

Indian  
Online Travel  
Industry

# Spicing places

**Thematic Report by**  
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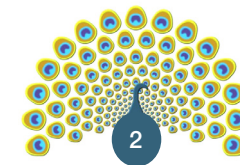
*Multiple upcoming catalysts for*

# *growth*

Online travel in India continues to dominate the country's travel market. The industry is expected to grow by 17.8% during 2013–2016E, outperforming the overall travel market by 6.0% points. Online penetration in travel and tourism bookings is estimated to increase from 41% in 2014 to 46% in 2017.

**W**hile air and rail make up the vast majority of India's online travel market, the country's fragmented hotel landscape holds the greatest promise.

Several tailwinds are anticipated to bolster this growth —such as an increasing number of budget hotels in Tier-1 and Tier-2 cities; the entry of new airlines, given the government's "Open skies Policy"; the government initiative to build 150 new airports by 2020; and India's love for travel. We believe these factors could contribute to a robust, long-term growth outlook for India's travel market in the future.



## India's Travel And Tourism Market Is Growing Rapidly...

The travel and tourism industry in India, which comprises both domestic (85% of the market) and international inbound travel (15%), is estimated to grow at a CAGR of 12% to \$27.5 bn in 2016 from \$19.7 bn in 2013.

**A**ir travel (domestic and international) is the biggest contributor to the industry at 39%, followed by rail travel (28%) and hotels (30%).

The Indian travel and tourism industry, set to grow at 12% CAGR over the next three years, is the second fastest growing market, following China, which is growing at 16%. In contrast, while the US market is growing at 6%, the worldwide market is clocking just 4% over the same time frame.

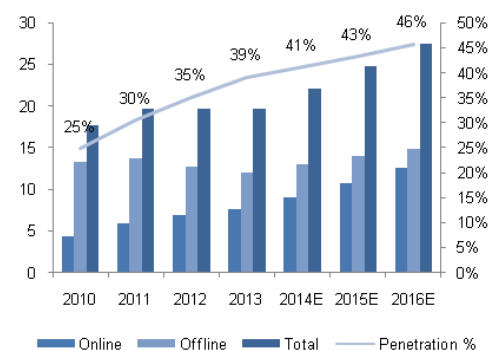
We believe this strong surge in domestic tourism is driven by the following factors:

- Rapidly increasing purchasing power of the middle class
- Prolific use of the Internet and smartphones, coupled with increasing e-Commerce penetration
- Better air and rail connectivity between Tier-1 and Tier-2 cities
- Evolving and improving lifestyles

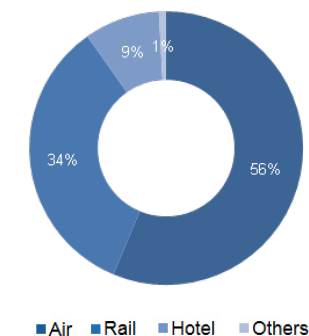
An ever-increasing number of international travelers visit India as well, spurred on by:

- Relatively economical vacations
- Evolving business and pleasure destinations in India
- Reforms in the aviation sector boosting international air connectivity
- Larger sections of the economy opening up to private and foreign investment
- Government initiatives in states such as Kerala, Rajasthan and Gujarat to promote tourism
- The success of international campaigns such as "Incredible India", "Clean India", and many more

India's Travel Industry (size in \$bn)



Online Travel Industry break-up, 2014E



Source: Phocuswright, India Online Travel Overview Seventh Edition, August 2014

## ...Which Boosts The Online Travel Market In India

Within the domestic travel and tourism industry, the online travel segment has significantly grown over the past few years. India's online travel segment is expected to grow 17.8% during 2013–2016E, outperforming the overall travel market by 6.0 percentage points. Online travel (online gross bookings) now constitutes an estimated 41% of the overall Indian travel market (2014). The high degree of convenience, increasing e-Commerce penetration, rapidly increasing Internet and mobile penetration, and a growing middle-class population are some of the factors boosting online travel bookings. The online travel market in India, estimated at \$9.1 bn (2014), comprised air travel (\$5.1 bn), rail travel (\$3.1 bn), hotels (\$0.8 bn), and others (\$0.1 bn). Online penetration in travel and tourism bookings is estimated to increase from 41% in 2014 to 46% in 2017, according to Phocuswright, a leading travel data aggregator.

## Will An Increase In Internet Penetration Among India's Large User Base Be A Catalyst For Growth?

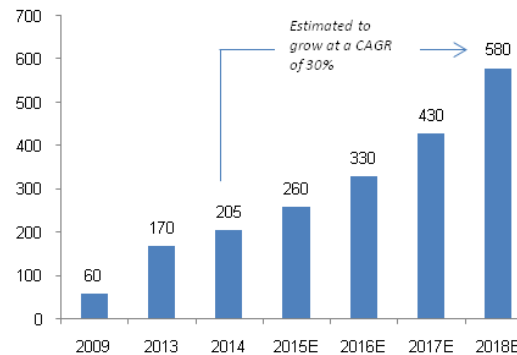
India is home to the third largest Internet user-base worldwide. However, its Internet penetration rate at 17% is much lower than the average of 34% across several aspiring countries. According to a report by Boston Consulting Group BCG, the number of Internet users in India is estimated to reach 580 mn in 2018 from 205 mn in 2014, primarily led by affordable access and improved awareness. This indicates significant potential for growth over the next few years.

Mobile Internet usage has been growing rapidly over the past few years and continues to present huge opportunities.

**I**ndia has over 850 mn mobile subscriptions, more than 4x the number of Internet users.

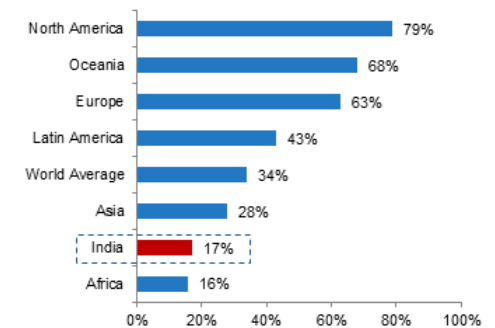
Driven by the availability of cheap smartphones and affordable Internet data plans, the number of mobile Internet users in India is expected to reach 213 mn by June 2015. With 41% of travel gross bookings taking place online, the increasing Internet and mobile Internet penetration rates could play a vital role in the Indian online travel market growth story.

India Internet population to reach half billion by 2018 (in bn)

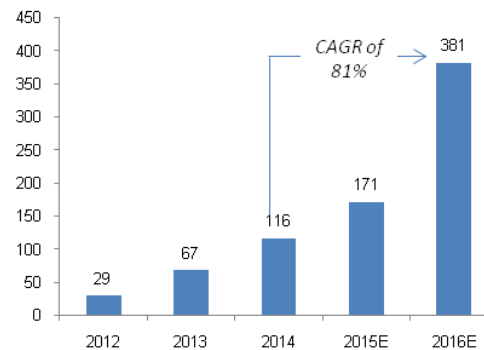


Source: Internet World Stats, BCG analysis

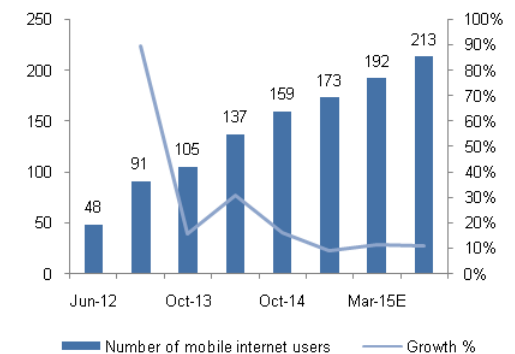
Internet penetration still one of the lowest worldwide; indicates strong growth opportunities



Number of Smartphone users in India (in mn)



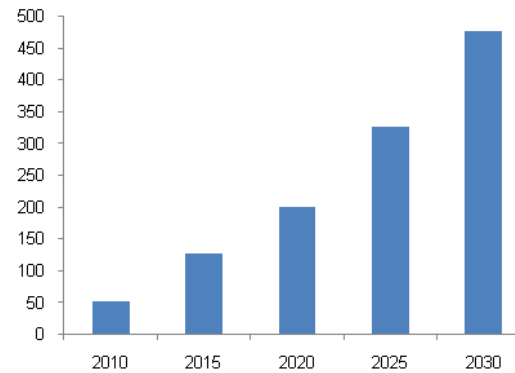
Future estimate of mobile Internet users



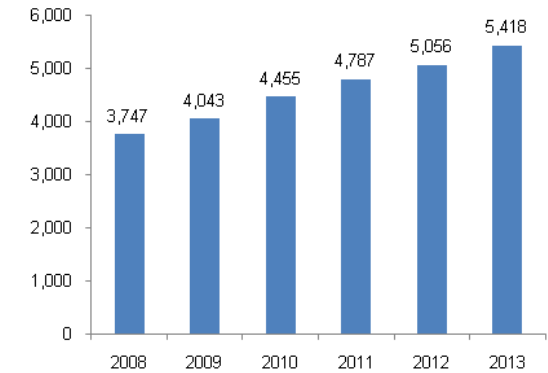
## Time For Some Time Off For India's Burgeoning Middle Class

India's middle-class population of nearly 50 mn, or 5% of the overall population (2015 estimated), is expected to grow steadily over the next decade to 200 mn by 2020 and 475 mn by 2030. With better means comes a growing awareness and demand for better work-life balance in the private sector. The increasing disposable income of a growing middle-class has led to more families and individuals planning both domestic and international vacations, atleast once a year. We believe that as the middle-class population grows, the volume of domestic tourists will also increase, thus aiding the online travel and tourism industry in the country.

Rapid growth expected  
in India's middle class (in mn)

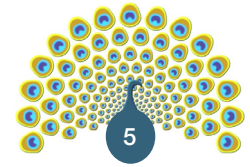


GDP per capita based  
on purchasing power parity (in US\$)



Source: EY Report, World Bank



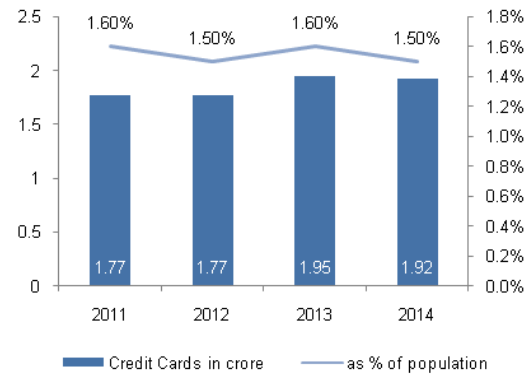


## Growing Credit/Debit Card Penetration Boosts The Adoption Of Online Platforms

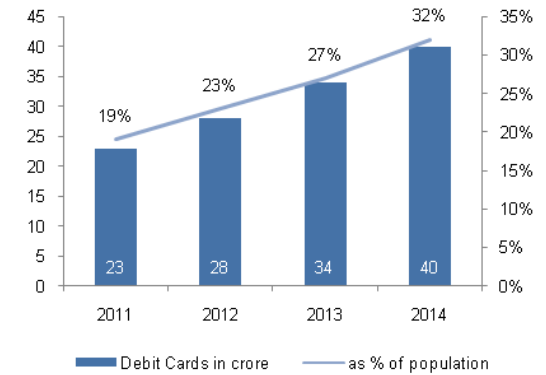
The number of credit cards in circulation in India has been stagnant since 2008, while the number of debit cards continues to rise. Although the use of credit and debit cards has increased over the past decade, card penetration rates remains low, with debit cards at 32% (about 400 mn) and credit cards at 2% (about 20 mn). This clearly indicates that card use in India has a long way to go.

*Online travel will become more popular as people become aware of the benefits and ease of using plastic cash.*

Credit card penetration rate in India



Debit card penetration rate in India



Source: Deloitte Report

## The Government's Conscious Efforts To Boost Tourism

The Indian government has implemented several initiatives, at both central and state levels, to stimulate growth in the Indian travel and tourism sector

- Visa on arrival – also called e-Visa facility – has been extended to 150 countries in a phased manner
- The government has made efforts to increase the safety and security of tourists in India
- Recognizing the need to upgrade tourism infrastructure in India, it has proposed an outlay of INR152 bn for the tourism sector
- The government allows 100% foreign investment under the automatic route to upgrade hospitality and tourism related industries

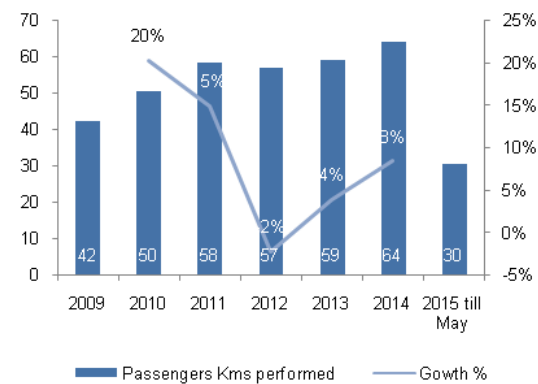
## Aviation, Flying High On Sectoral Tailwinds

The Indian civil aviation industry is on a high growth trajectory. India has a vision of becoming the third largest aviation market by 2020 and is expected to be the largest by 2030. The Airports Authority of India currently owns and maintains 125 airports, comprising 94 operational airports in India. It plans to increase the number of operational airports to 250 by 2030, in Tier I and Tier II cities. India's domestic air travel registered 64 mn passengers in 2014, compared with 59 mn passengers in 2013 and 57 mn in 2012, according to the DGCA. Additionally, the passenger load factor in 2014 was at a multi-year high of 76.4%.

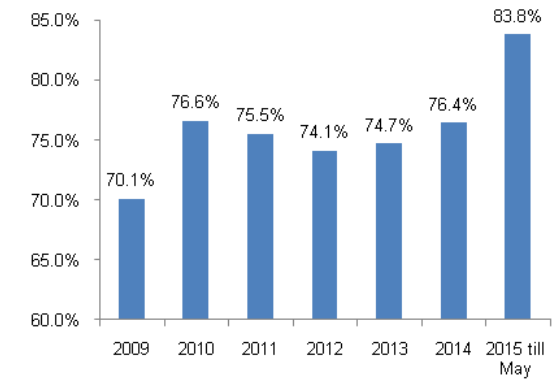
*The Indian market is severely underserved, with less than 3% of the population using air routes.*

The growing passenger numbers and improving infrastructure indicate the possibility of a healthy air travel market in the future.

Improving growth trend in passenger/km carried



Passenger load factor



Source: DGCA

## Key Developments In Indian Aviation Industry:

- Tata-Singapore Airlines JV launched a full-service carrier in January 2015 and operates 164 flights a week.
- Tata-AirAsia JV launched a LCC in June 2014, focused on South India; it is now expanding its presence to key cities countrywide.
- IndiGo, India's no. 1 airline, ordered 250 A-320 neo jets from Airbus in October 2014.

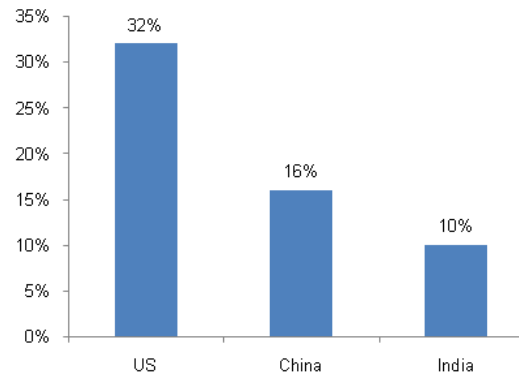
## Improving Online Penetration And Better Supply Pipelines Make Room For Big Opportunities

Hotel supply in India remains upbeat. While the rapid increase in supply has affected average daily room rates and occupancy figures, India's tourism department has referred to a shortage of around 150,000 rooms in the budget, economy, and mid-market segments. However, according to STR Global, there are 50,000 rooms in the pipeline. Moreover, a number of local and global brands – including Accor, Berggruen Hotels, Carlson Rezi-dor, The Gateway, Ginger Hotels, InterContinental Hotels Group, Lemon Tree, and Starwoods – are adding inventory in the economy and mid-scale categories in an effort to attract a wider pool of domestic travelers.

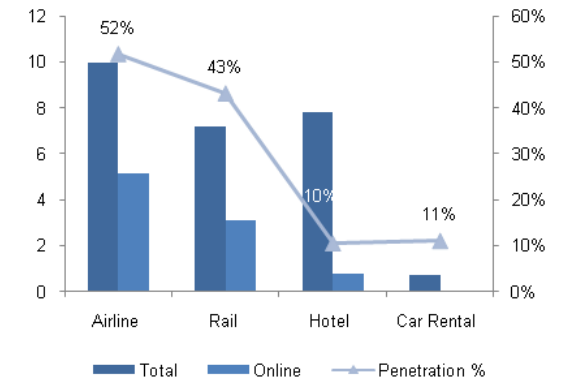
However, the online hotel segment in India is rather under penetrated, with only 10% of hotels accepting bookings online, while the overall user-base of people seeking information on hotels online was very high. As per a TNS/Google survey, conversions still take place offline. We believe, as more consumers become familiar with e-Commerce, the percentage of online hotel bookings in India should increase.

While hotel data may not be as lofty as air data, the figures are soaring. Occupancy rates have been improving, touching 59% in May 2015, up 8% YOY. While Average Daily Rates (ADRs) continue to decline YOY, the magnitude of these declines has lessened, with several instances of positive growth recorded in recent months.

Hotels segment online penetration rate

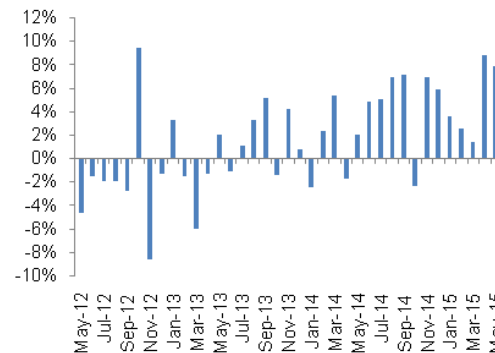


Hotels – one of the least penetrated segments in travel categories in India (US\$ bn, %)

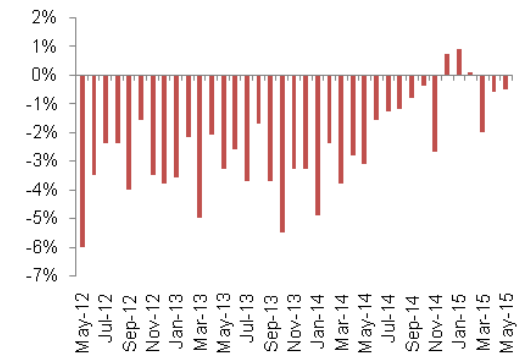


Source: MakeMyTrip Investor Presentation

Hotel occupancy rate (YOY growth)



Hotel ADR (YOY growth)



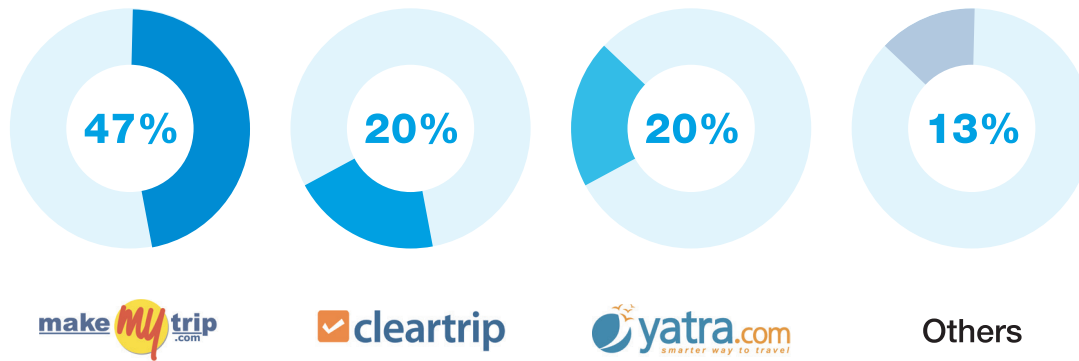
Source: STR Global



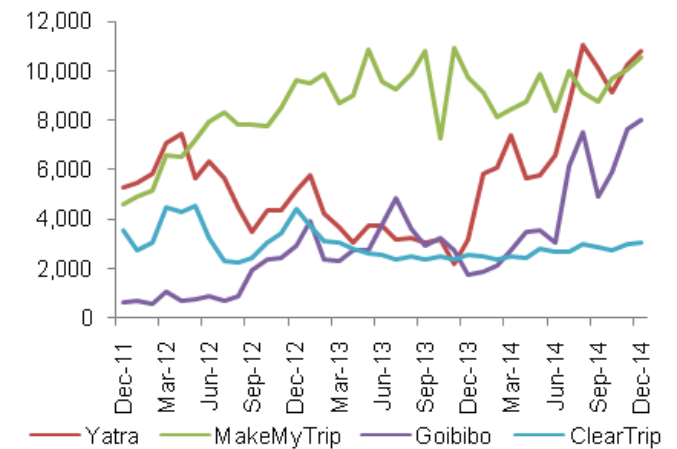
## Key Online Travel Agencies (OTAs)

### Market Dominated By Makemytrip

Market share



Unique visitors in thousands



Source: MakeMyTrip Investor Presentation, Industry Sources, ComScore

## Key Risks To The Sector



Slower-than-expected Internet penetration



Potential for credit card frauds



Fluctuations in foreign exchange rates



Security/cyber threats



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