

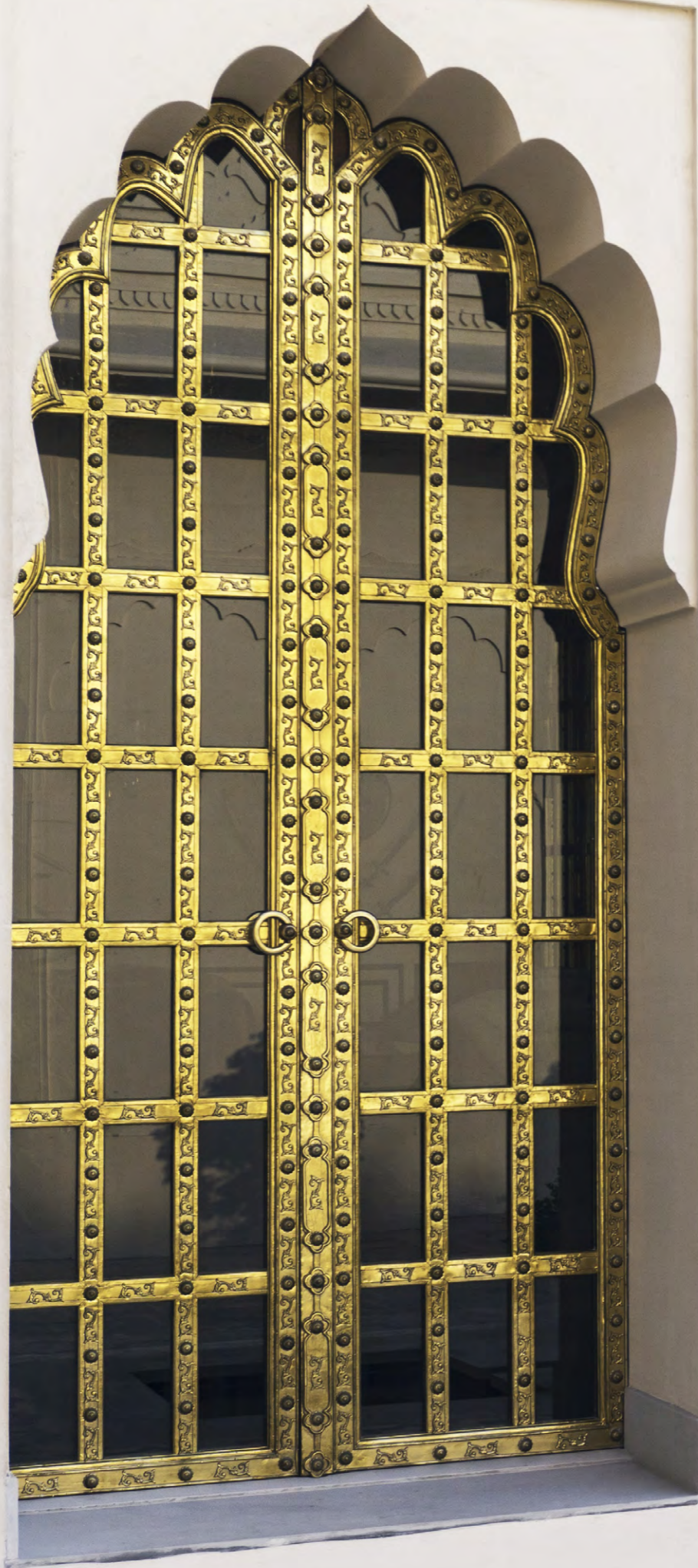
hvs.com



HVS

**EASE OF DOING
BUSINESS**

INDIAN HOSPITALITY SECTOR



FOREWORD

India has witnessed rapid economic growth in the past few years with a GDP growth averaging over 7.5% for the period 2014-2018¹ facilitated by a host of economic and policy reforms by the Government of India (GoI).

Transformative reforms such as the RERA (Real Estate Regulation and Development Act), Insolvency & Bankruptcy Code, and Arbitration and Conciliation (Amendment) Act are game changing initiatives that will go a long way towards enhancing transparency and investor confidence. The government also unified the country into a single market with the introduction of the Goods and Services Tax (GST), a much-needed tax reform, thereby, easing the flow of goods and services across states.

These reforms have not only helped India to maintain its leadership status as the world's fastest growing major economy but also helped the country remain competitive in the global scenario. As a result, between 2014 and 2019, India has jumped 79 positions to 63rd rank in the World Bank's Ease of Doing Business Index in 2019.

While in general these reforms have benefitted the Indian travel and tourism (T&T) sector, which is among the fastest growing in its group globally, setting up a hospitality business in India and achieving reasonable scale is accompanied with its own set of challenges as compared to developed economies.

In this report, we have tried to highlight the key challenges that inhibit the entry of fresh capital in the Indian hospitality sector, while discussing some of the immediate reforms needed for the sector to reach its full potential.



Mandeep S. Lamba
President (South Asia)
HVS ANAROCK

¹ World Bank National Accounts Data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN>, accessed 19 August 2019

TABLE OF CONTENTS

06 EASE OF DOING BUSINESS IN INDIA

07 INDIAN TRAVEL & TOURISM SECTOR AN OVERVIEW

08 FACTORS INHIBITING THE ENTRY OF FRESH CAPITAL IN INDIAN HOSPITALITY SECTOR



10 THE WAY FORWARD FOR INDIAN HOSPITALITY SECTOR

12 ADDITIONAL INFORMATION AN INDICATIVE LIST OF APPROVALS / PERMITS / LICENCES



EASE OF DOING BUSINESS IN INDIA

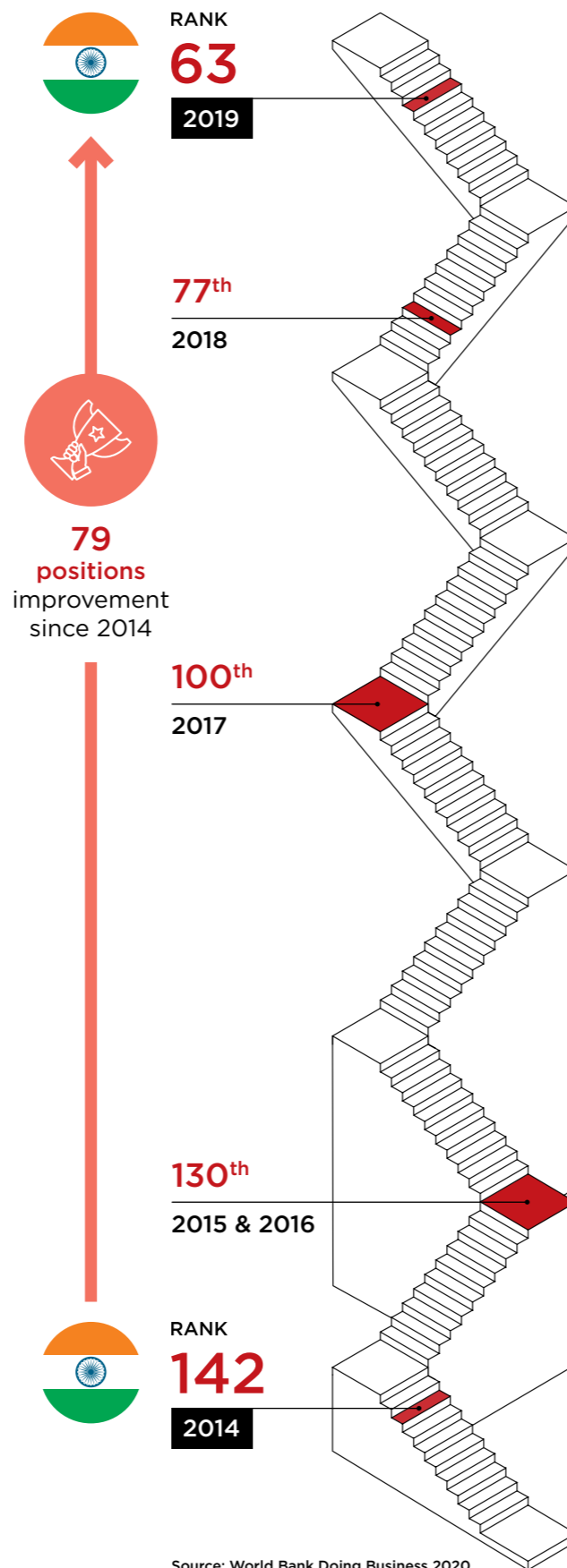
The Ease of doing business in India has improved significantly in the past few years.

India has steadily moved up the ranking in World Bank's Ease of Doing Business report to rank 63 in 2019 compared to 142nd rank in 2014. India has also been ranked as one of the top 10 improvers across 190 countries.²

The substantial improvement in the country's ranking has been driven by a series of reforms introduced by the Indian government in the past few years. These reforms have improved the ease of doing business in the country by making it easier for companies to get construction permits, pay taxes and trade across borders. Moreover, entrepreneurs are now able to start a business more easily as multiple application forms have been integrated into a general incorporation form.

In the past five years, India has recorded maximum improvement in the grant of construction permits parameter from 184 in 2014 to 27 in 2019, an improvement of 157 positions in the last five years. Online single window system has been implemented in cities such as Delhi and Mumbai which has helped reduce the time taken during the approval process dealing with construction permits. Deemed approvals have also been introduced if approvals are not granted within the defined timelines.

Though a lot of ground has been covered to streamline processes, considerable amount of work still needs to be done, especially for the hospitality sector.



INDIAN TRAVEL & TOURISM SECTOR AN OVERVIEW

The Indian travel & tourism (T&T) sector has emerged as one of the fastest growing sectors in the world. It is the third-largest contributor to the country's GDP, contributing 9.2% to India's GDP and 8.1% to the country's employment in 2018.³ The government of India has introduced several initiatives such as Incredible India 2.0, Swadesh Darshan, E-visa etc. to promote the sector. Meanwhile, infrastructure development has improved air, rail and road connectivity to tourist destinations across the country.



3rd
India's rank on absolute growth of T&T sector (2011-17)

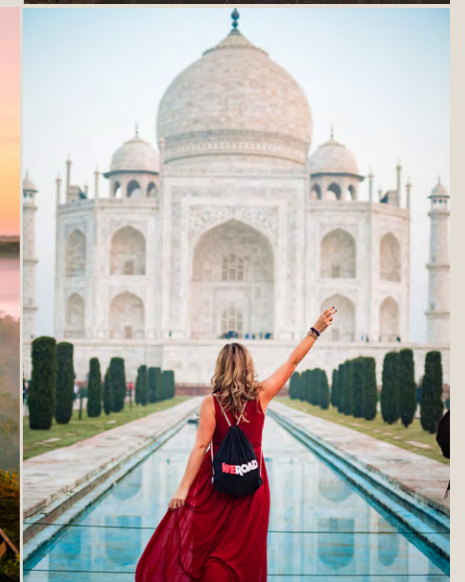


9.2%
T&T sector's contribution to India's GDP (2018)



8.1%
T&T sector's contribution to India's employment (2018)

The Indian hospitality sector (hotels and restaurants), which is the direct beneficiary of the growth in travel & tourism has significant untapped potential driven by the increasing domestic and international visitors in the country. However, setting up a hospitality business in India and achieving reasonable scale is accompanied with its own set of challenges as compared to developed economies. These challenges continue to inhibit the flow of fresh capital to the sector. In the following section, we have listed three major factors that inhibit the entry of fresh capital in the Indian hospitality sector.



² "Economy profile: India", World Bank Doing Business 2020 website, <https://www.doingbusiness.org/content/dam/doingBusiness/country/i/india/IND.pdf>, accessed 5 November 2019
"India's Hat-trick in the World Bank's Doing Business 2020," Invest India website, https://www.investindia.gov.in/team-india-blogs/indias-hat-trick-world-banks-doing-business-2020?utm_source=homepage, accessed 5 November 2019

³ World Travel and Tourism Council (WTTC) report, 2018



3 FACTORS INHIBITING THE ENTRY OF FRESH CAPITAL in the Indian hospitality sector⁴

CHALLENGES REGARDING LAND ACQUISITION

01

Hotel developers often find it difficult to acquire suitable land with a clear title and with the required land use permissions. Government approved land parcels are far and few in key urban locations and developers need to identify suitable land, which would then require several regulatory approvals. Also, in most cases, the permitted land usage has to be converted from agricultural purposes to commercial purposes, which is a long-drawn process and can often take over two years to complete.

Notwithstanding the above, the cost of land in key urban areas is very high which makes land cost range at an average between 30% to 40% of total project cost. In comparison, land costs in the Americas range between 10% to 20% of total project cost.⁵ Moreover, RBI regulations inhibit banks from funding any land purchases and hence all capital required for buying land must come in the form of equity making the project ROI lower than most global investors' expectation for their invested capital.

COMPLEX REGULATORY REQUIREMENTS

02

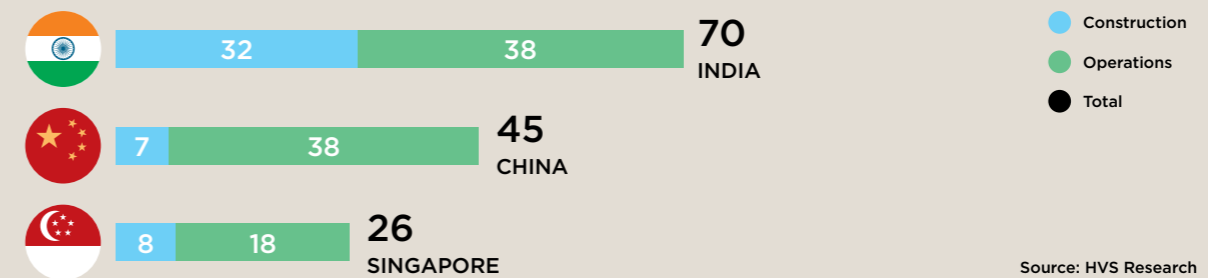
The hospitality sector is regulated by both the central and state governments, which makes the approval process complex. Once the company formation and land acquisition are complete and the appropriate land use permissions sought, multiple sanctions and licences must be obtained to construct the building. This includes sanctioned building plans, environmental sanctions, airport building height clearances, and construction labour permits among several other construction-related sanctions. Each of these are dealt by multiple agencies and the average time required to obtain these clearances ranges between 12 to 18 months adding to the time required to complete a greenfield project. After receipt of construction licences, an additional set of licences have to be obtained prior to opening and operating the hotel, which also vary from state to state.

COST OF CAPITAL

03

India ranks amongst the countries with the highest cost of capital for the hospitality industry. Lending norms for the industry are extremely stringent with interest rates ranging between 11% and 14% for borrowings as against an average of 4% to 5% in most developed economies. Given the higher cost of servicing debt, the quantum of debt available to the sector averages at 50% of the total project cost further restricting the capital available for hotel development. And finally, the cherry on this cake is the short tenure for repayment of debt which averages at circa 10 to 12 years including the construction period moratorium. Assuming a three-year construction moratorium and a three-year period for hotel revenues to stabilise, the effective repayment term ranges from 4 to 6 years causing severe stress on hotel owners and operators. Given the cyclical nature of the business, if the hotel enters the market in a down cycle phase, it is almost certain to head towards becoming an NPA as has been evident from the last cyclical downturn.

Indicative number of licences & approvals needed to open and operate a hotel (country-wise)



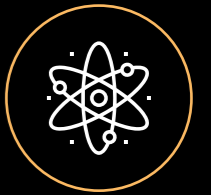
Once the hotel is operational, it still needs to get most of the licences renewed on an annual basis (in the 'additional information' section, we have provided an indicative list of approvals and licences required in most cases in India).

Licensing requirements in other countries are not as complex as in India. The number of licences needed to operate a hotel in India are far too many and vary across states. The actual number could often run well beyond 50 and in some cases exceed 100, which need to be obtained from a wide range of government agencies. Furthermore, it is not possible to apply for multiple licences simultaneously and parallel applications cannot be pursued across authorities. The biggest challenge is that there is no clarity on the licences needed or the process to be followed to obtain these licences. There is no single place online or offline where this information can be accessed by a potential investor, nor is there any nodal agency authorised to monitor and assist hospitality related investments.

⁴ Media reports; HVS Research
⁵ HVS Hotel Development Cost Survey 2018/19

THE WAY FORWARD

The Indian hospitality sector can reach its full growth potential with coordinated and concerted efforts by all the stakeholders.



1. SANCTIONS, APPROVALS & LICENCES

Single window clearances

A long standing demand of the industry, the government should implement a single window approval system (with step-by-step guidelines) for all hospitality projects across the country. This system would eliminate the need for hotel investors to fill multiple forms with repetitive information across various authorities and be caught up dealing with the complexities of bureaucratic requirements from agency to agency. It will also become easier for investors to track their application and reduce in-person follow-ups. Other Asian countries such as Singapore and Sri Lanka have effectively implemented single window clearances to simplify the entire approvals, sanctions & licencing process which requires an investor to seek a one-time clearance of his project from the nodal organisation post which it is the nodal organisation that deals with delivering of all sanctions & permissions required for the project and becomes the single point of contact.

Reduce disparity in regulations

The central government should provide guidelines to reduce the disparity in regulatory processes across states. The number of approvals and licences needed to operate a hotel and restaurant should be uniform across states based on the property's classification.

Prescribe timelines for each stage of the approval process

The time taken to get the approvals varies across states and cities as there are no prescribed timelines that licencing authorities need to follow. The government should mandate the timelines for each step and deemed approvals should be given in case the approval process is not completed within the prescribed timelines.

Simplify the licence renewal process

The government should simplify the licence renewal process by identifying certain licences that can be valid for lifetime or a period of three to five years, as required. An online single window system should be implemented for the renewal process as well.



2. NODAL TOURISM BODY

A National Tourism Board under the Ministry of Tourism should be created to be the premier think tank for policy formulation and monitoring the growth and well-being of the tourism sector. The Board should include representatives from both the government and private sector and all investment approvals for hospitality projects should be routed through it. This will also help streamline the tourism and hospitality related policies across states.



3. INFRASTRUCTURE-LENDING STATUS

The hospitality sector, which is very capital intensive, is impacted by the high cost of capital which makes investments in this sector often less attractive. The sector which is a significant contributor to the growth of the economy should be given infrastructure-lending status, allowing for longer repayment tenure and lower borrowing rates which will not only go a very long way in improving the health of the sector but also in attracting substantial fresh investments.

With hotel projects being clubbed with real estate by lenders, the sector is starved for much needed capital required for growth. To add to the sector's woes, the current rates of borrowing and the short repayment tenure are the single largest impediment which is holding the industry from booming. While the government has granted infrastructure-lending status to hotels with project costs exceeding INR 2 billion, this limits the benefit to a very small section of the industry.



4. BUILDING NORMS

Given the limited supply of suitable land parcels for hospitality projects and the prohibitive costs of the same, the government must relax FSI norms in key metros to upto 5 times the size of land so as to allow a larger built up space in the designated land parcel. In countries like the US, prime business areas such as Manhattan in New York could have upto 15 FSI allowing for adequate offset for the cost of land through larger revenue generating built up areas.




5. DEEMED EXPORT STATUS

Hotels earn valuable foreign exchange for the country through the sale of its services to foreign tourists. Such earning of Foreign Exchange must be given a Deemed Export status allowing for the export status benefits to flow through to the sector such as the usage of export credit for GST payments.

ADDITIONAL INFORMATION

AN INDICATIVE LIST OF APPROVALS / PERMITS / LICENCES

(Needed to start & operate a hotel business in India, which can vary from state to state):

	NAME OF THE REGULATION	REGULATING AUTHORITY	
 Formation & financing of a company →	Certificate of Incorporation	Registrar of Company Affairs	
	Certificate of Commencement of Business	Registrar of Company Affairs	
	Capital Issues (Permission for Issuing Equity Certificates/Transferring Shares to Non-Residents)	Ministry of Finance & RBI	
	Approval of Term Loan from Financial Institutions	Financial Institutions, TFCl & Banks	
	Registration under Income Tax	Income Tax Authorities	
	Registration under Sales Tax/VAT	VAT/Sales Tax Authorities	
	Approval for Foreign Investment & Technical Agreement	SIA (Ministry of Industry & Commerce) & RBI	
	Approval for Foreign Consultancy Services	RBI	
	Planning & construction of a hotel →	NOC U/S 269 of Income Tax Act for Purchase of Land Before Sales Deed Registration	Income Tax Authorities
		Registration for Sale/Transfer of Land	Registrar/Sub-Registrar concerned (Revenue Authorities in Rural Areas)
Approval for Land-use/Change of Land-use		Local Body (Revenue Authorities in Rural Areas)	
Clearance/Approval from Local Municipal Authorities for Building Plans & FAR		Local Body/Corporation/Municipality	
Project Approval from Department of Tourism		Department of Tourism, Government of India	
Approval for Hotel's Height		Ministry of Civil Aviation through Local Office of Airport Authority	
Sanction for Electrical Load & Maximum Demand		State Electricity Board or Electricity Distribution Company	
Sanction for Water Supply Requirement		Local Body/Water Distribution Company	
Sanction for LPG, Furnace Oil or Other Fuel		Oil Companies	
Sanction for Storage of Construction Material		Local Body	
Approval for Garbage Disposal & Sewage Discharge		Local Body	
Import Licences		DGFT	
Registration under the Sarai Act, 1867 (where applicable)		Local Body/Corporation/Municipality	
Urban Art Commission Clearance		State Art Commission, wherever they exist & the hotel area falls in their jurisdiction	
Consent to Establish from State Pollution Control Board		State Pollution Control Board	
Regulation after construction but before commissioning →	Approval for Electrical Installations & Connection of the Load	State Electricity Board or Electricity Distribution Company	
	Approval for Lift Installation & Certification	Local Body	
	Consent to Operate from State Pollution Control Board under Water Act, Air Act & EPA	SPCB may also levy a cess for Discharge of Waste Water in sewage system under the Water Act	
	Approval for Fire Safety Installation & NOC	Fire Department of the State, usually by Local Fire & Safety Officer	
	Approval for Boiler Installation/Cold Storage	Installation Company and Fire & Safety Officer	
	Approval for DG Set Installation	Installation Company, Fire Officer, & Electric Board/Company	
	Approval for Operation of Laundry	Local Body for Discharge of Waste Water	
	NOC from Chief Electrical Inspector	Power Department under Local Laws	
	Moneychangers Licence from RBI	RBI or Franchiser such as a Bank/Full-fledged Moneychanger	
	Building Completion Certificate & Occupancy Certificate (OC)	Local Body	
Restaurant Licence	Local Body/Local Police		

ADDITIONAL INFORMATION (cont.)

AN INDICATIVE LIST OF APPROVALS / PERMITS / LICENCES

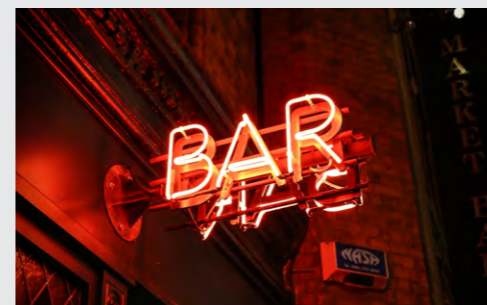
(Needed to start & operate a hotel business in India, which can vary from state to state):



Regulations
for starting
operations
and soon
after being
functional



NAME OF THE REGULATION	REGULATING AUTHORITY
Bar Licence from Excise Authorities	State Excise Commissioner through the Local Officer
Licence for Swimming Pool	Police Department, Fire & Safety Officer
NOC from Municipal Health Officer, under PFA Act/Rules	Local Bodies/Health Officer
Licence for Maintaining Wireless Paging System	Ministry of Communication or Authorised Offices
Licences for Storing Fuel under the Explosives Act	Fire & Safety Officer
Approval for Allotment of Furnace Oil	Oil Companies
Boiler Certification	Boiler Installation Company, Fire & Safety Officer
Registration under the Shops & Establishment Act & under Factories Act	Labour Office under State Labour Department
VAT/Sales Tax Number	VAT/Sales Tax Authorities
Registration for Service Tax for Chargeable Services	Central Excise Authorities
Entertainment Tax	State Entertainment Tax Department
Permission under Weight & Measures Act	Controller of Weight & Measures
Land & Property Tax	Local Body/Corporation/Municipality
Manufacture & Sale of Cakes/Pastries	Central Excise Authorities
Registration under the Employees Provident Fund & Miscellaneous Provisions Act, 1952	EPF Commissioner & Office
Registration under the Employees Family Pension Scheme, 1971	EPF Commissioner & Office
Registration under the Employees State Insurance Act, 1948	ESI Directorate in the State
Classification in a Star Category within 3 months of Starting Operations	Department of Tourism, Government of India
FSSAI Food Business Licence	FSSAI
GST Registration	GST Council
Music Licence	Copyright Agencies (PPL/IPRS/ISRA)
CLRA Registration	Department of Labour
Licence for Discotheque	Excise, Police Authorities
Performance Licence	Phonographic Performance Ltd. (PPL)
NOC from Traffic Police	State Police Department
Draught Beer Licence	Excise Authorities
Working Women Late Night Permission	Department of Labour of State Government
Licence for Neon Light	



Superior results through unrivalled hospitality intelligence. Everywhere.

HVS is the only global consulting firm focused exclusively on the hospitality industry. We provide comprehensive solutions through our single - minded focus; helping you succeed in the complex hospitality area through our global reach and in depth understanding of the local market. HVS has over 50+ offices in 5 continents, with 300+ industry specialists having delivered 60,000+ assignments in over 6,000+ markets.

ANAROCK Group is one of India's leading specialised real estate services company having diversified interests across the real estate value chain. ANAROCK has a team of over 1,800 certified and experienced real estate professionals who operate across all major Indian and GCC markets, and within a period of two years, has successfully completed over 300 exclusive project mandates. ANAROCK also manages over 80,000 established channel partners to ensure global business coverage.

Our assurance of consistent ethical dealing with clients and partners reflects our motto - Values Over Value.

hvs.com | anarock.com



OUR SERVICES

**Brokerage & Transaction Advisory | Consulting & Valuation
Asset Management | Executive Search**

HVS ANAROCK Hotel Advisory Services Pvt. Ltd.

GURUGRAM

Level 7, Tower B
Building No. 9
DLF Cyber City, Phase III
Gurugram 122 002

+91 124 488 5580

MUMBAI

1002, 10th Floor, B Wing
ONE BKC, Plot No. C-66, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051

+91 22 4293 4293

OUR CONTRIBUTORS

Mandeep S. Lamba
President (South Asia)
mlamba@hvs.com

Akash Datta
Sr. Vice President (South Asia)
Consulting & Valuation
adatta@hvs.com

Ajay Mehtani
Sr. Vice President (South Asia)
Asset Management & Executive Search
amehtani@hvs.com

Dipti Mohan
Senior Manager
Research
dmohan@hvs.com

Dr. Paridhi Gupta
Asst. Vice President
Design, ANAROCK Capital
paridhi.gupta@anarock.com

© 2019 HVS ANAROCK Hotel Advisory Services Pvt. Ltd. All rights reserved.

All information in this report is provided solely for internal circulation and reference purposes. HVS ANAROCK makes no statement, representation, warranty or guarantee as to the accuracy, reliability or timeliness of the information provided. No part of this report may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods without the expressed written consent of the organisation.