

# **HOMESTAY FACILITY**

## **1. INTRODUCTION**

The tourists generally stay at hotels, guest-houses or dharmshallas, depending on needs and budget. However, there are tourists who wish to stay in a homely environment and not spend too much money on accommodation. Their service expectations are modest; they do not expect room-service or round the year service. On the other hand, there are families which have surplus accommodation in their own house; are interested in taking guests and earning additional income by providing part of the house and extending hospitality to the guests. It is the matching of these mutual needs of guest and host, which is the basis of home-stay; the meaning is self-explanatory.

## **2. PROJECT PROPOSAL**

It is proposed that the promoter would set up and operate a home stay facility.

Under home-stay facility, the guest lives with the host-family. The privacy and convenience of both, however, is ensured. It is expected that there would be some interaction between the guest and host family so that the guest experiences a homely environment and is exposed to some elements of local culture.

The family provides to the guest a decent room, attached toilet, toiletry kit and breakfast. This is why the facility is also called Bed and Breakfast. The guest may avail of other meals - lunch, dinner, snack- at an extra cost, if the family agrees to provide these. Evidently, the family would expect advance notice for cooking/serving such meals.

The home-stay or bed and breakfast concept is now well entrenched all over the world. There are websites, which promote, sell and book individual home-stay facilities, e.g., homestay.com, homestays.in, AIRBNB. There are home stay websites focused on India, e.g., saffronstay.com covering 800 home stay facilities,

smartstay.in, cheershe.com (600 facilities), Indianhomestays.org, namastay.in, funstay.in, tripvillas.com

The Govt. of India as well as several state governments are also promoting bed and breakfast/home-stay facilities. They have worked out guidelines concerning norms/standards, operate a process of receiving applications, inspecting the facilities and maintain a list of approved facilities. It is not compulsory, though desirable, to secure such approval. The crux of these guidelines is

- ❖ The host family must live on the premises
- ❖ The number of lettable rooms should be minimum one, maximum six.

### **3. DESIRABLE PROMOTER BACKGROUND**

The promoter needs to own a residential property, part of which is surplus and lettable. In addition, the promoter needs to have some flair for hospitality and guest-interaction. The promoter needs to possess skill and tact to avoid unpleasant situations, which an undesirable guest may cause. A retiree couple whose house is an 'empty nest' (children have grown up and gone away) may also find this an attractive business.

The family will assume responsibility for management of the facility.

### **4. INDUSTRY OUTLOOK AND TREND**

The size of global homestay industry was estimated at \$15 billion (Homestay.com, 2014 report). While the industry originated with focus on students, the customer profile has diversified over the years; students now form 29% of homestay guests globally. The online aggregators have contributed considerably to industry growth since they ensure a given standard and provide a choice of homestay facilities at a given location. The expansion of homestay facility, supply has also impacted the demand positively. Minimum investment, freedom from need to look for location, opportunity to interact with guests from varied cultures and flexibility in business operation have encouraged families to enter homestay business.

In India, there were nearly 1700, homestay facilities in 2014. The share of homestay in paid accommodation market was 5% in India. The online aggregators (e.g., Indian homestays, Saffron stays, CheersBye) are attracting customer interest and confidence and the industry expects brisk growth in demand.

## 5. MARKET POTENTIAL

The market for home stay facilities is in the early stage of development. The relevant segments now are:

- ✓ Individual foreign tourists
- ✓ Students, young professionals and domestic tourists

There are other potential sub-segments, e.g., elderly domestic tourists, long-stay tourists and tourist-families for whom, the concept is appropriate. These segments are not yet harnessed fully mainly because of lack of awareness and the low-key brand equity of concerned website. The travel agents do not engage, by and large, in selling home stay facilities.

The supply of home-stay facilities, approved by Govt. of India (September, 2016) is as follows. There exist unapproved facilities in addition to these.

Particulars	No.
Maharashtra	37
Gujarat	01
West Bengal	65
Bihar	03
Jharkhand	01
Odisha	04
Andaman & Nicobar Islands	Nil
Assam	03
Haryana	62
Himachal Pradesh	20
Jammu & Kashmir	02
Rajasthan	12
Tamil Nadu	05
Uttar Pradesh	59
Uttarakhand	05

Source: Ministry of Tourism, Govt. of India

The preponderance of home stay facility in Haryana is mainly on account of Gurgaon, accommodating presumably young professionals and long-stay business travelers.

The market for such facility exists primarily at

- ✓ Tourist destinations
- ✓ Large cities
- ✓ Business hubs

Tourist destination business potential is evident; some tourists may prefer home-stay. The large cities, because of their character, attract some tourists (even if tourism attractions are slender), professionals/executives – in-transit and long-stay business travelers. Hence, the potential. The business hubs have hotels, which are too expensive for some visitors. Besides, there are repeat visitors who desire familiar and home-like atmosphere.

The business will be generated mainly through affiliation with a trusted website and reviews of guests who actually stay. The approval of the facility by Govt. of India will enhance credibility. The pricing will be influenced by the hotel-accommodation pricing in the city, the quality of accommodation, class (gold or silver) of home stay facility awarded by Govt. of India and the guest reviews. Most home-stay facility price of room corresponds to pricing of three star hotels. However, there is scope for deviation from this broad practice, depending on the property quality and service standard.

## **6. PROPOSED SIZE OF THE PROJECT**

We estimate a home-stay facility consisting of three rooms (six beds) with attached toilet, a dining room to seat 8 persons and a lounge to be shared with the family.

## **7. MANUFACTURING PROCESS**

This is a service sector project and hence the following is pertinent.

### **TECHNICAL REQUIREMENT**

It is likely that the existing residential property owned by the host is not completely appropriate for taking guests. The family, therefore, may have to carry out some repairs, renovation and furnishing. It may also add, depending on house-design and floor space index rules, one or two rooms to the property.

The Ministry classifies the facilities into two categories-silver and gold. The parameters followed by the Ministry, hold good, irrespective of whether the promoter seeks classification or not. They are as follows:

- ❖ Location
- ❖ Room condition, quality of interior and its compatibility with traditional lifestyle
- ❖ Parking
- ❖ Number of rooms
- ❖ Cleanliness, freedom from pest and dampness, light, ventilation
- ❖ Room size (minimum 120 sq. ft. and 200 sq. ft. for silver and gold category respectively in plain areas and 100 and 120 sq. ft. respectively in hill areas)
- ❖ Quality of bed and linen.
- ❖ Attached private bathroom and provision of toiletries and toilet paper
- ❖ Bathroom size-minimum 30 and 40 sq. ft. respectively for silver and gold category
- ❖ 24 hours running hot and cold water with proper sewage connection
- ❖ Water saving taps/shower
- ❖ Smoke-free, pest-free kitchen
- ❖ Dining area
- ❖ Quality of cutlery and crockery
- ❖ Air conditioning and heating depending on climatic condition
- ❖ Internet connection
- ❖ Wardrobe, shelves
- ❖ Power point for device charging
- ❖ Complimentary RO/mineral water
- ❖ Washing machines/dryer
- ❖ Fridge in the room
- ❖ Lounge
- ❖ Heating/cooling in common rooms
- ❖ Left luggage facility
- ❖ Garbage disposal as per regulation
- ❖ Safekeeping facility
- ❖ Contact details of doctor in emergency
- ❖ Security

## **OPERATIONAL REQUIREMENT**

The key task is to deliver clean bed and bathroom and ensure that the upkeep and supplies are up to the mark. The guest is expected to act like a quasi family member and hence keep the host family informed of his needs in advance and be reasonable in terms of demands.

It is important to bear in mind that since this is a home stay facility, the host, typically lays down some reasonable restrictions. For instance, the family may ban smoking, loud music or partying. Likewise, it may also carry out polite and discreet screening of the potential guest. If there are circumstances e.g., wedding or sickness in the family which prevent a family from accepting guest, it will temporarily decline business.

## 8. MANPOWER REQUIREMENT

The family will assume responsibility for management of the facility. The tasks involved are commercial matters, guest-relations, housekeeping and supply of food and beverage. The responsibility is likely to be divided among family members in most cases. The family is likely to hire some help mainly for housekeeping and kitchen assistance purpose. In other words we can say two part-time employees.

## 9. COST OF THE PROJECT

We propose a three room (six bed) facility. In addition, there will be a lounge and dining area. It is assumed that there are already two extra rooms, while another room will be added, bringing the total to three rooms.

Each room will be air-conditioned (heated, if necessary) and will have a flat screen TV, fridge, tea-maker and wardrobe. The project cost is estimated as follows:

Particulars	Rs.Lakhs
Construction of Additional Room and Bathroom	3.00
Bathroom fittings and accessories-necessary improvement	2.00
Improvement (repair, paint) to overall property	2.00
Furniture, furnishing, bed, linen, blankets for three rooms	3.00
TV/air-conditioner/fridge/tea maker for three rooms	3.00
Refurbishing of lounge, dining area and kitchen and provision of TV and air-conditioning in relevant area	3.00
Addition to kitchen equipment,	1.00
Cutlery, crockery, linen	0.25
Enhancement of water-heating and safe drinking water facility	0.75
Preliminary and pre-operative expenses @ 10% of 1 to 9	1.80
Working capital margin	0.20
<b>Total</b>	<b>20.00</b>

The customers will pay in advance or upon check in; there will not be credit sale. The working capital requirement is negligible.

## **10. WORKING CAPITAL REQUIREMENT**

This is estimated at Rs. 0.20 lacs and we do not envisage working capital loan.

## **11. MEANS OF FINANCE**

The family will not like to offer its residential property as security for term-loan assistance. Under the circumstances, we assume financial assistance against moveable assets. We estimate a term-loan of Rs.10.00 lacs. The equity will be Rs 10 lacs.

We presume that the moratorium period or the period during which the promoter does not have to repay the principal (but interest will have to be paid) will be six months. The term-loan will be repaid in five years thereafter.

## **12. MACHINERIES AND ILLUSTRATIVE LIST OF SUPPLIERS**

This is not relevant.

## **13. PROFITABILITY**

The income streams will be as follows:

- ✓ Room income (breakfast included)
- ✓ Optional Meals
- ✓ Other

The room-tariff will vary, depending on location. We assume a room-tariff of Rs.2500 per day including breakfast, on double occupancy basis. We expect 60% occupancy in the second year of operation and its levelling off at 70% from, say, fourth year onward. There will be single occupancy tariff of Rs.2300 (breakfast Included). The estimated tariff realization is Rs.2400, envisaging a mix of double and single occupancy (1.5 occupants per room on average)

It is expected that half of the residents will consume one extra meal/day at the home-stay (0.75 meal per room per day) and they will pay for this. The meal will be

priced Rs.250/- The other income will consist of laundry, beverage and snack and this is taken at 2% of room income.

The income projection is as follows:

Average Room Tariff: Rs.2400(mix of double and single occupancy). Constant during first three years, 5% hike every alternate year thereafter.

**a) Occupancy:**

Year	Percentage of Occupancy
1	40%
2	60%
3	65%
4	70%; levels off

Meals sold @0.75 meal per occupied room.

**b) Operating Expenditure**

✓ Commission to Booking Agency @10% of room income
✓ Toiletries Consumables, line/laundry @Rs.20 per occupied room
✓ Cost of breakfast @Rs.30 per occupant
✓ Cost of meal @ Rs.80 per meal sold
✓ Cost of earning other income @50% of other income
✓ Housekeeping and kitchen Assistance @ Rs.5000 per month
✓ Repair/Maintenance/Refurbishing (Rs.30,000 per year)
✓ Depreciation and amortization @ 15% per annum of item No. 1 to 9 of project cost.

The variable expenditure is around 15% of income. The fixed expenditure is nearly Rs.5.00 lacs. This means that the facility will break even, if it manages to sell 0.6 rooms daily.

The profitability is worked out for the **five years of operation** as follows.

**Profitability over five years**

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
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Total annual income before expenses , term loan interest and depreciation	1558372	1731524	1818100.2	1904676.4	1991252.6
total annual expense	345587	345587	352498.74	359410.48	366322.22
income less all expenses except interest and depreciation	1212785	1385937	1465601.5	1545265.9	1624930.4
term loan interest	104500	88000	66000	44000	22000
income less all expenses except depreciation	1108285	1297937	1399601.5	1501265.9	1602930.4
Depreciation	297000	297000	297000	297000	297000
Profit before tax	811284.6	1000937	1102601.5	1204265.9	1305930.4
Tax	243385.4	300300	330780.44	361279.78	391779.11
<b>Profit after tax</b>	<b>567899.2</b>	<b>700637</b>	<b>771821.02</b>	<b>842986.14</b>	<b>914151.27</b>

For projection, second year is the reference year.

In first year, we have assumed 10% lower income than in second year, while keeping operating expenditure identical. In third, fourth and fifth year, income increases @ 5% per year (simple growth, compared to second year).

In first and second year, we have assumed that operating expenditure will remain same, while operating expenditure rises @ 2% per year (simple growth, compared to second year)

The unit cost of power is taken at Rs. 6. The depreciation is taken at the rate of 15%.

### 13. IMPLEMENTATION SCHEDULE

This will take six months since dedicating the premises. The milestones will be

❖ Securing recognition from Govt. of India and affiliation to portals.	1 month
❖ Execution of interior and kitchen plan.	3 months
❖ Hiring of manpower.	1 month
❖ Opening	1 month

### 14. BACKWARD AND FORWARD LINKAGES

The business will be circumscribed by the level of ambition, financial and managerial resources of the family. It can enter such allied businesses as tourist-guide, taxi-hire or a craft/boutique corner in the house itself or elsewhere.

### 15. STATUTORY / GOVERNMENT APPROVALS / CLEARANCES

The project needs to carry out general formalities pertaining to firm establishment, tax registration and shops/establishment registration. The fire safety clearance is the specific requirement.

Most state governments have formulated homestay schemes and so registration with the tourism department of the concerned state government is desirable. Entrepreneur may contact State Pollution Control Board where ever it is applicable.

## **16. TRAINING**

Udyamimitra portal ( link : [www.udyamimitra.in](http://www.udyamimitra.in) ) can also be accessed for handholding services viz. application filling / project report preparation, EDP, financial Training, Skill Development, mentoring etc.

Entrepreneurship program helps to run business successfully is also available from Institutes like Entrepreneurship Development Institute of India (EDII) and its affiliates all over India.