

INDIAN HOTEL INDUSTRY

Premium hotel inventory addition is expected to lag demand and grow at a CAGR of 3.5-4% over the next five years

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Industry revenues and margins are expected to reach pre-Covid levels on a full-year basis by FY2023. ICRA has a 'Stable' outlook on the Indian Hotel Industry.

Premium hotel inventory addition expected at a 5-year CAGR of 3.5-4%; expected to lag demand growth.

Increase in per room construction cost by 10-15%, with cost inflation



- ICRA estimates pan-India premium hotel occupancy to have touched ~60-62% in H1 FY2023 vis-à-vis 36-38% in H1 FY2022. The overall recovery has been better than expected, aided by recovery in leisure demand, pent-up demand from MICE (including weddings) and gradual pick-up in business travel and foreign tourist arrivals (FTAs). Aided by healthy demand, pan-India premium hotel Average Room Rate (ARR) stood at ~Rs. 4,800 – 5,000 in H1 FY2023 and was only at a discount of 10-12% compared to pre-Covid levels. However, a few high-end hotels and leisure destinations witnessed ARR spike to higher than pre-Covid levels over the last 6-9 months.



- This has resulted in a pick-up in supply announcements over the last 4-5 months. Further, construction activity in projects which were stalled post Covid-19 have also commenced recently. In ICRA's estimate, the incremental premium supply is concentrated in select markets with Mumbai and Bangalore accounting for a bulk of the inventory.



- However, the hotel supply pipeline is expected to grow only at a 5-year CAGR of 3.5-4%, adding approximately 15,500 rooms to the pan-India premium inventory of ~94,800 rooms, across 12 key cities. This will facilitate an upcycle, as demand improves over the medium term while supply will lag demand with cautious expansion approach by hoteliers and absence of any major announcements during the covid period. The current inventory growth is significantly lower than the growth witnessed during FY2009-2013, after the global financial crisis. A significant part of the recent inventory is coming through management contracts and operating leases.



- Also, not many mergers and acquisitions were witnessed during the Covid period, as ECLGS has supported liquidity hoteliers, and very few hotels have been shut down permanently. Nevertheless, some projects by players with weak financial profile and those in markets like Bangalore, where demand pick-up has been slower, have been shelved.



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