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HOTEL INDUSTRY UPDATE

Industry on an upward swing; expected to return to pre-Covid levels in FY2023

JUNE 2022

Agenda

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1 Trends in Key Operating Metrics

2 Demand Dynamics

3 Supply Trends

4 Financial Performance and Outlook

5 Peer Comparison & Annexures

Highlights

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Industry revenues and margins are expected to reach pre-Covid levels by FY2023.

About 55% of ICRA's ratings are on stable outlook currently.

- ICRA estimates pan-India premium hotel occupancy to be ~56-58% in Q1 FY2023 (up from ~40-42% in FY2022 and closer to pre-Covid occupancy of 60-62% in Q1 FY2020). The demand recovery has been sharper than expected, and was aided by leisure, transient passengers, MICE/weddings and gradual pick-up in business travel and foreign tourist arrivals (FTAs). Some cities also witnessed traffic from specific events like the IPL. Pan-India premium hotel ARR stood at ~Rs. 4,600 – 4,800 in Q1 FY2023 and was at a 16-18% discount to pre-Covid levels. However, for a few high-end hotels and leisure destinations, ARRs have been higher than pre-Covid levels in the last few months.

- ICRA's sample of 11 companies reported ~38% growth in revenues on a YoY basis in Q4 FY2022, better than ICRA's estimates. While it remained weaker on sequential basis compared to Q3 FY2022, partly due to the Omicron wave, it was one of the best quarters for the industry since the onset of the pandemic. The operating margins were also healthy in Q4 FY2022, benefitting from improved operating leverage and cost saving initiatives. Hoteliers are expected to report stable performance in Q1 FY2023, aided by a strong leisure segment, improvement in business travel and FTAs.

- Notwithstanding the potential impact on demand with further Covid waves, if any, ICRA expects the industry to return to pre-Covid levels in FY2023. The demand in the near term is expected to stem largely from domestic leisure/transient travel, although there will be a gradual recovery in business travel and FTAs. Hotels are likely to report pre-Covid margins at 85-90% of revenues going forward.

- ICRA expects further equity fund raising/asset monetisation to support capital structure improvement going forward. Debt metrics are expected to return to pre-Covid levels in FY2023, while RoCE is expected to remain sub cost of capital at least for the next few years.

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Thank You!