

# Tourism and Hospitality Industry in India: Growth Drivers and Government Initiatives

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*The Tourism and Hospitality industry is the largest service industry globally in terms of gross revenue and foreign exchange earnings. It is also one of the largest employment generators in the world. The driving forces of this industry lie in the recreational, knowledge seeking, religious and business interests of people around the world. The human urge for new experience, adventure, and entertainment plays the role of a catalyst for the growth of this industry. It also has the potential to stimulate other sectors in the economy owing to the cross- synergistic benefits and its backward and forward linkages which make tourism and hospitality both a cause and consequence of economic development. In the Indian context, the story is no different.*

*Despite the few ebbs and flows and the political uncertainty that the whole economy is facing, this industry is poised for long term sustainable growth and looks to stabilize and grow further in the near future. The Indian Tourism and Hospitality industry is one of the largest segments under the services sector of the Indian economy and offers the most diverse products globally. The country's rich history, cultural heritage, diversity of religion, variety of landscapes and medicine fascinate both, budget and luxury travelers. This paper explores the growth drivers and initiatives taken by the Indian Government towards Indian Tourism and Hospitality Industry.*

**Keywords:** *Tourism, Hospitality, Industry, Cross- Synergistic, Cultural Heritage, Travelers.*

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## Introduction

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector activities in India. The second-largest sub-segment of the services sector comprising trade, repair services, hotels and restaurants contributed nearly US\$ 295.7 billion or 19.2 per cent

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to the Gross Domestic Product (GDP) in 2015-16, while growing at 8.9 per cent year-on-year. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country.

The industry is expected to generate 13.45 million jobs across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/Tour Operators (0.66 million). The Ministry of Tourism plans to help the industry meet the increasing demand of skilled and trained manpower by providing hospitality education to students as well as certifying and upgrading skills of existing service providers.

India has moved up 13 positions to 52nd rank from 65th in Tourism & Travel competitive index<sup>@</sup>. Tourism Australia expects Indian tourist's arrivals in Australia to increase 12 per cent year-on-year to reach 245,000 visitors during FY 2015-16, thus making India the eighth largest source market for tourism in Australia.

#### **Market Size**

India's rising middle class and increasing disposable incomes has continued to support the growth of domestic and outbound tourism. Total outbound trips increased by 8.7 per cent to 19.9 million in 2015. Inbound tourist volume grew at a Compound Annual Growth Rate (CAGR) of 6.8 per cent during 2010-15.

The number of Foreign Tourist Arrivals (FTAs) has grown at a CAGR of 3.7 per cent to 5.29 lakh year-on-year in May 2016. Foreign Exchange Earnings (FEEs) during the month of May 2016 grew at a rate of 8.2 per cent year-on-year to Rs 10,285 crore (US\$ 1.52 billion).

The number of tourists arriving on e-Tourist Visa during June 2016 reached a total of 36,982 tourists registering a year-on-year growth of 137.7 percent.

Online hotel bookings in India are expected to double by 2016 due to the increasing penetration of the internet and smart phones

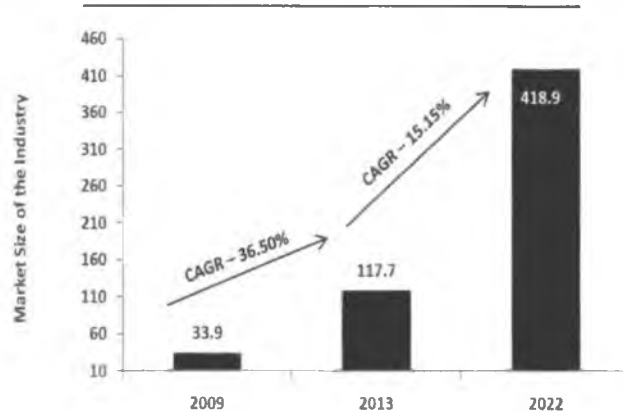
The Indian Tourism and Hospitality industry is one of the largest segments under the services sector of the Indian economy and offers the most diverse products globally. The country's rich history, cultural heritage, diversity of religion, variety of landscapes and medicine fascinate both, budget and luxury travelers. Tourism in India has registered significant growth over the years, which is led by rising incomes, increasing affordability, growing aspirations, increasing globalization, and a growing airline industry along with improvement in travel-related infrastructure. The industry holds immense potential for the

Indian economy and it can provide impetus to other industries through backward and forward linkages.

This sector contributes around 6.23% to the national GDP and 8.78% of the total employment of the country. The direct contribution to the GDP totaled US \$ 30.95 Bn. in 2012 and is expected to rise to US \$ 40.8 Bn this year. The market size of the tourism and hospitality industry stood at US \$ 117.70 Bn. The industry grew at a CAGR of 36.50% during 2009- 2013 and growing at a forecasted CAGR of 15.15%, it is expected to become a US \$ 418.90 Bn. industry by 2022.

Figure-1.

Market Size of the Industry in India over the last decade ( \$ In Bn )



Source: WTTC Report

### Segmentation

Figure-2.

### Indian Tourism and Hospitality Industry



**Accommodation and Catering:** This segment is highly fragmented and it is further divided in two broad sub segments namely; Restaurants and Hotels. It is the largest segment of the industry and it is mostly dominated by the unorganized sector.

**Tourist Destinations:** This segment comprises India's vast array of tourist destinations varying from world heritage sites to beautiful scenic destinations and extravagant festivals among other attractions

**Events:** It is the newest segment of the industry and it is driven by the rising trend of concerts, youth festivals and weekenders in the country

**Travel and Tour Formats:** This segment works under two broad categories; Offline Mode and Online Mode and it comprises various tour and travel formats such as Eco-tourism, Medical tourism, Adventure tourism etc.

### **Investments**

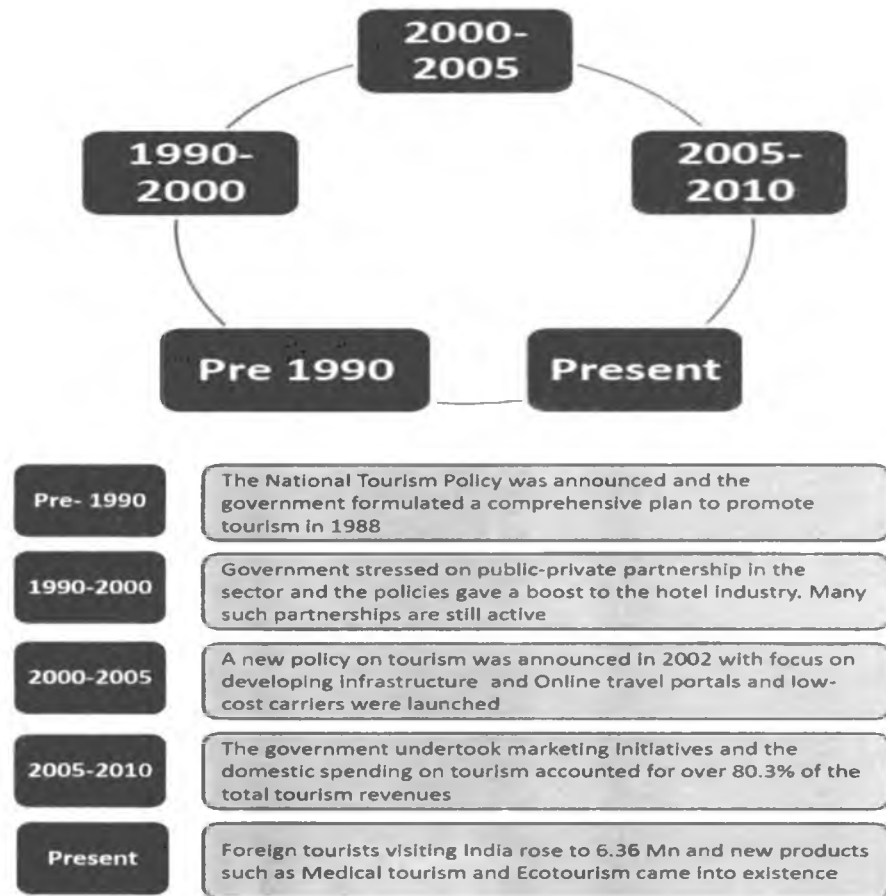
The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-March 2016, the hotel and tourism sector attracted around US\$ 9.23 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). With the rise in the number of global tourists and realising India's potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

- Marriott International Inc, the US-based hotel chain, is now looking for expanding its operations in North India, including prominent cities in Uttar Pradesh like Kanpur, Varanasi and Agra.
- Steigenberger Hotels, a German luxury hotel company, and MBD Group, a Delhi-based firm which runs 5-star Radisson Hotels in Noida and Ludhiana, have formed a joint venture to build five luxury hotels and manage another 15 luxury hotels in India by 2030.
- Keys Hotels, a premium brand of Berggruen Hotels, plans to launch three new hotels in India at Visakhapatnam, Calicut and Jaipur, and further add up to 10 Keys Hotels in the country by the end of FY 2017.
- Stayzilla, a budget hotels and home stays aggregator, has raised over US\$ 13 million in Series C round of funding from Matrix Partners and Nexus Ventures, which will be used to improve product, technology and marketing initiatives for its alternate stay business.
- Travel Tripper, a US-based hotel technology firm, has entered the Indian market by setting up its second global delivery centre outside the US in Hyderabad, which will serve as a development and client service centre for the company's worldwide operations.

- Marriott International Incorporation, the global diversified hospitality industry major, has launched its first dual branded hotel in India, called the Courtyard and Fairfield, in Bangalore, Karnataka with an investment of Rs 300 crore (US\$ 44.47 million) and thus increasing the number of Marriott hotels in India to 31.
- Indian Railway Catering and Tourism Corporation (IRCTC) has partnered with OYO Rooms, India's largest branded network of hotels, to provide standardised accommodation options to train travellers through its convenient booking platform.
- Ctrip.com, China's largest travel portal, has bought a stake in India's largest travel portal MakeMyTrip for US\$ 180 million via convertible bonds, which allows Ctrip to increase its share in MakeMyTrip up to 26.6 per cent.
- Global investment banking major Goldman Sachs has invested Rs 441 crore (US\$ 65.37 million) to acquire an equity stake in Gurgaon-based hotel development and investment start-up SAMHI Hotels which will help fund SAMHI's expansion plans.
- Fairfax-owned Thomas Cook has acquired Swiss tour operator Kuoni Group's business in India and Hong Kong for about Rs 535 crore (US\$ 79.31 million) in order to scale up inbound tour business
- US-based Vantage Hospitality Group has signed a franchise agreement with India-based Miraya Hotel Management to establish its mid-market brands in the country.
- Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture (JV) to open seven hotels in the country by 2018 for which the JV will raise US\$ 100 million.
- ITC is planning to invest about Rs 9,000 crore (US\$ 1.33 billion) in the next three to four years to expand its hotel portfolio to 150 hotels. ITC will launch five other hotels - in Mahabalipuram, Kolkata, Ahmadabad, Hyderabad and Colombo - by 2018.
- Goldman Sachs, New-York based multinational investment banking fund, has invested Rs 255 crore (US\$ 37.8 million) in Vatika Hotels.
- Japanese conglomerate Soft Bank will lead the Rs 630 crore (US\$ 93.4 million) funding round in Gurgaon based OYO Rooms.
- MakeMyTrip will acquire the travel planning website Mygola and its assets for an undisclosed sum, and will together look to focus on innovating the online travel segment.

**Evolution of the Industry**

Figure-3.



**Indian Tourism Industry**

The travel and tourism sector holds strategic importance in the Indian economy providing several socio economic benefits. Provision of employment, income and foreign exchange, development or expansion of other industries such as agriculture, construction, handicrafts etc. are some of the important economic benefits provided by the tourism sector. In addition, investments in infrastructural facilities such as transportation, accommodation and other tourism related services lead to an overall development of infrastructure in the economy. According to the World Economic Forum’s Travel and Tourism Competitiveness Report 2013, India ranks 11th in the Asia pacific region and 65th globally out of 140 economies ranked on travel and tourism Competitiveness Index. India

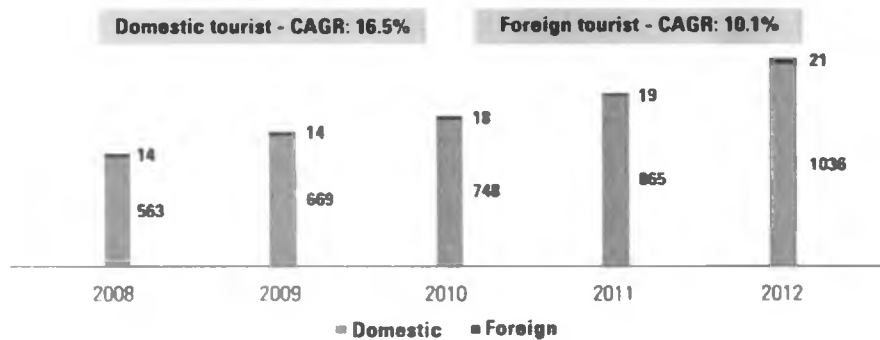
has been witnessing steady growth in its travel and tourism sector over the past few years. Total tourist visits have increased at a rate of 16.3 per cent per annum from 577 million tourists in 2008 to 1057 million tourists in 2012

#### Growth in Number of Tourists

With the international tourist arrivals in India (pegged at 7.5 million in 2013) expected to witness an annual growth rate of 6.2 per cent over the next decade, visitor exports (expenditure generated by foreign tourists) are expected to amount to INR 2,958 billion by 2023 growing at 9.6 per cent per annum<sup>3</sup>. This growth can mainly be attributed to the rising income levels and changing lifestyles, diverse tourism offerings and policy & infrastructural support by the government such as simplification of visa procedures and tax holidays for hotels.

#### Tourist visits in India, (in millions)

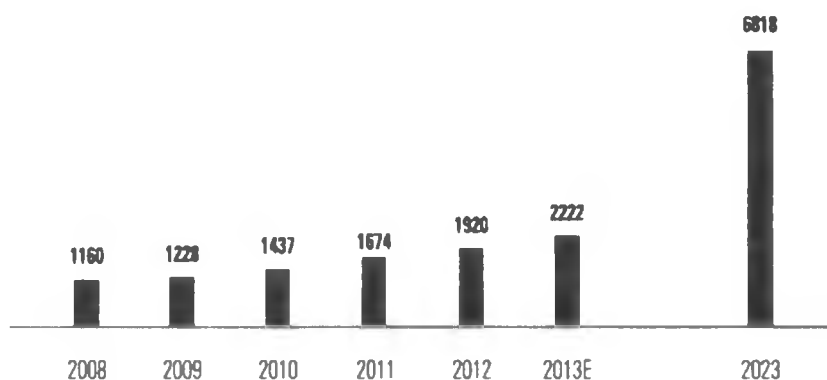
Figure-4.



Source: India Tourism Statistics 2008, 2009, 2010, 2011, Ministry of Tourism <http://tourism.gov.in/writereaddata/CMSPagePicture/file/marketresearch/New/2012%20Data.pdf>

#### Impact of Tourism Sector on GDP

The travel and tourism sector directly contributed INR 1,920 billion to India's GDP in 2012 reflecting a growth CAGR of 14 per cent since 2007. This is forecasted to grow at a CAGR of 12 percent from the estimated INR 2,222 billion in the year 2013 to INR 6,818 billion by 2023.

**Travel and tourism direct contribution to GDP ( INR Billions)****Figure-5.**

*Source:* WTTC travel and tourism Economic Impact 2013- India, Data taken at Nominal Prices.

The graph reflects the direct contribution of the travel and tourism sector, the total contribution is expected to be much higher. In addition to the impact of economic activities directly related to the sector such as accommodation, transportation and entertainment, the total contribution of the sector also takes into account the indirect impacts of investment or supply chain activities and induced income impacts resulting from spending by employees directly or indirectly related to the sector. For details on components of total contribution, such indirect and induced contribution of the industry results in a multiplier<sup>5</sup> impact on the overall economy. Applying this multiplier impact, the total contribution of travel and tourism amounted to INR 6,385 billion in 2012, around 3.3 times its direct contribution. This implies that for every rupee of direct contribution of tourism to GDP, additional 2.3 rupees is contributed to the economy when the indirect and induced effects of tourism are considered.

In the year 2012, indirect and induced contributions amounted to INR 3,500 billion and INR 966 billion respectively. The total GDP contribution is forecasted to rise at a CAGR of 12 per cent over the next decade with indirect and induced contributions forecasted to amount to INR 12,939 billion and INR 3,263 billion respectively by 2023.

**Components of total contribution to GDP**

- **Direct Contribution:** The direct contribution of travel and tourism to GDP is calculated from total internal spending by netting out the purchases made by different tourism sectors such as hotels, airlines, airports, travel agents and leisure and recreation services that deal directly with tourists.

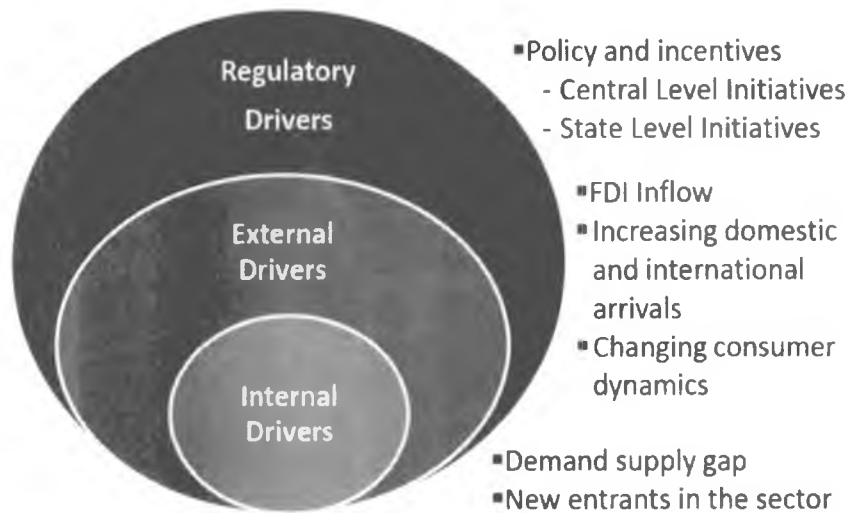


Internal spending is total spending within a particular country on travel and tourism by residents and non-residents for business and leisure purposes as well as government spending on travel and tourism services, directly linked to visitors such as cultural or recreational services.

- **Indirect Contribution:** It consists of the GDP supported by investment activities in travel and tourism sector such as purchase of new aircrafts and construction of new hotels; government collective spending in the sector on areas like tourism marketing and promotion, aviation, administration, security services, resort area security services, resort area sanitation services etc. and domestic purchases of goods and services by the sectors dealing directly with tourists such as purchase of food and cleaning services by hotels, of fuel and catering services by airlines, and IT services by travel agents.
- **Induced Contribution:** It consists of the GDP supported by the spending of those who are directly or indirectly employed by the travel and tourism industry.

**Growth Drivers**

Figure-6.



**1. Regulatory Drivers**

The Government of India has initiated a number of steps to ensure full utilization of the potential that tourism and hospitality holds in India.

### Central Level Initiatives

- Elimination of Custom Duty for Import of equipment and liquor for new projects.
- Capital subsidy program for budget hotels.
- Five year income tax holiday granted to 2-4 star hotels established in specified districts having UNESCO -declared World Heritage Sites.

### State Level Initiatives

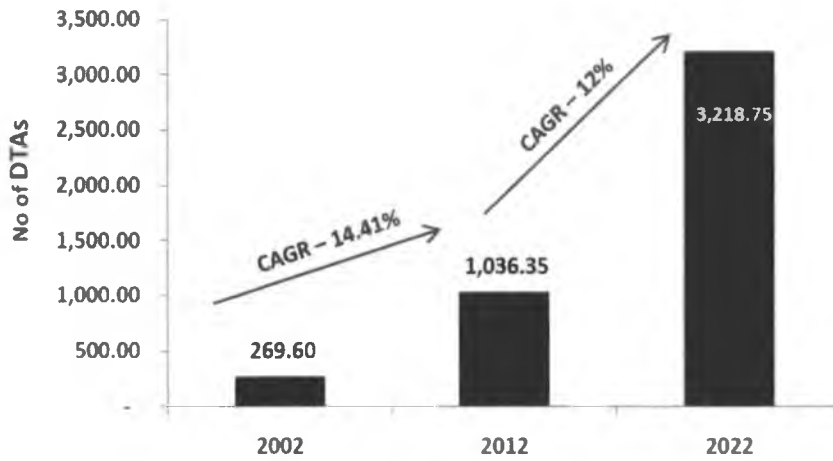
- Exemption of Luxury Tax and Sales Tax for 5-7 Years for new Projects.
- Small capital subsidy for the development of budget hotels.
- Below market rate allotment of land controlled by State for development projects.
- Zonal auction rate has been brought down.

## 2. External Drivers

- **FDI Inflow:** Out of the total FDI inflow in the last decade, the hospitality sector contributed ~ 3 % of the inflow. The hospitality sector requires over US \$ 10 Bn investment in the coming five years for which the government is relying on FDI by making regulatory changes in-line with the past investment trends.
- **Increasing Domestic Travel Visits and Foreign Travel Arrivals (FTAs):**
  - a. **Domestic Travel Visits**

From 269.60 Mn domestic travel visits in 2002, the number rose to 1.04 Bn in 2012. Over the last decade, the domestic travel visits increased by a CAGR of 14.41%. The Ministry of Tourism's vision is to achieve 3.22 Bn travel visits by 2022 with a compounded annual growth rate of 12%.

**Figure-7. Growth in the number of Domestic Travel Visits in India (In Millions)**



Source: Indian Tourism Statistics. Figures in white represent estimates

**b. Foreign Travel Arrivals**

Foreign tourist arrivals (FTAs) grew at a CAGR of 10.70 % during the last decade. In 2012, the Indian tourism and hospitality industry clocked 6.58 Mn FTAs as compared to 2.38 Mn during 2002, growing at the same rate it is expected to touch ~ 18.19 Mn by 2022. The foreign exchange earnings also increased to US \$ 17.78 Bn in 2013 as compared to US \$ 3.10 Bn in 2002.

**Figure-8. Growth in the number of Foreign Travelers in India (In Millions)**

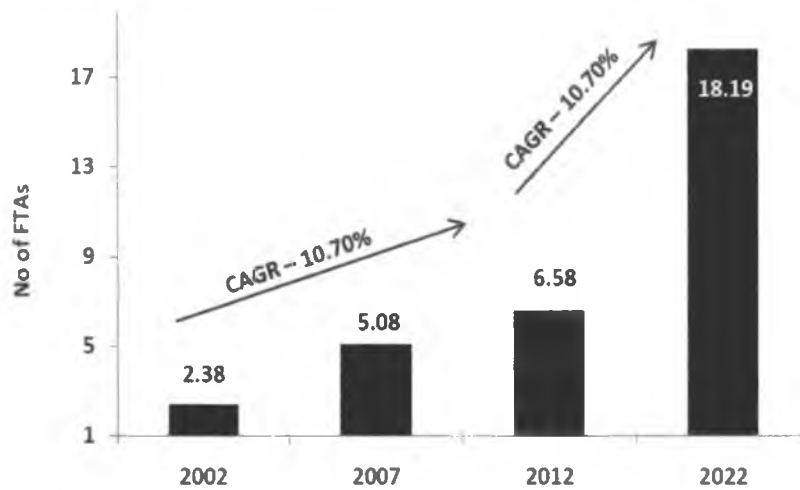
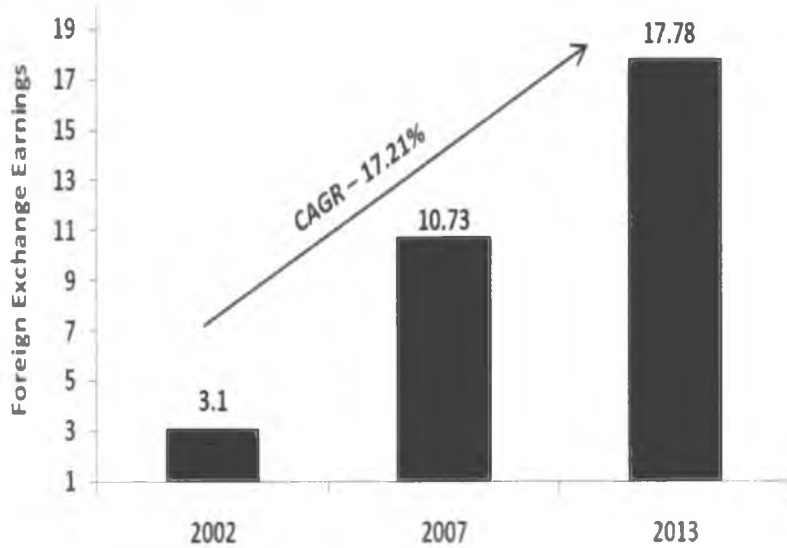


Figure-9. Foreign Exchange Earnings over the last Decade (\$ In Billions)



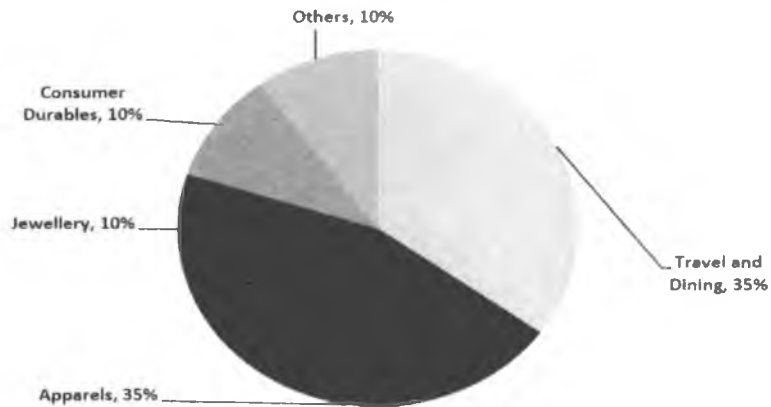
Source: Indian Tourism Statistics. Figures in white represent estimates

c. Changing Consumer Dynamics and New Schemes for Easy Finance

i) Changing Consumer Dynamics

India has the second largest plastic cards base in the Asia –Pacific region. The outstanding plastic cards in 2007 were 130 Mn. and in 2012, the number rose to more than double at 296 Mn. cards. 35 % of those who use plastic cards use it for travel and dining.

Figure-10. No. of Outstanding Cards in 2012: 296 Mn Cards



**ii) New Schemes for Easy Finance**

Players such as Thomas Cook, Co x & Kings and SOTC have tie –ups with ICICI Bank, Citi Bank and Kotak Mahindra to offer “ holiday now... pay later” schemes. These banks also offer a basket of products such as personal loans for the purposes of business, wellness or sports travel.

**3. Internal Drivers**

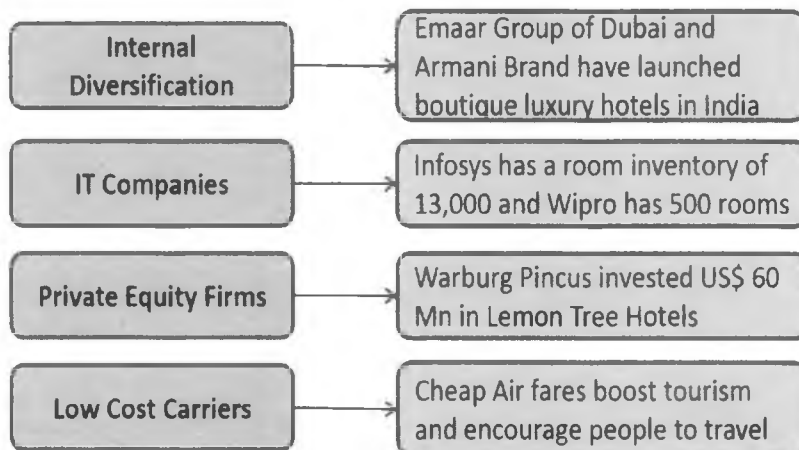
**a) Demand – Supply Gap**

Statistics on the demand and supply for hotel rooms indicate that India currently has around 1,28,000 hotel rooms spread across the various hotel categories, where as the requirement of rooms in India is estimated at more than 2,00,000 rooms. The impact of this demand and supply gap is felt by way of increased room tariff. In metro cities, the room rent shaves imply sky rocketed. This is especially the case with mid segment and budget hotel categories where a large gap in supply exists at the moment.

**b) New Entrants in the Sector**

Apart from the demand and supply gap, there are other internal factors that drive growth for the industry. Healthy performance of the services sector (specially IT and ITes) has led to increased number of business travelers (both domestic and international ) in the country which makes it imperative for such companies to either or build their own hospitality infrastructure or use hotels etc, other such examples are as under:

**Figure-11.**



### Government Initiatives

The Indian government has realised the country's potential in the tourism industry and has taken several steps to make India a global tourism hub. Some of the major initiatives taken by the *Government of India to give a boost to the tourism and hospitality sector of India are as follows:*

1. The Ministry of Tourism plans to revise its guidelines to exempt home stays from service tax or commercial levies and make their licensing process online, which is expected to encourage people to offer home stays to tourists.
2. ITC Ltd has renewed its 40-year partnership with Starwood Hotels & Resorts to operate 11 luxury hotels in India, and three more luxury hotels in Hyderabad, Ahmadabad and Kolkata which will be completed in the next four years, thus increasing the total number of hotels to 15.
3. The e-Tourist Visa (e-TV) scheme has been extended to 37 more countries thereby taking the total count of countries under the scheme to 150 countries.
4. The Union Cabinet has approved the signing of Memorandum of Understanding between the Ministry of Tourism of India and the Ministry of Trade Industry and Tourism of Colombia in order to boost cooperation in the field of tourism between the two countries.
5. The Central Government has given its approval for signing of a Memorandum of Understanding (MOU) between India and Cambodia for cooperation in the field of tourism with a view to promote bilateral tourism between the two countries.
6. Ministry of Tourism has sanctioned Rs 844.96 crore (US\$ 125.26 million) to States and Union Territories for developing tourism destinations and circuits during FY 2014-15, which includes projects relating to Product/ Infrastructure Development for Destinations and Circuits (PIDDC), Human Resource Development (HRD), Fairs and Festivals & Rural Tourism.
7. The Heritage City Development and Augmentation Yojana (HRIDAY) action plans for eight missions cities including Varanasi, Mathura, Ajmer, Dwaraka, Badami, Vellankini, Warangal and Amaravati have been approved by HRIDAY National Empowered Committee for a total cost of Rs 431 crore (US\$ 63.89 million).
8. Government of India plans to cover 150 countries under e-visa scheme by the end of the year besides opening an airport in the NCR region in order to ease the pressure on Delhi airport.

9. Under 'Project Mausam' the Government of India has proposed to establish cross cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.

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