

INDIAN HOTEL INDUSTRY

Industry to be in a sweet spot in FY2025

JULY 2024



Agenda













Highlights



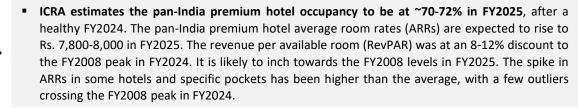


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ICRA expects demand to remain strong in FY2025. Along with robust margins, this will result in improvement in accruals.

Hotels, which have expanded through the asset-light mode over the last few years, have reported significant improvement in RoCE, aided by strong accruals. However, in case of assetheavy expansion, the extent of improvement in RoCE has remained constrained by the high capital cost of new properties.







■ ICRA expects the Indian hotel industry to grow by 7-9% YoY in FY2025, over the high base of FY2024. Sustenance of domestic leisure travel, demand from meetings, incentives, conferences and exhibitions (MICE), including weddings, and business travel (despite a temporary lull during the General Elections) are likely to drive demand in FY2025. Spiritual tourism and tier-II cities are expected to contribute meaningfully in FY2025. Sustenance of a large part of the cost rationalisation measures taken during the Covid-19 period and operating leverage benefits have led to a sharp margin expansion over the pre-Covid levels. ICRA's sample set of 12 large hotel companies is expected to report strong operating margins of 31-33% for FY2025, against 20-22% during the pre-Covid period.



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- Improvement in business accruals has supported the capital structure improvement and debt metrics. The coverage metrics are likely to improve further, going forward. The credit ratio has been improving since H2 FY2022, with more upgrades than downgrades in FY2023-Q1 FY2025.
- The demand uptick led to a pickup in supply announcements and commencement of deferred projects in the last 18-24 months. However, supply, which is expected to increase at a CAGR of 4.5-5% over the medium term, would lag demand.



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