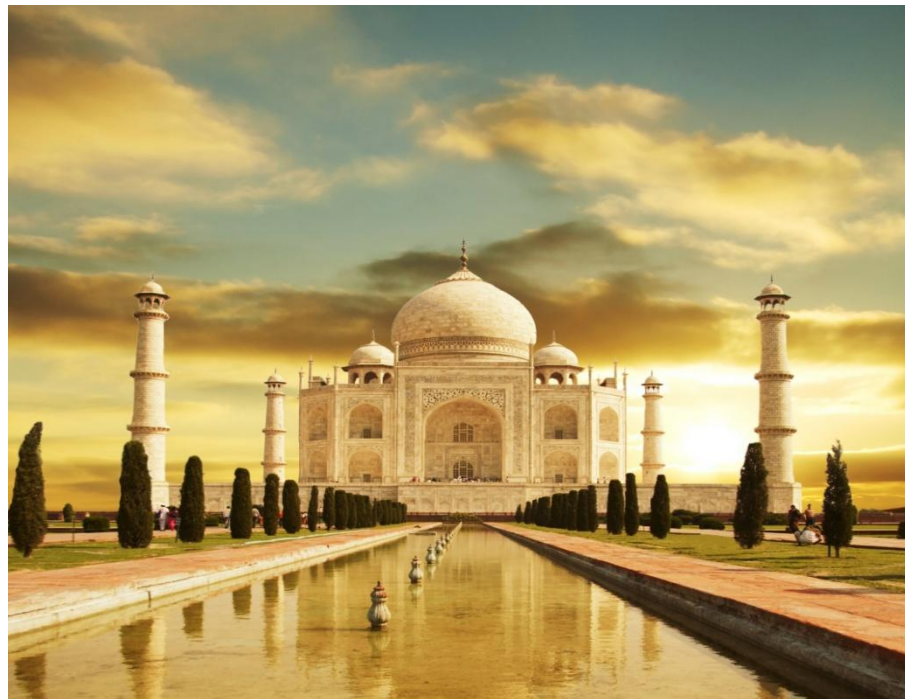




AN HVS WHITEPAPER

Hotel Room Supply, Capital Investment and Manpower Requirement by 2021

INDIA



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Dear Industry Colleagues,

We are pleased to present an HVS White Paper titled "**Hotel Room Supply, Capital Investment and Manpower Requirement by 2021**". This research article is intended to provide answers to perhaps the most frequently-asked questions in the past 15 years that HVS New Delhi has been operational. Around mid-last-year, during one of my trips to the Tourism Ministry, I was once again asked if HVS could carry out some research to scientifically quantify the number of hotel rooms required in the coming years; and also determine the potential employment generation that was likely to result from the addition of these rooms. We have put together all our available resources and databases of historical data to estimate these numbers and have further estimated the total capital requirement for this growing sector till 2021.

We are grateful to the *WTTC – India Initiative* for their wholehearted support of this effort and for providing us important data points that allowed us to study historical tourism numbers and make projections till 2021. We are also thankful to FHRAI for the data it had available that we were able to use, as also to 4-5 senior and distinguished hoteliers who took the trouble of reading through our draft reports and providing feedback.

HVS has always advocated a forward-thinking, cutting edge approach to hospitality. We believe that issues raised in this HVS White Paper are fundamental to the future of the Indian hotel industry in terms of planning. While in recent months the government, and particularly the Tourism Ministry, has made great strides, there is much ground that still needs to be covered. We hope this report services as one of the tools for implementation.

We will like to state that we have carried out our projections based on a certain set of assumptions and that with a possible change of assumptions, our projections may be different. However, we have used our best judgment and relied upon our experience of the Indian hotel industry gained over last 15 years. We hope the Indian hospitality community will be able to utilize this publication to work with the government to find areas where holes need to be plugged and bridges needed to strengthen.

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In a country like India, for the poor, livelihood choices – in employment and entrepreneurship – are constrained by a wide range of interdependent obstacles, ranging from geographic segregation to market failures. This advocates that when we deliberate about poverty alleviation, we should think broadly about creating economic opportunity. Tourism has a wide array of dynamic effects. The growth of Tourism can influence the livelihood strategies of local households, the business climate for small & medium enterprise expansion, the blueprint of growth for the local or national economy, and the infrastructure or natural resource base of the destination.

Tourism is an intensely competitive, focused, rapidly evolving business sector. The qualitative and quantitative characteristics of the supply of accommodation have a direct bearing on the overall success and development of tourism. Therefore, in order to ensure that the supply of accommodation contributes effectively to tourism development plans and objectives, it is rational that the development of the accommodation sector should be the primary element of the overall destination planning process.

WTTC, India Initiative congratulates and commends HVS in putting together this exemplary White Paper, which actually articulates the requirements and the policy support necessary for the growth of the hospitality sector by 2021. The HVS White Paper on "**Hotel Room Supply, Capital Investment and Manpower Requirement by 2021**" is of vital importance for the stakeholders of the tourism sector in India, especially so with the attention and overtures that the sector has received in the 12th Five Year Plan of the Government of India. This Paper will amplify the necessary considerations that the hospitality sector in India has been demanding. Development of hotels is a highly capital intensive activity and new hotel properties typically, have a high break-even point. Therefore, financial flexibility is essential, especially during the early years of operations. The policy makers at the State and Central levels in India have to consider and give this element the requisite push in the planning process.

We would also like to mention here that the **India State Ranking Survey 2011** is another significant work that HVS has introduced. The States and Union Territories should closely examine the parameters on which they are ranked and evolve better mechanisms to promote tourism, which can significantly contribute to the economy of the State. Each of our States and Union Territories has considerable wealth in tourism and opportunities need to be explored in a planned manner.

Very recently the Cabinet Committee on Infrastructure, Government of India has approved Three-star or higher category classified hotels located outside cities with population greater than one million to be included in the Harmonized list of Infrastructure sub-sectors. This will facilitate a synchronized approach among various agencies providing support to hotel infrastructure and drive its development in the best possible manner.

Tourism has an immense potential with incredible opportunities and HVS has rightfully opened the window to this developing scenario.

Vikram Madhok
Chairperson

Sujit Banerjee
Secretary General

Priya Paul
Vice Chairperson

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1. The Impact of Tourism

Tourism is a difficult phenomenon to define, simply because it involves inter-related activities belonging to different industries. An industry typically has a “number of firms that produce similar goods and services and therefore are in competition with one another”¹. Tourism then is not necessarily an industry as it constitutes airlines, hotels, restaurants, travel agencies and other attractions that do not compete with one another. Rather, they complement each other in forming a unified system of activities. A culmination of these activities interacting is what defines tourism. This is supported by the World Tourism Organization (WTO) which defines it as “the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited.”²

While tourism has its positive and negative impacts, it is unarguably a catalyst for the socio-economic progress of a country. More so, for a developing nation, tourism acts as a key driver for the creation of jobs, enterprises, infrastructure development and foreign exchange earnings. The earnings from tourism make it one of the biggest sectors in the world. The sector’s total contribution to the worldwide gross domestic product (GDP) is estimated to be US\$5,991.9 billion or 9.1% of global GDP in 2011. In India, travel and tourism contributed ₹3,680.4 billion or 4.5% of the country’s GDP in 2011³. In addition to tourism’s revenue contribution, it also accounted for 7.5%⁴ of the total employment in the country in 2011.

India has been a late starter as far as tourism is concerned. Post the country’s independence, the government of India focused on developing other industries, such as agriculture, irrigation, power and infrastructure. It was only in 1982, three decades ago, that the first Tourism Policy was drafted and presented in the country. However, it is only over the past two decades that tourism in India has really taken form. Table 1-1 presents the foreign exchange earnings from tourism and the sector’s total contribution to GDP from 1991 to 2011. As highlighted in the table, foreign exchange earnings and total contribution to GDP has grown by a compounded annual growth rate (CAGR) of 15.5% and 10.5% respectively over the past two decades.

¹ Wells, A.T. (1989), *Air Transportation: A Management Perspective*. 2nd ed. Belmont, CA: Wadsworth Publishing Company

² World Tourism Organization, 2000

³ WTTC, Travel & Tourism Economic Impact, 2011

⁴ WTTC, Travel & Tourism Economic Impact 2011

TABLE 1-1 INDIA TOURISM - FOREIGN EXCHANGE EARNINGS & TOTAL CONTRIBUTION TO GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Foreign Exchange Earnings (₹, crore) ¹	4,318	5,951	6,611	7,129	8,430	10,046	10,511	12,150	12,951	15,626	15,083
Total Contribution to GDP (₹, crore) ²	49,784	56,463	59,370	75,709	96,943	1,11,001	1,35,648	1,52,860	1,73,058	1,95,729	1,66,580
	2002	2003	2004	2005	2006	2007	2008	2009ae	2010ae	2011ae	CAGR (1991 to 2011)
Foreign Exchange Earnings (₹, crore) ¹	15,064	20,729	27,944	33,123	39,025	44,360	51,294	54,960	64,889	77,591	15.54%
Total Contribution to GDP (₹, crore) ²	2,03,607	2,38,303	2,67,689	2,32,659	2,46,938	3,59,102	2,67,287	2,70,223	3,22,687	3,68,039	10.52%

¹Source: India Tourism Statistics 2010, FTAs and FEE from Tourism, 2011, Brief Write-up, Ministry of Tourism, Government of India
²Source: WTTC
ae: Advance Estimates

This double-digit growth for both parameters in discussion instantly looks impressive. One would believe that the government has taken several initiatives to promote the sector aggressively in order to have achieved such growth rates. Unfortunately, the reality is that tourism is a state subject in the Indian Constitution and not a central subject. This leads to drafting of endless uncoordinated policies and schemes within the different states with no governance of actual implementation or execution. As highlighted by the *HVS State Ranking Survey 2011* and reproduced in Table 1-2, no state, with the exception of Sikkim, currently spends even 1.0% of its total expenditure on tourism. Thus, tourism in India, which has grown from 162 million travelers in 1997 to 810 million travelers in 2011 (CAGR of 12.3%), has done so virtually on its own.

TABLE 1-2 STATE EXPENDITURE ON TOURISM

	Tourism Spend as a % of Total Expenditure		Tourism Spend as a % of Total Expenditure
Sikkim	1.21%	Himachal Pradesh	0.06%
Jammu & Kashmir	0.59%	Bihar	0.06%
Goa	0.54%	Mizoram	0.06%
Uttarakhand	0.29%	Madhya Pradesh	0.04%
Karnataka	0.22%	Delhi	0.03%
Gujarat	0.16%	Rajasthan	0.03%
Maharashtra	0.15%	Tamil Nadu	0.02%
Arunachal Pradesh	0.14%	Uttar Pradesh	0.02%
Kerala	0.14%	Tripura	0.02%
Jharkhand	0.12%	Haryana	0.02%
Manipur	0.09%	Assam	0.02%
Chhattisgarh	0.09%	West Bengal	0.02%
Nagaland	0.08%	Punjab	0.02%
Meghalaya	0.07%	Andhra Pradesh	0.01%
Orissa	0.07%		

Source: RBI - Handbook of Statistics on State Government Finances

Historically, stakeholders of the tourism sector have consistently focused on the foreign traveler as the main area of growth. This is primarily because international travelers, as a segment, have a high propensity to spend, and

because a majority of the hotels in India are in the luxury and/or first class segment and have demanded high rates.

However, it is the domestic traveler that has constituted the volume of travel and tourism in the country, both today and historically. Table 1-3 presents the breakdown of domestic and international travel in India from 1997 to 2011.

TABLE 1-3 DOMESTIC AND INTERNATIONAL TRAVEL – 1997 TO 2011

	Travelers in India (In Millions)															CAGR (1997 to 2011)
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Domestic	160	168	191	220	236	270	309	366	392	462	526	563	669	740	804	12.23%
International	2.37	2.36	2.48	2.65	2.54	2.38	2.73	3.46	3.92	4.45	5.08	5.28	5.17	5.58	6.19	7.10%
Total	162	171	193	223	239	272	312	370	396	467	532	568	674	746	810	12.17%

As Table 1-3 crystallizes, domestic travel has always exceeded international travel in terms of volume. In the past 15 years, the growth in the number of travelers in India has clearly been dominated by the domestic traveler. This is an apparent by-product of economic development within the country. The domestic traveler today has the propensity and – more importantly – the intent to spend. The hotel industry has, in recent years, woken up to recognize this segment’s growth potential and we are now witnessing a host of branded products that vary across the spectrum of positioning entering the market.

Change in international travel to India has irrefutably shadowed events around the globe. The US recession in 2001 caused a 10.5% decline in international visitation to India over a two-year period. This was followed by five years of robust growth, with international visitation increasing by an average of 16.5% annually. Come 2009, India felt the impact of the global financial melt-down that started in 2008 and the Mumbai terrorist attack as visitation dropped by 2.1%. However, since international travelers amount to less one percent of total travelers, India has not seen a single year of decline in total travel in the country.

India’s share in the global travel pie has modestly grown by a CAGR of 2.8% over the past 15 years and today, travel to the country formulates 0.64%⁵ of global travel. The government of India has taken some initiatives recently that are intended to promote international tourism to the country and increase India’s share in the global travel market. These include introducing a Tourist Visa on Arrival (T-VOA) scheme for the citizens of eleven countries (Finland, Japan, Luxembourg, New Zealand, Singapore, Cambodia, Vietnam, Philippines, Laos, Myanmar and Indonesia) and a moderately higher budget (by ₹1.0 billion) than the previous financial year for the development of tourism infrastructure and promotion.

Considering the way in which travel has grown in the past and factoring in the government’s unassuming efforts towards growth in the sector, the World Travel & Tourism Council (WTTC) has forecasted India’s share of the global

⁵ WTTC, Travel & Tourism Economic Impact 2011

travel pie by 2021. WTTC predicts that by 2021, global travel would have reached 1,362 million travelers. India, according to WTTC, is expected to account for 0.8% of those travelers or 11.1 million international travelers. Table 1-4 presents historical and forecasted data on travel, both in India and globally.

TABLE 1-4 HISTORICAL & FORECASTED TRAVEL

	In Millions								India International as a % of Global	% Variance
	Domestic	% Variance	International	% Variance	Total Travelers in India	% Variance	Global Travelers	% Variance		
1997	160		2.37		162		537		0.44%	
1998	168	5.2%	2.36	-0.4%	171	5.1%	538	0.3%	0.44%	-0.7%
1999	191	13.4%	2.48	5.1%	193	13.2%	553	2.8%	0.45%	2.2%
2000	220	15.4%	2.65	6.9%	223	15.3%	574	3.7%	0.46%	3.1%
2001	236	7.4%	2.54	-4.2%	239	7.3%	563	-1.9%	0.45%	-2.3%
2002	270	14.0%	2.38	-6.3%	272	13.8%	588	4.4%	0.41%	-10.2%
2003	309	14.6%	2.73	14.7%	312	14.6%	651	10.7%	0.42%	3.6%
2004	366	18.5%	3.46	26.7%	370	18.6%	772	18.6%	0.45%	6.8%
2005	392	7.0%	3.92	13.3%	396	7.1%	799	3.5%	0.49%	9.4%
2006	462	18.0%	4.45	13.5%	467	17.9%	845	5.7%	0.53%	7.4%
2007	526	13.9%	5.08	14.2%	532	13.9%	902	6.8%	0.56%	6.9%
2008	563	7.0%	5.28	3.9%	568	6.9%	916	1.5%	0.58%	2.4%
2009	669	18.8%	5.17	-2.1%	674	18.6%	876	-4.4%	0.59%	2.3%
2010	740	10.7%	5.58	8.1%	746	10.7%	935	6.7%	0.60%	1.3%
2011	804	8.6%	6.19	10.9%	810	8.6%	970	3.8%	0.64%	6.8%
2012										
2013										
2014										
2015										
2016										
2017										
2018										
2019										
2020										
2021*	1,735	8%	11.1	6%	1,747	8%	1,362	3%	0.8%	3%

*Figures shown in the variance columns are CAGRs from 2012 to 2021

**India Domestic & Foreign Traveler Actuals are sourced to Ministry of Tourism India

***Global Travelers and global forecasts are sourced to WTTC

While the international visitation to India has been projected by WTTC, HVS has made an assumption that domestic travel will grow at a CAGR of 8.0% thus realizing 1,735 million travelers by 2021. Although domestic travel has grown by a CAGR of roundly 12.0% in the past, India's GDP forecast has continuously been lowered over the past few financial quarters with the most recent forecast at 7.5%. We have therefore chosen to represent a conservative scenario as the current state of the economy is bound to have an impact and have hence assumed an 8.0% growth rate for domestic travel in India.

One Thousand Seven Hundred and Forty Seven Million Travelers!

From the current 810 million travelers to 1,747 million in 2021 – is India equipped to cater to such a volume? India will witness an increase of 937 million travelers over the next ten years which is actually more than what the country caters to today. Do we have the infrastructure needed to support these vast numbers? What is the infrastructure needed? Better air connectivity, better road and rail connectivity, a user friendly process for visa applications, better conservation of heritage sites and monuments, and the organizing of undefined tourism circuits. These are all just a small part of what is needed to support the growing demand from tourism in the country. While all the points mentioned and many more are important for the tourism sector, we, as HVS, can talk about what we know best – hospitality!

We are often asked about the potential of the Indian Hospitality Industry; specifically, the number of hotel rooms the country will need in the next five to ten years. Adding hotel rooms is only one part of the equation. There are two other aspects that are critical to adding hotel rooms – the capital investment required to build those rooms and the manpower required to operate those rooms.

To accommodate 1,747 million travelers by 2021, how many hotel rooms does the country actually need? How much investment is required in the industry and how many people do we need to run these hotels? These three vital questions may be impossible to answer accurately. However, we can make a calculated estimate in order to better prepare ourselves for what is yet to come. To make a 2021 projection for each of these three key considerations HVS has developed a scientific and statistical methodology, which is discussed in detail in the following section.

2. Forecasting Hotel Room Requirement by 2021

Before forecasting the number of rooms needed by 2021, it is imperative to know what the existing stock of hotel rooms is in the country. The truth is that this is an ambiguous number. The Indian Hospitality Industry comprises internationally and domestically branded hotels and independent unbranded hotels and guest houses. While government and private associations and committees attempt to track the count of hotels, the reality is that a majority of the unbranded hotels and guest houses are unaccounted for. While there is no classified source that can validate the total number of hotel rooms in India, speculation has continuously pegged it at roundly 120,000 to 140,000 rooms.

Since opening our India office in 1997, HVS has conducted numerous assignments for major stakeholders of the hospitality industry in the Indian subcontinent, in addition to publishing approximately 100 articles pertaining to the industry. HVS has also been working with the Federation of Hotels & Restaurant Association of India (FHRAI) for fourteen years now and publishes an annual survey of hotel operating results on behalf of the 2,300 members of FHRAI. We have seen the industry experience two business cycles and have practical understanding of how the industry reacts and behaves at various stages of these business cycles. Our extensive work over the past fifteen years has thus resulted in us having the best hotel data available in the country. We have had the luxury of analyzing this wealth of data and breaking it down in every shape and form.

Upon analyzing this data, we have come to a calculated assumption that FHRAI, on average, covers roundly 85% of the total hotel stock in the country. Within the branded space, HVS tracks about 71,500 hotel rooms currently in the country while FHRAI tracks roundly 141,800 branded and unbranded rooms. Table 2-1 presents the room supply tracked by both HVS and FHRAI from 1998/99 to 2010/11.

TABLE 2-1 HVS & FHRAI - HOTEL ROOM SUPPLY – 1998/99 TO 2010/11

	HVS	FHRAI
1998/99	23,185	81,526
1999/00	21,627	86,374
2000/01	24,905	91,294
2001/02	25,592	96,966
2002/03	27,125	97,241
2003/04	28,870	98,722
2004/05	31,234	1,05,070
2005/06	33,501	1,09,392
2006/07	39,285	1,13,910
2007/08	46,982	1,17,502
2008/09	48,475	1,26,552
2009/10	62,404	1,32,786
2010/11	71,531	1,41,772

In order to derive the total existing stock of hotel rooms, we have assumed that FHRAI tracks 85% of the total stock. Thus, an additional 15% has been added to arrive at the total stock and our calculation is presented in Table 2-2.

TABLE 2-2 TOTAL HOTEL ROOM SUPPLY – 1998/99 TO 2010/11

	FHRAI		Total
1998/99	81,526	Assumption: FHRAI represents 85% of the total hotel room stock in the country. Thus, 141,772 rooms plus 15% equals 163,038 rooms in total	93,755
1999/00	86,374		99,330
2000/01	91,294		1,04,988
2001/02	96,966		1,11,511
2002/03	97,241		1,11,827
2003/04	98,722		1,13,530
2004/05	1,05,070		1,20,831
2005/06	1,09,392		1,25,801
2006/07	1,13,910		1,30,997
2007/08	1,17,502		1,35,127
2008/09	1,26,552		1,45,535
2009/10	1,32,786	1,52,704	
2010/11	1,41,772	1,63,038	

Source: HVS Research

Before determining the room requirement by 2021, we need to ask whether the current 163,000 hotel rooms are sufficient to cater to existing and future demand. Do we even need more rooms by 2021? Annual nationwide occupancies have rarely gone beyond 70% in the past thirteen years. So why do we need more rooms?

Looking at the major markets in India, there is currently no city that has branded supply in excess of 13,000 branded rooms. As highlighted by the 2011

Hotels in India Trends & Opportunities report by HVS, Delhi NCR and Mumbai comprise the maximum branded hotel rooms in the country at 12,708 and 11,303 branded rooms respectively. These cities are viewed as the main gateway cities of India and neither one of them houses a substantial branded room inventory when compared to other gateway cities around the world. Table 2-3 highlights the discrepancies between room inventories in Indian cities and global cities.

TABLE 2-3 ROOM INVENTORY COMPARISON

India		Asia Pacific		Global	
Cities	Hotel Room Inventory	Cities	Hotel Room Inventory	Cities	Hotel Room Inventory
New Delhi	12,708	Beijing	1,29,452	Las Vegas, NV	1,41,989
Mumbai	11,303	Tokyo	93,769	Paris	76,048
Bangalore	5,947	Shanghai	61,192	New York, NY	70,420
Chennai	4,066	Hong Kong	50,329	Moscow	55,000
Hyderabad	4,036	Singapore	28,351	Atlanta, GA	39,000
		Tianjin	18,080	Madrid	33,900
				Johannesburg	31,535
				Amsterdam	21,097
Average	7,612	Average	63,529	Average	58,624

Source: HVS Research

Table 2-3 clearly demonstrates the shortage of hotel rooms in Indian cities as compared to other cities across the globe. A further illustration of this is that the Indian average room inventory is less than 15% of the average inventory of Asia Pacific and other Global cities. Taking this comparison even further, we have performed a penetration analysis of rooms to different parameters. The parameters for the selected cities are namely:

- ◆ Population
- ◆ Total air passenger traffic
- ◆ Existing office stock, and
- ◆ Gross domestic product.

The matrices derived from this exercise illustrate the ratio between two variables. For example, if Mumbai has a room penetration of 0.57 per 1,000 persons, it means that for every 1,000 people in Mumbai the city has 0.57 rooms.

All four matrices obtained through this exercise highlight a consistent trend: the Indian cities all have a lower penetration of hotel rooms than other key cities around the globe.

TABLE 2-4 ROOM PENETRATION MATRICES



The data presented in the graphs above is summarized in Table 2-5 below.

TABLE 2-5 ROOM PENETRATION AVERAGES

	Parameters			
	Per 1,000 people	Per 1,000 air passengers	Per 1,000 sq ft of office stock	Per 1,000,000 USD of GDP
Indian Cities Average Room Penetration	0.63	0.52	0.15	0.07
Asia Pacific Cities Average Room Penetration	5.39	1.25	1.23	0.17
Global Cities Average Room Penetration	18.02	1.24	0.70	0.36

Source: HVS Research

As illustrated by Table 2-5, the Indian cities consistently achieve a lower penetration in all four parameters. While the above comparison with other cities is by no means indicative of the number of rooms required within the country, it clearly illustrates the low presence of hotel rooms in India.

The critique of this assessment is that comparing Indian cities with others may not be a good measure of what the potential for India should be as it completely disregards the way demand is changing. HVS has therefore developed a methodology that factors in demand and its seasonality.

Seasonality plays an important role in understanding why annual nationwide occupancies have not generally exceeded the 70% mark. Typically, in a business location, demand starts to pick up on Monday and is at its peak from Tuesday through Friday as most people travel for work during this period. Consequently, Saturday and Sunday witness low levels of demand. In a market that is heavily driven by leisure demand, the inverse may be true. Therefore, if three days of the week (Saturday, Sunday and Monday) face sparse levels of demand, that essentially translates to about 43% of the week wherein occupancies will be low. As a result, even if hotels attain occupancies in the high 80s from Tuesday to Friday, the low occupancies of say 40% during the rest of the week do not allow the weekly average occupancy to go beyond 60% to 65%. The same holds true for different months of the year. The winter months or second half of the financial year almost always witnesses a higher average monthly occupancy than the summer months. Table 2-6 supports our discussion and highlights the variance in weekly and monthly occupancies in a leisure location like Goa as an example. This data has been compiled from the *Indian Hotel Industry Survey 2010/11* report by HVS and FHRAI.

TABLE 2-6 GOA WEEKLY AND MONTHLY SEASONALITY

	<u>Goa Average Daily Occupancy 2010/11</u>
Monday	67.2%
Tuesday	68.4%
Wednesday	68.4%
Thursday	77.5%
Friday	86.6%
Saturday	86.0%
Sunday	74.4%
	<u>Goa Average Monthly Occupancy 2010/11</u>
January	84.4%
February	86.6%
March	84.6%
April	75.6%
May	68.0%
June	64.2%
July	55.8%
August	55.5%
September	74.9%
October	69.0%
November	78.4%
December	74.5%

Average of Five-Star Deluxe & Five Star Hotels

Seasonality therefore limits the nationwide average annual occupancy levels to rarely go beyond 70% as highlighted in Table 2-7.

TABLE 2-7 NATIONWIDE ANNUAL OCCUPANCY

	Growth from 1998/99 to 2010/11 (CAGR%)		7%
	Total Number of Hotel Rooms	Market wide Occupancy	Accommodated Room Nights
1998/99	93,755	55%	1,89,58,178
1999/00	99,330	54%	1,95,41,707
2000/01	1,04,988	57%	2,19,19,416
2001/02	1,11,511	52%	2,10,01,963
2002/03	1,11,827	57%	2,33,47,272
2003/04	1,13,530	65%	2,68,52,187
2004/05	1,20,831	69%	3,04,31,161
2005/06	1,25,801	72%	3,28,30,864
2006/07	1,30,997	71%	3,41,38,998
2007/08	1,35,127	69%	3,39,33,168
2008/09	1,45,535	60%	3,20,31,482
2009/10	1,52,704	65%	3,62,29,000
2010/11	1,63,038	68%	4,04,65,982
2011/12	1,63,038	73%	4,32,98,601
2012/13	1,63,038	78%	4,63,29,503
2013/14	1,63,038	83%	4,95,72,568
2014/15	1,63,038	89%	5,30,42,648
2015/16	1,63,038	95%	5,67,55,633
2016/17	1,63,038	102%	6,07,28,527
2017/18	1,63,038	109%	6,49,79,524
2018/19	1,63,038	117%	6,95,28,091
2019/20	1,63,038	125%	7,43,95,057
2020/21	1,63,038	134%	7,96,02,711

So, if there are days in the week and months in the year that hotel rooms are empty and available, why do we need more rooms? When we analyze the growth in accommodated room nights over the past 13 years, we realize that it has actually grown by a CAGR of 7.0%. In a conservative scenario, if we assume that demand or accommodated room nights will continue to grow as they have in the past and supply stays stagnant, market wide occupancies will exceed 100% by 2016/17. Now this of course is not possible. In fact, as discussed previously, due to the nature of seasonality in the Indian Hotel Industry, even nationwide annual occupancies in the high 80s or 90s (as shown in table 2-7) are generally not attainable. Therefore, it is evident that the Indian Hotel Industry needs more hotel rooms going forward. Quantifying how many hotel rooms are needed is what this study aims to do.

The Relationship between Travel and Hotel Rooms

This study has thus far attempted to analyze the growth in travel and relate that to the growth required in the number of hotel rooms. Before proceeding further, we need to address whether there is indeed a significant relationship

between these two variables, whether they are co-dependent or not and if they are, to what degree?

Quantitative methods or statistical analysis, as it is more commonly known, is a good tool for forecasting and analyzing data. While there are multiple statistical methods that may be used, we have chosen to rely primarily on one method, namely Regression Analysis. This method allows us to do more than study the two variables - number of travelers and number of hotel rooms – as isolated single variables; it enables us to look at how one variable is related to the other – what statisticians call *regression*. To illustrate, consider how the existence of hotel rooms depends on whether people are traveling to the particular location or not. If we graph the supply of hotel rooms and the number of travelers over the years, a trend line as shown in Table 2-8 may be observed. From this trend line, it seems clear that the two variables do impact one another and it should be possible to describe how, by applying a *simple regression* of one variable against the other.

TABLE 2-8 OBSERVED RELATION OF THE SUBJECT VARIABLES



As the above graph highlights, the existence of hotel rooms is dependent on the number of travelers as they determine the level of demand. Therefore, the number of hotel rooms is called the *dependent variable (Y)*. Since the number of travelers is not dependent on the number of hotel rooms (although it might be moderately dependent as so many other factors impact the decision to travel), it is called the *independent variable (X)*.

Linear regression is based on the following equation:

$$y = ax + b$$

y: dependent variable

a: slope

x: independent variable

b: intercept

The technique of regression simply calculates the coefficients a (slope) and b (intercept) for a given set of data, by using the method of 'the least squares'. It then estimates the critical probability (p-value) that the value of the coefficient could be 0. If $a=0$, then the variables in question are independent and thus, there is no relationship between them. We use this as the basis of our decision rule. The regression procedure is outlined below:

1. Formulate the initial hypotheses:
 - a. Null hypothesis $\rightarrow H_0: a=0$
 - b. Alternative hypothesis $\rightarrow H_A: a \neq 0$
2. Calculate the p-value
3. Establish a significance level (SL) and a confidence interval (usually start with a SL of 5% and CI of 95%)
4. Decision rule:
 - a. If p-value is $>$ SL, accept H_0
5. If the results are unsatisfactory, adjust the SL and redo the regression

We have chosen to run the regression at a significance level of 5% with a confidence interval of 95%. Table 2-9 presents the outcome of the regression analysis between total number of travelers in India and total number of hotel rooms in India, along with an explanation of the results obtained.

TABLE 2-9 SUMMARY OUTPUT OF REGRESSION ANALYSIS

Regression Statistics	
Multiple R	99.2%
R Square	98.4%
Adjusted R Square	98.3%
Standard Error	2,739.764
Observations	13

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	5,21,29,86,466	5,21,29,86,466	694	0.00000%
Residual	11	8,25,69,372	75,06,307		
Total	12	5,29,55,55,837			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	78,669.75	1,872.40	42.02	0.00000%	74,548.62	82,790.88	74,548.62	82,790.88
X Variable 1	101.07	3.84	26.35	0.00000%	92.63	109.51	92.63	109.51

R Square: What % of the change in the dependent variable is explained by the variation in the independent variable. The higher the R Square, the stronger the value.

Significance Factor: Probability that the X-Y relationship happened by chance.

The equation of the line

P-value: Probability that the value of the coefficient is zero (accept if greater than the required significance level) Shows how significant the independent variable is.

As highlighted by Table 2-9, 98.4% of the change in hotel room inventory can be explained by the change in the number of travelers. The significant factor (which is different from significance level), is 0% which means that this relationship is not a one-time phenomena. Lastly, the p-value is also 0% which is lower than the significance level of 5% that is required by us. Therefore, we reject the null hypothesis and accept the alternative hypothesis that there is dominant relationship between X and Y.

Forecasting Hotel Room Requirement

As the previous section has crystallized, growth in the number of travelers and hotel room supply is closely correlated. As a quick thumb rule calculation, we can use the current ratio of travelers-to-rooms to calculate the minimum number of rooms required by 2021.

Theoretically, the travelers-to-rooms ratio should be adjusted downwards in order to reflect the maturing nature of the industry. However, despite keeping the ratio constant and thus presenting a conservative scenario, India would still need roundly 188,500 additional hotel rooms by 2021. Table 2-10 presents the thumb rule calculation.

TABLE 2-10 THUMB RULE CALCULATION

Total travelers in 2011 (Domestic & International)	810 Million
Existing stock of Hotel Rooms (Branded & Unbranded)	1,63,038 Rooms
Ratio of Travelers to Hotel Rooms	4,969
Total travelers by 2021 (Domestic & International)	1,747 Million
Keeping the Ratio of Travelers to Hotel Rooms Constant - Total Rooms Required by 2021	3,51,540 Rooms
Additional Rooms Required	1,88,502 Rooms

Needless to say, the thumb rule calculation is too simplistic as it disregards variations in demand patterns and does not factor in the maturing of the industry. Alternatively, HVS uses the total accommodated room nights as a starting point to reflect demand. Accordingly to HVS research, the total accommodated room nights in 2010/11 were close to 40,466,000 derived as a result of nationwide occupancy levels of 68%.

In order to arrive at what the accommodated room nights would be in 2021, we need to apply a growth rate to the existing 40,466,000 accommodated room nights. The choice of a growth rate for any forecasting exercise can be highly subjective. Therefore we have selected two parameters on which to base our growth rate assumption:

1. Average pace of growth of the Indian economy over the past 10 years.
2. Average growth in accommodated room nights over the past 10 years.

Table 2-11 illustrates the average growth for both these parameters.

TABLE 2-11 AVERAGE GROWTH IN GDP AND ACCOMMODATED ROOM NIGHTS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Average growth
Real GDP (% change pa)	5.22%	3.77%	8.37%	8.30%	9.30%	9.44%	9.63%	5.06%	9.11%	8.81%	7.10%	7.65%
Accommodated Room Nights (% change pa)	12.17%	-4.19%	11.17%	15.01%	13.33%	7.89%	3.98%	-0.60%	-5.60%	13.10%	11.70%	7.09%

Source: HVS research and EIU

Assuming that demand for hotel rooms grows at a similar pace as the economy and taking into consideration how demand has grown historically, we have applied an annual growth rate of 7.0% to the current total accommodated room nights to arrive at the total accommodated room nights in 2021. Nationwide occupancy levels have been maintained at a constant 68% to account for seasonality trends and to represent a conservative scenario. Table 2-12 presents our findings.

TABLE 2-12 FORECAST OF ROOM REQUIREMENT BY 2021

Total travelers in 2011 (Domestic & International)	810 Million	
Existing stock of Hotel Rooms (Branded & Unbranded)	1,63,038 Rooms	
Ratio of Travelers to Hotel Rooms	4,969	
Total travelers by 2021 (Domestic & International)	1,747 Million	
Keeping the Ratio of Travelers to Hotel Rooms Constant - Total Rooms Required by 2021	3,51,540 Rooms	
Available Room Nights in 2010/11	5,95,08,797	
Nationwide occupancy in 2010/11	68%	
Accommodated Room Nights in 2010/11	4,04,65,982	
	2010	4,04,65,982
	2011	4,32,98,601
	2012	4,63,29,503
	2013	4,95,72,568
	2014	5,30,42,648
	2015	5,67,55,633
	2016	6,07,28,527
	2017	6,49,79,524
	2018	6,95,28,091
	2019	7,43,95,057
	2020	7,96,02,711
	2021	8,51,74,901
	Growth Rate	7%
Available Room Nights by 2021	12,52,57,208	
Total Number of Rooms Required by 2021	3,43,170 Rooms	
Existing stock of Hotel Rooms (Branded & Unbranded)	1,63,038 Rooms	
Therefore: Additional Rooms Required	1,80,133 Rooms	

This methodology is undoubtedly subject to certain assumptions made by HVS; namely the growth rate at which demand is likely to grow. As it is almost impossible to accurately predict the room requirement in the country ten years later, our objective is so be as close as possible. The intention is to provide an indicative range based on certain assumptions. While we are of the opinion that demand will grow faster than 7.0% in the coming years, the growth is likely to slow down as the industry enters a maturing phase later, thus averaging at roundly 7.0%. Therefore, we have duplicated the exercise presented in Table 2-12 and applied different growth rates to determine what the range of requirement is. Our findings are summarized in Table 2-13.

TABLE 2-13 RANGE OF ROOM REQUIREMENTS BY 2021

Growth Rate	Additional Rooms Required	Total Rooms Required
5%	1,15,812	2,78,850
6%	1,46,457	3,09,494
7%	1,80,133	3,43,170
8%	2,17,107	3,80,145
9%	2,57,669	4,20,707

We believe that using a 7.0% growth rate represents a realistic scenario given the historical average growth rates discussed previously. Thus, for all calculation purposes going forward, we have used the room requirement (180,133 additional rooms) generated through a 7.0% annual growth in demand as summarized in Table 2-13.

For India to have roundly 180,000 additional hotel rooms in ten years, they would, ideally, all need to be announced if not be under construction in the next seven years, given that the average time taken to construct a hotel is three years. According to HVS's *2011 Hotels in India – Trends & Opportunities* report, there are roundly 102,500 rooms proposed in the next five years. Of this, the active supply is close to 61,500 rooms. Essentially, this means that supply would need to grow approximately three-fold in order to meet anticipated levels of demand.

Branded versus Unbranded Hotel Supply

Over the past decade, India has witnessed a host of international brands enter the market while the Indian brands have also considerably grown their presence. This shift in the available product mix is reflective of the maturing of the Indian Hotel Industry and highlights the fact that India is a prominent market much sought after by international brands.

The Indian Hospitality Industry today has the largest branded hotel room supply than ever in the past. The branded-to-unbranded rooms' ratio currently stands at 0.44 compared with 0.25 in 1998/99. The transition of room supply from unbranded to brand-affiliated is expected to continue with international brands showing great interest in having a presence in India, especially in the budget and mid-market segments. This was not the case earlier: in fact, with the exception of Accor Hospitality's Ibis and Hilton International's Hampton Inn brands, which opened in 2008 and 2012 respectively, most international brands do not have an existing budget product in the country. Several such new hotels are under construction, however, or their project plan is being formalized. Branded budget hotels typically have more rooms per hotel than a first class or luxury hotel, and can be built faster and cheaper, in multiple micro-markets, as well as in most tier I, tier II and tier III cities in the country. The upsurge of these budget hotels will be the driving force for branded room supply simply because of the sheer number of rooms.

TABLE 2-14 BRANDED-TO-UNBRANDED HOTEL ROOM RATIO

CAGR (1998/99 to 2010/11)		4.9%
		Branded vs. Unbranded
1998/99		25%
1999/00		22%
2000/01		24%
2001/02		23%
2002/03		24%
2003/04		25%
2004/05		26%
2005/06		27%
2006/07		30%
2007/08		35%
2008/09		33%
2009/10		41%
2010/11		44%
2011/12		46%
2012/13		47%
2013/14		49%
2014/15		51%
2015/16		53%
2016/17		56%
2017/18		58%
2018/19		60%
2019/20		62%
2020/21		65%
CAGR (2011/12 to 2020/21)		4.0%

Source: HVS Research

Assessing the data presented in Table 2-14, the ratio has, on average, grown by 4.9% every year from 1998/99 to 2010/11. The past five years have witnessed the strongest increases in the ratio as most international brands entered the Indian market during this time. The growth in branded supply is currently at its peak with 2009/10 witnessing a 23% increase in the branded-to-unbranded ratio. Therefore, going forward we believe that the branded-to-unbranded ratio is likely to experience the normal stages of a bell curve and witness a moderately lower compounded annual rate over the next ten years. We have thus applied a 4.0% annual growth rate to the ratio for the next ten years. This increases the ratio to 0.65 by 2021 which means that for every one unbranded hotel room there will be 0.65 branded hotel rooms in the country.

Consequently, of the total room requirement of 343,000 rooms (as discussed in the preceding section), roundly 222,900 rooms are anticipated to be either internationally or domestically branded.

Breakdown of Hotel Rooms by Positioning

Over the years that HVS has been in India, we have been tracking the development of new supply very closely. Our tracking approach is rigorous and a lot of effort goes into verifying many of these projects across various cities in

term of their development stage. Our tracking omits any flippant statements made to the media or announcements made by real estate developers to promote their brand and, therefore, get greater visibility. Since we can only track new developments once they are under construction or in the early stages of development, our supply pipeline is based on actual data spanning the next five years, till 2015/16. We therefore know the actual breakdown by positioning of the branded segment till 2015/16. As published in our *2011 Hotels in India – Trends & Opportunities* report, the positioning of the under construction hotel assets currently stands at the following:

- ◆ **Luxury** - 16.3%
- ◆ **Upscale** - 29.5%
- ◆ **Mid-Market** - 38.2%
- ◆ **Budget** - 13.0%
- ◆ **Extended Stay** - 3.0%

The above distribution of course applies only to the proposed branded supply over the next five years. In order to arrive at what the breakdown of hotel room positioning will be by 2021, we need to do two things: adjust the above distribution of branded supply to reflect ten years and account for the unbranded segments' breakdown of positioning.

Based on our understanding of the branded hotel segment in India and from our discussions with hotel brands and developers, we have applied a set of adjustment factors to the five levels of positioning to arrive at the breakdown of hotel room positioning for the branded segment. The data is summarized in Table 2-15.

TABLE 2-15 DISTRIBUTION OF PROPOSED BRANDED SUPPLY BY 2021

	Luxury	Upscale	Mid-Market	Budget	Extended Stay	Total
Distribution of Proposed Branded Supply by 2015/16	16.3%	29.5%	38.2%	13.0%	3.0%	100.0%
<i>Adjustment Factor</i>	<i>-15.0%</i>	<i>-15.0%</i>	<i>10.0%</i>	<i>20.0%</i>	<i>10.0%</i>	
Distribution of Proposed Branded Supply by 2021	14.0%	25.0%	42.0%	16.0%	3.0%	100.0%
Total rooms required by 2021	3,43,170					
Existing Branded Rooms	71,531					
Total Branded Rooms by 2021	2,22,869					
Therefore: Proposed Branded Rooms	1,51,338					
	Luxury	Upscale	Mid-Market	Budget	Extended Stay	Total
Distribution of Proposed Branded Supply by 2021	21,187	37,834	63,562	24,214	4,540	1,51,338

As discussed previously, the mid-market and budget segments are expected to witness the highest increase in the branded supply pie. We have already started seeing this happen when we compare the distribution of proposed supply today as compared to previous years. This is the first year that proposed supply in the mid-market and budget segment collectively comprise over 50% of the total branded supply pipeline.

Within the unbranded space today, a majority of the hotels are in the mid-market and/or budget segment. Going forward, it is unlikely that this trend will change. Therefore, for the breakdown of hotel rooms within the unbranded segment, we have made an assumption that 75% of the supply will be within the budget segment and 25% within the mid-market segment. This assumption is based on the current breakdown and we do not anticipate it to change drastically going forward. Table 2-16 outlines the breakdown by positioning of the total additional 180,000 rooms that are required by 2021.

TABLE 2-16 DISTRIBUTION OF TOTAL NEW PROPOSED SUPPLY BY 2021

Total rooms required by 2021	3,43,170						
Existing Branded Rooms	71,531						
Total Branded Rooms by 2021	2,22,869						
Therefore: Proposed Branded Rooms	1,51,338						
Additional Rooms Required by 2021	1,80,133						
Therefore: Proposed Unbranded Rooms	28,795						
		Luxury	Upscale	Mid-Market	Budget	Extended Stay	Total
Distribution of Proposed Unbranded Supply by 2021	-	-	7,199	21,596	-	-	28,795
Distribution of Proposed Branded Supply by 2021	21,187	37,834	63,562	24,214	4,540	-	1,51,338
Distribution of Total Proposed Supply by 2021	21,187	37,834	70,761	45,810	4,540	-	1,80,133
<i>As a % of the total additional supply</i>	<i>11.8%</i>	<i>21.0%</i>	<i>39.3%</i>	<i>25.4%</i>	<i>2.5%</i>	<i>-</i>	100.0%

3. Forecasting Capital Investment Requirement by 2021

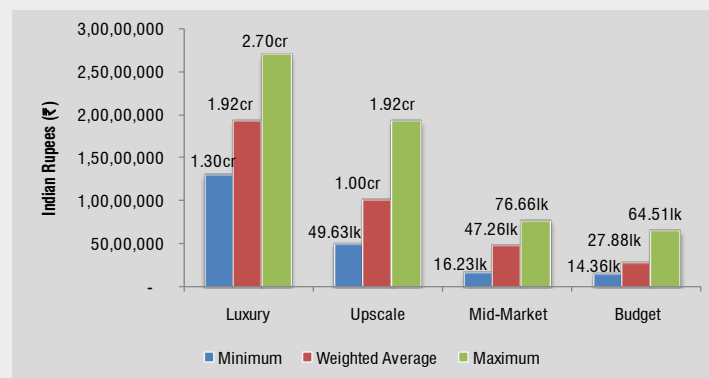
At HVS, we are approached everyday by developers, banks, private equity funds and high net worth individuals and they all essentially talk to us about money! At the end of the day, the hospitality business is a business. While there are some owners that build hotels for aspiration purposes, a hotel owner, typically, does care about how much they spend on building a hotel and do expect a decent return on their investment. Of course, how one defines a decent return is arguable. Talk to a private equity fund and a decent return means 30% with a short exit period. A high net worth individual, on the other hand, may be happy with an 18% return with a relatively longer holding period.

The holding period is an important consideration, especially when it relates to the term of the loan. Up until recently, the industry has mostly seen banks lending on a 10 year term where the amortization starts from day one. In most scenarios, a new hotel is unlikely to be able to achieve a noteworthy EBIDTA level in the first year or two, let alone furnish a high debt service. The annual debt service in India tends to be high when compared to other parts of the world and this is primarily due to two reasons: the high interest rate in India, which swells the total interest cost, and a short amortization period of 10 years, which translates into a high annual debt service that is difficult for most hotels to furnish. From our discussions with the various financial institutes that lend for hotel projects, we understand that they are now flexible about increasing the amortization period to 14 years. Therefore, since the loan does not fully amortize over the 10 year holding period of the asset, a balloon payment is required at the time of exit to repay the balance amount of the loan. This entire process helps reduce the annual debt service amount for a hotel and makes the project more feasible.

Hotel developers have also started to explore the option of external commercial borrowings (ECB), which essentially gives access to foreign money through a commercial loan from a non-resident. The immediate advantage most borrowers see is that foreign debt is typically cheaper than Indian debt. Most ECBs, if they are hedged appropriately, effectively end up being 150 to 200 basis points lower than what one would have access to in the Indian market. However, there are inherent risks involved with ECBs that most developers do not perceive in the beginning. The borrower is specifically exposed to foreign exchange risk if the loan is unhedged and is generally more exposed to overall market risk. More often than not, when borrowing through an ECB, companies tend to take a higher amount of debt which may increase the actual cost of borrowing and thus defeats the purpose of the ECB in the first place. Nonetheless, when the loan is hedged properly, it can help reduce the annual debt service of a hotel and thus make the project more feasible.

While the interest rate and the term of the loan are factors that developers have limited control over, the phase of construction is largely in their hands, allowing developers to control how much they spend. As highlighted by our *2010 Hotel Development Cost Trends in India* survey, building and material costs have escalated over the past two to three years primarily due to rising inflation. HVS's *Hotel Development Costs Trends in India* survey in 2010 covered a sample set of over 9,000 hotel rooms that opened between 2009 and 2010. Today, we have additional data and our sample set includes roundly 18,400 hotel rooms from 118 hotels that have opened in the last four years across different levels of positioning. Table 3-1 presents the average development costs per room incurred by these hotels (excluding land cost).

TABLE 3-1 AVERAGE DEVELOPMENT COST PER ROOM (EXCLUDING LAND)



Using the data outlined in Table 3-1, we have applied the average development cost per room to the additional number of rooms required by 2021. This exercise highlights that the hotel industry will contribute roundly US\$25.5 billion in pure construction cost (excluding land) to the economy. Table 3-2 presents our methodology for deriving the construction cost of the additional 180,000 rooms required by 2021.

TABLE 3-2 CAPITAL INVESTMENT REQUIRED BY 2021 (EXCLUDING LAND)

Additional Rooms Required by 2021		1,80,133 Rooms				
Distribution by Positioning		11.8%	21.0%	39.3%	25.4%	2.5%
		Luxury	First Class	Mid-Market	Budget	Extended Stay
Additional Rooms Required by 2021		21,187	37,834	70,761	45,810	4,540
Total Development Cost Per Room (₹)		1,92,12,896	1,00,41,695	47,26,473	27,88,590	60,00,000
Investment Per Positioning (₹)		4,07,06,90,00,000	3,79,92,20,00,000	3,34,44,80,00,000	1,27,74,60,00,000	27,24,10,00,000
Investment Breakdown Per Positioning (%)		32%	30%	26%	10%	2%
Additional Investment in Hospitality by 2021 (₹)	12,76,42,60,00,000	or roundly 127,600 cr				
Additional Investment in Hospitality by 2021 (US\$)	25,52,85,20,000	or roundly 25.5 billion				

The extended stay segment is a recent phenomenon in India. Due to a lack of sufficient data (because there are such few products of this nature) it is difficult to benchmark against any existing product. However, from our understanding with developers that are currently building such products, we have assumed a development cost per key of ₹60,00,000. This is an average cost of extended stay products which includes properties of different positioning levels. We are of the opinion that as this segment grows forward, it will segregate further into different categories of positioning.

Assuming a loan-to-cost ratio of 1:1 for the \$25.5 billion requirement, financial institutes would need to lend \$12.75 billion in the next ten years for the construction of these hotel rooms. It is to be noted that the figures presented above are deflated as they only highlight the construction cost. In reality, the cost of land, which typically makes up 30% of the total development cost of a hotel, would need to be added in order to accurately highlight the total investment required by the development of these additional hotel rooms.

4. Forecasting Manpower Requirement by 2021

Finding the right source and amount of capital is just one of the challenges that a hotel developer faces. Ask any stakeholder of the Indian hospitality industry and they will tell you that lack of qualified manpower is one of the biggest challenges faced by the industry today. By the very nature of hospitality being a service industry, its efficient administration and successful operation depend largely on the quality of manpower. With the expansion of branded supply of an international standard, the demand for skilled and experienced staff is at an all-time high. The hospitality industry is a labor intensive industry, and low pay packages, long working hours, six-day work weeks and lack of personal growth are all commonly associated with the hotel sector.

A critical question then is, in light of all these hotel rooms that will be needed in the future, do we have enough qualified and skilled people to work in these hotels? Compensation levels have improved across the board and this is primarily due to a demand-supply imbalance of qualified and skilled manpower. Payroll costs, one of the single-largest costs to contend with, have compelled hotels across the country to emphasize on optimal levels of manpower. Using the current Manpower-to-Rooms ratio as presented in the *2011 HVS Indian Hotel Industry Manpower Survey*, we have forecasted the number of employees needed in each level of hotel positioning. It is to be noted that current ratios have been used and not those that are recommended or are considered standard in other parts of the world. Table 4-1 presents our findings.

TABLE 4-1 MANPOWER REQUIRED BY 2021

	Luxury	First Class	Mid-Market	Budget	Extended Stay	Total
Additional Rooms Required by 2021	21,187	37,834	70,761	45,810	4,540	1,80,133
Manpower-to-Room Ratio	2.70	2.11	1.52	0.72	1.50	
Ratio Breakdown:						
Managers	0.35	0.26	0.19	0.09	0.18	
Supervisors	0.30	0.28	0.20	0.13	0.20	
Associates	2.05	1.57	1.13	0.51	1.12	
Additional Manpower requirement by 2021	57,206	79,831	1,07,556	32,983	6,810	2,84,386
Manpower Breakdown:						
Managers	7,458	9,807	13,378	4,102	837	35,582
Supervisors	6,265	10,592	13,913	5,743	904	37,416
Associates	43,482	59,432	80,266	23,138	5,070	2,11,387

Source: 2011 Indian Hotel Industry Manpower Survey, HVS

If one looks at the additional hotel manpower required in the next ten years, it does not appear to be an ambitious number. It is essentially 21,200 people a year. According to the *All India Council for Technical Education (AICTE)*, India has roundly 140 approved hotel management institutes. Factoring in the

permissible intake for each institute, there are about 10,000 students graduating with either a degree or diploma in hospitality every year. Not only does this number fall significantly short of the annual demand for hotel manpower, but also not all 10,000 new graduates have the desired skill set and, in fact, many are not even considered hireable by most hotel companies. A number of graduates also get hired by retail companies and travel agencies and by the airline and business process outsourcing industries. There are, thus, the following concerns: are the existing hotel management institutes doing enough to ensure that their students graduate with the expected entry-level skills and training? Does the industry, to begin with, have enough qualified and experienced teaching staff and up-to-date training facilities, technologies and material? Are the fresh-out-of-school graduates armed with all the tools and soft skills necessary in a rapidly-evolving, fast-growing industry? The shortfall is on all levels and not just in the absolute number of graduates that the country is producing.

This discrepancy in the expected and the actual level of skill set poses as a significant problem for Human Resource executives. Due to an insufficient skill set to begin with, new recruits struggle to develop the required skill set to move up to mid-level and/or high-level executive positions. Essentially, this leads to a small talent pool for HR managers to poach from for senior level positions. It is safe to say, that the industry almost needs two types of schools to cater to the impending demand; 1) a skills-oriented training academy and 2) a high quality managerial academy. The availability of skilled and trained manpower is a crucial element in the successful long-term development and sustainability of a tourist destination. Needless to say, there is dire need for better trained and qualified graduates to enter the industry in order to meet the manpower requirement by 2021.

5. What does the Tourism Sector need from the Government?

In ten years, the hospitality sector in India will need 180,000 additional rooms, \$25.5 billion for constructing these rooms and about 211,000 people to operate them! Will the sector actually be able to deliver? The tourism sector has grown historically without any substantial help from the government. If there is not a fundamental change in the government's attitude towards the tourism sector as a whole, none of the three requirements outlined in this report will be attainable on time. Discounting the sector's monetary contribution, tourism supplies employment for 7.5% of the country. Furthermore, the sector's indirect benefits are immense and have not been accounted for at all. According to a study by the World Bank, the results suggest that in developing countries, other than tourism's direct effects, the sector contributes 60%-70% additionally in inter-sectoral benefits.

The government's almost negligible effort towards tourism over the years is bound to slow down the growth of the untapped potential of the sector and the economy at large. The only effective initiative from the government's end was perhaps the Incredible India campaign, which was launched in the mid-90s – over a decade ago. The campaign needs a revamp, possibly as Incredible India 2.0, and needs to be re-organized in order to better address the challenges faced by the tourism sector today.

Development of the tourism sector's potential is bound to have a trickledown effect through the entire value chain of the system, positively impacting employees, suppliers, retailers, customers, and beneficiaries and empowering them to build their economic and human capital assets.

We, at HVS, have therefore put together a bucket list of things that we would like executed by the government of India. While this list is not exhaustive, it highlights the main pain points faced by the tourism sector today. Table 5-1 outlines our immediate demands from the government.

TABLE 5-1A EXPECTATION FROM THE GOVERNMENT OF INDIA***Financial Impact***

Grant **infrastructure status** for the industry. This will give developers access to a higher debt to equity ratio of up to 4:1, a longer amortization tenure of 15 years, lower interest rates on term loans and the ability to avail ECBs up to US\$500 million. Collectively, this will help make hotel projects more feasible as they typically have long gestation periods and are very capital intensive.

Rationalization of taxes levied on the sector as a whole, including taxes on accommodation, transportation, restaurants, alcohol and catering. These include service tax, luxury tax, custom duty, excise duty, VAT/sales tax, tax on transportation, tax on aviation turbine fuel, and various other taxes on transportation. The rationalization of taxes will immensely help in remaining competitive with other destinations in Asia that have a low level of taxation.

Standardization of tax policies across the different states in the country.

Incorporate a **one-time fee on the sale of a tourist vehicles**. Taxation at every border and/or toll is cumbersome and tedious.

Higher **budgetary allocation** towards tourism from most state governments.

Impact of Policies

Tourism plans to be integrated into the overall **National Policy** of the country in a more aggressive manner.

Encourage **business models through regulatory and public policy**. These can include preferred status for new contracts, tax incentives etc.

Relaxation of land policies in most states, including licenses and clearances, which can add up to more than a 100 approvals in some states.

Single nodal agency for all hotel project approvals and minimize documentation requirement.

Declaration of **tourism as an industry** in the states that do not already have the status granted.

The hotel sector to be included within the **interest subvention scheme** to employment intensive sectors.

TABLE 5-1B EXPECTATION FROM THE GOVERNMENT OF INDIA***India's Heritage***

Build public-private partnerships for the **conservation of heritage sites**.

There are currently 32 sites in India that are proposed to be given a Heritage Status. These sites have immense potential to attract visitations from tourists; however, a lack of basic infrastructure may prevent the realization of their potential. **The government needs to ensure that such sites receive adequate attention** in order to capitalize on India's huge heritage potential.

Visa Issues

Withdraw the 60-day re-entry to India clause. Several tourists travel to India regularly for work and preventing their entry for two months can *severely hamper business opportunities*. Additionally, a majority of tourists also use India as a base to travel to other South Asian countries and the 60-day re-entry clause restricts them from doing so. Essentially, this *will lead to India losing out on the bulk of demand for the South Asian circuit*.

Ease the overall Visa process. Not only is the visa process for India cumbersome, it is also subject to several delays in issuance.

Basic Needs

Infrastructure needs for the tourism sector - up gradation of roads and railway network, electricity, water supply and sewerage.

Usage of available land parcels with different Ministries for building budget and mid-market hotels.

Provide vocational courses for schools under CBSE, ICSE and State Boards.

Build public-private partnerships to increase training facilities and capacities for the sector.

The growth of tourism in India is highly dependent on cohesive policy making by the different departments of the Government of India and the different States, which are in fact the direct beneficiaries of tourism's economic and socio-economic contributions. As mentioned earlier in this white paper, a lack of coordination between State and Central policies has been one of the main setbacks in the growth of tourism in India. Needless to say then, an interconnected policy that is centrally enforced is critical in attaining the true potential of the sector.

For the first time, the government of India has developed a multi-pronged tourism strategy to further the case of tourism and an inter-ministerial committee headed by the Principal Secretary to the Prime Minister has been formed to concentrate on issues relating to tourism. Additionally, the 12th Five Year Plan for 2012 to 2017 is expected to be heavily focused on tourism. The Ministry of Tourism has requested a budget of ₹21,500 crore for this sector, an amount nearly four times what was allocated in the 11th Five Year Plan. The 12th Five Year Plan envisions foreign tourist arrivals touching 11.24 million and

domestic tourists growing to 1,451 million by 2017, which is roundly an 80% growth in foreign and domestic travelers.

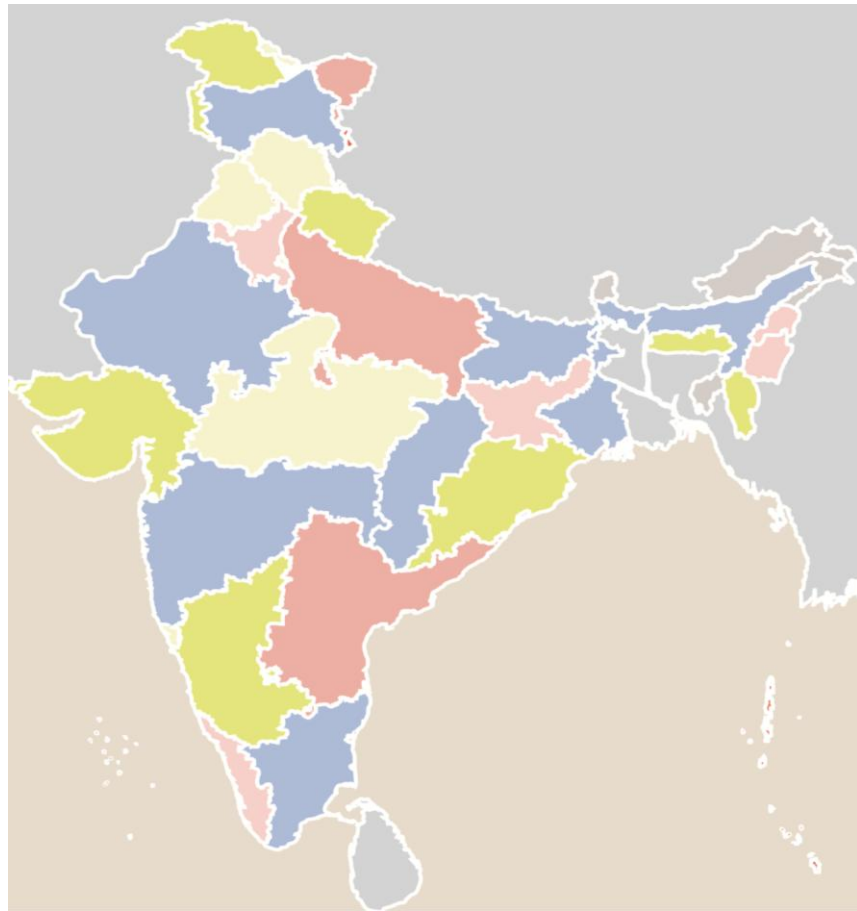
Such a vast increase in tourist arrivals will need support infrastructure in order to create a sustainable tourism model for the country. This requires development of roads and railway networks, accommodation units, air connectivity, infrastructure expansion, world class facilities at tourist destinations, cleanliness and hygiene, adequate human resources to handle such tourist volumes, aggressive marketing and availability of accurate and up to date statistics for purposeful and positive decision making.

Tourism has, for the longest time, been viewed as an elitist indulgence, and this has hindered the growth of the sector. The government of India is now considering adopting a pro-poor tourism approach for increasing equitable and inclusive development particularly in the interior and the remote areas of the country.

Policy decisions taken at the central and state level will eventually dictate the success of the strategies outlined within the 12th Five Year Plan and subsequently the future of the tourism sector in India. The aim of this white paper has been to shed light on the industry's requirements and highlight the policy and practice deficiencies at the planning level. We hope that this document encourages key policy makers within the government of India to take notice and, more importantly, take action to execute the sector's potential into a reality.

State Ranking Survey

2011 INDIA



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Addendum - India State Ranking Survey 2011

'Bureaucracy gives birth to itself and then expects maternity benefits.'
– Dale Dauten

In the Constitution of India, Travel and Tourism is a State subject and not a Central subject. This essentially allows all the states and union territories in India to govern the travel and tourism sector as they please. For an industry which contributed roundly ₹5,500 billion or 8.6% to the country's Gross Domestic Product (GDP) in 2010⁶, there is minimal effort to streamline processes and functions across states in order to efficiently and effectively promote tourism within the country. As a consequence, what one witnesses is a variety of duplicate schemes, policy vacuums, uncoordinated marketing messages and a lack of actual implementation and execution of plans. With much smaller countries such as Tunisia, Hungary and Bulgaria receiving more foreign tourists than India (between six and nine million whereas India received 5.5 million foreign tourists in 2010⁷), it is evident that the Travel and Tourism sector in India is yet to realize its true potential. While the government has stepped up its effort to attract foreign tourists, such as by launching a Visa on Arrival scheme for visitors from eleven countries, more needs to be done to catalyze the growth of the industry.

The Travel and Tourism industry consists of multiple verticals that include hotels, airlines, and travel and tour companies. This State Ranking Survey focuses on one component of this industry – hotels – and aims to identify the best states in India from the hospitality industry's viewpoint. To meet this objective, we have employed eleven parameters or criteria for evaluating the different states. Some of our parameters apply specifically to hotel developers and are more important to them, while others are more relevant to state authorities when they look at these rankings. The objective of this study is to identify the states in India that have a holistically supportive environment for a hotel to operate in.

The eleven criteria were assessed based on verified data collected through multiple reliable sources. Each parameter was then assigned a weight to reflect its influence and/or impact on the hospitality industry. Certain new parameters have been added that were not present in the previous (2009) edition of this survey report, in order to provide a more accurate representation of the states' performance. The methodology used in deriving each of these rankings is explained in greater detail later on in this report.

Table A1-1 outlines the defined sample set of states included within this report. The analysis accounts for 29 states including Delhi and omits the Union Territories so as to not skew the data.

⁶ WTTC, Travel & Tourism Economic Impact, India, 2010

⁷ UNWTO Tourism Highlights, India, 2011

TABLE 01 **DEFINED SAMPLE SET OF STATES**

States Covered		
1) Andhra Pradesh	11) Jharkhand	21) Orissa
2) Arunachal Pradesh	12) Karnataka	22) Punjab
3) Assam	13) Kerala	23) Rajasthan
4) Bihar	14) Madhya Pradesh	24) Sikkim
5) Chhattisgarh	15) Maharashtra	25) Tamil Nadu
6) Goa	16) Manipur	26) Tripura
7) Gujarat	17) Meghalaya	27) Uttar Pradesh
8) Haryana	18) Mizoram	28) Uttarakhand
9) Himachal Pradesh	19) Nagaland	29) West Bengal
10) Jammu and Kashmir	20) Delhi*	

* Does not include Gurgaon, Noida, Ghaziabad and Faridabad

Table A1-2 presents the eleven identified parameters and their respective weights, after assessing their impact on the hospitality industry.

TABLE 02 **IDENTIFIED PARAMETERS AND ASSIGNED WEIGHTS**

Parameters	Assigned Weight	Impact
Luxury Tax on Hotels	25	High
State Expenditure on Tourism	25	High
Tourist Arrivals	20	High
Presence of Branded Hotel Rooms	10	Medium
GDP Per Capita	10	Medium
Effectiveness of Marketing Campaign	10	Medium
Urbanisation	10	Medium
Road and Railway Infrastructure	10	Medium
Aircraft Movement	10	Medium
Literacy Rates	5	Low
Intangible Aspects	15	Medium
Total	150	

Each of these parameters has been discussed below in detail.

Luxury Tax on Hotels

A recurring topic of discussion is Luxury Tax on hotels. Tax applied on hotel room tariffs varies significantly from state to state, not just in pure percentage terms but also in the way it is computed. Some states charge Luxury Tax on the published tariff of the room instead of the actual tariff of the room, which is typically a discounted rate. Elsewhere in the world, the general practice is to apply tax on the actual room tariff. By applying taxes on the published tariff, the end consumer effectively ends up paying more tax on not only the room, but also all related expenses such as commissions to travel agents. Additionally,

most companies tend to have contracted rates at hotels which are often discounted as a result of volume based contracts. The total cost to the company invariably increases when luxury tax is applied on the published tariff. Even in scenarios wherein the hotel offers the guest a free upgrade to a higher category room, if the tax is computed on the published tariff, either the guest or the hotel ends up being penalized in the form of additional tax. Therefore, Luxury Tax laws have an important bearing on the operating nature of the hospitality industry and can significantly add to the total cost of the traveler.

In order to assess the performance of the 29 sample states in this parameter, the Effective Tax Rate was calculated. This was computed assuming a published tariff of ₹10,000 with a 25% discount to derive the actual tariff. Points were then allocated based on seven point-brackets or parameters that were developed and can be seen in Table A1-3. Table A1-4 illustrates our scoring for the Luxury Tax applied on the different states.

TABLE 03 **METHODOLOGY FOR LUXURY TAX ON HOTELS**

		<u>Range</u>	<u>Points</u>
			No tax
	1-5%	21	
	6-9%	18	
	10-12%	15	
	13-15%	11	
	16-20%	7	
	>21%	4	
<u>Assumptions</u>			
Published Tariff	10,000		
Discount	25%		
Actual Tariff	7,500		

TABLE 04 POINT ALLOCATION FOR LUXURY TAX ON HOTELS

	Luxury Tax	Calculated On	Effective Tax Rate	Points	Rank		
					2011	2009	Variance
Arunachal Pradesh	0.0%	-	0%	25	1	1	0
Jammu & Kashmir	0.0%	-	0%	25	1	1	0
Manipur	0.0%	-	0%	25	1	1	0
Mizoram	0.0%	-	0%	25	1	1	0
Nagaland	0.0%	-	0%	25	1	1	0
Orissa	0.0%	-	0%	25	1	1	0
Sikkim	0.0%	-	0%	25	1	1	0
Punjab	4.0%	Actual Tariff	4%	21	8	13	5
Uttar Pradesh	5.0%	Actual Tariff	5%	21	9	8	-1
Uttarakhand	5.0%	Actual Tariff	5%	21	9	8	-1
Andhra Pradesh	5.0%	Published Tariff	7%	18	11	12	1
Gujarat	6.0%	Published Tariff	8%	18	12	13	1
Jharkhand	7.0%	Published Tariff	9%	18	13	15	2
Bihar	10.0%	Actual Tariff	10%	15	14	16	2
Chhattisgarh	10.0%	Actual Tariff	10%	15	14	8	-6
Goa	10.0%	Actual Tariff	10%	15	14	16	2
Himachal Pradesh	10.0%	Actual Tariff	10%	15	14	16	2
Madhya Pradesh	10.0%	Actual Tariff	10%	15	14	16	2
Maharashtra	10.0%	Actual Tariff	10%	15	14	16	2
Rajasthan	10.0%	Actual Tariff	10%	15	14	16	2
Tripura	10.0%	Actual Tariff	10%	15	14	29	15
West Bengal	10.0%	Actual Tariff	10%	15	14	8	-6
Karnataka	12.0%	Actual Tariff	12%	15	23	24	1
Kerala	12.5%	Actual Tariff	13%	11	24	23	-1
Haryana	10.0%	Published Tariff	13%	11	25	22	-3
Assam	12.0%	Published Tariff	16%	7	26	27	1
Delhi	12.5%	Published Tariff	17%	7	27	25	-2
Tamil Nadu	12.5%	Published Tariff	17%	7	27	25	-2
Meghalaya	20.0%	Actual Tariff	20%	7	29	27	-2

Source: HVS Research

Significantly, the most visited travel and tourism states such as Rajasthan and Delhi, which are home to the immensely popular tourist circuit known as 'Golden Triangle' and other well-loved destinations, rank in the bottom half of the list. This is also true for states such as Tamil Nadu, Kerala, Maharashtra and Goa that see large tourism activity. On the other hand, states such as Manipur, Mizoram and Nagaland levy no Luxury Tax on hotel rooms. In other words, the tourism-heavy states ensure that their economies directly benefit from travel and tourism, and are well aware of the opportunities that this industry presents. These states also have larger tourism expenditure to support in light of the number of visitors that they receive. In the long run, in

order to sustain the attractiveness of tourism within these states, governments should consider a uniform system of levying Luxury Tax on hotels.

State Expenditure on Tourism

India, blessed with abundant natural resources and a rich history and culture, ranks in the top 10 countries of the UNESCO World Heritage List, with 23 monuments and 5 natural locations inscribed. Moreover, India has considerable output, income and employment through tourism, as indicated by WTTC statistics – India's Travel and Tourism industry contributed 8.6% of its GDP and investment into this industry was 7.2% of the total investment for 2010⁸.

Table A1-5 presents the cultural and natural locations inscribed in UNESCO's World Heritage List for India.

TABLE 05 UNESCO WORLD HERITAGE LIST FOR INDIA

Natural/Cultural Attractions	State
Kaziranga National Park	Assam
Manas Wildlife Sanctuary	Assam
Mahabodhi Temple Complex at Bodh Gaya	Bihar
Humayun's Tomb	Delhi
Outub Minar and its Monuments	Delhi
Red Fort Complex	Delhi
The Jantar Mantar	Delhi
Churches and Convents of Goa	Goa
Champaner-Pavagadh Archaeological Park	Gujarat
Group of Monuments at Hampi	Karnataka
Group of Monuments at Pattadakal	Karnataka
Buddhist Monuments at Sanchi	Madhya Pradesh
Khajuraho Group of Monuments	Madhya Pradesh
Rock Shelters of Bhimbetka	Madhya Pradesh
Ajanta Caves	Maharashtra
Chhatrapati Shivaji Terminus	Maharashtra
Elephanta Caves	Maharashtra
Ellora Caves	Maharashtra
Mountain Railways of India	Multiple
Sun Temple	Orissa
Keoladeo National Park	Rajasthan
Great Living Chola Temples	Tamil Nadu
Group of Monuments at Mahabalipuram	Tamil Nadu
Agra Fort	Uttar Pradesh
Fatehpur Sikri	Uttar Pradesh
Taj Mahal	Uttar Pradesh
Nanda Devi and Valley of Flowers National Parks	Uttarakhand
Sundarbans National Park	West Bengal

Source: UNESCO

⁸ WTTC, Travel & Economic Impact, India, 2010

Despite the trickle down effects of the travel and tourism industry which generates 10%⁹ of total employment in the country, no state in India currently spends a significant amount of its total expenditure on travel and tourism. This may be attributed to various reasons: resources needed for more 'essential' expenditure such as civic and infrastructure development; priority to other industries that are pertinent to specific states' economies; or simply because individual state governments do not consider travel and tourism to be an important enough industry.

In order to gauge the importance placed on travel and tourism by the states, we calculated the expenditure on tourism versus the states' total expenditure. Tables A1-6 and A1-7 present our point allocation criteria and ranking of the states for this evaluation parameter.

TABLE 06 **METHODOLOGY FOR STATE EXPENDITURE ON TOURISM**

Range	Points
0.55% or above	25
0.40% - 0.55%	20
0.25% - 0.40%	15
0.10% - 0.25%	10
0.10% or below	5

⁹ WTTC, Travel & Tourism Economic Impact, India, 2010

TABLE 07 POINT ALLOCATION FOR STATE EXPENDITURE ON TOURISM

	Revenue Expenditure (₹ In Lakhs)*		Capital Expenditure (₹ In Lakhs)**		Total State Expenditure (₹ In Lakhs)					Rank	Rank	Variance
	All Sectors	Tourism	All Sectors	Tourism	All Sectors	Tourism	Tourism Spend as a %		Points Obtained	2011	2009	
							of Total Expenditure					
Sikkim	2,56,715	724	3,09,041	6,140	5,65,756	6,864	1.21%		25	1	2	1
Jammu & Kashmir	14,72,579	5,059	9,32,499	9,019	24,05,078	14,078	0.59%		25	2	1	-1
Goa	4,48,514	2,876	3,28,243	1,283	7,76,757	4,159	0.54%		20	3	3	0
Uttarakhand	11,16,110	1,865	14,57,374	5,692	25,73,484	7,557	0.29%		15	4	4	0
Karnataka	47,23,766	7,547	32,97,365	10,000	80,21,131	17,547	0.22%		10	5	16	11
Gujarat	45,72,837	14,798	65,08,215	2,500	1,10,81,052	17,298	0.16%		10	6	12	6
Maharashtra	96,18,402	32,858	1,16,34,691	0	2,12,53,093	32,858	0.15%		10	7	9	2
Arunachal Pradesh	3,60,708	524	17,56,015	2,404	21,16,723	2,928	0.14%		10	8	5	-3
Kerala	31,16,184	7,056	70,58,046	6,904	1,01,74,230	13,960	0.14%		10	9	7	-2
Jharkhand	18,21,295	1,175	12,31,807	2,515	30,53,102	3,690	0.12%		10	10	7	-3
Manipur	3,05,591	311	17,08,423	1,456	20,14,014	1,767	0.09%		5	11	11	0
Chhattisgarh	18,09,104	3,233	42,34,633	2,000	60,43,737	5,233	0.09%		5	12	18	6
Nagaland	3,17,007	596	6,33,421	148	9,50,428	744	0.08%		5	13	6	-7
Meghalaya	3,58,827	1,226	12,89,673	5	16,48,500	1,231	0.07%		5	14	15	1
Orissa	28,91,917	1,488	32,04,307	2,545	60,96,224	4,033	0.07%		5	15	18	3
Himachal Pradesh	10,22,176	775	4,84,020	197	15,06,196	972	0.06%		5	16	18	2
Bihar	35,71,503	524	15,56,862	2,778	51,28,365	3,302	0.06%		5	17	18	1
Mizoram	2,83,169	531	6,58,524	0	9,41,693	531	0.06%		5	18	10	-8
Madhya Pradesh	38,26,211	1,424	1,09,24,875	4,376	1,47,51,086	5,800	0.04%		5	19	14	-5
Delhi	13,70,331	658	9,33,969	0	23,04,300	658	0.03%		5	20	13	-7
Rajasthan	39,67,661	2,424	1,21,55,431	1,896	1,61,23,092	4,320	0.03%		5	21	18	-3
Tamil Nadu	59,29,528	3,355	1,43,70,971	1,340	2,03,00,499	4,695	0.02%		5	22	16	-6
Uttar Pradesh	92,86,665	1,714	2,38,88,138	5,778	3,31,74,803	7,492	0.02%		5	23	25	2
Tripura	4,26,686	333	16,83,632	53	21,10,318	386	0.02%		5	24	18	-6
Haryana	25,82,106	241	61,76,975	1,275	87,59,081	1,516	0.02%		5	25	25	0
Assam	29,26,986	1,559	85,54,600	400	1,14,81,586	1,959	0.02%		5	26	25	-1
West Bengal	60,25,252	2,572	1,95,03,711	1,408	2,55,28,963	3,980	0.02%		5	27	25	-2
Punjab	30,30,626	265	1,05,40,178	1,782	1,35,70,804	2,047	0.02%		5	28	29	1
Andhra Pradesh	76,55,717	903	48,16,855	0	1,24,72,572	903	0.01%		5	29	18	-11

Source: RBI - Handbook of Statistics on State Government Finances - 2010

*Revenue Expenditure - incurred in the course of regular business transactions and availed during the same accounting year.

**Capital Expenditure - incurred for acquiring a fixed asset or one which results in increasing the earning capacity and is availed in multiple accounting years.

The fact that all states currently attribute a miserly amount towards tourism is evident from Table A1-7. Interestingly, even states that have the most number of UNESCO locations are not seriously pursuing their tourism potential. Madhya Pradesh, Uttar Pradesh, Delhi and Tamil Nadu each have two-four UNESCO sites and rank in the bottom eleven.

On a positive note, there are states that have considerably improved their tourism spend over the past two years. The greatest improvement has been shown by Karnataka, which has increased its tourism expenditure from 0.03% to 0.22%. This is followed by Gujarat, moving from 0.07% to 0.16%. Gujarat's efforts to promote tourism are unmistakable with the new Gujarat Tourism campaign promoted by Indian actor Amitabh Bachchan.

On the downside, Andhra Pradesh has significantly dropped in ranking. One would imagine that this is due to the ongoing Telangana dispute in the region; in the given scenario, tourism is probably not on its priority list. While the state's budgetary provision for tourism reduced by a mere 0.01% when compared to 2009, other states have improved their allocation of funds towards tourism and therefore forced Andhra Pradesh down in ranking. This is highlighted by the fact that the previous edition of the ranking had an all India average of 0.10% while the average this time has improved to 0.15%.

Some states, such as Maharashtra, Delhi, Mizoram and Andhra Pradesh, have been conspicuous by their lack of capital expenditure. Surprisingly Delhi, which hosted the 2010 Commonwealth Games, had zero capital expenditure in 2010 and has, in fact, has had no capital expenditure on tourism since 2006/07. Presumably, the infrastructure developed for and because of the Commonwealth Games has been accounted for under a different accounting head and not under state expenditure on tourism.

Tourist Arrivals

While all parameters chosen in this state ranking are pertinent to the travel and tourism industry in some form or the other, the number of tourist arrivals is the only one that quantifies the level of demand catered to by every state. Our ranking methodology accounts for both domestic and international tourists and is presented in Table A1-8. Tables A1-9 and A1-10 present the overall rankings for this parameter.

TABLE 08 METHODOLOGY FOR TOURIST ARRIVALS

Rank	Points
1 to 5	10
6 to 10	8
11 to 15	6
16 to 20	4
21 to 25	2

TABLE 09 TOURIST ARRIVALS

State	Domestic Tourists	Rank	State	International Tourists	Rank
Andhra Pradesh	15,57,90,000	1	Maharashtra	50,83,000	1
Uttar Pradesh	14,47,55,000	2	Tamil Nadu	28,05,000	2
Tamil Nadu	11,16,37,000	3	Delhi	18,94,000	3
Maharashtra	4,84,65,000	4	Uttar Pradesh	16,75,000	4
Karnataka	3,82,02,000	5	Rajasthan	12,79,000	5
Madhya Pradesh	3,80,80,000	6	West Bengal	11,92,000	6
Uttarakhand	3,02,06,000	7	Kerala	6,59,000	7
Rajasthan	2,55,44,000	8	Bihar	6,36,000	8
West Bengal	2,10,72,000	9	Himachal Pradesh	4,54,000	9
Gujarat	1,88,61,000	10	Goa	4,41,000	10
Bihar	1,84,92,000	11	Karnataka	3,81,000	11
Delhi	1,35,58,000	12	Andhra Pradesh	3,23,000	12
Himachal Pradesh	1,28,74,000	13	Madhya Pradesh	2,50,000	13
Punjab	1,05,84,000	14	Punjab	1,37,000	14
Jammu & Kashmir	99,73,000	15	Gujarat	1,31,000	15
Kerala	85,95,000	16	Uttarakhand	1,27,000	16
Orissa	75,92,000	17	Haryana	1,06,000	17
Haryana	69,15,000	18	Orissa	50,000	18
Jharkhand	68,85,000	19	Jammu & Kashmir	48,000	19
Assam	40,51,000	20	Sikkim	21,000	20
Goa	22,02,000	21	Jharkhand	16,000	21
Sikkim	7,00,000	22	Assam	15,000	22
Meghalaya	6,53,000	23	Tripura	5,000	23
Chhattisgarh	5,66,000	24	Meghalaya	4,000	24
Tripura	3,42,000	25	Arunachal Pradesh	3,000	25
Arunachal Pradesh	2,28,000	26	Chhattisgarh	2,000	26
Manipur	1,14,000	27	Mizoram	1,000	27
Mizoram	57,000	28	Nagaland	1,000	27
Nagaland	21,000	29	Manipur	0	29

Source: Ministry of Tourism, Government of India 2010

TABLE 010 POINT ALLOCATION FOR TOURIST ARRIVALS

States	Points Obtained			Rank	Rank	Variance
	Domestic	International	Total	2011	2009	
Maharashtra	10	10	20	1	4	3
Tamil Nadu	10	10	20	1	1	0
Uttar Pradesh	10	10	20	1	1	0
Rajasthan	8	10	18	4	1	-3
Andhra Pradesh	10	6	16	5	4	-1
Karnataka	10	6	16	5	4	-1
Delhi	6	10	16	5	8	3
West Bengal	8	8	16	5	7	2
Bihar	6	8	14	9	13	4
Gujarat	8	6	14	9	8	-1
Himachal Pradesh	6	8	14	9	13	4
Madhya Pradesh	8	6	14	9	8	-1
Kerala	4	8	12	13	8	-5
Punjab	6	6	12	13	22	9
Uttarakhand	8	4	12	13	8	-5
Goa	2	8	10	16	13	-3
Jammu & Kashmir	6	4	10	16	16	0
Haryana	4	4	8	18	16	-2
Orissa	4	4	8	18	18	0
Assam	4	2	6	20	18	-2
Jharkhand	4	2	6	20	20	0
Sikkim	2	4	6	20	20	0
Meghalaya	2	2	4	23	22	-1
Tripura	2	2	4	23	22	-1
Arunachal Pradesh	0	2	2	25	25	0
Chhattisgarh	2	0	2	25	25	0
Manipur	0	0	0	27	27	0
Mizoram	0	0	0	27	27	0
Nagaland	0	0	0	27	27	0

Although the domestic ranking has not varied much from the previous edition, international tourist patterns have changed with Tamil Nadu outperforming Delhi. Delhi's performance is disappointing, because it actually ranked first in international tourists two years ago and one would have expected 2010 to be a robust year for the state given that it was hosting the Commonwealth Games.

Interestingly, Andhra Pradesh has continued to rank first in number of domestic tourists owing to religious pilgrimages to Tirupati and ranked twelfth in international tourists. It is important to note that this is in a year when the Telangana dispute was at its peak. While the state was not affected in domestic tourist arrivals, it took a hit in international visitation, which is largely due to media reports and travel advisories that have been out against the state.

Tourist Arrivals

This parameter pertains to the current supply of hotel rooms within the respective states. Most hotel operating brands, international and domestic,

typically go through an exhaustive evaluation process to assess whether they should be entering a particular market. The decision to enter a market is based on their perception of its long-term demand potential and overall business and tourism sentiment. Therefore, it is fair to assume that the presence of branded rooms in a state is directly correlated to and indicative of its existing and anticipated economic and tourism activity. Tables A1-11 and A1-12 present our point allocation criteria and ranking for the number of existing branded rooms in each state.

TABLE 011 **METHODOLOGY FOR NUMBER OF BRANDED ROOMS**

Rank	Points
1 to 3	10
4 to 6	8
7 to 9	6
10 to 12	4
13 to 15	2

Note:

States with less than 100 branded rooms have not been assigned any points
Franchised hotels have been omitted

International Brands: Presence in more than one country

National Brands: Presence in more than three states in India

TABLE 012 POINT ALLOCATION FOR NUMBER OF BRANDED ROOMS

	No. of Branded Rooms	State Area (Sq Km)	Branded Rooms		Rank
			per 100 Sq Km	Points Obtained	2011
Delhi	9,178	1,483	618.9	10	1
Goa	3,580	3,702	96.7	10	2
Haryana	3,559	44,212	8.0	10	3
Kerala	2,028	38,683	5.2	8	4
Maharashtra	15,793	3,07,713	5.1	8	5
Tamil Nadu	5,965	1,30,058	4.6	8	6
Karnataka	7,977	1,91,796	4.2	6	7
Punjab	1,516	50,362	3.0	6	8
West Bengal	1,636	88,752	1.8	6	9
Uttarakhand	986	53,566	1.8	4	10
Andhra Pradesh	5,015	2,75,068	1.8	4	11
Sikkim	99	7,096	1.4	0	12
Rajasthan	4,233	3,42,236	1.2	4	13
Uttar Pradesh	2,582	2,38,566	1.1	2	14
Gujarat	2,003	1,96,024	1.0	2	15
Himachal Pradesh	492	55,673	0.9	2	16
Tripura	70	10,492	0.7	0	17
Madhya Pradesh	1,113	3,08,144	0.4	0	18
Jharkhand	277	79,700	0.3	0	19
Orissa	296	1,55,707	0.2	0	20
Assam	119	78,483	0.2	0	21
Jammu & Kashmir	253	2,22,236	0.1	0	22
Bihar	46	94,164	0.0	0	23
Arunachal Pradesh	18	83,743	0.0	0	24
Chhattisgarh	0	1,35,194	0.0	0	25
Manipur	0	22,327	0.0	0	25
Meghalaya	0	22,429	0.0	0	25
Mizoram	0	21,081	0.0	0	25
Nagaland	0	16,579	0.0	0	25

Source: HVS Research, 2011

Home to the country's capital, Delhi ranks first and reflects the prominence of the state as a business and leisure destination. Goa's presence at number two is expected, as it is a strong leisure market in the country. Haryana has done significantly well, thanks to Gurgaon's development. In the past two years, over ten branded hotels have opened in Gurgaon with a total inventory of over 1,400 rooms.

Expectedly, the top ten states are all either key business centers in India (Delhi, Maharashtra, Karnataka and Andhra Pradesh) or key leisure markets (Goa, Kerala and Tamil Nadu). The bottom half of the ranking is dominated by the eastern states that have absolutely no presence of branded hotel rooms.

GDP per Capita

This is a new parameter that has been added to the ranking methodology and was not used in the previous edition of this report.

We have included this parameter because we believe that GDP per capita is an important evaluation criterion as it helps compare performance levels between states and provides an indication of the economic health of the state. The travel and tourism industry is typically the first to be affected during a difficult economic period and is usually also the last to recover. Therefore, a sound economy is critical for the success of the travel and tourism industry. Tables A1-13 and A1-14 illustrate our point allocation methodology and the ranking of states based on GDP per capita.

TABLE 013 **METHODOLOGY FOR GDP PER CAPITA**

<u>Range</u>	<u>Points</u>
100,000 or more	10.0
75,000 - 99,999	7.5
50,000 - 74,999	5.0
25,000 - 49,999	2.5
24,999 or less	0.0

TABLE 014 POINT ALLOCATION FOR GDP PER CAPITA

	GDP (₹ In crore)	Population (2011)	GDP Per Capita (₹)	Points Obtained	Rank 2011
Goa	25,882	14,57,723	1,77,551	10.0	1
Delhi	2,17,851	1,67,53,235	1,30,035	10.0	2
Haryana	2,16,287	2,53,53,081	85,310	7.5	3
Maharashtra	9,01,330	11,23,72,972	80,209	7.5	4
Punjab	1,99,459	2,77,04,236	71,996	5.0	5
Gujarat	4,29,356	6,03,83,628	71,105	5.0	6
Kerala	2,30,316	3,33,87,677	68,982	5.0	7
Tamil Nadu	4,64,009	7,21,38,958	64,322	5.0	8
Himachal Pradesh	43,281	68,56,509	63,124	5.0	9
Uttarakhand	62,214	1,01,16,752	61,496	5.0	10
Sikkim	3,475	6,07,688	57,184	5.0	11
Andhra Pradesh	4,75,267	8,46,65,533	56,135	5.0	12
Karnataka	3,35,747	6,11,30,704	54,923	5.0	13
Arunachal Pradesh	7,241	13,82,611	52,372	5.0	14
Mizoram	5,633	10,91,014	51,631	5.0	15
West Bengal	4,00,561	9,13,47,736	43,850	2.5	16
Chhattisgarh	1,09,823	2,55,40,196	43,000	2.5	17
Meghalaya	12,502	29,64,007	42,179	2.5	18
Tripura	14,604	36,71,032	39,782	2.5	19
Orissa	1,62,327	4,19,47,358	38,698	2.5	20
Nagaland	7,508	19,80,602	37,908	2.5	21
Rajasthan	2,55,440	6,86,21,012	37,225	2.5	22
Jammu & Kashmir	43,236	1,25,48,926	34,454	2.5	23
Jharkhand	1,06,358	3,29,66,238	32,263	2.5	24
Manipur	8,687	27,21,756	31,917	2.5	25
Madhya Pradesh	2,16,958	7,25,97,565	29,885	2.5	26
Assam	92,472	3,11,69,272	29,668	2.5	27
Uttar Pradesh	5,19,899	19,95,81,477	26,049	2.5	28
Bihar	1,68,603	10,38,04,637	16,242	0.0	29
Average	1,97,804	4,16,16,005	56,189	-	-

Source: Census of India 2011 and Individual State Governments' statistics 2010/11

In terms of absolute value of output or production, Maharashtra is on top with a 4.5-times higher GDP than the country's average for the states. Uttar Pradesh and Andhra Pradesh are revelations as they rank second and third, respectively, in total state GDP, and so is West Bengal, which ranks fifth. Delhi is once again conspicuous, ranking only tenth in this parameter.

On a per capita basis, Delhi and Goa score the highest. Other noticeable surprises are Haryana, ranking third and Karnataka, coming in at thirteenth place. States like Sikkim and Uttarakhand that have smaller economies than Karnataka have performed better on a per capita basis. Needless to say, Karnataka's performance is disappointing given that it leads the country in Biotechnology, IT - ITeS and Manufacturing.

TABLE 016 POINT ALLOCATION FOR EFFECTIVENESS OF MARKETING CAMPAIGN

	Official Website	Alexa Overall	Points Obtained	Rank	Rank	Variance
				2011	2009	
Kerala	www.keralatourism.org/	42,336	10	1	1	0
Bihar	http://bstdc.bih.nic.in/	42,936	10	2	3	1
Maharashtra	www.maharashtratourism.gov.in/	1,28,860	10	3	5	2
Madhya Pradesh	www.mptourism.com/	1,58,628	8	4	6	2
Tamil Nadu	www.tamilnadutourism.org/	1,71,027	8	5	2	-3
Karnataka	www.karnatakaturism.org/	1,82,696	8	6	13	7
Rajasthan	www.rajasthantourism.gov.in/	1,96,243	6	7	8	1
Goa	http://www.goa-tourism.com/	2,12,287	6	8	10	2
Himachal Pradesh	http://himachaltourism.gov.in/	2,37,687	6	9	18	9
Gujarat	http://www.gujarattourism.com/	3,09,744	4	10	14	4
Delhi	http://delhitourism.nic.in/delhitourism/index.jsp	3,43,713	4	11	12	1
Uttarakhand	www.uttaranchaltourism.in/	4,65,719	4	12	21	9
Andhra Pradesh	www.aptourism.in	5,09,070	2	13	4	-9
Uttar Pradesh	www.up-tourism.com/	5,83,697	2	14	16	2
Jammu & Kashmir	www.jktourism.org/	5,96,819	2	15	9	-6
Chhattisgarh	http://www.chhattisgarhtourism.net/	6,95,935	0	16	26	10
West Bengal	http://www.westbengaltourism.gov.in/wb/	7,99,631	0	17	11	-6
Orissa	www.orissatourism.gov.in/	8,33,147	0	18	15	-3
Haryana	http://www.haryanaturism.gov.in/	10,14,359	0	19	19	0
Sikkim	http://www.sikkim.gov.in/	10,50,559	0	20	23	3
Manipur	http://manipur.nic.in/tourism.htm	14,48,864	0	21	17	-4
Meghalaya	http://meghtourism.gov.in/	15,90,050	0	22	25	3
Punjab	http://www.punjabtourism.gov.in/	18,48,755	0	23	7	-16
Assam	www.assamtourism.org/	22,75,594	0	24	22	-2
Mizoram	http://mizotourism.nic.in/	25,17,618	0	25	28	3
Arunachal Pradesh	http://www.arunachaltourism.com/	30,27,837	0	26	24	-2
Jharkhand	www.jharkhandtourism.in/	56,89,381	0	27	27	0
Tripura	http://tripuratourism.in/	58,65,697	0	28	20	-8
Nagaland	http://www.tourismnagaland.com/	1,03,57,703	0	29	29	0

Source: Alexa.com, 2011

As the results in Table A1-16 highlight, some states have done better and some worse compared to 2009. However, the fact is that the overall ranking for Indian state tourism websites has drastically fallen from the previous edition of this report. The average Alexa ranking in 2009 was 700,800, which has now dropped to 1,489,500 – an 89% drop! Furthermore, if we compare Incredible India, the country's official tourism campaign website, to its performance in 2009, the ranking has dropped by 78% from 56,488 to 100,778! Needless to say, the government must do a better job of promoting tourism within and outside the country and move up the ranking instead of declining so drastically. While the Incredible India campaign is a good initiative in itself, there is a need to refresh the campaign and adapt a more pro-active approach to marketing tourism, with both in India and in other parts of the world.

Urbanization

Urbanization can be defined in various ways by different countries but it is essentially “the transformation from traditional rural economies to modern industrial ones”¹⁰. Urbanization is therefore characteristically positively correlated to economic growth. The Indian Census measures urbanization based on three parameters: 1) a minimum population of 5,000 people; 2) at least 75% of male working population should be engaged in non-agricultural pursuits; and 3) a population density of at least 400 persons per sq km.

Tables A1-17 and A1-18 present a percentage-wise listing of the urban population for each state along with our ranking methodology.

TABLE 017 METHODOLOGY FOR URBANIZATION

Range	Points
80% and above	10
65% - 79%	8
50% - 64%	6
35% - 49%	4
20% - 34%	2
less than 20%	0

¹⁰ Urbanisation in India, Pranati Datta, Population Studies Unit, Indian Statistical Institute

TABLE 018 POINT ALLOCATION FOR URBANIZATION

	Population	Urban Population	As a % of Total Population	Points Obtained	Rank
					2011
Delhi	1,67,53,235	1,63,33,916	97%	10	1
Goa	14,57,723	9,06,309	62%	6	2
Mizoram	10,91,014	5,61,977	52%	6	3
Tamil Nadu	7,21,38,958	3,49,49,729	48%	4	4
Kerala	3,33,87,677	1,59,32,171	48%	4	5
Maharashtra	11,23,72,972	5,08,27,531	45%	4	6
Gujarat	6,03,83,628	2,57,12,811	43%	4	7
Karnataka	6,11,30,704	2,35,78,175	39%	4	8
Punjab	2,77,04,236	1,03,87,436	37%	4	9
Haryana	2,53,53,081	88,21,588	35%	4	10
Andhra Pradesh	8,46,65,533	2,83,53,745	33%	2	11
West Bengal	9,13,47,736	2,91,34,060	32%	2	12
Uttarakhand	1,01,16,752	30,91,169	31%	2	13
Manipur	27,21,756	8,22,132	30%	2	14
Nagaland	19,80,602	5,73,741	29%	2	15
Madhya Pradesh	7,25,97,565	2,00,59,666	28%	2	16
Jammu & Kashmir	1,25,48,926	34,14,106	27%	2	17
Tripura	36,71,032	9,60,981	26%	2	18
Sikkim	6,07,688	1,51,726	25%	2	19
Rajasthan	6,86,21,012	1,70,80,776	25%	2	20
Jharkhand	3,29,66,238	79,29,292	24%	2	21
Chhattisgarh	2,55,40,196	59,36,538	23%	2	22
Arunachal Pradesh	13,82,611	3,13,446	23%	2	23
Uttar Pradesh	19,95,81,477	4,44,70,455	22%	2	24
Meghalaya	29,64,007	5,95,036	20%	2	25
Orissa	4,19,47,358	69,96,124	17%	0	26
Assam	3,11,69,272	43,88,756	14%	0	27
Bihar	10,38,04,637	1,17,29,609	11%	0	28
Himachal Pradesh	68,56,509	6,88,704	10%	0	29

Source: Census of India 2011

While most states have more or less performed as expected, Mizoram is the clear outlier. In Mizoram's case, however, the population is concentrated around a few cities while the rest of the state is mainly hills and valleys, and this measure is therefore not an accurate representation of actual development and/or urbanization.

Road and Rail Infrastructure

Domestic tourists constitute more than 95% of tourists travelling within the country and their primary mode of transport is either road or rail. Therefore,

road and rail infrastructure is an increasingly important factor in deciding where to travel to. To suitably compare the states against this parameter, we have looked at the total road length (surfaced road) and total railway length (route length) per 100 sq km of area within the state. Tables A1-19 to A1-22 present these criteria.

TABLE 019 METHODOLOGY FOR ROAD AND RAIL INFRASTRUCTURE

Rank	Points
1 to 5	5
6 to 10	4
11 to 15	3
16 to 20	2
21 to 25	1

TABLE 020 ROAD INFRASTRUCTURE

	Road Length Per 100 sq km of Area (km)	Points Obtained
Delhi	1,407	5
Kerala	301.0	5
Goa	207.0	5
Tripura	116.1	5
Tamil Nadu	113.3	5
Uttar Pradesh	84.9	4
Karnataka	79.8	4
Punjab	74.4	4
Gujarat	67.5	4
Haryana	62.7	4
Bihar	61.7	3
Maharashtra	57.9	3
Nagaland	57.5	3
West Bengal	55.3	3
Andhra Pradesh	49.1	3
Himachal Pradesh	38.1	2
Uttarakhand	37.7	2
Rajasthan	36.1	2
Assam	33.9	2
Chhattisgarh	32.2	2
Manipur	29.9	1
Madhya Pradesh	26.7	1
Mizoram	24.5	1
Meghalaya	24.4	1
Sikkim	20.0	1
Orissa	19.7	0
Jharkhand	12.6	0
Arunachal Pradesh	11.6	0
Jammu & Kashmir	4.6	0

Source: Ministry of Road Transport and Highways & Ministry of Railways, 2010

TABLE 021 RAIL INFRASTRUCTURE

	Railway Route Length Per 100 sq km of Area (km)	Points Obtained
Bihar	3.8	5
Delhi	12.3	5
Punjab	4.2	5
Uttar Pradesh	3.7	5
West Bengal	4.4	5
Assam	3.1	4
Gujarat	2.6	4
Haryana	3.5	4
Kerala	2.7	4
Tamil Nadu	3.1	4
Andhra Pradesh	1.9	3
Goa	1.9	3
Jharkhand	2.5	3
Maharashtra	1.8	3
Rajasthan	1.7	3
Chhattisgarh	0.9	2
Karnataka	1.6	2
Madhya Pradesh	1.6	2
Orissa	1.5	2
Tripura	1.4	2
Himachal Pradesh	0.5	1
Jammu & Kashmir	0.1	1
Mizoram	0.0	1
Nagaland	0.1	1
Uttarakhand	0.6	1
Arunachal Pradesh	0.0	0
Manipur	0.0	0
Meghalaya	0.0	0
Sikkim	0.0	0

Source: Ministry of Road Transport and Highways & Ministry of Railways, 2010

TABLE 022 POINT ALLOCATION FOR ROAD AND RAIL INFRASTRUCTURE

	<u>Points Obtained</u>			<u>Rank</u>
	<u>Road</u>	<u>Rail</u>	<u>Total</u>	<u>2011</u>
Delhi	5	5	10	1
Kerala	5	4	9	2
Punjab	4	5	9	2
Tamil Nadu	5	4	9	2
Uttar Pradesh	4	5	9	2
Bihar	3	5	8	6
Goa	5	3	8	6
Gujarat	4	4	8	6
Haryana	4	4	8	6
West Bengal	3	5	8	6
Tripura	5	2	7	11
Andhra Pradesh	3	3	6	12
Assam	2	4	6	12
Karnataka	4	2	6	12
Maharashtra	3	3	6	12
Rajasthan	2	3	5	16
Chhattisgarh	2	2	4	17
Nagaland	3	1	4	17
Himachal Pradesh	2	1	3	19
Jharkhand	0	3	3	19
Madhya Pradesh	1	2	3	19
Uttarakhand	2	1	3	19
Mizoram	1	1	2	23
Orissa	0	2	2	23
Jammu & Kashmir	0	1	1	25
Manipur	1	0	1	25
Meghalaya	1	0	1	25
Sikkim	1	0	1	25
Arunachal Pradesh	0	0	0	29

Delhi's presence as number one overall and for road infrastructure is expected owing to New Delhi status as the political capital. However, Maharashtra and Andhra Pradesh, both big business centers, have scored surprisingly low at 12 and 15 respectively for road infrastructure. While it may be an innocent coincidence, Bihar and West Bengal, both home to previous Minister of Railways, have ranked in the top five for rail infrastructure.

Haryana, which is generally perceived to have poor infrastructure, has performed better than Andhra Pradesh, Karnataka and Maharashtra. This could be because of the fact that these states are large in size and thus rank lower than Haryana on a per 100 sq km basis.

On the other hand, Tamil Nadu, Uttar Pradesh and Gujarat – also large states – have all performed better than Haryana. However, this study does not take into

TABLE 024

POINT ALLOCATION FOR AIRCRAFT MOVEMENT

	Total Aircraft Movement*	Points Obtained	Rank		Variance
			2011	2009	
Maharashtra	2,97,992	10	1	1	0
Delhi	2,55,549	10	2	2	0
Tamil Nadu	1,37,999	6	3	3	0
Karnataka	1,20,914	6	4	4	0
West Bengal	1,02,460	6	5	6	1
Andhra Pradesh	96,714	4	6	5	-1
Kerala	70,466	4	7	7	0
Gujarat	42,374	2	8	8	0
Assam	34,649	2	9	9	0
Goa	24,018	2	10	11	1
Rajasthan	21,213	2	11	10	-1
Jammu & Kashmir	20,422	2	12	12	0
Uttar Pradesh	20,085	2	13	13	0
Madhya Pradesh	17,790	2	14	14	0
Orissa	11,728	2	15	15	0
Bihar	10,139	2	16	19	3
Punjab	9,071	2	17	17	0
Manipur	7,886	2	18	20	2
Chhattisgarh	7,384	2	19	18	-1
Jharkhand	4,508	2	20	21	1
Arunachal Pradesh	-	0	21	22	1
Haryana	-	0	21	22	1
Himachal Pradesh	-	0	21	22	1
Meghalaya	-	0	21	22	1
Mizoram	-	0	21	22	1
Nagaland	-	0	21	22	1
Sikkim	-	0	21	22	1
Tripura	-	0	21	16	-5
Uttarakhand	-	0	21	22	1

Source: CAPA, 2010

*Denotes number of take-offs and landings - (One flight constitutes two movements)

Home to Mumbai and New Delhi, the country's largest metropolitan cities, Maharashtra and Delhi emerge as top rankers. Tamil Nadu and Karnataka also score high due to traffic influx to Chennai and Bengaluru. Among the eastern states, West Bengal is one of the few states with decent airport infrastructure and acts as an entry point for the northeast region and also for passengers traveling onto Bangladesh. Andhra Pradesh also performs well predominantly due to the award-winning Rajiv Gandhi International Airport.

Aircraft movement in all other states is essentially reflective of the level of economic activity occurring there. The only anomaly to that is Haryana that witnesses high levels of economic activity mainly in Gurgaon but is conspicuous by the lack of an airport. Nevertheless, the state still largely

TABLE 026 POINT ALLOCATION FOR LITERACY RATE

	<u>Literacy Rate</u>	<u>Points Obtained</u>	<u>Rank</u>
			<u>2011</u>
Kerala	93.90%	5	1
Mizoram	91.60%	5	2
Tripura	87.80%	5	3
Goa	87.40%	5	4
Delhi	86.30%	5	5
Himachal Pradesh	83.80%	4	6
Maharashtra	82.90%	4	7
Sikkim	82.20%	4	8
Tamil Nadu	80.30%	4	9
Nagaland	80.10%	4	10
Manipur	79.80%	3	11
Uttarakhand	79.60%	3	12
Gujarat	79.30%	3	13
West Bengal	77.10%	3	14
Punjab	76.70%	3	15
Haryana	76.60%	2	16
Karnataka	75.60%	2	17
Meghalaya	75.50%	2	18
Orissa	73.50%	2	19
Assam	73.20%	2	20
Chhattisgarh	71.00%	1	21
Madhya Pradesh	70.60%	1	22
Uttar Pradesh	69.70%	1	23
Jammu & Kashmir	68.70%	1	24
Andhra Pradesh	67.70%	1	25
Jharkhand	67.60%	0	26
Rajasthan	67.10%	0	27
Arunachal Pradesh	67.00%	0	28
Bihar	63.80%	0	29

Source: Census of India 2011

It is a well known fact that Kerala has the highest literacy rate in the country and its presence at number one is no revelation. Bihar, which ranks the lowest, has actually shown the greatest improvement, with a 26.3% increase in literacy when compared with Census of India 2001.

Other large improvements are primarily in the eastern states, which have increased their literacy rates by 20% or more. Significantly, India's overall literacy rate has increased by 9.2% from 64.83% in 2001 to 74.04% in 2011.

Intangible Aspects

In addition to factors that are quantifiable, such as number of hotel rooms, there are several intangible aspects that help in determining whether or not a

state has a conducive environment for hotels and tourism to thrive in. We have attempted to include these, as a separate parameter judged on three main factors – law and order in the state ('Security'), availability of qualified human resources for the tourism sector ('HR') and the political stability of the state ('Political Stability').

Table A1-27 presents our assessment of the intangible aspects for all states.

TABLE 027 POINT ALLOCATION FOR LITERACY RATE

States	Points Obtained	5	5	5	Rank	Rank	Variance
		Security	HR	Political Stability	2011	2009	
Gujarat	15	5	5	5	1	1	0
Rajasthan	15	5	5	5	1	1	0
Tamil Nadu	15	5	5	5	1	1	0
Haryana	13	3	5	5	4	8	4
Himachal Pradesh	13	5	3	5	4	1	-3
Karnataka	13	5	5	3	4	1	-3
Madhya Pradesh	13	5	3	5	4	8	4
Delhi	13	3	5	5	4	8	4
Sikkim	13	5	3	5	4	8	4
Uttarakhand	13	5	3	5	4	1	-3
Assam	11	3	3	5	11	21	10
Maharashtra	11	3	5	3	11	16	5
Meghalaya	11	3	3	5	11	18	7
Orissa	11	3	3	5	11	16	5
Punjab	11	3	3	5	11	8	-3
Kerala	9	5	1	3	16	8	-8
Andhra Pradesh	9	3	5	1	16	8	-8
Arunachal Pradesh	9	3	3	3	16	18	2
Bihar	9	3	1	5	16	27	11
Goa	9	3	5	1	16	1	-15
Jammu & Kashmir	9	1	3	5	16	21	5
Mizoram	9	3	1	5	16	21	5
Tripura	9	3	1	5	16	27	11
Uttar Pradesh	9	3	3	3	16	18	2
West Bengal	9	3	3	3	16	8	-8
Chhattisgarh	7	1	1	5	26	27	1
Manipur	7	1	3	3	26	21	-5
Nagaland	7	1	1	5	26	21	-5
Jharkhand	5	1	1	3	29	21	-8

As evident from Table A1-27, states that are regularly subject to acts of terrorism and insurgency have scored low on the security parameter. These include Maharashtra, Delhi, Nagaland, Jharkhand and Manipur to name a few. The HR parameter considers the availability of trained and qualified personnel pertaining to the travel and tourism industry. Lastly, political instability can affect the entire state in several forms. It can hinder companies from moving their business to the state and also impact tourist inflow to the state.

States that have scored the lowest in this category include Andhra Pradesh, courtesy the ongoing Telengana dispute and Goa, which has had several political changes in the past years. It has also been in the news for multiple rape and drug abuse incidents and has lost some points because of the same.

Consolidated Rankings

Table A1-28 presents the consolidated rankings across parameters.

TABLE 028 CONSOLIDATED RANKINGS

Weightage	Luxury Tax on	State	Presence of	GDP Per	Effectiveness	Road and	Aircraft	Literacy Rates	Intangible	Total	Rank	Rank	Variance		
	Hotels	Expenditure on									Tourist Arrivals	Branded Hotel		Capita	Marketing
	25	Tourism	20	Rooms	10	Campaign	Urbanisation	10	10	5	15	150			
Maharashtra	15.0	10.0	20.0	8.0	7.5	10.0	4.0	6.0	10.0	4.0	11.0	105.5	1	4	3
Goa	15.0	20.0	10.0	10.0	10.0	6.0	6.0	8.0	2.0	5.0	9.0	101.0	2	3	1
Delhi	7.0	5.0	16.0	10.0	10.0	4.0	10.0	10.0	10.0	5.0	13.0	100.0	3	6	3
Tamil Nadu	7.0	5.0	20.0	8.0	5.0	8.0	4.0	9.0	6.0	4.0	15.0	91.0	4	1	-3
Karnataka	15.0	10.0	16.0	6.0	5.0	8.0	4.0	6.0	6.0	2.0	13.0	91.0	4	12	8
Kerala	11.0	10.0	12.0	8.0	5.0	10.0	4.0	9.0	4.0	5.0	9.0	87.0	6	2	-4
Gujarat	18.0	10.0	14.0	2.0	5.0	4.0	4.0	8.0	2.0	3.0	15.0	85.0	7	9	2
Uttarakhand	21.0	15.0	12.0	4.0	5.0	4.0	2.0	3.0	0.0	3.0	13.0	82.0	8	7	-1
Sikkim	25.0	25.0	6.0	0.0	5.0	0.0	2.0	1.0	0.0	4.0	13.0	81.0	9	8	-1
Jammu & Kashmir	25.0	25.0	10.0	0.0	2.5	2.0	2.0	1.0	2.0	1.0	9.0	79.5	10	5	-5
Punjab	21.0	5.0	12.0	6.0	5.0	0.0	4.0	9.0	2.0	3.0	11.0	78.0	11	15	4
Uttar Pradesh	21.0	5.0	20.0	2.0	2.5	2.0	2.0	9.0	2.0	1.0	9.0	75.5	12	19	7
Rajasthan	15.0	5.0	18.0	4.0	2.5	6.0	2.0	5.0	2.0	0.0	15.0	74.5	13	11	-2
West Bengal	15.0	5.0	16.0	6.0	2.5	0.0	2.0	8.0	6.0	3.0	9.0	72.5	14	13	-1
Andhra Pradesh	18.0	5.0	16.0	4.0	5.0	2.0	2.0	6.0	4.0	1.0	9.0	72.0	15	10	-5
Haryana	11.0	5.0	8.0	10.0	7.5	0.0	4.0	8.0	0.0	2.0	13.0	68.5	16	21	5
Himachal Pradesh	15.0	5.0	14.0	2.0	5.0	6.0	0.0	3.0	0.0	4.0	13.0	67.0	17	17	0
Madhya Pradesh	15.0	5.0	14.0	0.0	2.5	8.0	2.0	3.0	2.0	1.0	13.0	65.5	18	15	-3
Bihar	15.0	5.0	14.0	0.0	0.0	10.0	0.0	8.0	2.0	0.0	9.0	63.0	19	19	0
Orissa	25.0	5.0	8.0	0.0	2.5	0.0	0.0	2.0	2.0	2.0	11.0	57.5	20	17	-3
Mizoram	25.0	5.0	0.0	0.0	5.0	0.0	6.0	2.0	0.0	5.0	9.0	57.0	21	22	1
Arunachal Pradesh	25.0	10.0	2.0	0.0	5.0	0.0	2.0	0.0	0.0	0.0	9.0	53.0	22	14	-8
Nagaland	25.0	5.0	0.0	0.0	2.5	0.0	2.0	4.0	0.0	4.0	7.0	49.5	23	22	-1
Tripura	15.0	5.0	4.0	0.0	2.5	0.0	2.0	7.0	0.0	5.0	9.0	49.5	23	28	5
Jharkhand	18.0	10.0	6.0	0.0	2.5	0.0	2.0	3.0	2.0	0.0	5.0	48.5	25	24	-1
Manipur	25.0	5.0	0.0	0.0	2.5	0.0	2.0	1.0	2.0	3.0	7.0	47.5	26	25	-1
Assam	7.0	5.0	6.0	0.0	2.5	0.0	0.0	6.0	2.0	2.0	11.0	41.5	27	26	-1
Chhattisgarh	15.0	5.0	2.0	0.0	2.5	0.0	2.0	4.0	2.0	1.0	7.0	40.5	28	27	-1
Meghalaya	7.0	5.0	4.0	0.0	2.5	0.0	2.0	1.0	0.0	2.0	11.0	34.5	29	29	0

The Top Five

Maharashtra and Delhi, home to the two main gateway cities of the country, come in at first and third place. Both states have the infrastructure, the presence of a significant number of branded hotel rooms and the necessary demand generators to occupy hotel rooms. Maharashtra has not scored drastically low on any criteria and its better-than-average performance in every parameter pushes the state to number one. Delhi, on the other hand, has scored full marks in six parameters but has also scored very low in marketing efforts, state expenditure on tourism and luxury tax applied on hotel rooms. In fact, the tourism spend has actually decreased for the state from 0.06% of total expenditure in the previous edition of this report to 0.03% this time.

Goa attains full marks in three categories and scores high in most others. The state largely benefits from being a small state and quantitatively has performed very well. However, Goa needs tremendous improvement in its Intangible Aspects, most of all with respect to safety and security. Additionally, from a hotel investor or developer's point of view, Goa remains a difficult market to build in with high barriers to entry that mostly relate to a strong presence of the local *panchayat* which tends to dispute in several stages of the development process. The state has also scored extremely low on Airport Infrastructure. Considering that it is among the country's most popular tourist destinations, the quality of Goa's airport is appalling.

Notwithstanding these various constraints, the fact remains that the state government has succeeded in putting Goa on the map in a way that no other state government has been able to do. Furthermore, irrespective of how much a hotel developer or investor may complain about the state, truth is that Goa remains a strong hotel market from a demand perspective and every one of them would want to own a hotel in Goa.

Scoring full points in only two parameters, Tamil Nadu has fallen from first place in 2009 to fourth place this year. While it still continues to do well in Tourist Arrivals, Presence of Branded Hotel Rooms, Road and Rail Infrastructure and Intangible Aspects, the state has reduced its budgetary provisions for travel and tourism. Furthermore, it scores low on Luxury Tax on Hotels and its website popularity has dropped by three ranks. All the same, Tamil Nadu still performs well and maintains its position in the top five states for travel and tourism in the country.

Karnataka has moved up by eight ranks. This is primarily due to two parameters: State Expenditure on Tourism and Effectiveness of Marketing Campaign. Karnataka increased its budgetary provision for travel and tourism from 0.03% to 0.22% and its results are evident as the state's website popularity has increased by seven ranks.

The Biggest Movers

Kerala has dropped four places from its position in the 2009 survey. This is primarily because Kerala has not increased its expenditure on tourism, constant at 0.14%, while other states have increased their allocation of funds towards tourism. The state also scored low on GDP per Capita and Urbanization along with an extremely low score for Aircraft Movement. Given that the state leads in per capita alcohol consumption, the government is taking significant steps to curb alcohol consumption which may include an absolute ban on usage in hotels. We believe that in the long run this would cause severe damage to the tourism appeal of the state. Nevertheless, Kerala's continued efforts in marketing and promoting the state as a tourism destination in the country has helped it retain its position in the top ten.

Despite its rich culture and wealth of natural resources, Jammu & Kashmir struggles to emerge as a preferred tourism destination due to security concerns. Notwithstanding a stable government, the state's ranking has declined by five points. Budgetary provisions for State Expenditure on Tourism have been reduced from 0.69% to 0.59%, which in turn has affected its marketing efforts. The state website's popularity has reduced by six ranks.

Uttar Pradesh and Haryana have moved up the ranking by seven and five places respectively. Despite a poor performance in most parameters, both the states have excelled in one or two criteria. Uttar Pradesh has benefited greatly due to its tax friendly policies towards hotel rooms, the second highest number of Tourist Arrivals (which is predominantly because of domestic travelers) and good Road and Rail Infrastructure. Nonetheless, the state has performed weakly in most other parameters, and would need to make a conscious effort to improve its socio-economic indicators especially in light of the number of hotel investments that are being made in Noida and Greater Noida. Haryana has improved its ranking essentially by attaining full points for Presence of Branded Hotel Rooms which is primarily due to the surge of hotel inventory in Gurgaon. Additionally, the state has done well in GDP Per Capita, Road and Rail Infrastructure and Intangible Aspects. As is the case with Uttar Pradesh, Haryana too needs to improve its socio-economic indicators as it has scored low in most other criteria.

With the ongoing Telegana dispute, it is no surprise that Andhra Pradesh has taken a hit in the rankings. The state's ranking in expenditure on tourism and marketing effectiveness dropped by 11 and 9 places respectively. Furthermore, to account for the political instability of the state and high-risk security concerns, Andhra Pradesh has also been penalized in Intangible Aspects with a decrease of nine places.

Even with its unique tourist attractions, Rajasthan's ranking has fallen by three points. The state slipped by three and two places in State Expenditure on Tourism and Tourist Arrivals, respectively. It may be noted that though Rajasthan actually increased its budgetary provisions for tourism from ₹294,500,000 in the previous edition to ₹432,000,000, other states had larger increases in their tourism budget, which has resulted in Rajasthan's penalization.

With the steepest decline in the rankings, Arunachal Pradesh has fallen by eight ranks. While most states have increased their budgetary provisions for tourism, Arunachal Pradesh decreased its spend from 0.16% to 0.14% resulting in a drop of three ranks. Furthermore, its Marketing Effectiveness also took a beating as it slipped down by two ranks. Overall, the state has ranked low in several parameters, the most prominent being Presence of Branded Hotel Rooms, Road and Rail Infrastructure and Aircraft Movement.

The objective of this report is to identify the states in India that have a holistically supportive environment for a hotel to operate in. While some states have emerged as pleasant surprises, others have been a disappointment due to their lack of attention towards tourism. We hope this report encourages state governments to allocate more resources towards travel and tourism and realize the full potential of the industry.

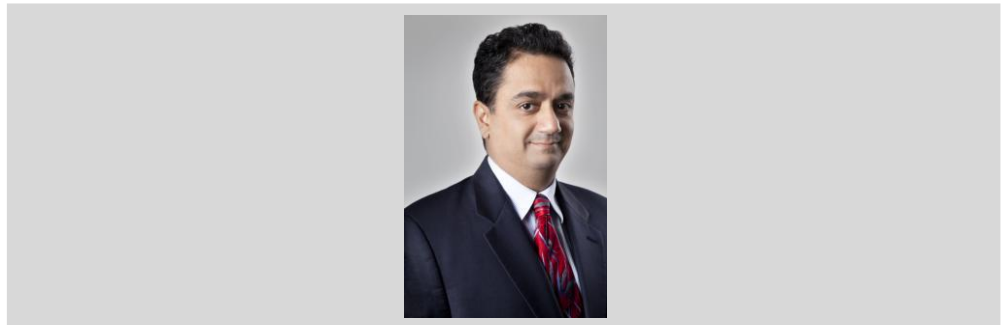
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