ICRA

INDIAN HOTEL INDUSTRY

Industry witnesses a strong bounce back in YTD FY2023

JANUARY 2023

Agenda

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1 Demand Dynamics

2 Trend In Operating Metrics

3 Inventory Addition Over The Last Few Months

4 Credit Rating Movements

5 ICRA Ratings In Hospitality

Highlights

Industry sustains healthy performance in the last several months.

The possibility of further lockdowns cannot be ruled out, if there is another Covid wave. However, the severity and duration of lockdown/demand impact has been reducing with each wave. This is a positive for hotels.

- ICRA estimates pan-India premium hotel occupancy at ~66-68% in 10M FY2023, similar to pre-Covid levels. Aided by healthy demand, the pan-India premium hotel average room rate (ARR) stood at ~Rs. 5,600-5,800 in 10M FY2023 and was only at a discount of 4-6% compared to pre-Covid levels. Some high-end hotels and leisure/gateway destinations saw the ARR spike to higher than pre-Covid levels over the last few months.
- 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).
- Although FTAs have been reasonably healthy in YTD FY2023, FTA recovery to pre-Covid levels could be some time away and domestic tourism will be the prime demand driver. The pace of recovery in FTAs over the next few months is expected to be weighed in by the challenging economic environment and discovery of new variants/surge in Covid cases or infectious diseases, if any.
- ICRA has a Stable outlook on the Indian hotel industry. About 95% of ICRA's ratings have a Stable outlook at present. There is improvement in the credit ratio since H2 FY2022 and upgrades have been higher than downgrades in 9M FY2023.
- Notwithstanding the potential impact on demand with further Covid waves, if any, ICRA expects the industry to return to pre-Covid levels on a full-year basis in FY2023. The demand will stem from from sustenance of domestic leisure travel and MICE demand and increase in business travel. Hotels likely to report pre-Covid margins at 85-90% of revenues going forward. The revenues are likely to grow by 11% in FY2024 and improved operating leverage will support the margins further.

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Thank You!