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MARKET REPORT

HVS Monday Musings: Granting Industry and Infrastructure Status to the Indian Hospitality Sector is the Need of the Hour

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The growth of the Indian hospitality sector, a key contributor to GDP and employment, will fuel the economy in the post-COVID world, making a compelling case for the sector being granted infrastructure status – a long-pending request by key stakeholders – and the next frontier in the sector's growth path.

In the past few months, several state governments have been proactively lending a helping hand to the tourism & hospitality sector in their respective states, providing various relief measures to help the sector stay afloat during these trying times. Last month, in a move to reboot the sector, the Maharashtra government conferred 'industry' status to the state's hospitality sector.

The industry status allows hospitality establishments in the state to be levied electricity rate, electricity charges, water charges, property tax, development tax, increased carpet ratio and non-agricultural tax at industrial rates (with effect from 1st April 2021). As a result, operating costs for hospitality players in Maharashtra are expected to reduce significantly as industrial tariffs are much lower than the commercial tariff that they currently pay.

Earlier in October 2020, the state had also reduced pre-establishment licenses for the sector from 70 to 10, which along with the industry status is expected to boost the growth in the hospitality sector in Maharashtra.

We now hope that other states will take cognizance of what Maharashtra has done and follow the same. This could then be the harbinger of change for the industry, one that could significantly impact its fortunes in a much-needed positive manner.

Infrastructure-lending status to the Indian hospitality sector – the next frontier

India is one of the fastest growing travel & tourism (T&T) economies in the world thanks to its diverse landscape, rich heritage, and cultural diversity, which attracts tourists from across the country and the world. However, we have still not tapped into the full potential of tourism in the country, especially leisure tourism, mainly due to the lack of good quality hotel infrastructure.



The hospitality sector is highly capital intensive and the high cost of capital often makes investments in this sector seem less attractive. The sector is a significant contributor to the country's GDP growth and employment and granting infrastructure-lending (infra) status to the sector– a long-pending request by key stakeholders – will be the next frontier in its growth path.

The government has granted infra status to three-star or higher category hotels outside cities with a population of over one million and to hotels with a project cost of more than INR 2 billion (excluding land costs). However, this has not provided any significant fillip to the sector as the benefits have been limited to a minuscule proportion of projects.

In the recent past, there have been several successful examples of sectors, such as hospitals, logistics and affordable housing to name a few, which have witnessed exponential growth in investments after they were accorded the infrastructure status.

Similarly, infrastructure status will provide the Indian hospitality sector with several benefits and concessions, including longer loan repayment tenure and lower borrowing rates, which will help in attracting substantial fresh investments and will go a long way in improving the health of the sector, which is currently struggling due to the ongoing pandemic. The growth of the hospitality sector will in turn fuel the economy in the post-COVID world, making a compelling case for the sector being granted infrastructure status.