 crore. The consolidated loss estimated for the sector between 2005 and 2009 is expected to be in the range of INR15,000 crore.

The Hospitality Sector

The current performance of hotels in India is expected to decline in the year 2009/10. Incidents such as the Mumbai terror attacks, global financial recession, increased inflation and increased airfare are expected to have a strong negative effect on the performance of hotels across India. The Mumbai terror attacks are also expected to dampen performance of hotels, especially in this major metro.

Financial Estimation: As an integral member of the hospitality sector of India, HVS has tried to estimate the extent of decline in revenue terms of the hotels over its best year - 2007-08. We would like to qualify here that HVS has employed assumptions for quantitative analysis. This has been validated by qualitative analysis through personal interviews with hoteliers and sector experts.

Methodology: The adverse impact on hotel economy has been assessed on the total nationwide room count of 120,000 rooms. Separate set of assumptions have been utilised to project the occupancy and rates for the financial years 2008/09 and 2009/10 for the branded and unbranded hotels. The resultant annual revenues have been compared against the revenue in 2007/08 to understand the quantum of losses. In doing so, the supply pipeline has been assumed to be stationary for the entire projection period.

Branded Hotels: These have been studied through 11 key cities along with a mix of other cities in India. Table 3-2 presents the actual occupancy and rates in 2007/08 to arrive at the hospitality sector's projected revenue for the base year.

Table 3-2 Revenue Estimates for Indian Hotel Industry (Branded) – 2007/08

Cities	Room Base	Occupancy	ARR ^	Approximate Room Revenue 2007/08 (INR)
Agra	1,336	61%	5,276	1,569,401,070
Ahmedabad	675	73%	4,561	820,312,954
Bangalore	3,456	67%	9,924	8,387,415,475
Chennai	2,826	74%	6,177	4,714,920,160
Delhi-NCR	9,019	74%	10,360	25,237,290,484
Goa	2,768	72%	6,176	4,492,610,150
Hyderabad	2,554	66%	6,360	3,913,044,696
Jaipur	1,556	66%	5,561	2,084,487,464
Kolkata	1,396	75%	6,524	2,493,179,220
Mumbai	8,454	75%	10,842	25,091,450,865
Pune	1,346	71%	7,943	2,770,644,694
Other Cities	11,256	66%	3,408	9,241,031,923
	46,642			
Total Room Revenue (INR)				90,816,000,000
Add: 25% of Total revenue from F & B and other sources (INR)				30,272,000,000
Revenue- Branded Hotels- 2007/08 (INR)				121,090,000,000

^ Source: HVS India Journal, 2008

Table 3-3 presents the industry's projected revenue for 2008/09. For this purpose the actual occupancy and rates have been considered for the first six months of financial year 2008/09 (Source: HVS India Journal 2008) along with projected numbers for the balance six months of 2008/09.

Table 3-3 Revenue Estimates for Indian Hotel Industry (Branded) – 2008/09

Cities	Actual Occupancy - Apr- Sep 2008	Estimated Occupancy Oct 08- Mar 09	Total Occ 2008/09	Estimated Rate			Anticipated Room Revenue - 2008/09 (INR)
				ARR- Apr- Sept 2008 (INR)	Change Oct 08- Mar 09 (INR)	Resultant ARR Oct 08 - Mar 09 (INR)	
Agra	55%	50%	52%	4,221	-20%	3,377	964,267,085
Ahmedabad	70%	60%	64%	3,649	5%	3,831	589,627,836
Bangalore	65%	58%	61%	11,350	-10%	10,215	8,275,032,576
Chennai	68%	60%	63%	7,554	-20%	6,043	4,457,379,715
Delhi-NCR	64%	55%	59%	12,008	-15%	10,207	21,589,635,301
Goa	53%	50%	51%	4,440	-20%	3,552	2,057,332,608
Hyderabad	67%	55%	60%	6,518	-15%	5,540	3,408,467,517
Jaipur	59%	50%	54%	4,449	-20%	3,559	1,233,559,705
Kolkata	71%	50%	60%	7,138	-5%	6,781	2,125,459,418
Mumbai	64%	50%	56%	12,754	-20%	10,203	20,184,337,555
Pune	69%	58%	63%	6,354	-15%	5,401	1,821,280,590
Other Cities	60%	50%	54%	3,200	-10%	2,880	6,807,628,800
			57%				
Total Room Revenue (INR)							73,514,000,000
Add: 25% of Total revenue from F & B and other sources (INR) (assumption)							24,504,666,667
Estimated Revenue- Branded Hotels- 2008/09 (INR)							98,020,000,000

As seen in Table 3-3, HVS expects the period October to March 2008 to bring in heavy losses, particularly in leisure locations due to the massive short-term impact of 26/11, which has led to major cancellations of bookings. Leisure locations have also been impacted by uncharacteristic discounts during the peak-season time.

Table 3-4 presents the industry's projected revenue for 2009/10.

Table 3-4 Revenue Estimates for Indian Hotel Industry (Branded) – 2009/10

Cities	Room Base	Estimated Occupancy	Estimated Rate Drop%	Resultant ARR (INR)	Anticipated Room Revenue 2009/10 (INR)
Agra	1,336	50%	-25%	2,709	660,580,867
Ahmedabad	675	62%	-15%	3,173	484,691,720
Bangalore	3,456	62%	-20%	8,652	6,766,539,736
Chennai	2,826	62%	-20%	5,477	3,502,448,019
Delhi-NCR	9,019	60%	-15%	9,499	18,762,421,155
Goa	2,768	53%	-20%	3,059	1,637,823,017
Hyderabad	2,554	61%	-15%	5,296	3,011,489,257
Jaipur	1,556	55%	-20%	3,233	1,009,733,377
Kolkata	1,396	62%	-20%	5,592	1,766,727,149
Mumbai	8,454	64%	-15%	10,067	19,879,970,560
Pune	1,346	60%	-25%	4,510	1,329,534,831
Other Cities	11,256	55%	-20%	2,444	5,521,743,360
	46,642				
Total Room Revenue (INR)					64,334,000,000
Add: 25% of Total revenue from F & B and other sources (INR)					21,444,666,667
Estimated Revenue- Branded Hotels- 2009/10 (INR)					85,780,000,000

Table 3-5 presents the industry's projected revenue from 2007/08 to 2009/10 for the unbranded hotels. Hotels of this kind have been divided as per the star category and broad estimates have been used for the whole country.

Table 3-5 Revenue Estimates for Indian Hotel Industry (Unbranded) – 2007/08, 2008/09 and 2009/10

Across Markets	Room Base	Occupancy			Average Rates (INR)			Room Revenue (INR)		
		2007/08 Actuals	2008/09	2009/10	2007/08 Actuals	2008/09 ¹	2009/10 ²	2007/08 Actuals	2008/09	2009/10
Four Star (First Class and Mid Market)	3,668	70%	63%	58%	5,669	4,252	3,189	4,588,479,813	3,097,223,874	2,138,559,341
Three Star (Mid Market)	22,007	66%	58%	55%	3,408	2,556	1,917	10,403,221,404	6,856,668,652	4,876,510,033
Balance (Budget and Economy)	47,683	70%	65%	60%	1,500	1,350	1,215	18,211,465,125	17,691,137,550	16,390,318,613
Total Room Revenue (INR)								33,200,000,000	27,650,000,000	23,410,000,000
Add: 20% of Total revenue from F & B and other sources (INR)								8,300,000,000	6,912,500,000	5,852,500,000
Total Revenue- Unbranded Hotels (INR)								41,500,000,000	34,560,000,000	29,260,000,000

¹ 4 Star and 3 Star assumed to decrease by 25%, Budget to decrease by 10% (on previous year figures)

² 4 Star and 3 Star assumed to decrease by 25%, Budget to decrease by 10% (on previous year figures)

In consonance with their branded counterparts, occupancy in unbranded four star and three-star hotels is also expected to witness decline in 2008/09 and 2009/10. However, budget hotels (one and two star) are expected to be more resilient to the decline in business.

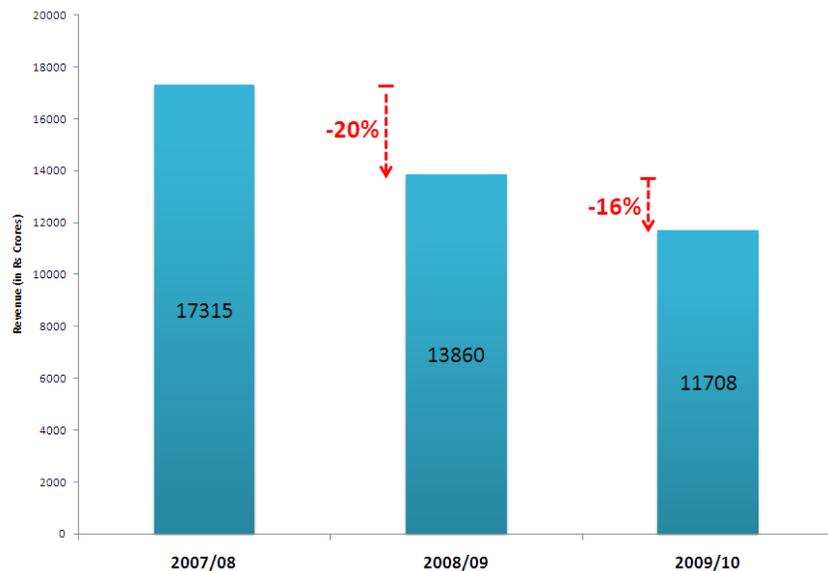
Table 3-6 presents an estimate of the decline in revenue when compared with 2007/08 revenue figures as base.

Table 3-6 Estimate of Revenue Decline to Indian Hotel Industry

	2007/08	2008/09E	2009/10E
Revenue- Branded Hotels (INR)	121,090,000,000	98,020,000,000	85,780,000,000
Revenue- Unbranded Hotels (INR)	52,060,000,000	40,580,000,000	31,300,000,000
Total Revenue- Hotel Industry (INR)	173,150,000,000	138,600,000,000	117,080,000,000
**Potential Loss of revenue (in INR crore)		3,455	5,607

* Calculations and assumptions discussed in Addendum

**With 2007-08 revenues as base



Between 2008/09 and 2009/10, the Indian hotel sector is expected to face a consolidated loss of revenue of around INR9,062 crore from its base year (2007/08) revenues.

Conclusion

The growth prospects of India remain buoyant, supported by a democratic political system, stable financial structure, professional and highly efficient local businesses and increasing domestic demand. India remains a favoured investment destination to international investment and business community. Tourism, though, remains a neglected part of the Indian economy, inspite of its potential for explosive growth.

The present global economic crisis and the unfortunate attacks in Mumbai have slowed down the short-term prospects of the country and adversely impacted the aviation and hospitality sectors. Detailed analysis by HVS

estimates the revenue loss to the hospitality sector at INR9,062 crore for 2008/09 and 2009/10. The consolidated loss estimated for the aviation sector between 2005 and 2009 is expected to be in the range of INR15,000 crore.

4. Regulatory, Taxation and Other Critical Issues

Introduction

In this section, we highlight the key issues that have been limiting the growth of aviation and hospitality industries.

Aviation

India’s airlines are estimated to have lost up to US\$1 billion in the financial year ended 31 March 2008. The high structural costs, poor infrastructure and record aviation turbine fuel (ATF) prices faced by the sector, combined with a negative fiscal regime are expected to result in losses doubling in the current financial year (2008/09). In a sunrise sector such as aviation, planning and strategic decisions need to keep in mind a long term vision (10-50 years). Table 4-1 summarises the key issues that serve as barriers to growth in aviation.

Table 4-1 Aviation – Key Issues

REGULATORY	FINANCING	TAXATION	INFRASTRUCTURE
<ul style="list-style-type: none"> •No civil aviation policy •Tough norms for granting international flight license •Aviation Economic Regulatory Authority yet to be established 	<ul style="list-style-type: none"> •Foreign airlines not permitted to have any stake in Indian carriers •Insufficient ECB quota 	<ul style="list-style-type: none"> •Service tax levied on ticketing, catering etc, thereby adding to the cost •FBT covers expenses on support functions •High taxes on ATF - rates are 60% higher than international markets 	<ul style="list-style-type: none"> •Inefficient airports •Insufficient air traffic management •Hotel room shortage •Poor cargo support •Lack of Qualified manpower

Regulatory Issues

India does not have a Civil Aviation policy and the regulatory structure is not aligned to the needs of the sector. The Directorate General of Civil Aviation (DGCA), operating under the Ministry of Civil Aviation, is the regulatory body overseeing India’s aviation sector. The DGCA, with its staff shortage and work overload, needs a complete refitting of its structure and staffing issues for its extensive operations to ensure aviation safety is not compromised. Moreover, the entire regulatory framework needs to be modernised with modification of the archaic rules that limit aviation growth and more reliance on technology to increase efficiency and safety.

Financing Issues

The balance sheets of all the airlines are negative with the top three groups likely to post losses of INR6,000-7,000 crore. With the global liquidity crisis, private equity players are wary of funding big-ticket investments like infrastructure, which includes the airline sector. Debt funding is also difficult due to negative net worth of most airlines. Key lenders are looking at ways to limit their exposure to the top airlines.

Airport modernisation developments at Delhi and Mumbai are currently facing a shortfall of over INR4,000 crore for Phase I. The shortfall will continue to be significant in spite of the Airport Development Fund being factored in the financials. Existing commitment from lenders for both the projects is in doubt.

Raising capital for long-term sustainability and financial growth of the aviation sector is a serious cause of concern in the absence of significant liquidity in the market.

Taxation Issues

In India, there is no direct import of ATF and it is supplied by the Indian oil companies from the imported crude refined by them. The import duty for ATF is 20%. Oil companies follow an import parity principle and levy add-on to the refinery transfer price. They also include 16-49% add-on tax towards marketing margin and contingencies on the refinery transfer price (add on varies between various states). On the resultant price, various state governments levy local state sales taxes ranging from 4-39%, which on an average works out to 25%. This makes ATF the single- largest cost for the airlines, which should be seen in the light of the fact that its price is 60% higher than that in the international markets.

Service tax and Fringe Benefit Tax (FBT) are emerging as major cost components. FBT has been extended to cover expenses on items - such as catering, in-flight entertainment, hotel accommodation provided to passengers due to delays and cancellations, fuel, running and maintenance expenses (including depreciation) of the aircraft amongst others - that may not exactly constitute fringe benefits. Service tax on other items like ticketing, aircraft maintenance and ground handling are further adding to the costs. The non-availability of exemption from payment of withholding tax on lease rent incomes on aircraft engines earned by a non-resident lessor from an Indian company is currently applicable and this increases acquisition costs of Indian carriers.

Infrastructure Issues

Airport infrastructure in India has struggled to keep pace with the recent rapid growth in traffic. Terminals and runways are operating at above designed capacities in many airports. The result has been a deteriorating passenger experience and increase in airside airport congestion and

delays. Airlines are incurring significant costs due to their inability to maximise the utilisation of their assets and the additional burden due to extra fuel burn from lengthy taxis and holding patterns. Current airport modernisation plans are designed to take care of traffic needs up to 2012. There are no long-term airport infrastructure development plans, for example from a 2020 perspective. Huge investment is required in Air Traffic management, which is also facing acute shortage of Air Traffic controllers. Air cargo sector faces challenges like infrastructure bottlenecks, lack of high throughput distribution facilities, entire support systems, lack of electronic data interchange (EDI), cumbersome procedures and logistics inefficiency.

Hospitality

Table 4-2 highlights the challenges to the hospitality sector in India, surmounting which will serve as opportunities for growth.

Table 4-2 Hospitality – Key issues

REGULATORY	FINANCING	TAXATION	APPROVAL	OPERATIONS
<ul style="list-style-type: none"> Hotels considered as 'Real Estate' rather than infrastructure projects Industry status to tourism in few states only 	<ul style="list-style-type: none"> High cost of debt for hotel development No fund raising through ECB/ FCCB route 	<ul style="list-style-type: none"> Incorrect treatment of Luxury Tax in many states Varied tax structure across the country Multiple taxation system Removal of tax incentives 	<ul style="list-style-type: none"> 100+ licenses required Multiple agencies responsible for approval; Opaque process 6-12 month of approval process 	<ul style="list-style-type: none"> Star category is unable to adequately represent a hotel's quality Higher room tariffs as compared to the APAC region

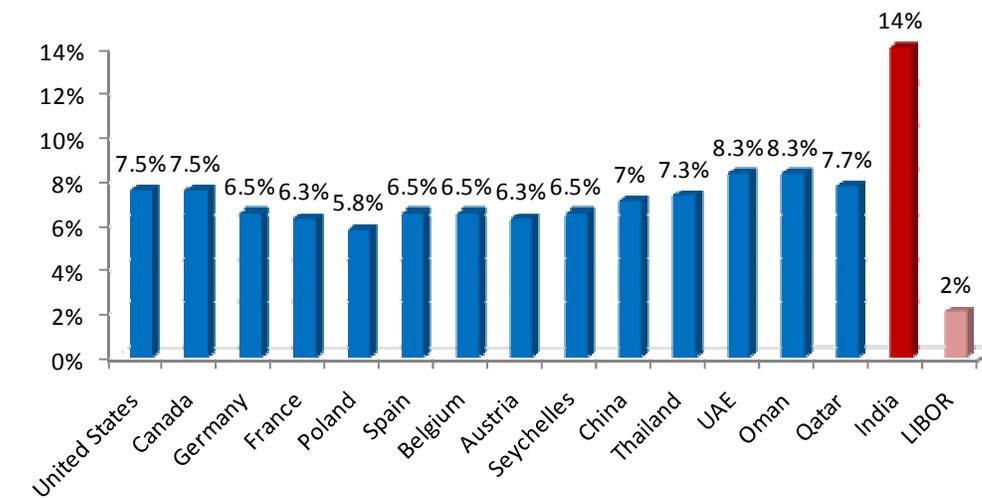
Regulatory and Financing Issues

Infrastructure Status: Hotels are long-term asset classes, which provide large-scale employment and earn foreign exchange for the country. Additionally, hotels are capital-intensive projects. A 100-room branded hotel project may require capital varying from INR20 crore (for a budget hotel) to INR150 crore (for a luxury hotel), excluding the cost of land. Therefore, debt instruments that can offer preferential interest rates are required for the development of more hotels. However, up until 2008, the sector was being treated as a real estate asset class, which classified hotels into a higher risk bracket. Banks and other financial institutions were thus forced to position the interest rates for hotels that much higher from their prime lending rate (PLR). This has resulted in India being amongst the most expensive markets globally to raise debt for hotel development. Over

the last 18 months, interest rates of 14-16% have been a major reason for aborted projects. Unlike Western nations, loans in India are also disbursed for a lower tenure (seven to ten years) compared to developed economies where the loan term periods are longer, thereby making steep debt service a major concern for hotels in India, especially in the initial years of operation when the profitability margins are slim. Though RBI has provided the sector with some relief by allowing ECB upto US\$100 million in January 2009, the sector would benefit most by being included under the infrastructure category.

Exhibit 4-1 presents a comparison of the average cost of debt in various countries over the last two years.

Exhibit 4-1 Average Cost of Debt



Source: HVS Research

The government allowed the benefits of 100% FDI to the sector. However, the economic trauma in the Western world has not allowed this window to largely help the sector.

Over the last 12 years of its India operations, HVS has observed that it is particularly difficult to raise capital for hotel development through public sector financial institutions and banks. In the absence of resident experts on the hospitality sector, most banks are susceptible to herd mentality, which makes them impose tough conditions for lending purposes. As discussed earlier, loans in India are one of the most expensive and come with a short tenure (seven to ten years). Hotel business is cyclical in nature and every trough brings with it good opportunities to invest at attractive

valuations, for an upside that may be just around the corner. We are aware that numerous hotel projects with favorable locations, branding and prospects are stuck due to the unavailability of debt.

Our experience of over 28 years in all major international markets clearly indicates that economic downturns are probably the best times to invest in hotels. We encourage banks to employ a thorough due-diligence process on each project, but at the same time, allow the sector to convert the challenges presented by the downturn to an opportunity.

Industry Status: The seventh five-year plan (for the period 1985-1989) proposed that tourism be conferred with 'Industry' status. The conferral of industry status on tourism would entitle tourism to secure several advantages, notably in project funding, exemption from local taxes for the first few years, concessional power tariffs, etc. However, the decision and implementation was left to the states and only a few granted 'Industry' status to tourism over the course of the last two decades (Table 4-3).

Table 4-3 States Conferring Industry Status to Tourism

Goa	Sikkim
Uttar Pradesh	Arunachal Pradesh
West Bengal	Jharkhand
Haryana	Daman & Diu
Uttarakhand	Dadar & Nagar Haveli
Jammu & Kashmir	

As can be deduced from Table 4-3, of the states implementing 'Industry' status to tourism, Goa is the only one with a formidable tourism standing. Other Indian states - like Maharashtra, Delhi and Karnataka - view conferral of industrial status as a loss of revenue since industries are given many concessions. As a result, a high operating costs makes Indian hotels much more expensive than their foreign counterparts. Power tariffs are a good example to demonstrate this effect. Most states have commercial tariffs for power usage in hotels. These are 30-50% higher than industrial tariffs, making energy costs the second-highest expense after those of human resources (HR). To counter this, a nationwide industry status for tourism is considered a preferred approach by most industry leaders. Table 4-4 lists some of the countries that recognise tourism as an industry.

Table 4-4 Countries Conferring Industry Status to Tourism

China	UK
UAE	Malaysia
France	Thailand
Germany	Singapore

Recommendations:

- **Include Tourism as a subject in the Concurrent List of the Constitution of India.** This would enable both the central and state governments to participate in the development of tourism with greater harmony.
- **Grant hotels infrastructure status under Sec 80-IA of *Income Tax Act*.** This would enable hotels to access cheaper debt from international markets. Related tax benefits would also help the sector.
- **Grant hotels 'Industry' status across India.** This would allow them benefits like concession in VAT/sales taxes, property tax, and industrial rates on consumables like electricity and water amongst others.

Taxation Issues

Computation of Luxury Tax: India has an unscientific tax structure, with regard to taxes applied on hotel room tariffs. Hotels in many states charge Luxury Tax on the Published Room Tariff and not the Discounted Room Tariff. This means that the guests pay additional tax amount on the commissions (to travel agents) and on-the-spot discounts. Also, if a hotel tries to apply a free upgrade to a guest and offers him a better room (with a higher published rate) for the same price, the difference in tax has to be either absorbed by the hotel or the guest.

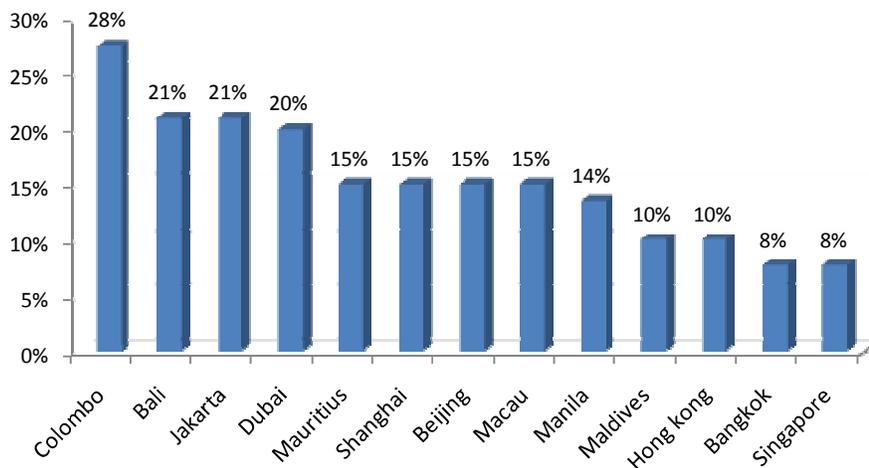
Also, most business hotels in India have contracted rates with companies, whereby companies get special rates on regular or large volume usage. When tax is charged on published tariff as against actual tariff, the cost of accommodation goes up for the individual or company.

This practice is against the universally accepted practice of charging taxes on actual tariff charges. While India remains a nation with relatively lower

tax rates (5-15%), the additional tax burden often gets conspicuous as a policy lacuna.

Exhibit 4-2 presents a comparison of the tax structure on rooms in different countries in the Asia Pacific (APAC) region. It needs to be noted that all these countries consider the actual room tariff for the computation of the tax.

Exhibit 4-2 Tax on Room Rates – APAC region



Being state subjects, luxury taxes also vary as per the state law and range between 5-15%. This further adds to the confusion in the mind of the guests/travel agency. Most foreign countries have a single unified tax structure, which adds to their attractiveness as global tourist destinations. Additionally, different taxes within a state apply according to the star category of the hotels.

Exhibit 4-3 presents a comparison of the tax structure on rooms in different states for five-star hotels. A countrywide average rate of INR8,000 has been assumed (*Source: HVS trends & Opportunities 2008*) with an applicable discount of 40% to arrive at the effective luxury tax. It needs to be noted here that the chosen set represents a large mix of hotels of various star categories. The impact of this anomaly is more profound on five-star hotels.

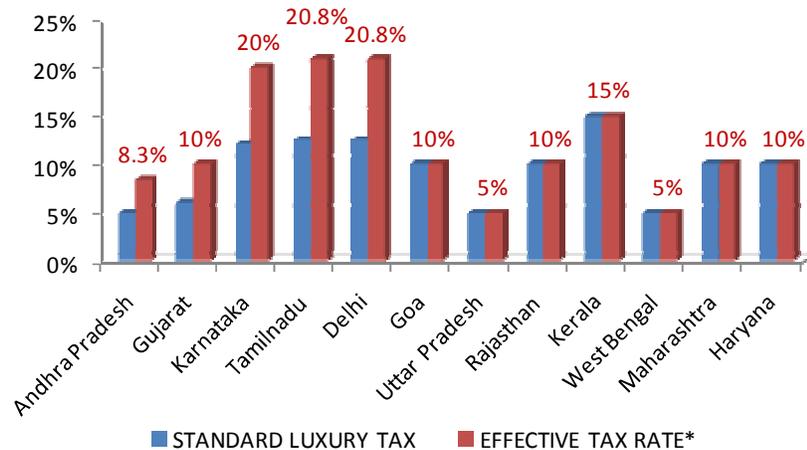
Through the example stated below, one can understand the difference in the luxury tax rate after factoring in the discount. States like Karnataka,

Delhi and Tamilnadu with a tax bracket of 12-13% on published rate end up with an effective rate level of 20-21%.

Exhibit 4-3 Tax on Room Rates – States of India

STATES	LUXURY TAX	APPLICABLE ON	EFFECTIVE TAX RATE*
Andhra Pradesh	5.0%	Published Tariff	8.3%
Gujarat	6.0%	Published Tariff	10.0%
Karnataka	12.0%	Published Tariff	20.0%
Tamilnadu	12.5%	Published Tariff	20.8%
Delhi	12.5%	Published Tariff	20.8%
Goa	10.0%	Actual Price	10.0%
Uttar Pradesh	5.0%	Actual Price	5.0%
Rajasthan	10.0%	Actual Price	10.0%
Kerala	15.0%	Actual Price	15.0%
West Bengal	5.0%	Actual Price	5.0%
Maharashtra	10.0%	Actual Price	10.0%
Haryana	10.0%	Actual Price	10.0%

* On Actual Price. Calculated assuming a published tariff of Rs 8,000 with an applied discount of 40% on the published rate



This anomaly leads to ironical situations faced by hotels at the operations level. Imagine a single hotel chain which has a hotel in Noida (Uttar Pradesh), Delhi and Gurgaon (Haryana) trying to negotiate a room rate with a single corporate client. While they may be able to offer the same hotel bed type and room rate, the tax rate on the hotel will range between 5% and 20.8% within the Delhi-NCR region.

Value Added Tax (VAT)/Sales Tax: Apart from the rooms, guests pay significant amount of taxes on Food and Beverages, and Alcoholic products. Again, there is no uniformity in the tax system and variations exist at state levels in matters like VAT, sales tax (in states where VAT is not yet in force) and excise duties.

Tax Incentives: Earlier, tax incentives available under Section 80HHD of the *Income Tax Act, 1961* allowed 50% of the profits attributable to the foreign exchange earnings of hotel companies to be directly exempt from tax and the other 50%, if reinvested in the hotel sector (as capital for the sector's growth) also exempt from taxation. This was considered to be a fine instrument to aid hotel development till 2005/06, when it was discontinued.

Tax Holidays: The government allowed for tax holidays available under Section 80-ID (*Income Tax Act, Amended 2007/08*) for new hotel projects of a particular category and is valid for Delhi-NCR to boost Commonwealth Games infrastructure. While this step alone has not been able to kick start the hotel development activity in the national capital, it could have far reaching positive effects, if extended to all parts of the country.

Recommendations:

- **Impose single luxury tax based on the actual room tariff, uniformly across all Indian states**
- **Impose uniform tax rates on rooms, food and beverages, and liquor across the country**
- **Give incentives, in the form of tax breaks, to reinvested capital in hotel industry**
- **Extend the benefits of Section 80-ID to other parts of India**

License Issues

Being a state subject, hotels have to apply for multiple licenses and approvals through multiple government agencies. In many states, rules are fluid and regulations/statutes are open to loose interpretations. This pushes the project schedule back by 6-12 months and is detrimental for new hotel development.

HVS strongly recommends a simpler approval process which is transparent and swift. This has been discussed in detail in *Section 5 – Licenses Issues*.

Operational Issues

Effectiveness of the current rating system: HVS is of the opinion that the present system of according star ratings to the hotels is inherently flawed and is not representative of the changing times. We find it is chiefly aimed at penalising hotels (by offering a lower star rating) for not adhering to the prescribed minimum standards. However, it does not have a system of recognising hotels with product and service levels superior to the prescribed standards.

There is a need being felt to upgrade the hotel rating process in India to be relevant with the changing hospitality scenario across the globe. The issue has been discussed in detail in *Section 6 – Improving the Hotel Rating Process*.

There are many other operational issues which put Indian hotels into a disadvantageous position, when compared with their global peers. While it may be difficult to explain each of these, one such issue concerning events and conferences has been explained below through a case study. India has had a long-standing ambition of becoming a formidable Meetings, Incentives, Conferences, Exhibitions (MICE) player in Asia. However, when compared with cities or states like Singapore, Dubai and Hong Kong, India lags far behind not only on the infrastructure front but also receives flak for the complexity on other factors like taxation. Indian states have been innovative enough to get their customers to be a part of this licensing baggage especially in case of hosting conferences and events. Guests or organizers are required to obtain special permission and licenses to host events unlike any other country with lofty ambitions.

The case study alongside, based on a real life incident, dwells more on the subject.

CASE STUDY

ABC company based in Hyderabad, decided to host an exhibition in Mumbai. Registration for the event was to be paid by the delegates and most of them pre-registered through internet from remote locations. Many international and domestic companies sponsored the event. One of Mumbai's top hotels was reserved for the event.

On the day of the conference, the premises of the hotel were visited by the local authorities claiming blatant evasion of norms by the organiser. The authorities produced a fine list of licenses, which were required to be obtained, a week before the event:

1. Local Police No Objection Certificate (NOC)
2. Electrical Inspector NOC
3. Fire Brigade NOC
4. Traffic NOC
5. Entertainment Department NOC
6. Entertainment Tax Authority NOC
7. Clearance from Home Ministry (if a foreign entertainer performs)

In addition, the authorities wanted to levy 25% entertainment tax on the sponsorship amount as well as on the total registration amount. The state exchequer was obviously earning revenues from the event through multiple sources like taxes earned by the hotel on rentals, food bills etc. but wanted more, even if the premise for it was faulty.

SYNOPSIS – The organiser here was becoming a victim of incorrect interpretation of event types by the local authorities. It is appalling to know that Mumbai does not have a distinctive definition between an entertainment event (like a rock show/fashion show) and a business conference with an award function. As a result, business conferences are forced to obtain the licenses that are actually required for entertainment events and also pay up the commensurate taxes. This means that whenever paid conferences get organised on academic or development subjects like healthcare, education and infrastructure, they too are taxed as entertainment events even though there is no entertainment involved.

Additionally, when one looks at this list of licenses, one cannot but feel dismayed at the level of logic associated with such regulations! Why have seven licenses for a harmless exhibition that is inducing trade and commerce into the state?

On one hand, India wants to occupy a formidable position as a MICE destination and on the other a domestic event organiser is scared away by unleashing such ludicrous and dated laws. Such experiences only hurt the image of the country and are caused primarily because of myopic thinking at the state bureaucracy level. It is the Ministry of Tourism, Government of India which needs to work along with the respective state governments to inform them and help them limit the damage.

High room tariffs in India: India is widely believed to be a much more expensive destination than its APAC counterparts like Thailand, Malaysia and Singapore. One of the key reasons behind this anomaly is a huge deficit of budget or value-for-money hotels. This category is largely represented by poorly maintained and unsafe lodges and guesthouses scattered around the transportation hubs of most Indian cities. Rising disposable incomes and the need to de-stress is providing more opportunity to the middle-class population of the country to take vacations.

The availability of branded budget hotels, which can offer clean and safe rooms across major cities, is a trigger that can lead to explosive growth in domestic tourism. India can easily emulate the growth story of budget hotels in China where the number of budget and economy hotels increased from just 23 in the year 2000 to 1,689 by 2007 – a growth of 7,243%. It needs two important ingredients to achieve this: funding and franchising.

There are no special incentives which may aid the development of budget hotels. Again, being considered as a Real Estate sector has been a limiting factor for hotels, particularly those of lower market orientation.

Franchising is a model which is preferred across the globe for budget hotels and Indian entrepreneurs could benefit by the franchisor's technical know-how and distribution channels. However, the government has certain archaic laws under the *Foreign Exchange Management Act (FEMA)*, 1999, which requires a review by the Secretariat of Industrial Assistance (SIA). The process is cumbersome and completely avoidable.

Recommendations:

- **Advocate the potential of MICE to state governments (by Ministry of Tourism) to rationalise local taxation guidelines in favour of the sector**
- **Grant special incentives to budget hotels across the country for alleviating funding issues**
- **Ease restrictions on franchisors operating in India**

Other Issues

A host of other issues have been limiting the growth of tourism industry in India. Exhibit 4-4 presents our recommendations and wish lists that may have long term ramifications.

Exhibit 4-4 Tourism – Other issues		
Executive powers to be granted to Tourism Ministry	Initiatives like 'Incredible India' to be supported with on ground performance	Creation of a tourism master plan for India.
Air connectivity needs to improve with more low cost carriers	Road and Rail connectivity need major upgradation to realise the potential of domestic tourism	Monuments need funding and attention - Corporate sponsorship and expertise could be channelised
Laws for crime against tourist needs to be strengthened.	Need to create on ground support - Signages, maps, lavatories, hotels, tourist police, Help Desks	Abolish archaic laws pertaining to hotels, restaurants and bars

Executive Powers to Tourism Ministry – Tourism Ministry in India needs to be equipped with executive powers. At present, its role is limited to that of a facilitator and that does not allow it to effectively implement a national level tourism policy. Tourism policies and strategies need to be in line with global trends as well as responsive to local factors such as changing socioeconomic conditions in the country.

Incredible India and its lack of infrastructure – Marketing campaigns like Incredible India have been able to position India well in overseas feeder markets. However, it remains a case of over promise and under delivery. Though the effort to market the country worldwide has been laudable, what is striking is the unpreparedness of India as the host nation. The on-ground delivery is seriously inadequate and only a few isolated pockets of superlative experience (like five-star hotels and hospitals) are the saving grace. Tourists who cannot pay the high price of a sanitised India trip and venture on their own are subjected to harassment at multiple levels.

Tourism Master Plan- India needs a tourism master plan, which should aim at joining Singapore, Hong Kong and Bangkok as the 'Gateway to Southeast Asia'. Piecemeal efforts and ideas cannot be expected to

produce coherent results. Indian states need to be made stakeholders in this process and synergetic actions need to be taken between concerned ministries and states in accordance with a long-term objective of a 'tourism renaissance'.

Exhibit 4-4 also presents brief action points, which are critical for the growth of this sector. Infact, most of these are steps that would improve the civic infrastructure around the country, fulfilling the promise of tourism as a vehicle for development.

Conclusion

Hotel development in India has faced multiple impediments. While some may pose short term issues like high prices of hotel rooms, others have a long term impact like poor supply pipeline and aborted projects. In order to address multiple pain points of the hotel sector, HVS recommends the following measures:

- **Include Tourism as a subject in the Concurrent List of the Constitution of Indian**
- **Grant hotels infrastructure status under Sec 80-IA of IT Act**
- **Grant hotels industry status across India**
- **Impose a single uniform luxury tax, based on the actual room tariff only, across all Indian states**
- **Impose uniform tax rates on rooms, food and beverages, and liquor across the country**
- **Give incentives, in the form of tax breaks, to reinvested capital in hotel sector**
- **Extend the benefits of Sec 80-ID to other parts of India**
- **Rationalise and increase transparency for the entire license/approval process, with minimum documentation**
- **Develop a more scientific rating system to truly benchmark hotel quality**
- **Grant special incentives to budget hotels across the country for alleviating funding issues**
- **Ease restrictions on franchisors operating in India.**
- **Envision a national tourism master plan with a broad outlook**
- **Augment infrastructure at all touch points for tourists**
- **Advocate the potential of MICE to state governments (by Ministry of Tourism) to rationalise local taxation guidelines in favour of the sector**

5. License Issues

Introduction

In this section, we highlight the procedural bottlenecks that are viewed as serious impediments for the growth of hotel industry.

The License *Raj* revisited

Hotels have to apply for numerous licenses and approvals through multiple government agencies. In many states, rules are fluid and regulations/statutes are open to loose interpretations.

A typical hotel may require approaching upto 40 different agencies to obtain 70-110 licenses depending upon which state it is located in, as well as the complexity of the development! Compare this with Singapore, which requires only six licenses from only those many government departments.

Most hotel development companies are advised to dedicate 6-12 months for the approval process. However, even this is indicative as an environmental clearance or an AAI certificate alone may take upto two years. This results in unavoidable delays in execution of the projects and adds to the overall project cost, which is already amongst the highest in the world due to high interest cost. Furthermore, the lack of transparency of the entire process allows for unethical business practices for parties with vested interests.

Table 5-1 presents a list of the licenses and approvals required by a new hotel in a major metro of India as researched by HVS. This can be viewed as a typical laundry list of licenses required to open a hotel in India.

Table 5-1 Sample List of Licenses/Approvals for a Greenfield Hotel Project

S.NO	NATURE OF LICENCES / APPROVALS	AGENCY RESP.	S.NO	NATURE OF LICENCES / APPROVALS	AGENCY RESP.	S.NO	NATURE OF LICENCES / APPROVALS	AGENCY RESP.
1	Compliance of IOD conditions (Partial occupancy)	Municipality	36	Licence under Shop & Establishment Act -BMC	Municipality	71	Pest Control Certificate	Municipality Pest Control Dept.
2	Structural Engineers Stability Certificate	Structural Consultant	37	NOC for Kitchen Exhaust System(ES&P Dept) - BMC	Municipality	72	Health NOC	Municipality Ward Office (Medical Officer)
3	NOC from M&E (Mechanical & Electrical) for Air Handling Unit	Mechanical, Electrical & Plumbing (MEP)	38	NOC for DG Set (ES&P Dept) - BMC	MPCB/MSEB/PW D	73	Permanent Electric Supply	BEST
4	NOC from Hydraulic Engineering Dept for Hotel & Swimming Pool	N/A	39	NOC for Boiler (ES&P Dept) - BMC	- do -	74	Cooling Tower NOC	Municipality-Pest control Dept.
5	External Drainage for Landscape	Liaison Consultant/Municipality	40	Pollution NOC - Consent to Establish - Air, water & Wastes includes STP, Boilers/DG Sets/Chimney	One consolidated application to be made to MPCB	75	Bathroom fittings Approval	Municipality
6	Storm Water Drainage (SWD) completion certificate	Municipality/MEP	41	NOC from CFO(Fire) for Eating House & Lodging House	CFO	76	Gymnasium & Health Club NOC	Municipality
7	Storm Water Drainage (SWD) Nalah completion certificate	Municipality/MEP	42	Eating House Licence	Municipality	77	Certificate from weight & measures	Municipality
8	Approval for STP	Consultant/MEH/Liaison Consultant	43	Lodging house licence	Municipality Ward Office (Health Dept.)	78	5 Star Classification by Tourism Dept.	DOT
9	Water Mains (Prorata charges) receipt	Liaison Consultant	44	Bakery Licence- BMC	Municipality	79	NOC from Explosive Dept for storage of HSD	Controller /Inspector of Explosives
10	Street lights (Prorata charges) receipt	Liaison Consultant	45	Laundry licence - BMC	Municipality	80	NOC from Explosive Dept (Nagpur)	Controller /Inspector of Explosives
11	Sewerage line (Prorata charges) receipt	Liaison Consultant /Municipality	46	Swimming Pool Licence from MOH	Municipality	81	NOC for HSD storage - Police	Police
12	Environment clearance from local environment body - NOC to operate furnaces,ovens, etc.	Municipality Environment Dept.	47	Swimming Pool Licence from Pest control Office -BMC	Municipality	82	Restricted Money Changer Licence -RBI	RBI
13	Consent to establish - Air/ Water/ Wastes	MPCB	48	Fountain NOC	Municipality	83	Provision of Letter Box & Dust Bin	
14	Drainage Completion Certificate (D.C.C.)	MEP/Liaison Consultant/Municipality	49	Gradation Certificate	Municipality	84	Postal Licence	Postmaster General
15	Lift Inspection Certificate	LIFT VENDOR	50	Bar FL III Licence	Police/Municipality/Excise	85	Paging Licence for Operation of Paging Service	Ministry of Communication/ Police Dept.
16	Site Supervisors Completion Certificate	MEH/Liaison Consultant	51	Excise NOC	Excise	86	T.V. Licence /Dish Antenna	DOT
17	Architects Completion Certificate	Liaison Consultant	52	Registration under MPFA	Excise Local Office	87	Payment of all charges	Liaison Consultant
18	Copy of property assessment NOC	Leased land	53	Registration certificate (RC from Police for Restaurants)	Police	88	Undertaking "Not to misuse Premises other than approved"	Liaison Consultant
19	NOC from BEST/ Plan approval for sub station	BEST	54	Licence for Lodging House from Police	Police	89	Provident Fund Registration	PF Office
20	NOC from MSEB		55	Swimming Pool Licence from Police	Police	90	ESIC	ESIC Office
21	Electrical Inspectors Approval for high rise building	Engineers' Combine	56	Excise Licence for serving Liquor in Hotel	Excise Local Office	91	Employment Regulation Registration	Employment Exchange
22	Final Approval for HT installation from Electrical inspector	BEST	57	Eating House Licence for Permit Room for each outlet	Municipality	92	Beauty Parlour Licence	Municipality
23	Copy of Non Agricultural (NA) Permission		58	Place of Public Entertainment Licence (PPEL)	Police	93	Expenditure Tax	Income Tax Authority
24	Road Completion Certificate	N/A	59	Performance Licence (Phonographic)	Commissioner of Police - Theater Branch	94	NOC for Natural Gas	Ministry of Petroleum - MGL
25	Handing over of 13.40 m wide Development Planning) DP Road	N/A	60	Central Excise Licence for Bakery	Central Excise	95	NOC for Cold Storage /Deep Freezer	Agricultural House
26	U.L.C NOC	Assessment & Collector's Office	61	Entertainment Duty	Collector	96	NOC from MTNL	MTNL
27	Fire Certification - CFO	Liaison Consultant	62	Boiler approval -BMC	N/A	97	DGFT - Import Export Code	DGFT
28	Approval from DOT for construction of 5 star Hotel	MEH	63	Boiler approval - MPCB	N/A	98	Sales Tax Registration	Sales Tax Office
29	Building Height Approval from Airport Authority of India	Airport authority /PMO (Approved)	64	Boiler & DG Chimney Approval - MPCB	MPCB	99	Work Contract Tax Registration	Sales Tax Office
30	Obtained Partial Occupancy Certificate	Municipality	65	DG Approval from MPCB	MPCB	100	Professional Tax Registration	PT Office
31	Road Setback - Surrendering / Hand over	Municipality/Liaison Consultant	66	Consent to operate -MPCB (Air,water,Hazardous waste) incl. STP/Boilers/DG Sets / Chimney	MPCB	101	Luxury Tax registration	Sales Tax Office
32	Amenity Space - Surrendering / Handover	Municipality/Liaison Consultant	67	DG Approval from Electrical Inspector	PWD	102	Service Tax Registration	Excise Department
33	Beautification of Footpath	Municipality/Liaison Consultant	68	Licence for Indian Performing Right	To be obtained on start of operations	103	TDS Registration	Income Tax Authority
34	Water Connection - BMC	Municipality	69	Neon Sign Licence	Municipality	104	Full Occupancy Certificate	Municipality
35	NOC from Police for construction of 5 star hotel(Incl. Traffic)	Police - Traffic	70	Traffic & Coordination (Parking arrangement)	Liaison Consultant			

These grey areas have compelled serious institutional investors to shy away from the sector. HVS would like to recommend a simpler method of approval process – one which is both transparent and swift. In doing so, we have studied the system adopted by Singapore and have derived the core approach from it.

Recommendations:

- **Rationalisation and increased transparency** for the entire license/approval process; the entire process should be compressed to a maximum of 60 working days.
- **Set up a nodal department** within Ministry of Tourism for addressing applicant grievances and monitoring of the process.
- **Minimise documentation** to essential ones like:
 - Permission from Urban Development Authority
 - Land usage certificate
 - Clearance certificate for the building plan
 - Fire, Sewage, Electricity– One window
 - Temporary Occupation Permit (Pre-Opening stage)
 - Permanent Occupation Permit (Post-Opening stage)
 - Tax registrations
 - Star classification

6. Improving the Hotel Rating Process

Introduction

The current methodology or at least the output for ratings of hotels leaves a lot to be desired. Therefore, in this section, we study the deficiency of the present method of classification/categorisation of hotels in India. Further, highlights of better rating systems used in other foreign countries are discussed as a suggestive mechanism.

Approaches to Categorisation

The London office of HVS has had the opportunity to formulate the hotel rating system for the Government of Jordan and is presently involved with a similar exercise in another country. Our experience from these assignments has allowed us to critically examine various approaches to classifying a country's hotel stock. These are the following:

- **Registration:** Basic level of listing of properties that meet agreed basic minimum standards. These would assist tourists in quickly finding the different types of accommodation available, what particular types have to offer and at what price.
- **Classification:** Accommodation is listed into a number of categories, which gives consumer information concerning the different services and amenities expected at each level. This approach is the general international standard, with most countries using a five-tier method to indicate these different amenity levels. All establishments would still have to fulfil a basic list of standards.
- **Grading:** Accommodation is graded more subjectively by the quality of product and service delivery. When this element is assessed, it is usually applied as supplementary information to a classification scheme. Assessment of this nature is more complex, subjective and time consuming. Hotel services need to be assessed more closely and this involves periodical (at least annual) anonymous inspections.

India has been utilising the 'Classification' system with mixed results for over four decades. However, the hospitality market is maturing and numerous products at varying qualitative levels are available for the consumer. **The present system in India needs to be augmented and upgraded to the 'Grading' system, to enable it to employ a more discretionary approach to the rating process.** However, the grading process will attract additional cost implications.

Rating System in India

The Ministry of Tourism of Government of India has instituted a body referred to as Hotel and Restaurant Approval and Classification Committee (HRACC) to inspect and categorise hotels, serviced apartments, motels, guesthouses and other lodging products according to their product and services. The body comprises of the tourism ministry officials and industry experts, who check on the actual products based upon a pre-defined checklist. However, the checklist has four serious shortcomings:

- It is aimed at penalising hotels (by offering a lower star rating) for not adhering to its minimum standards. It does not offer benefits to hotels that are developed even above the prescribed standards.
- The minimum standards are too weak and lenient. E.g. Minimum room size for a five-star hotel including bathroom is 200 square feet, however most luxury hotels in India are being developed with an area in excess of 400 square feet! Again, both three and four-star hotels need to have an identical 140 square feet, which is even smaller than that in quality budget brands.
- It is focussed on the physical infrastructure alone and is ineffective in assessing the quality of services.
- It has an inconsistent approach, differing between states, for example, the exact replica of a four-star hotel in Mumbai may get five-star status in Chandigarh.

Today, international travellers are quite aware of hotels brands and their ratings in more developed markets. It is confusing for the traveller to find a mid market hotel abroad (like Holiday Inn, Courtyard by Marriott) having the highest classification (five-star) in India, along with significantly better hotels from the same parent companies like Crowne Plaza and Marriott Hotel.

One and two-star ratings should ideally be provided to limited service/budget hotels, which may offer lesser quantum of services without compromising on quality. However, one and two-star rating in India represents poorly run hotels that cannot be accommodated in the three, four and five-star levels. This automatically makes the latter category replete with brand clutter and defeats the purpose of the rating process to guide the consumer in his selection of a hotel.

In light of events such as 26/11, SARS, Legionnaire's disease and so forth ensuring minimum standards for safety and hygiene should obviously fall on the government. As most of the other aspects of classification are basically commercial or market driven, this could be a first consideration guiding the classification debate. The Government concern, therefore, should focus more on ensuring hygiene and personal safety than on the commercial aspects of classification. At present, the rating system unsuccessfully tries to combine both these aspects together and the result is there for all to see. When standards are laid down by governments they tend to remain in force for years at a time, are infrequently checked and rarely updated to meet changes in consumer taste or take account of changes in destinations and markets. The present system needs a complete make-over in order to remain relevant in the changing market scenario. This would allow the HRACC classification in upgrading from a rubber stamp status to one which is seen as a hallmark of a hotel's level of product and services.

Addendum I at the end of this document presents a detailed checklist of the present rating methodology employed by HRACC.

**Alternate models:
Egyptian rating system**

In 2006, Egypt adopted a new rating system for its hotels. This was the first time a new classification system was introduced in the Middle East and Africa, which carried out assessment in two phases. The first dealt with the physical infrastructure, equipment, appliances etc. available within the hotel while the second phase specifically addressed the quality of service, which was carried out through an evaluation system using 'Mystery shoppers', an internationally recognised practice where reviewers, whose identity is hidden, make undeclared visits to the hotel within six months from the date of the first exercise.

70% of the marks are allocated for the infrastructure of the hotel and equipment, while 30% are reserved for the service levels. A hotel must receive 80% (as a minimum) of the total marks allocated to the category star rating.

In case of physical infrastructure and equipment, the evaluation examines specific items, such as the building, guestrooms, restaurants and the public

areas (amongst others). Within each of these main items, a comprehensive examination of secondary items is also conducted. For example, in a restaurant, secondary items might include seating, kitchen equipment etc. Each of the primary and secondary items will be awarded a maximum of six points, though the lack of secondary items could lead an item to register negative points. The level of service will be assessed through undeclared visits by international specialised companies under the auspices of the Egyptian Hotel Association and the Ministry of Tourism. The level of service will evaluate the reservation service, service outside the hotel and car parks, rooms, room service, restaurants, public areas and departure /checkout.

The Egyptian Hotel Association is involved in the evaluation committee for both phases of the exercise and all evaluations are approved by the Minister of Tourism, Head of Hotel Control and Chairman of Egyptian Hotel Association.

Addendum II presents a detailed check list of the rating methodology employed by the Egyptian Hotel Association.

There are a number of hotels throughout India, which historically have not been considered suitable for classification for reasons of size, lack of parking spaces or overall quality. These hotels should be allowed an opportunity to be improving their product and applying for a classification. Although an improvement in the quality of the current hotel stock is desirable, it is unlikely that hotel owners will invest money in the refurbishment of the country's hotels merely for the sake of attaining a particular star rating. Fiscal incentives to invest in the improvement of hotel facilities are likely to allow a large number of such hotels to join the mainstream hotel industry and partially reduce the huge gap in value for money accommodation in the country.

Conclusion

India has been utilising the classification scheme with mixed results for over four decades. However, the hospitality market is maturing and numerous products at varying qualitative levels are available for the consumer. The present system in India needs to be augmented and upgraded to the Grading System, to enable it to employ a more discretionary approach to the rating process.

Addendum I

INDIA HOTEL RATING MODEL

CHECKLIST FOR FACILITIES & SERVICES	1*	2*	3*	4*	5*/5*D	Comments
General						
Primarily transient, full time operations, 7days a week in season	N	N	N	N	N	Max 10% of rooms for Commercial use in hotel block or as per local law. At least one room equipped for the physically challenged
Establishment to have all necessary trading licences	N	N	N	N	N	These documents are already detailed in General Terms and Conditions
Establishment to have public liability insurance	N	N	N	N	N	Public liability insurance be specified at a minimum of Rs 5.0 crores.
24 hrs. lifts for buildings higher than ground plus two floors	N	N	N	N	N	Mandatory for new hotels. Local laws may require a relaxation of this condition. Easy access for physically challenged persons.
Bedrooms, Bathrooms, Public areas and kitchens fully serviced daily	N	N	N	N	N	
All floor surfaces clean and in good repair	N	N	N	N	N	Floors may be of any type
Guest rooms						
Minimum 10 lettable rooms. All rooms withoutside window/ ventilation	N	N	N	N	N	
Minimum size of bathroom excluding bathroom in sq.ft.	120	120	140	140	200	Single occupancy rooms may be 20 sq ft less
Airconditioning	25%	25%	50%	100%	100%	Airconditioning / heating depends on climatic conditions & architecture. Room temp should be between 20° & 28°C. For 4*, 5* and 5* Deluxe .(the % is of the total no. of rooms)
A clean change of bed and bath linen daily & between check-in's	N	N	N	N	N	Hotels may have a guest triggered system. For 1* & 2* on alternate days. Definitely required between each check-in.

Minimum bed width for single (90cm) and double beds (135cm)	D	N	N	N	N	
Mattress Minimum 10cm thick	D	D	N	N	N	Coir, Foam or spring. Foam covered if cotton
Minimum bedding 2 sheets, pillow & case, blanket, mattress protector/ bed cover.	N	N	N	N	N	Blankets available in airconditioned rooms and as per Seasonal requirement in non AC rooms. Mattress protector is desirable in 1* and 2* and necessary for all others
Sufficient lighting. 1 per bed	N	N	N	N	N	
A 5 amp earthed power socket	N	N	N	N	N	
A bedside table and drawer	N	N	N	N	N	1 per two twins and two for a double bed
TV - cable if available			N	N	N	3* 4* 5* & 5* Deluxe must have remotes
A writing surface with sufficient lighting			N	N	N	
Chairs	N	N	N	N	N	Preferable one per bedding
Ward robe with minimum 4 clothes hangers per bedding	N	N	N	N	N	In 1* & 2* these may be without doors
Shelves or drawer space	N	N	N	N	N	
A wastepaper basket	N	N	N	N	N	
Opaque curtains or screening at all windows	N	N	N	N	N	
Drinking water + 1 glass tumbler per guest	N	N	N	N	N	Water treated with UV + filtration is necessary
A mirror, at least half length (3')	N	N	N	N	N	
A stationary folder containing stationery and envelopes	D	D	N	N	N	
A 'do not disturb' notice			N	N	N	
Night spread/ bedcover with nightly turndown service			N	N	N	
In room safe					N	
Minibar / Fridge					N	Contents must conform to local laws
Iron and ironing board on request				N	N	
Suites				N	N	2% of room block with a minimum of 1
Bathrooms						

Percentage of rooms with dedicated (private) bathrooms with room	25%	75%	ALL	ALL	ALL	Dedicated bathrooms need not be "attached" but must have private access
Minimum Size of Bathroom in square feet	30	30	36	36	45	25% of bathrooms in 1* & 2* to be Western style WC
Communal Bathrooms on same floor as rooms for 1* & 2*. Access not through Public areas, Kitchens etc	N	N	NA	NA	NA	All bathrooms, shower stalls lockable. Toilet area to have sanitary bin with lid
1 bath towel and 1 hand-towel to be provided per guest	N	N	N	N	N	If no attached/ dedicated bath, to provide in room
One W.C. brush per toilet seat				N	N	
Guest toiletries to be provided. Minimum 1 new soap/ guest	N	N	N	N	N	Where bathroom is not attached, toiletries provided in room
A clothes-hook in each bath/shower room	N	N	N	N	N	
A sanitary bin	N	N	N	N	N	In communal bathrooms, these must have a cover
Each Western WC toilet to have a seat and lid, toilet paper	N	N	N	N	N	
Floors and walls to have non-porous surfaces	N	N	N	N	N	
Hot and Cold running water available 24 hours	D	D	N	N	N	
Bath tubs/ shower closet						Bath tubs waste water. In 4* plus hotels, some rooms should offer this option to the guest
Water saving taps/ shower					N	
Energy saving lighting	N	N	N	N	N	
Bottled toiletry products	D	D	D	N	N	
Hairdryers				N	N	where not provided in bathroom, must be available on request.
CHECKLIST FOR FACILITIES & SERVICES	1*	2*	3*	4*	5*/5*D	Comments
Public Areas						
A lounge or seating in the lobby area	N	N	N	N	N	Size would depend on check in pattern. There should be at least one telephone no higher than 24" from floor level in 5/5D*
Reception facility or means to call attention	N	N	N	N	N	Manned minimum 16 hours a day. Call service 24 hours
Accommodation, F&B and other tariffs available	N	N	N	N	N	To be displayed in room.

Heating and cooling to be provided in enclosed public rooms				N	N	Temperatures to be between 20° -28 °C
Public rest rooms for Ladies and Gents with soap and clean towels, a washbasin with running hot and cold water, a mirror, a sanitary bin with lid in unisex & ladies toilet	N	N	N	N	N	In 1* and 2* hotels, this may be unisex (4* & above should have facility for physically challenged persons)
Public restrooms to have low height urinal (24" Max)	N	N	N	N	N	
Ramps with anti- slip floors and handrails at the entrance. Minimum door width should be 32" to allow wheelchair access and other facilities for the physically challenged	D	D	D	N	N	Fire and emergency alarms should have visual & audible signals. Wheelchair access with suitable table in atleast one restaurant.
Facilities for aurally /visually handicapped	D	D	D	D	D	
Food & Beverage						
Early morning beverage service	N	N	N	N	N	This may be room service or a self-making facility
Dining Room serving Breakfast & Dinner	N	N	N	N	N	Meal times to be displayed. Service to start by 7am and finish no earlier than 10pm. Minimum one hour per meal service. Breakfast may be Continental. 1* hotel without dining room must offer service in rooms
Multi cuisine restaurant on premises	D	D	N	N	N	
Speciality restaurant			D	N	N	
24 hours coffee shop			D	N	N	
Full service of all 3 meals in Dining room			N	N	N	
A cooked breakfast be available		N	N	N	N	
Room Service of full meals				N	N	In 1* & 2* this is necessary if no Dining room. 3* must offer light (pre-plated) meals
Room Service of alcoholic beverages				N	N	If permitted by local law
Crockery & Glassware unchipped	N	N	N	N	N	Plastic ware accepted in pool area
Cutlery to be at least stainless steel	N	N	N	N	N	Plastic ware accepted in pool area
Silverware					N	
Bar				N	N	If permitted by local laws
	1*	2*	3*	4*	5*/5*D	

Kitchens						
Refrigerator with deep freeze	N	N	N	N	N	Capacity based on size of F&B service
Segregated storage of meat, fish and vegetables	N	N	N	N	N	Meats & fish in freezers. Vegetables must be separate
Tiled walls, non-slip floors	N	N	N	N	N	
Head covering for production staff	N	N	N	N	N	
Daily germicidal cleaning of floors	N	N	N	N	N	
Clean utensils	N	N	N	N	N	
Six monthly medical checks for production staff	N	N	N	N	N	
All food grade equipment, containers	N	N	N	N	N	
Ventilation system	N	N	N	N	N	
First-aid training for all kitchen staff	N	N	N	N	N	
Drinking water	N	N	N	N	N	Water treated with UV + filtration is acceptable
Garbage to be segregated - wet and dry	N	N	N	N	N	To encourage recycling wet garbage area to be air-conditioned for 3* - 5*D
Receiving and stores to be clean and distinct from garbage area	N	N	N	N	N	
Staff Quality						
Staff uniforms for front of the house	N	N	N	N	N	Uniforms to be clean and in good repair
Front office staff English speaking			N	N	N	May be relaxed outside the 8 metros/ sub-metros
Percentage of staff with minimum one year certificate course from Government recognised catering/ hotel institutes	10%	15%	20%	25%	30%	This may be relaxed for hotels in rural, pilgrimage and hill areas
Staff Welfare/Facilities						
Staff rest rooms	D	D	N	N	N	
Staff locker rooms	D	D	N	N	N	
Toilet facilities	N	N	N	N	N	
Dining area	D	D	D	N	N	
Guest Services						
Valet (Pressing) services to be available				N	N	

Laundry and Dry-cleaning service to be provided			D	N	N	Service can be next day. In resort destinations, hill, rural & pilgrimage areas dry-cleaning services may be relaxed
Paid transportation on call			N	N	N	Guest should be able to travel from hotel.
Shoe cleaning service			N	N	N	May be charged. Shoe cleaning machines are acceptable in corridors for 4* 5* /5D*
Ice- from drinking water- on demand			N	N	N	Ice machines accessible to guests are acceptable. Maybe placed in corridors for 4*,5* & 5*D
CHECKLIST FOR FACILITIES & SERVICES	1*	2*	3*	4*	5*/5D*	COMMENTS
Acceptance of common credit cards			N	N	N	
Assistance with luggage on request	N	N	N	N	N	
A public telephone on premises. Unit charges made known			N	N	N	
Wake-up call service on request	N	N	N	N	N	
Messages for guests to be recorded and delivered	N	N	N	N	N	A prominently displayed message board will suffice for 1* & 2*
Name, Address and telephone numbers of doctors with front desk	N	N	N	N	N	Doctors on call in 3*,4*,5* 5* deluxe
Stamps and mailing facilities			N	N	N	
Newspapers available	N	N	N	N	N	This may be in the lounge for 1*, 2* and 3* hotels
Access to Travel desk facilities	N	N	N	N	N	This need not be on premise for 1* to 3* hotels
Left luggage facilities			N	N	N	This must be in a lockable room/24 hour staffed area
Provision for emergency supplies - toiletries/ first aid kit			N	N	N	This may be a chargeable item
Health/ Fitness facilities					N	Indian system of treatments to be offered
Beauty Saloon and Barbers Shop				D	N	
Florist				D	D	
Shop/ kiosk			N	N	N	News stand, toiletries, novelties, games in resorts
Money changing facilities				N	N	

Bookshop			D	N	N	
Safety & Security						
Staff trained in fire fighting drill	N	N	N	N	N	Quarterly drill or as per law
Security arrangements for all hotel entrances	N	N	N	N	N	
Each bedroom door fitted with lock and key, viewport/ peephole & internal securing device	N	N	N	N	N	A safety chain/ wishbone latch is acceptable in place of view -port/ peephole
Safekeeping facilities available	N	N	N	N	N	
Smoke detectors	N	N	N	N	N	These can be battery operated
Fire and emergency procedure notices displayed in rooms behind door	N	N	N	N	N	
CHECKLIST FOR FACILITIES & SERVICES	1*	2*	3*	4*	5/5*D	
Fire exit signs on guest floors with emergency power	N	N	N	N	N	
Staff trained in first aid	D	D	N	N	N	CPR/ choking and regular first aid
First aid kit with Over the Counter medicines with front desk	N	N	N	N	N	
Communication Facilities						
A telephone for incoming & outgoing calls in the room		N	N	N	N	4* plus should have direct dial and STD/ISD facilities. 1*,2* and 3* may go through exchange
PC available for guest use with internet access			N	N	N	This can be a paid service. Upto 3*, PC can be in executive offices. Internet subject to local access being available
E-mail service			N	N	N	
Fax and photocopy service			N	N	N	
In Room internet connection/ dataport					N	Subject to local internet access being available
Business Centre				N	N	This should be a dedicated area. In hill, beach destinations and pilgrimage centres this may be relaxed
Swimming Pool					N	This can be relaxed for hill destinations.

Parking Facilities	D	D	N	N	N	Should be adequate in relation to the no. of rooms & banquet/convention hall capacities. Exclusively earmarked accessible parking nearest to the entrance for physically challenged persons.
Conference facilities			D	D	D	
Note: D= Desirable, N= Necessary. There is no relaxation in the necessary criteria except, as specified in the comment column.						

Mark sheet for quality

Criteria	Max Marks	Score	Comments
Exterior & Grounds	8		Exteriors, Approach 2/ Landscaping 2/ Exterior lighting 2/ Parking 2
Guest Rooms	10		Furniture 2/ Furnishings 2/ Décor 2/ Room facilities & amenities 2/ Linen 2
Bathrooms	8		Facilities 2/ Fittings 2/ Linen 2/ Toiletries 2
Public Areas	8		Furniture 2/ Furnishings 2/ Décor 2/ Restrooms 2
Food & Beverage	8		Choice of cuisine, menu 3/ décor 2/ food quality 3
Kitchens	8		Equipment 3/ State of repair 2/ food storage 3
Cleanliness	8		Overall impression
Hygiene	8		Pot & Dish Washing 2/ drinking water 2/ staff facilities 1/ pest control 2/ garbage disposal 1
Safety & Security	8		Fire fighting equipment 2/ signage 2/ awareness of procedures 2/ public area and room security 2
Communications	6		Phone service 2/ e-mail access 2/ internet access 1/ PC and other equipment 1
Guest Services	5		Overall impression
Eco-friendly practices	5		Waste management, recycling, no plastics 1/Water conservation, Harvesting 1/pollution control-air, water, sound, light 2/ Alternative energy usage 1/
Facilities for Physically challenged persons	5		At least a room for physically challenged persons 1/ public toilet in lobby1/telephone in public places 1/ ramps etc 1/facilities for aurally or visually handicapped 1
Staff quality	5		Overall impression
TOTAL	100		

Comments

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HRACC Members

1. 2. 3. 4. 5. 6.

Qualifying Score

5*D	90 %		
5*	80 %		
4*	75 %		
3*	65 %		
2*	55 %		
1*	50 %		

Addendum II -EGYPT STAR RATING SYSTEM

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub
1 - LOCATION	Excellent Location		Good	Acceptable		4	-
2 - THE BUILDING	Exterior aspect of the building must be preserved from all sides					6	6
Isolated or part of a building with a private entrance	A/C devices & Satellite locations are hidden						6
3. ENTRANCE	2 Entrances			1 Entrance for guests		5	-
	One main entrance for guests + One entrance for personnel & goods			If there is a restaurant, a separate entrance for staff & goods is required			
4. RECEPTION	A reception area with front desks	A reception area with a front desk		Must have a front desk		4	-
	24 Hours Service	24 Hours Service		24 Hours Service			
5. SIZE OF THE RECEPTION AREA	3.00 m² for each first 100 rooms	2.50 m² for each first 100 rooms	2.00 m² for each first 100 rooms	1.50 m² for each first 50 rooms	1.00 m² for each first 20 rooms	5	2
	1.00 m² after each additional room	1.00 m² after each additional room	1.00 m² after each additional room	0.5 m² after each additional room	0.5 m² after each additional room		2
Lobby could be measured on 2 levels	Area must be open without any barriers						
	Ceiling height with a minimum 4.00 m		According to construction specifications				

Norms Specifications for Fixed Hotels

Addendum II -EGYPT STAR RATING SYSTEM

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub
6. LUGGAGE STORAGE	Luggage storage facilities					2	-
7. SAFES	Safe Boxes should be available in all guest rooms		-			4	2
	Safe Boxes should also be available for storing valuable items at the Reception						2
8. BUSINESS CENTER	■ Secretarial Service includes:		-			4	
	- Fax						1
	- Internet						1
	- Photocopier Machine						1
9. POST & CURRENCY EXCHANGE SERVICES	Both services should be provided with daily announcing exchange rates					2	-
10. ELEVATORS	<u>Guest elevators:</u>					6	
	An elevator for each 125 rooms, capacity of 1250 kg with a minimum of 2 elevators above ground floor with an alternative mechanism control	An elevator for each 125 rooms, capacity of 1250 kg with a minimum of 2 elevators above first floor with an alternative mechanism control	Minimum one elevator for each 60 rooms after second floor with 2 elevators as a minimum	An elevator if floors exceed 3 floors above ground floor			6
Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub
Norms Specifications for Fixed Hotels							

Addendum II -EGYPT STAR RATING SYSTEM

Continue ELEVATORS	<u>Service elevators:</u>				
	An elevator for each 150 rooms, capacity of 1600 kg with minimum 2 elevators	One elevator	-		
	<u>Regarding 5 stars hotels:</u> If number of rooms exceeds 500 rooms: <ul style="list-style-type: none"> • One guest elevator capacity 1250 kg for each 150 rooms • One service elevator capacity 1600 kg for each 200 rooms 				

11. SHOPS				6		
	• Gift shops and newspapers		-			2
	• A Beauty Salon		-			2
	• Tourist service office		-			2

12. DINING ROOMS	Should be available	Should be available	Should be available		6	-
	Food & Beverage outlets Surface area of 3.00 m2 per room based on a minimum of 60% of hotel capacity	Food & Beverage outlets Surface area of 3.00 m2 per room based on a minimum of 50% of hotel capacity	Food outlets For serving breakfast			

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub

13. CAFETERIA	Should be available	Should be available		5	2
	24 hours service	16 hours service			

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Addendum II -EGYPT STAR RATING SYSTEM

14. BAR	A bar should be available		-	4	-
15. BANQUET ROOMS	One or more multipurpose hall should be available		-	3	-
16. PUBLIC LAVATORIES	Public lavatories should be available on each floor including public areas "ladies-gents"	One public lavatory should be available "ladies-gents"		4	2
17. SAUNA & GYMNASIUM HALL	Should be available		-	3	-
18. SWIMMING POOL	Swimming Pool (could be heated)	Swimming Pool	-	4	2
19. RECEIVING AREA	<ul style="list-style-type: none"> • A suitable enclosed area should be provided to prevent environmental contamination – Flooring should be covered by a robust, impervious and smooth easy to clean material – Walls covered with ceramic. • A room for the sorting process and the sanitizing of the Hotel's plastic material should be provided. • Water supply should be provided with a high pressure hose for the cleanliness of the area and the drainage of waste water. • A lighting source should be provided. 			4	2
				2	1
				1	1

Item	Category Characteristics	Points
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Norms Specifications for Fixed Hotels

Addendum II -EGYPT STAR RATING SYSTEM

	★★★★★	★★★★	★★★	★★	★	Main	Sub	
20. KITCHENS	MAIN KITCHEN					6		
	<ul style="list-style-type: none"> • Area should allow easy movement during operation 							1
	<ul style="list-style-type: none"> • Floors and walls should be covered with a robust, impervious and smooth material easy to clean (ceramic or stainless for walls / Sornaga or Epoxy for floors) – Ceiling should be easy to clean as well. 							2
	<ul style="list-style-type: none"> • A hood should be available for extracting steam from hot areas 							1
	<ul style="list-style-type: none"> • It has to be well aerated/ventilated 							1
	<ul style="list-style-type: none"> • Kitchen must be clear from any sewage pipes or their control room 							2
	<ul style="list-style-type: none"> • Internal drains in the kitchen floor should be covered with stainless steel filter covers as per hygiene rules and regulations 							2
	<ul style="list-style-type: none"> • Should be divided into the following sections: (dish and glasses washing area / utensils washing area / bakery / pastry / hot corner / cold corner / butchery / fish corner / Beverage service. 							2
	<ul style="list-style-type: none"> • Air conditioning should be in cold sections (Pastry / Butchery / Fish corner / Garde-manger) 							2
	<ul style="list-style-type: none"> • Air curtains should be provided in all entrance access points to the kitchen . 							1
	<ul style="list-style-type: none"> • To have two separate doors to the kitchen with an entrance and exit doorst 							1
	<ul style="list-style-type: none"> • Hand-washing basins for personnel with an automatic mechanism or by a foot switch release 							1
	<ul style="list-style-type: none"> • Provide separate independent disposal area for fats and greasy items (grease traps installed) 							1
	<ul style="list-style-type: none"> • Supply all sections with appropriate and required equipment 							2
	Should have approval of specialized companies in food safety							
(Satellite Kitchen)								
Should be well equipped with suitable & best equipment								

Addendum II -EGYPT STAR RATING SYSTEM

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub
21. FOOD STORES						4	
	<ul style="list-style-type: none"> Suitable to the size of the hotel and in compliance with national standards for food safety 		Suitable and in compliance with national standard for food safety				2
	<ul style="list-style-type: none"> Cold, air conditioned Beverage storage should be available 		-				1
	<ul style="list-style-type: none"> A separate storage for chemicals should be available 		-				1
	<ul style="list-style-type: none"> A storage for dry food should be available 		-				1
	<ul style="list-style-type: none"> Freezers and Cold rooms with stainless-steel shelves allowing 30 cm height from the ground 						2
22. PARKING	Suitable parking should be available		-			3	1
23. ROOM SERVICE	Should be available 24 hours		Should be available 16 hours	Should be available		5	2
24. LAUNDRY AND IRONING SERVICES						3	
	<ul style="list-style-type: none"> Dry cleaning should be available 	-				2	
Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub

Norms Specifications for Fixed Hotels

Addendum II -EGYPT STAR RATING SYSTEM

25. HANDICAPPED FACILITIES	• To provide facilities for the disabled inside the hotel:					3		
	• Walkways / Corridors						1	
	• General services						1	
	• Public toilets						1	
26. MEDICAL SERVICE	• Prompt Medical Service should be available		• First Aid Measures should be available			5		
	• 24 hours availability						2	
27. ROOM AREA	28.00 m2	24.00 m2	21.00 m2	18.00 m2	16.00 m2	5		
	Room area includes bathroom and entrance except the terrace (is not included in the room area)						-	
28. ROOMS DOORS	Room's door width should be not less than 80 cm net			Room's door width should be not less than 70 cm net			3	1
	Bathroom's door width should be not less than 70 cm net							1
	Connected room's door should be 70 cm net							1
	All Doors height should be 220 cm							1
	Electronic Door key			Door key of hotel quality				2
29. ELECTRICAL DEVICES AND CONTROL						3		
	Electrical switches should be available at bed side & room entrance						1	
	Some lightening can be controlled by them						2	
	5 lightening units should be available			3 lightening units should be available			2	

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub

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30. ROOM CONTENTS	• Room contains the following:			6		
	• Single bed: 100 x 200 cm					1
	• Double bed: 160 x 200 cm	• Double bed: 140 x 200 cm				1
	• One Luggage rack + extra one	• One Luggage rack				2
	• Closet depth 60 cm	• Closet depth 50 cm	• Closet			2
	• 2 commodes for the large bed 50 x 50 cm • 1 commode for the single bed 50 x 50 cm		• 2 Commodes for the large bed 40 x 40 cm • 1 Commode for the single bed 40 x 40 cm			1
	• Coiffeuse or desk with drawers + one chair		• Coiffeuse or desk			2
	• Curtains and Light Barrier (blackout) should be available		• Light Barrier (blackout) should be available			2
	• Room flooring should be either carpeted, wood or marble with carpet covered sections		• Room floor made of ceramic			1
	• Mattress: 20 cm		-			1
	• Breakfast table		-			1
	• 2 armchairs		-			1
	• Mirror 120 x 40 cm at least		-			1
	• 1 Waste basket		-			

Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub

Norms Specifications for Fixed Hotels

Addendum II -EGYPT STAR RATING SYSTEM

31. ROOM TELEPHONE SETS				5	
	<ul style="list-style-type: none"> Internet connection should be available and not affecting normal line 	-			2
	<ul style="list-style-type: none"> Internal, Local & International calling should be available 	<ul style="list-style-type: none"> Internal & Local calling should be available 			2

32. TV SETS				5		
	<ul style="list-style-type: none"> TV set minimum 21" with remote control should be available 	<ul style="list-style-type: none"> TV set minimum 16" with remote control 	<ul style="list-style-type: none"> Colored TV upon request to be available 		2	
	<ul style="list-style-type: none"> Satellite service 		-		2	
	<ul style="list-style-type: none"> DVD available 	-			1	
	<ul style="list-style-type: none"> Available paid channels 	-			1	

33. ROOM'S MINIBAR	<ul style="list-style-type: none"> Mini bar should be available in all guest rooms 	-	6	-
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34. NON-SMOKING ROOMS				3	
	<ul style="list-style-type: none"> 70 % of hotel rooms should be non-smoking 				3

35. BATHROOM AREA	Not less than 6.00 m²	Not less than 5.00 m²	Not less than 4.00 m²	Not less than 3.00 m²	Not less than 3.00 m²	6	-
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Item	Category Characteristics					Points	
	★★★★★	★★★★★	★★★	★★	★	Main	Sub

Norms Specifications for Fixed Hotels

Addendum II -EGYPT STAR RATING SYSTEM

37. STAFF CAFETERIA & REST ROOM	Must be available:-			6			
	▪ One staff room/hall or more with a capacity for minimum 20% of hotel staff				2		
	▪ Staff toilets must have (wash basin / toilet / shower / urinal) all separated for minimum 15% of staff				2		
	▪ Staff changing room, providing a locker for each staff member using a hotel uniform				2		
38. MEDICAL CONTROL ON ALL STAFF				6			
	▪ Contracted				2		
	▪ Accredited Certificate from Ministry of Health for every staff member that he is free of communal diseases should be provided				2		
	▪ Annual medical check for all employees should be applied				2		
39. QUALITY OF SERVICE	According to the Egyptian Hotel Association Specifications			-	-		
40. STAFF UNIFORM PER DEPARTMENT	According to the Egyptian Hotel Association Specifications			-	-		
41. LANGUAGES FOR EACH DEPARTMENT	According to the Egyptian Hotel Association Specifications			-	-		
42. AIR CONDITIONING	▪ Central A/C in all rooms / Banquet halls providing temperature 18-25C		▪ Central Aeration or split units providing temperature 21-25C control from room	6	▪ Cooling & Heating should be available		
	▪ A/C control in room				3		
					2		
43. HOT WATER	▪ Must have Central boilers for water heating	▪ Must have Hot water in rooms & public Toilets		3	-		
Item	Category Characteristics					Points	
	★★★★★	★★★★	★★★	★★	★	Main	Sub
Norms Specifications for Fixed Hotels							

Addendum II -EGYPT STAR RATING SYSTEM

44. GENERATORS	<ul style="list-style-type: none"> ▪ A generator with a capacity of 25% of total occupancy should be available to cover the following:- 	<ul style="list-style-type: none"> ▪ A temporary lighting supply in case of power cut should be available. 	6	-
	1. Lighting of public areas and corridors indoors and outdoors		2	
	2. Kitchen and fridges		2	
	3. Light inside every room		2	
A certificate from Consultant should be presented			-	-
45. HEALTH & FIRE FIGHTING	As per the recommendations of Industrial Health & Fire Fighting Official Body		-	-
46. NOISE CONTROL	All noise control measures must exist with certificate from approved Body		5	-
47. SEWAGE	<ul style="list-style-type: none"> ▪ In case there are no main sewage pipes for the property, a water treatment station should be available in compliance with the environment law. 		6	6
48. ENVIRONMENTAL AND HEALTH PROTECTION (MISCELLANEOUS)			5	-
	<ul style="list-style-type: none"> ▪ A cold room for the storage of organic refuse, as well as a different store room for dry refuse must be provided. All refuse must be disposed of in an environmentally friendly way 		2	
	<ul style="list-style-type: none"> ▪ This room should be isolated from the receiving area. 		1	
	<ul style="list-style-type: none"> ▪ A water supply should be available to ensure the cleanliness of the refusal room constantly. 		1	

Total Points for all Items of The Building & Preparation Specifications for Fixed Hotels

No.	Topics	Points	No.	Topics	Points	No.	Topics	Points
Norms Specifications for Fixed Hotels								

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