

**Chandrawat
& Partners**



**GUIDE ON HOSPITALITY
SECTOR IN INDIA**

enquiries@chandrawatpartners.com | www.chandrawatpartners.co

TABLE OF CONTENTS

PARTICULARS	PG. NO.
INTRODUCTION	02
MARKET DYNAMICS	04
EMERGING TRENDS	07
ECONOMIC OVERVIEW	09
GOVERNMENT INITIATIVES	10
MAJOR INVESTMENTS	12
GOVERNING LAWS	14
TAXATION REGIME	17
DISPUTE RESOLUTION	18
HOW WE CAN HELP?	20

INTRODUCTION



The hospitality industry in India is vibrant and diverse, reflecting the country's rich cultural heritage and warm hospitality. With a history dating back thousands of years, India has long been known for its warm welcome and world-class hospitality. Today, the Indian hospitality industry has grown into a thriving and dynamic landscape that includes a diverse range of businesses and services catering to both domestic and international travellers.

The vast network of hotels and lodging options in India serves as the sector's backbone. From luxurious five-star hotels to budget-friendly guesthouses, India provides travellers with a wide range of options. Accommodation facilities that cater to the various needs and preferences of visitors are available in major cities, tourist destinations, and remote regions.

The rich history of India can be seen in its heritage hotels, which are often grand palaces, forts, or mansions that have been converted into luxurious lodging. These one-of-a-kind properties allow guests to immerse themselves in India's royal past while also enjoying modern conveniences.

Furthermore, the natural beauty and diversity of India's landscapes have given rise to a plethora of resorts and spa retreats. These establishments, nestled in picturesque settings, provide an idyllic escape, combining luxury with nature-centric experiences.

The hospitality industry in India embraces the country's cultural heritage and adventure tourism potential. Visitors can experience vibrant festivals, ancient traditions, and historical sites, as well as thrilling outdoor activities such as trekking, wildlife safaris, and water sports.

India attracts Meetings, Incentives, Conferences, and Exhibitions (MICE) tourism as a growing business hub. Business travellers attending conferences, seminars, and corporate events are catered to by world-class convention centres and hotels with cutting-edge facilities.

The hospitality industry in India exemplifies the country's spirit of "Atithi Devo Bhava", where guests are treated with the utmost respect and care. The industry continues to evolve and innovate, providing travellers with unforgettable experiences that combine modern conveniences with the timeless allure of India's cultural tapestry. As India continues to be a popular destination for travellers seeking authenticity, spirituality, and adventure, the hospitality industry plays an important role in shaping these extraordinary journeys.



MARKET DYNAMICS

A variety of factors influence the market dynamics of the hospitality sector in India, shaping the industry's growth, trends, and challenges. Here are some important market dynamics:

- **Economic growth and consumer spending:** The performance of India's hospitality industry is inextricably linked to the country's overall economic growth and consumer spending. As the economy grows, disposable income rises, resulting in more domestic and international travel.
- **Growing domestic tourism:** India's large population and growing middle-class segment have contributed to an increase in domestic tourism. Indians are exploring their own country more than ever before, resulting in increased demand for hotels, resorts, and travel experiences in various regions.
- **Booming international tourism:** Due to its rich cultural heritage, diverse landscapes, and vibrant festivals, India is attracting an increasing number of international tourists. Foreign tourist arrivals have increased as a result of the government's efforts to promote India as a global tourist destination.



- **Digital transformation:** The advent of technology and the internet has transformed the way travellers plan and book their vacations. Hotel reservations, flight bookings, and other travel-related services are increasingly being handled through online travel agencies, booking platforms, and travel apps.
- **Emergence budget and boutique hotels:** While luxury hotels have long been prevalent in India, there has been a significant increase in budget and boutique accommodations. These cater to various segments of travellers by providing more affordable yet comfortable and unique experiences.
- **Wellness Tourism:** Traditional Indian wellness practises such as Ayurveda and Yoga have gained international acclaim. As a result, wellness tourism has grown in popularity, attracting health-conscious travellers in search of holistic treatments and rejuvenation.
- **Meetings, Incentives, Conferences, and Exhibitions (“MICE”) Tourism:** India is becoming a popular destination for MICE events. To host corporate gatherings, major cities such as Delhi, Mumbai, Bengaluru, and Hyderabad have world-class convention centres and conference facilities.
- **Government Initiatives:** The Indian government is actively promoting tourism and supporting the hospitality industry. Campaigns such as "Incredible India" and "Clean India" aim to increase the country's tourism appeal while also improving infrastructure.
- **Sustainable and responsible travel:** Travellers are becoming more aware of, and demand for, sustainable and responsible travel practises. To appeal to environmentally conscious travellers, many Indian hotels and resorts are implementing eco-friendly initiatives and community engagement programmes.

- **Seasonal fluctuations:** The hospitality industry experiences seasonal fluctuations, with peak travel seasons coinciding with holidays, festivals, and favourable weather conditions. During these times, hotels and resorts in popular tourist destinations see increased occupancy.
- **Competition and consolidation:** The Indian hospitality sector is highly competitive, with both domestic and international hotel chains vying for market share. Mergers and acquisitions have increased in recent years as companies seek to expand their market presence and reach.
- **Infrastructure development:** Improvements to transport infrastructure, such as airports, highways, and railways, have a direct impact on the hospitality sector. Improved connectivity to various destinations promotes tourism and facilitates travel movement.



EMERGING TRENDS

The Indian hospitality industry is constantly evolving as a result of changing consumer preferences, technological advancements, and global trends. Here are some emerging trends in India's hospitality industry:

- **Contactless technology:** With the onset of the COVID-19 pandemic, the hospitality industry has accelerated its adoption of contactless technology. To reduce physical contact and improve guest safety and convenience, hotels are implementing mobile check-ins, digital key cards, contactless payments, and QR code menus.
- **Personalization and the guest experience:** In the hospitality industry, personalization is becoming increasingly important. Hotels are using data analytics to better understand their guests' preferences and behaviour, offering personalised experiences and amenities to ensure each guest has a memorable stay.



- **Sustainability and environmentally friendly practises:** Because of environmental concerns, there is a growing emphasis in the hospitality sector on sustainable and eco-friendly practises. To appeal to eco-conscious travellers, hotels are implementing energy-efficient technologies, reducing single-use plastics, and incorporating green initiatives.

- **Wellness and health tourism:** Due to the country's rich traditional practises such as Ayurveda, Yoga, and Meditation, wellness tourism is on the rise in India. To cater to health-conscious travellers seeking relaxation and rejuvenation, hotels and resorts are offering specialised wellness packages and spa services.
- **Workation and bleisure travel:** The concept of "workation" and "bleisure" travel, in which travellers combine work and leisure, is gaining popularity. Hotels are offering business-friendly amenities and workspaces to attract remote workers, entrepreneurs, and business travellers looking for a work-life balance while on the road.
- **Authentic and local experiences:** More and more travellers are looking for authentic and immersive experiences. Hotels are collaborating with local communities to provide cultural activities, culinary experiences, and guided tours that highlight the destination's unique features.
- **Alternative accommodations:** In addition to traditional hotels, alternative lodging options such as vacation rentals, home-stays, and serviced apartments are gaining popularity. Online platforms are giving travellers more options and flexibility in terms of lodging preferences.
- **Technology integration and artificial intelligence ("AI"):** AI and automation are revolutionising the hospitality industry. Chatbots, AI-powered customer service, and virtual assistants are being used to improve efficiency, streamline operations, and enhance guest interactions.
- **Food and beverage innovations:** Food and beverage innovations are taking place, with a focus on local and organic ingredients, fusion cuisines, and diverse dining experiences. To engage guests, hotels are introducing themed restaurants, food pop-ups, and interactive culinary events.

ECONOMIC OVERVIEW

The Hospitality Industry in India is estimated to be worth USD 23.50 billion in 2023 and will be worth USD 29.61 billion by 2028, growing at an 8% CAGR during the forecast period (2023-2028). The hospitality industry in India has experienced moderate growth in recent years and has the potential to grow even more in the future.

The country, which is rich in culture and diversity, has drawn a large number of tourists from all over the world. India has also been identified as a spiritual tourism destination for both international and domestic visitors. The consistently growing middle class, rising levels of disposable income, and growing interest among millennials to travel in their home country are just a few of the major factors that are making the domestic travel industry profitable.

To attract millennials, ventures such as Airbnb and Oyo rooms have changed global hospitality scenarios by offering price-sensitive stays in most prime locations with flexible check-in and check-out options to attract an increasing number of travellers.

The hospitality and tourism industry has been growing steadily and accounts for 7.5% of the Gross Domestic Product (“GDP”). India is among the top 100 countries in terms of Ease of Doing Business (“EoDB”) and ranks first in greenfield investment. The Government of India (“GoI”) has chosen Chennai, Goa, Kochi, Mangalore, and Mumbai ports to develop as cruise tourism hubs in order to improve India's Foreign Direct Investment ranking and to strengthen the cruise tourism sector. These terminals will include services such as hospitality, retail, shopping, and restaurants.

GOVERNMENT INITIATIVES



The Indian hospitality sector is primarily driven by buoyant domestic demand, the revival of inbound travel, and the Indian government's renewed emphasis on tourism expansion, which is expected to contribute USD 250 billion to the country's GDP by 2030.

The government recognises the importance of the tourism industry as a job creator and plans to promote it on a mission with active participation from all stakeholders, including public-private partnerships.

The revival of 50 additional airports, heliports, and water aerodromes to increase regional air connectivity, as well as the development of fifty tourism destinations as a complete package for domestic and international tourism, bodes well for the sector, as does the government's continued emphasis on infrastructure development, including significant investment in railways and last-mile connectivity.

Furthermore, the decrease in personal income tax will increase disposable income, driving demand in the tourism and hospitality sectors.



The market is being driven by travel and tourism. According to the current year report of the Indian Tourism Statistics, India received 677.63 million domestic tourist visits in the previous year. The percentage has increased by 11.05% since the previous year, when it was 610.22. Tamil Nadu, Uttar Pradesh, Andhra Pradesh, and Karnataka were the top states in terms of domestic visits.

The tourism sector in India has begun to recover, with a record number of countries contributing to Foreign Tourist Arrivals (“FTAs”) numbers this year. Total FTAs in India increased by 406.6% from January to July 2022, reaching 2,764,975.

The sharp increase in FTAs is the result of several driving forces, including the COVID-19 Vaccination campaign, the Indian Government's 'Heal in India' and 'Heal by India' campaigns, and several other infrastructure measures.

MAJOR INVESTMENTS

Various domestic and international players were making significant investments in India's hospitality sector. Here are some significant investments seen in the sector:

- **International hotel chains:** Marriott International, Hilton Worldwide, AccorHotels, and InterContinental Hotels Group (“IHG”) have continued to expand their presence in India. They made investments in new hotel openings, renovations, and management contracts, particularly in high-traffic business and tourist areas.
- **Indian hotel groups:** Taj Hotels, ITC Hotels, The Oberoi Group, and The Lemon Tree Hotel Company are among the prominent Indian hotel groups that have made significant investments in expanding their portfolio. These groups concentrated on the launch of new properties, the improvement of existing ones, and the exploration of opportunities in emerging markets.
- **Hospitality real estate:** Investors and developers were interested in hospitality real estate, such as resorts, wellness retreats, and branded residences. Significant investments have been made in luxury resorts in scenic locations such as Goa, Kerala, and the Himalayan regions.
- **Budget and mid-range hotels:** Investments in budget and mid-range hotels were increasing, owing to increased domestic tourism and increased demand for affordable lodging options. Several hotel chains, including OYO Rooms and FabHotels, have received significant funding to expand their low-cost hotel offerings across the country.

- **Serviced apartments:** The concept of serviced apartments has grown in popularity, particularly among business travellers and long-term visitors. Several businesses have invested in developing and marketing serviced apartments as an alternative lodging option.
- **Online travel agency (“OTAs”):** Major OTAs, such as MakeMyTrip and Yatra, attracted investments to improve their technology, expand their service offerings, and strengthen their market position in India's rapidly growing online travel market.



- **Travel tech startups:** A variety of travel tech startups focused on innovative hospitality solutions such as mobile check-ins, AI-powered chatbots, contactless payment systems, and data analytics. Many of these startups were funded by venture capital and angel investors.
- **Restaurant chains and food delivery platforms:** As India's dining and food delivery habits evolved, investments in the food and beverage segment, including restaurant chains and food delivery platforms like Zomato and Swiggy, gained traction.

GOVERNING LAWS



The laws governing the hospitality industry can be divided into three broad categories:

- **Hotel construction and commissioning regulations:** New and existing hotels must follow all statutory regulations imposed by state and federal laws in the commissioning, construction, and maintenance of hotels within their respective jurisdictions. All of these regulations are related to state-specific land laws, industrial policies, and development control orders.
- **Mandatory statutory hotel licences:** The Hotel is required by law to obtain a number of licences. These licences are required for the entity's post-completion establishment in the hospitality industry. The licences can be for lodging, eating establishments, liquor, entertainment, and so on, which the hotels must follow in order for the establishment to run smoothly.
- **Tax regulations in the hotel industry:** Both the Income Tax and the Goods and Services Tax apply to the hotel industry. Along with taxation, certain employment-related regulatory provisions, such as the Employee State Insurance Act, Apprenticeship Act, contractual relationships, and so on, apply to the hospitality industry.

The following licences are required for the hotel's registration, start-up, and operation:

- **Building Completion Certificate (“CC”)**: This document certifies that the building was built in accordance with the development authority's approved plan and regulations. This certificate contains all project-related information such as building materials, floor plans, and so on. The local development authority issues this certificate.
- **Occupancy Certificate (“OC”)**: Under local laws, such a certificate is issued by the competent local authorities certifying that the building was built in accordance with construction laws and that the building is fit for human habitation in terms of civic infrastructure such as water, electricity, and sanitation. The municipal authorities will not connect electricity, water, and sanitation without the OC.
- **Under the concerned state's Shops and Establishment Act**: Each state has its own act, and hotels fall under the scope of commercial establishments, and they are required to be registered under the act, which provides proof of incorporation of the business concern.
- **Under the Water Act and the Air Act with the State Pollution Control Board (“SPCB”)**: The SPCB of each state requires hotels to obtain Consent to Establish (“CTE”) and Consent to Operate (“CTO”) as per the Air Act, 1981 and the Water Act, 1974 before beginning construction activities and business operations. The SPCB generally issues a licence for chimneys under the Smoke Nuisance Act.
- **Apprenticeship Act**: Any business with more than 30 employees, whether regular or contract, is required to register for the apprenticeship programme. As a result, any hotel that employs more than 30 people is required to implement apprenticeship programmes, or face severe penalties.

- **Licence from the respective municipal corporations:** Water, electricity and sanitation connections for the hotel must be obtained from the respective municipal corporations.
- **Eating and lodging licence:** The hotel must obtain an eating and lodging licence, which is usually granted by the Police Department's designated personnel.
- **Licence for limited money exchange:** Hotels that cater to foreign visitors usually exchange foreign currency. For this purpose, they must obtain a licence in accordance with RBI guidelines for limited foreign exchange transactions, but such transactions are restricted to hotel guests and no one else.
- **Mild spirits licence:** The excise department of the relevant state usually grants a licence for mild spirits such as beer and wine. This is distinct from a bar licence for serving hard drinks, foreign liquor, and so on.
- **Bar license:** The hotel requires a bar licence in order to serve drinks in its restaurants and hotel rooms. The applicant hotel receives a bar licence based on the serving of spirits by the competent state authority.
- **Fire department approval:** A hotel must adhere to all prescribed fire safety standards and guidelines. The Fire Department then issues a NOC to the company that has followed all of the prescribed procedures.



TAXATION REGIME

The hospitality sector is taxed as per the different GST regime. The GST regime introduced 5 tax slabs – 0%, 5%, 12%, 18% and 28%. Thus, every good or service is taxed under one of these tax slabs.

GST on hotel accommodation

The three GST slabs that apply to hotel rooms are 0%, 12%, and 18%, which correspond to the per-night tariff. There is no GST on hotel rooms with nightly rates less than Rs. 1000. GST of 12% is applicable to tariffs ranging from Rs 1,001 to Rs 7,500, and GST of 18% is applicable to tariffs exceeding Rs 7,500.



GST on Food and Beverages

The 5% and 18% slabs cover the majority of food and beverage services. The 5% tax slab rate applies primarily to meals provided by the Indian Railways (including their licensees), restaurants (including those within hotels with tariffs less than Rs. 7,500), canteen/mess in a school, office, college, or other contract-based establishment.

The 18% slab rate, on the other hand, includes food services provided by restaurants within hotels with tariffs exceeding Rs. 7,500. It also includes food services provided at a one-time or event-based conference, function, or other gathering.

DISPUTE RESOLUTION



The hospitality industry is no stranger to dispute between owners and operators, franchisors and franchisees, restaurant operators and hotel operators, operators and employees, condo-hotel developers and unit purchasers, and the list goes on. Every relationship and every industry agreement has the potential to be a source of contention.

Almost every hospitality industry agreement, particularly the core agreements, hotel management agreements, franchise agreements, technical service agreements, and licence agreements, includes what is known as alternative dispute resolution. Alternative dispute resolution is sometimes referred to as "anything but litigation." In practice, industry agreements' dispute resolution provisions generally favour arbitration and, except in rare and specific circumstances, prohibit litigation.

Furthermore, almost all of these provisions require mediation before a party may file suit or make a demand for arbitration. The dispute resolution provisions of hotel management agreements, for example, are frequently vigorously negotiated, particularly those portions of the agreement dealing with the arbitration process and the rules under which the arbitration would be conducted, as well as any rights of appeal that may be permitted.

- **Negotiation:** Negotiation between the parties involved is frequently the first step in resolving disputes. Without involving third parties, this informal process allows the parties to discuss their issues, interests, and potential solutions in order to reach a mutual agreement. Many disputes in the hospitality industry can be resolved through negotiation, particularly when the issues are not too complicated.
- **Mediation:** If negotiation fails to resolve the dispute, the parties may choose mediation. The mediator is a neutral third party who facilitates communication between the parties and assists them in reaching a mutually acceptable resolution. The mediator does not make any decisions, but rather assists the parties in exploring their options and reaching an agreement.
- **Arbitration:** Arbitration is a more formal process in which an impartial third party, the arbitrator or an arbitration panel, listens to both sides of a dispute and renders a binding decision. It is a less formal and often faster method of dispute resolution than court litigation. Many commercial agreements in the hospitality industry include arbitration clauses that state that any disputes will be resolved through arbitration rather than going to court.
- **Litigation:** If a dispute cannot be resolved through negotiation, mediation, or arbitration, the parties may resort to litigation and take the matter to court. This can be a time-consuming and costly process, but it is a formal legal procedure in which a judge or a bench of judges will hear both parties' arguments and evidence before making a legally binding decision.

HOW WE CAN HELP?



Chandrawat & Partners can play a crucial role in assisting and improving the hospitality sector in various ways. The firm can provide valuable assistance to clients by offering specialized expertise, strategic guidance, and customized solutions. Here are some ways the firm can help in the hospitality sector:

- **Business strategy and planning:** The firm can assist hospitality businesses in developing comprehensive business strategies, such as market analysis, target audience identification, and competitive positioning. The firm can also help with long-term growth and expansion plans.
- **Operational efficiency:** The firm can evaluate a hospitality business's current operations and identify areas for improvement in terms of efficiency and cost-effectiveness. This could include streamlining workflows, optimising processes, and implementing best practises.
- **Compliance and Regulations:** The firms can help businesses ensure that they are in compliance with local regulations, safety standards, and industry best practises.
- **Due diligence:** The firm can conduct due diligence on potential partners or suppliers to ensure they are legally compliant and financially stable.

SERVING CLIENTS WORLDWIDE



The information contained herein is of a general nature. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. The information is not offered as an advice on any matter, and no one should act or fail to act based on such information without appropriate legal advice after a thorough examination of the particular situation. The information does not make us responsible or liable for any errors and/or omissions, whether it is now or in the future. We do not assume any responsibility and/or liability for any consequences.

The Bar Council of India does not permit advertisement or solicitation by advocates in any form or manner. The information may be provided to user on request or otherwise. The information contained in it is entirely determined by the user voluntarily and any transmission or use does not establish any lawyer client relationship.

Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on

[LinkedIn](#)

[WhatsApp](#)

Chandrawat & Partners is a leading and rapidly growing full-service law firm in India providing high quality professional, legal and corporate services to foreign and local clients, representing worldwide companies and individuals in a wide range of practice areas and sectors.

Copyright © 2023 | All rights reserved | Chandrawat & Partners | Email: enquiries@chandrawatpartners.com | Website: www.chandrawatpartners.co

Follow us on:

