Favourable factors outweigh Concerns

By **Pavethra Ponniah**, Vice President and Sector Head - Corporate Sector Ratings, ICRA Ltd.

Comprising not just of one industry but several within, the Tourism industry is a composite of the global and local economic pulse, micro-market demand-supply dynamics and consumer confidence. The industry is expected to post a Revenue per available room (RevPAR) growth of around 5-6% during 2019, driven by Average room rates (ARR) and occupancy improvement. In fact, RevPARs for 2019 is likely to be the highest since 2012. Despite decent prospects, the industry is faced with new challenges and opportunities arising from the following six major themes which have the potential to alter growth.

1. Transient Demand: Demand is likely to stay robust supporting higher base occupancies and negotiated corporate rates. Over the past 12 months, the narrative for the Indian Hotel industry has moved from that of a down cycle to an industry in the midst of a multiyear up cycle, with room rates moving up by 2-3% to Rs. 5,800+ and occupancy improving by 2- 3% to 66-67% during 2018. Slower supply growth and higher demand for rooms meant RevPARs have inched up by over 4% during H1FY2019. In 2019, supply is expected to grow by 4%, while demand will be strong at 10% plus, leading to strong occupancies of 68-69%.

As higher base occupancies often lead to better pricing power, and aggressive revenue management, hoteliers hold out longer for better rate transient bookings to utilise the perishable inventory of rooms. With lesser base category rooms up for offer, and rates stripped down of perks like free food and logistics support, corporate rate negotiations have been more aggressive for the current season (starting in January). Further, transient demand from domestic travellers has gone up, with shorter booking windows. And despite rate transparency across the digital universe which put a limit on the extent to which hotels can capitalise (on pricing), 2019 will be a growth year.

2. Role of OTAs: Typically independent and resorts/leisure properties have a higher reliance on third-party relationships for garnering footfalls, compared to large hotel chains. Over the past one year, the role of online travel aggregators (OTAs) has expanded rapidly, and though OTA access comes at a high cost for the hotel, ranging between 12-20%, it is still cheaper than the traditional Indian travel agent. Hotels have also squeezed travel agent group commissions. The concern here is whether detrimental taxation issues like lack of input tax credit on out-of-state booking would spell the death-knell for local travel agents?

The growing OTA network will have some negative bearing on rates during 2019. Working around OTAs and their PE filled pockets require scale and focused effort to drive direct bookings to own websites or call centers.

3. A slowdown in global travel and Foreign Tourist Arrivals (FTA)s to India: A slowdown in global travel and foreign tourist arrivals could also potentially affect industry revenues. The year 2019 is going to be a year of potential instability: decelerating economic growth and tightening global financial conditions; and aggressive posturing and trade tensions, all of which could disrupt international tourism in 2019, India being no exception.

While, international tourist arrivals (overnight tourists) grew by a 5% during 9MCY2018, down from the strong 7% growth during CY2017, growth has slowed down in Q3CY2018, reflecting global market sentiments. YTD Nov CY2018, foreign tourist arrivals (FTA) to India grew by a muted 4.9% —the lowest growth in three years. Apart from global issues, India specific issues stemming from floods in Kerala and Karnataka have also impacted FTAs.

4. General Elections in India: Going by trends during the 2014 general elections, an election year can witness unstable and bumpy local travel patterns. The rhetoric around elections could also drown out industry related advertising messages.

Nevertheless, one may safely conclude that general elections are temporary disruptions to travel and heightened caution by international travellers during the election period can be expected, although the overall trend will stay positive in 2019.

5. Increasing fuel prices: Coupled with sizable seat additions, which has hit the airline industry during 2018. Several regional airlines closed down while large ones reported losses. Given this scenario, price hikes are warranted, particularly if fuel prices increase during 2019.

That said improvement in connectivity, particularly of low-cost air travel, can have a ricocheting effect on tourism. But the regional connectivity scheme, UDAN aimed at connecting unserved and under-served airports, has so far delivered poor results due to multiple adverse factors.

6. Low airport density: In spite of 100 airports, India ranks relatively low (133rd) on airport density. Lack of connectivity to several high tourist potential circuits across the country hampers their development. In this regard the recently opened airport at Pakyong, near Gangtok, Sikkim could change the fortunes of tourism and with-it hotels and ancillary services in the state and parts of the North East.

As far as the industry capex goes, the PE interest waned out during 2010-15 with of the down-cycle, has shown signs of picking up again during 2017. But successful IPOs have been far and few since 2005. The success of few announced IPOs would be critical for bringing back PE interest in the space.

There have been some talks of acquisitions in the segment as well. The ongoing recovery in the industry has brought interest to the distressed hotels segment with the Blackstone Group receiving approval to acquire Golden Jubilee Hotels (Trident, Hyderabad) and Brookfield Asset Management Company in talks to acquire the debt-laden Hotel Leela Venture.

Based on the above key favourable factors outweighing concerns, the tourism industry is set for better times in 2019. ■

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