
THE INDIA HOTEL REPORT
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INDIA'S HOTEL MARKET ON THE UP

BACKGROUND

India gained independence in 1947, after two centuries of British colonial rule. Partition at the same time created the state of Pakistan, with which India has fought three wars, two over the disputed territory of Kashmir. India is the second-most populous country in the world, with more than 1.2bn people in 2013. Its economy is the tenth-largest in the world when measured in nominal US dollars, but is the third-largest when measured at purchasing power parity exchange rates. The large and inefficient public sector coexists with a sizeable and diversified private sector.

Political structure¹

India has been a democracy since independence. The growing importance of regional parties has made coalition government the norm at federal level for three decades. In 2014 the Bharatiya Janata Party (BJP) bucked this trend by winning a clear majority at the general election. Democratic procedures are generally respected. The prime minister is the leader of the government, requiring the support of a majority in parliament. The president is the head of state and, although limited in executive power, can influence the formation of governments at both state and national levels when no party has gained an outright majority. The judiciary is formally independent and is becoming increasingly assertive.

Policy issues²

India is gradually recovering from the economic mismanagement of the previous Indian National Congress-led government. The BJP's strong mandate in the Lok Sabha (the lower house of parliament) bodes well for the prospect of market-friendly economic reform, but the country's federal structure will limit the scope and speed of its agenda. To boost economic growth, the government will need to remain firm on managing India's twin deficits, while simultaneously curbing stubborn consumer price inflation. In addition, steps will need to be taken to kick-start large-scale infrastructure projects, which have stalled in recent years. Improving India's business environment will also be a priority.

Taxation³

The top rate of both personal income tax and corporation tax for Indian companies is 30%. The corporation tax rate for foreign companies is 40%. However, exemptions reduce the effective tax rate for Indian firms to less than 20%. All companies pay a 10% tax on distributed profits. Customs duties have been lowered substantially but remain high by international standards. An overhaul of the tax code has long been mooted, but reforms have yet to be implemented.

Geography

¹ Economist Intelligence Unit, India – Economic Indicator Fact Sheet

² Economist Intelligence Unit, India – Economic Indicator Fact Sheet

³ Economist Intelligence Unit, India – Economic Indicator Fact Sheet

technology start-ups in 2014-15. The agricultural sector is the largest employer in India's economy but contributes to a declining share of its GDP (17% in 2013-14)⁴.

Table: India - Key economic data (2010-2020)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP, constant prices (% change)	10.3	6.6	5.1	6.9	7.2	7.5	7.5	7.6	7.7	7.7	7.8
GDP, current prices (USDbn)	1,708	1,843	1,836	1,875	2,050	2,308	2,511	2,756	3,012	3,312	3,640
GDP per capita, current prices (USD)	1,430	1,522	1,496	1,508	1,627	1,808	1,942	2,104	2,270	2,463	2,672
Inflation, end of period consumer prices (% change)	9.7	9.4	10.5	8.2	6.0	5.8	5.9	5.2	4.5	5.2	4.8
Current account balance (USDbn)	-48	-78	-88	-32	-29	-29	-40	-50	-60	-73	-90

Source: International Monetary Fund, World Economic Outlook Database, April 2015

DEMOGRAPHICS

India is the second-largest populous country in the world with 1.25bn inhabitants in 2013. Only China has a larger population of 1.34bn. Between 2000 and 2010, the Indian population grew 17%, reaching 1.17bn in 2010. The country's population is predicted to swell to over 1.6bn by 2050, continuing to expand at double-digit growth rates until 2030, according to the US Census Bureau. In 2025, India is expected to overtake China's lead and will become the single most populous country in the world.

The population is dense around urban regions although rural India still accounts for a large number of Indian nationals. Indians are moving to urban environments in pursuit of better jobs and lifestyles, putting pressure on social infrastructure in cities. Middle-class consumers living in cities are now commonplace and the number of wealthy Indians are also rising, with growing numbers of the latter central to the development of the outbound travel market.

Tier I cities are the leaders in India, with the main ones being Mumbai, New Delhi, Kolkata, Bengaluru (Bangalore) and Chennai. Tier I cities tend to be the most densely populated. Over 16m live in Greater Mumbai, while the cities of Kolkata and New Delhi are each home to some 13m citizens. Chennai and Bengaluru are also among the most populous cities, with around 6m Indians living in them, respectively.

Tier II cities, such as Ahmedabad and Hyderabad, each with over 3m citizens, are becoming important sources of outbound travellers, due to rising disposable income. Jaipur, Nagpur, Surat, Coimbatore, Chandigarh, Trivandrum, Cochin, Vizag, Mangalore and Pune are also considered Tier II cities.

Tier III cities are typically those with a population under 1m, of which there are many. It is anticipated that more NTOs will reach out to Tier III cities in the coming decades, although the focus

⁴ https://en.wikipedia.org/wiki/Economy_of_India

INBOUND TOURISM

KEY CITIES/REGIONS

India is a vast country and as such has a massive array of tourist attractions and pursuits. First-time visitors tend to focus on the country's best-known destinations – its cities (New Delhi, Mumbai, Kolkata), the mountains of the Himalayas, the beaches of Goa but the MOT is actively promoting niche markets, especially to those who have already visited India.

New Delhi: the capital has many landmarks from the British Raj, while the old part of Delhi has historical monuments from the era of the Moghuls, such as the enormous Jama Masjid, a mosque built by Shah Jahan in the 17th century. Other attractions include the Grand Bazaar, India Gate and the imposing Red Fort.

Jaipur: the capital of Rajasthan. Home to one of the state's leading royal families, its 'Pink City' (thus named because of the colour of the buildings) embraces a vast complex of palaces, a medieval stone observatory and craft shops. (Rajasthan is renowned for its handicrafts and folklore). A popular activity in Jaipur is taking a camel safari into the desert.

Agra: home to India's most recognisable landmark – the Taj Mahal. The UNESCO World Heritage Site – one of 28 such sites throughout the country – draws millions of tourists every year (4.7m domestic and international visitors in 2010, according to the MOT). Other attractions in and around Agra include the 1565 Agra Fort (also a UNESCO World Heritage Site), Fatehpur Sikri (an abandoned 16th-century Moghul capital) and Akbar's Tomb in nearby Sikandra.

Mumbai: Home to some 19m people, Mumbai is the country's booming financial centre. The northern part of the city is the hub of 'Bollywood', India's multi-billion-dollar film industry – the biggest in the world, far exceeding Hollywood. The city, which is the capital of the Maharashtra (a state that drew almost 25% of all foreign visitors in 2011), has a number of attractions – the Gateway to India (an archway overlooking the Arabian Sea), the (now restored) Taj Mahal Palace Hotel and the Gandhi Museum, which is housed in the peace activist's former home. Other attractions close by include the Ajanta Caves (Buddhist sanctuaries), Hampi's ancient temples and the town of Mysore.

Kerala: Known for its beaches, hill stations, temples and wildlife-laden backwaters, this south-western state is a venue for ecotourists, nature lovers and spa-goers.

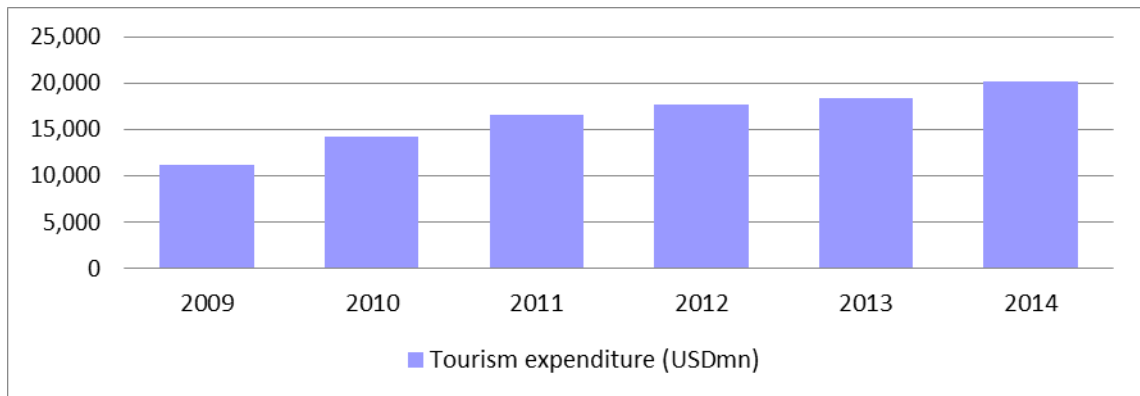
Goa: Situated between Mumbai and Kerala, India's smallest state is the closest thing to a European sun and sand destination in this part of the world – perhaps not surprising as it was under Portuguese rule until 1961, long after India gained its independence.

In the 1960s and 1970s, Goa (it is divided into north and south Goa) was primarily a hippy hang-out but it has since evolved into a popular tourist destination.

TOURISM RECEIPTS

UNWTO provides data on tourism receipts and, as shown below, tourism receipts reached USD20.2 bn in 2014.

Chart: India – International tourism receipts (2009-2014)



Source: Ministry of Tourism, India

Economic impact of Tourism¹²

According to WTTC’s Travel & Tourism Economic Impact 2015 on India, the direct contribution of Travel & Tourism to GDP in 2014 was INR2,478.2bn (2.2% of GDP). This is forecast to rise by 7.6% to INR2,667.5bn in 2015. This primarily reflects the economic activity generated by industries such as hotels, travel agencies, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities or restaurant and leisure industries directly supported by tourists.

The direct contribution of Travel & Tourism to GDP is expected to grow by 7.2% pa to INR5,339.2bn (2.5% of GDP) by 2025.

Travel & Tourism generated 23,024,000 jobs directly in 2014 (5.5% of total employment) and this is forecast to grow by 1.9% in 2015 to 23,455,500 (5.5% of total employment).

By 2025, Travel & Tourism will account for 29,020,000 jobs directly, an increase of 2.2% pa over the next ten years.

INTERNATIONAL TOURIST ARRIVALS

India’s National Tourism Policy was revamped in 2002, since then the tourism industry has seen sustained growth. The main drivers of this are the growing Indian middle class, growth in the high-spending foreign tourists and co-ordinated government tourism campaigns, such as “Incredible India”.

International tourist arrivals reached 7.68m in 2014, up some 10.2% over the previous year. The principle international source markets are USA, the UK and Bangladesh.

¹² WTTC: Travel & Tourism Economic Impact 2015 on India

construction, final planning and planning stages but does not include projects in the pre-planning stage.²¹

From 115,000 proposed branded rooms in 2007/08, the highest levels in the last seven years, according to HVS, total proposed supply for 2014/15 was down to 56,000 rooms. This is due in part to the large number of proposed rooms coming online and starting to be operational, and also to the delay and suspension of hotel projects due to the economic crisis, high borrowing costs and tight liquidity.

The breakdown of hotel under development is changing; the “inverse pyramid” with a higher number of existing hotels in the luxury and upscale space, symbolic of India’s hotel industry for years, is seen to be changing its focus towards the midmarket and budget hotel sectors.

	Overview	Supply	Pipeline	Future outlook
Tier I cities				
Ahmedabad	One of India’s emerging cities. Base of corporate & govt bodies in infrastructure development, IT/ITeS sector, chemical, petrochemical, engineering & pharmaceuticals. Well connected by national and state highways, expressways, railways & international airport.	2,991	1,026	Has potential to sustain improved performance. Plans for high-speed rail project between Mumbai and Ahmedabad. Intended development of proposed international airport in Fedara. Supportive industrial policies are expected to drive investment into the city, resulting in additional demand for accommodation.
Bengaluru	Driven by IT/ITeS sectors. High corporate demand. Strong MICE sector.	11,317	5,317	High levels of new supply coming online may impact performance. City hosts many major conferences.
Chennai	Has mix of industries driving demand – manufacturing (cars) and service industries. Well-known sea port.	7,464	3,311	MICE sector expected to see steady growth. Developing city to be alternative MICE destination to Hyderabad. Air Asia is to make Chennai their regional hub.
Hyderabad	One of IT/ITeS hubs in India. Important centre of education. Strong MICE market.	5,875	2,474	Has healthy pipeline, majority are in midscale segment. International brands such as Formule 1, Holiday Inn and Holiday Inn Express all opened recently. City is the joint capital to the new state of Telangana.

²¹ <http://www.hotelnewsnow.com/Articles.aspx/9894/STR-Global-Asia-Pacific-pipeline-for-January>

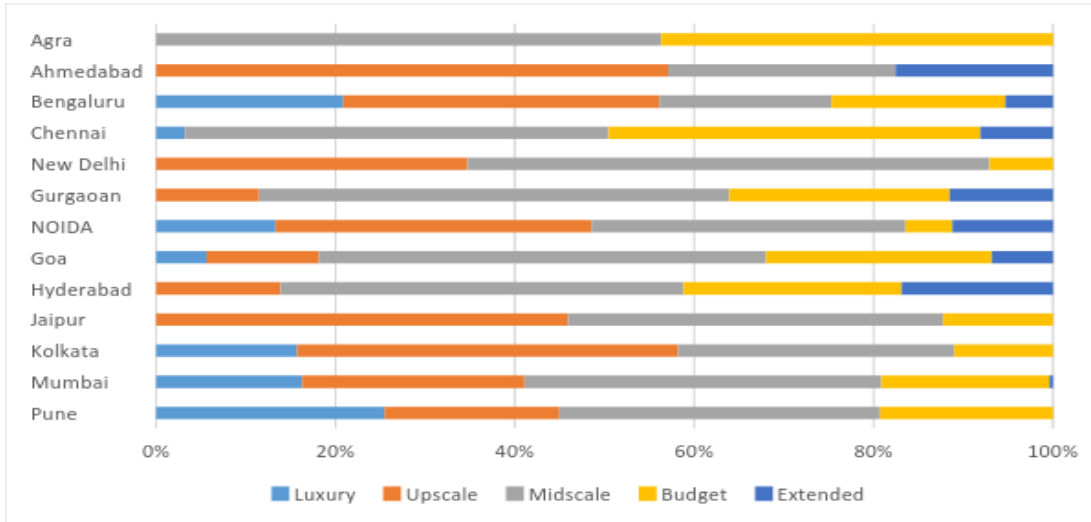
Kolkata	Gateway to eastern states of India and a transit hub. Home to many corporate headquarters. Major MICE destination in the east.	2,530	2,870	Has several infrastructure developments underway – Light Rail Transport System, Mono Rail and the Eco-Park. Airport is also expected to be expanded. Major suburban development in areas such as New Town and Rajarhat are to include new hotel projects. Kolkata and the north east are expected to play a major role in future, with India’s Look East policy. There are number of proposed developments such as rail links and road connectivity under consideration and planning.
Mumbai	The financial hub of India. Many company HQs and the country’s financial institutions are based here.	12,731	5,561	MICE market is becoming significant, with most new developments providing facilities for this segment. As one of the two primary cities in the country, Mumbai will continue to attract investments and attention.
NCR	Has most developed infrastructure in countries. Region has witnessed significant activity in commercial, retail and residential space. Has huge service sector. Different things to different markets – preferred port of entry for tourists; important for political and commercial reasons as capital of the country and for other segments such as sport.	20,687	6,459	Most active development destinations in India, with some 17,000 keys expected to be commissioned in next few years. Hotels markets in NCR gains from both commercial/business demand as well as tourist demand, this is a key differentiator from other markets in the country. In short- to medium-term the recent new supply along with the new supply planned will outpace demand. Availability of suitable sites at suitable prices continues to be an issue, given the historical acquisition costs. Branded serviced residences are a new segment under development.
Pune	Important for industrial and manufacturing sectors as well as education and services. Micro markets in the city are seeing major developments for hotels.	6,197	2,005	Pune is one of the major hotel development destinations in the last few years and the supply pipeline is evidence of this. The city is also seeing considerable development in the north of the city.
Leisure cities				
Agra	Iconic destination. Forms Golden Triangle with Jaipur and Delhi. Tourism is prime economic activity.	1,719	503	Unique hotel market given its dependence on World Heritage Sites of Taj Mahal, the Fort and Fatehpur Sikri. However, there are no other tourist attractions to keep visitors there. Is a must-see destination for tourists, and must-have destination for any hotel chain operating in the leisure segment.
Goa	Another strong tourism destination.	4,909	1,743	Goa is a premier leisure destination and it is boosted by the growth in the network of

	State does have natural resources (coal and water) also has strong infrastructure making it primary destination for investment. One of the most developed hotel markets and is well connected through air, road and rail.			regional low-cost carriers. As per Goa Investment Policy 2013, the government is focusing on high-spending tourists to strengthen the state economy and employment availability. New supply will generate new demand.
Jaipur	One of the most important regional cities in North India. In addition to its administrative and political importance, the city developed around gems and jewellery industries. New industries also emerged such as software, IT/ITeS.	5,018	1,119	From hospitality perspective, Jaipur's dominant position as part of the leisure circuit will continue. Economic importance of city will be substantially bolstered by infrastructure projects underway at present. These include International Convention & Golf Centre, an amusement park, first phase of city's metro, the metro line and upgrade to the National Highway 8.

NCR = National Capital Region which includes Gurgaon and NOIDA

Source: Cushman & Wakefield; HVS

Chart 1: India – Share of proposed branded hotel rooms by category across major cities (2014/15 – 2019/20)



Source: HVS International

Despite the differences in the estimates of India’s pipeline, due in some part to data collection methods and what is used to define projects in the pipeline, it can be seen that India’s hotel rooms are set to increase year-on-year at quite a considerable pace for many more years to come.

Problems faced developing in India are widely discussed in the industry²².

“It is one of the hardest places to develop hotels.....incredibly high cost of land, overwhelming permitting process and the lack of skilled labour are all major challenges” Marriott International

“India’s infrastructure challenges, such as utility costs, unreliable power and underdeveloped highway systems” Starwood Hotels & Resorts

The greatest challenge to developing its brands in India? It’s hard to choose just one, Land costs, for one, are very high, and the financing market is evolving as interest rates are high and repayment periods are short. Further complicating matters is the complex approval process that results in an extended development cycle.” Choice Hotels International

“ the cost of land, cost of debt financing and the scarcity of trained manpower are three of the highest hurdles to development in the country.” Hilton Worldwide

“Some of the contributing factors are building technology, funding constraints and approvals. Hotel projects are especially complex in India because of the multitude of approvals and permissions that are required—this significantly adds to the timescales on a project.” IHG

KEY PLAYERS AND THEIR DEVELOPMENT PLANS

Table: Key international players and their development plans

Hotel Company	Current supply Hotels (Rooms)	Future supply Pipeline	Targets
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²² <http://www.hotelnewsnow.com/articles.aspx/7443/Hotel-brands-bullish-on-India>

The company offers three brands: Lemon Tree Premier – upscale; Lemon Tree – midscale; and Red Fox – economy. The company also has a management arm, operated under Carnation Hotels, which currently manages two hotels, and has 11 in the pipeline⁴².

By 2017-18, Lemon Tree is aiming to own and operate over 8,000 rooms in 60 hotels across 30 major cities of India.

In 2012, Dutch pension fund manager APG acquired a 6% stake in India's Lemon Tree Hotels for USD123m and formed a joint venture (JV) with the group to build 35 hotels in India. In 2014, it increased its stake to 13%.

APG has a 47% stake in the JV called Fleur Hotels, while Lemon Tree has a share of 53%. The JV currently operates 900 rooms, is building 760 rooms in Pune, Gurgaon, Kolkata and Udaipur and is projected to have 3,000 rooms at the end of its investment period⁴³.

Lemon Tree Hotels is looking to expand into overseas markets. The company is in talks to manage hotel properties in key markets that attract a significant number of Indian tourists, such as Dubai, Abu Dhabi, Singapore, Bangkok, New York and London.

Lemon Tree has historically owned its own hotels, but has also now begun to look into management contracts. It currently manages five hotels (279 rooms) and is adding another 552 more rooms by 2017.

The company is keen on launching a luxury brand in India, however, at present conditions have not allowed for Lemon Tree to move forward with this⁴⁴.

INVESTMENT

The balance of power shifted in India's hotel investment market with the dynamics favouring both buyers and developers with a slowdown in development activity and more opportunities to acquire. The exuberance which was evident in 2007 has also softened while demand catches up with supply. Sellers include the closed-end real estate funds, which were established four to five years ago, as well as real estate investors who have expanded into hotels without a fully developed appreciation of the complexities of the sector. Sellers are more motivated but only time will tell if they are willing to meet the market. While the pricing appears reasonable, the rarity of transactions means that Indian hotel real estate is expensive and consequently a gap between buyer and seller expectations still exists. The buyer profile is more diverse with recent transactions completed by high net worth individuals (HNWIs) and real estate investment funds with an Indian focus. Competition is increasing with a higher level of enquiry from regional REIT players, domestic operators and local developers.

⁴² http://articles.economictimes.indiatimes.com/2014-04-15/news/49155798_1_itc-hotels-lemon-tree-hotels-rs-300-crore

⁴³ http://articles.economictimes.indiatimes.com/2014-04-15/news/49155798_1_itc-hotels-lemon-tree-hotels-rs-300-crore

⁴⁴ <http://www.lemontreehotels.com/getattachment/8e1d0e60-9e96-4d6d-81d5-888107304025/Lemon-Tree-Hotels-draws-up-plan-to-grow-roots-over.aspx>

Many believe that the market has reached a sufficient level of maturity and that the temporary trading lull provides a unique window to acquire. While debt is available for the right project, banks remain cautious about lending to the sector and onerous terms continue to act as a stranglehold on the sector's development. Any fundamental shift would therefore see liquidity increase⁴⁵.

India remains one of the most difficult places to invest. In addition to expensive land, projects are often riddled with bureaucracy, red tape, and competition with other real estate developers.

Banks have traditionally either extended loans based on their prior relationship with the borrower or because they have a certain mandate to lend a certain amount to a particular sector. Lately, the banks have been shying away from lending to hotel developers because they are afraid that the poorly performing hotels would not have been able to service their debt obligations and end up as Non-Performing Assets.

However, HVs suggest that India is very likely on the cusp of its next upcycle, where the demand for quality accommodation will continue to grow and while the cyclical nature of the industry will bring about further peaks and troughs, the fundamentals of the industry are strong⁴⁶.

The tourism and hospitality sector is among the top 15 sectors in India to attract the highest foreign direct investment (FDI). During the period April 2000 - February 2015, this sector attracted around USD7,862.08m of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP).

With the rise in the number of global tourists, and a realisation of India's potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

- US-based Vantage Hospitality Group has signed a franchise agreement with India-based Miraya Hotel Management to establish its mid-market brands in the country.
- Lalit Suri Hospitality Group is soon going to open its first international hotel in London. The company has acquired a heritage building called St Olave's near Tower Bridge in central London, which is now undergoing restoration to be converted into a five-star hotel.
- Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture to open seven hotels in the country by 2018, for which the JV will raise USD100m.
- In Carlson Rezidor Hotel of Guwahati, Dharpal Satyapal has invested close to INR 300 crore (USD47.51m) in the hotel, for which they will get INR 30 crore (USD4.75m) annually.

⁴⁵ JonesLangLaSalleHotels; Hotel Investment Outlook 2013

⁴⁶ HVS: 2014 Hotels in India – Trends and Opportunities

- ITC is planning to invest about INR 9,000 crore (USD1.42bn) in the next three to four years to expand its hotel portfolio to 150 hotels. ITC will launch five other hotels - in Mahabalipuram, Kolkata, Ahmedabad, Hyderabad and Colombo - by 2018.
- Goldman Sachs, New York-based multinational investment banking fund, has invested INR255 crore (USD40.37m) in Vatika Hotels⁴⁷.

REITs

The first draft guidelines of Real Estate Investment Trusts (REITs) for India were released in 2008. REITs have been long awaited by the India real estate industry and are expected to invigorate the sector by increasing the number of institutional investors and retail buyers. They are also likely to bring in globally accepted practices to real estate funding and revive the interest of both global and domestic investors in the sector.

REITs will also provide an alternative source of funding to hotels, which could earlier only look for investments. With the introduction of REITs, funding of new projects and expansions will be made more accessible.

Hotel transactions

In 2013/2014, the following notable transactions took place:

- Lemon Tree Hotels acquired the Clarion Hotel from Asian Hotels West for INR620m
- Regenta One owned by Royal Orchid Hotels was sold to SAMHI for INR1,790m
- Fleur Hotels acquired 130-room hotel in Bengaluru for INR64m
- Hotel Leelaventure sold The Leela Goa to MetTube for INR725m

Deals currently being pursued include operational hotels, incomplete structures and land parcels earmarked for hotel projects, *The Economic Times* reports, while cities like Mumbai, Delhi, Bengaluru and Chennai are targeted. Others, like Pune, Hyderabad, Kerala and Goa are hot, too⁴⁸.

FUTURE TRENDS

The hotel industry in India is cyclical in nature and is now thought to be about to start its upturn. There is a general sense of optimism and positivity in the hotel industry at present.

INDUSTRY INSIGHT: India's hospitality sector has long promised sizeable growth, but in the last few years its hotel sector has been dogged by overdevelopment of luxury hotels, often built using substantial debt. The result has been poor occupancy and room rates that have, at best, flatlined. Now, it seems that the country's market is rebalancing. Budget sector players are set to grow that

⁴⁷ <http://www.ibef.org/industry/tourism-hospitality-india.aspx>

⁴⁸ <http://www.hotelmanagement.net/transactions/india-primed-for-hotel-transactions-in-2012-14113>

segment substantially, opening up the Indian market to a new audience, as well as serving domestic demand at price points that a larger portion of the population can afford.

However large the aspirational growth numbers, as ever the challenge is in getting deals actually signed, and development under way. The Indian hotel market has seen several partnership deals announced with a fanfare, only to wither and die as the partners subsequently fell out. In this respect, Vantage can expect to deliver: the company has made a positive start to its presence in South Korea, where it has clearly established it can do business with its local master franchisee and several hotel projects are underway.

Additional comment by Andrew Sangster: Expectations about India are getting a little ahead of themselves in some quarters. While PM Narendra Modi's government is undoubtedly a breath of fresh air in what is expected to shortly become the world's most populous country (by 2028, according to the UN), it seems improbable that it can sate all of the demands being placed on it. Much of the good news is already baked in, and this is largely around growth, which this year is set to hit 7.5% and 7.7% in 2016, according to Scotiabank. With the declining oil price taking the sting out of inflation, interest rates are also on a downward path.

This all points to a healthy future. But there are a couple of areas of concern for the hotel industry. The first relates to development, with land acquisition being a huge problem. Modi is pushing in the right direction here, trying to liberalise, but there is entrenched opposition, which might yet delay or completely obstruct reform.

The second area is visas. In a somewhat bizarre move, India is set to require biometric information for visa applications from certain countries, including the UK, which is the country's second biggest source market for foreign visitors. These changes are Modi's Mr Hyde to his Dr Jekyll and run counter to his modernisation push. They are partly a nationalist reaction to similarly ludicrous changes made by the UK authorities for Indian nationals, but there is little sense to them beyond making a tit-for-tat stance.

India attracts just seven million overseas tourists each year, a pitifully low number for the size of country. Making life tougher for some tourists and business travellers is not going to help matters.

Hotel Analyst Perspective, Issue 14, April 2015

Other trends include:

Rise in hotel transaction activity

There is a definite rise since 2012/13 in the number of hotel transactions taking place and also increasing number of hotels being rebranded. This has helped operators cut through the bureaucratic bottlenecks of developing Greenfield projects, fuelling expansion.

Increased potential of the domestic market

The increase in domestic travel and its positive impact on leisure hotel markets such as Goa, Jaipur, Agra, Udaipur and Kerala is becoming more apparent. The seasonality of these markets is seen to be undergoing a change with the difference in the demand during peak and lean periods being bridged,