**Hotel Industry Trying to Win Back Domestic Tourists; Sees Better Prospects in Next Six Months: FICCI Survey**

*Industry looking to Govt. for grant of infrastructure status; export status to tourism & service tax exemption on forex earnings*

**NEW DELHI, September 26, 2009.** A FICCI Survey on ‘Hotel Industry: Putting the Tourism Downturn Behind’ reveals that the Indian hotel industry, which was hit badly due to the economic slowdown, is now on a recovery path. While nearly 40 percent of the participants in the Survey mentioned that the current performance of their industry is ‘moderately to substantially better’ vis-à-vis the last six months, nearly 75 per cent feel that the hotel industry’s performance would improve in the next six months.

The FICCI Survey notes that although the mood amongst members of the hotel industry is fairly buoyant, the degree of optimism about current and near term performance increases as one moves up from the 2 star and 3 star category of hotels to 4 star, 5 star and 5 star deluxe categories. And this difference can be explained by the nature of the clientele to which these hotels cater to on a regular basis.

Feedback gathered from hoteliers show that with the global economy showing signs of improvement, foreign tourist arrivals, particularly those who travel on business, is once again picking up. Also corporate travel within India is showing signs of revival. As these segment of tourists is the catchment area of large hotels, hotels upwards of 4 star category are seeing improvement in business.

The findings are based on responses from 100 hotels in different categories having a a turnover ranging from Rs 1 crore to Rs 1400 crores

Budget hotels (2 star and 3 star) on the other hand are still waiting to see some improvement in their performance as these depend largely on domestic tourists and a different segment of income earning foreign tourist. Tourist flows on account of both these categories are still limited and it will take some more time for these to pick up. With concerns about employment prospects and job security still looming large, many casual, leisure and holiday travelers have cut down on their discretionary spending and this is getting reflected directly in tourist arrivals.

The difference in the performance level and near term outlook across categories of hotels gets reflected clearly when one looks at the disaggregated responses to occupancy levels and revenue position.

Taking the case of occupancy levels first, the FICCI Survey states that majority of the hotels from 5 star and 5 star deluxe categories have reported an occupancy level of about 50 percent to 75 per cent over the last six months. As against this, a significantly large proportion of hotels from the 3 star and 4 star category have reported an occupancy level of 25 percent to 50 percent over the last six months. 2 star category hotels have been languishing with almost 43 per cent reporting occupancy of less than 25 per cent over the last six months.

It is also important to note that within the leisure, business and leisure & business hotel categories, it is the business segment where a large proportion of hotels have seen occupancy of about 50 per cent to 75 per cent over the last six months. Hotels that are standalone leisure hotels and those that cater to both leisure and business segments have not done as well as the standalone business hotels in terms of occupancy over the last six months.

In terms of revenue position, again we see that players largely from the 5 star and 5 star deluxe category hotels that have reported improvement over the last six months. While close to 40 percent of the hotels from the 5 star category have seen an improvement in the revenue position, a whopping 85 percent of the hotels from the 5 star deluxe segment have seen an improvement in revenues over the last two quarters. While a large proportion of participants from the 3 star and 4 star segments said that their revenue position over the last six months has remained by and large same, a majority from the 2 star segment have experienced a downtrend in revenues in the recent past.

The outlook for revenues however seems better with close to 45 percent of the participants from even the 2 star category reporting a likely improvement in the coming six months. The proportion of participants who expect an improvement in revenue position in the near term from other hotel segments is quite high – close to or more than 75 percent in case of 3 star, 4 star and 5 star categories and upwards of 90 percent in case of 5 star deluxe category.

The difference in current performance and near term outlook across different categories of hotels is also shaping differently the strategies being adopted by hotels to bolster their business. While the budget hotels (2 star and 3 star) are focusing on getting larger volumes in the near term, higher segment hotels are aiming not only for larger volumes but also higher pricing for F&B Sales and Room Sales. The high end hotels that participated in the FICCI Survey opined that with the market for business travel and MICE (Meetings, Incentives, Convention and Exhibition) on the move they would be looking at increasing prices for rooms as well as F&B sales in the coming six months.

It is also interesting to note that while on the pricing front we are seeing a divergence of views amongst members from different categories of hotels, there is a near unanimity amongst players when it comes to their focus on marketing efforts in the near future.

The survey shows that while hotels would step up marketing efforts both in India and abroad, greater emphasis would clearly be on the domestic market. India has 500 million strong domestic tourists per annum and these would be the focus of marketing strategies of hotels across all segments. The 5.43 million foreign tourists who come to India will get

attention but not to the extent domestic tourists would. This last point signifies that hotels are trying to first win back domestic customers who were lost over the last one to two years even if the majority of them do not yield high revenues in terms of their follow up expenditure.

While the industry players are making all possible efforts to improve their business performance, there is also a great sense of expectation with regard to support from the government at this crucial juncture. Many of the hotels that participated in the FICCI survey said that the government must act upon the industry‘s requests for:

* Grant of infrastructure status,
* Grant of export status to tourism and
* Providing service tax exemption on foreign exchange earnings

Members of the hotel industry are clearly disappointed as the above mentioned demands were given a pass by the government in the budget for 2009-10. The survey respondents feel that these steps if taken will give a leg up to the hotel and tourism industry in the country especially when they face stiff competition from neighboring countries (South East Asia in particular) where operational costs are considerably lower.

In addition to the above demands, survey participants have also listed the following as measures that would aid the growth of the hotel industry in the country:

* Single window clearance for all hotel projects
* Rationalisation of taxes and bringing uniformity in the tax structures
* Availability of land at subsidized rates
* Greater incentives for setting up budget hotels
* Mandatory registration policy for all players in the tourism industry – hotels, tour operators etc. – so as to discourage non serious players functions functioning without necessary infrastructure and staff and to keep the discerning consumers safe
* Integrated marketing plans along with the government to promote India as a leading tourist destination. This is all the more important at this time when the global economy is showing some signs of recovery. To begin with efforts can be aimed to capitalize on upcoming major sports events like Commonwealth Games 2010, World Cup Hockey 2010, World Cup Cricket 2011 and IPL in March 2010.

Finally, the survey participants have strongly called for a joint effort by the industry and government to fight the swine flu scare that is having a negative impact on tourism industry in the country. Hotel industry members feel that a strong stand must be taken up against reports that project India as an unsafe destination to travel to during the present scenario. India is a large country and we have been impacted by the swine flu virus in a very limited manner. Government and industry should therefore counter any negative portrayal of India as a destination that should be avoided for travel.

MEDIA DIVISION