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INDIAN HOTEL INDUSTRY

Industry to witness a healthy Q2 FY2025

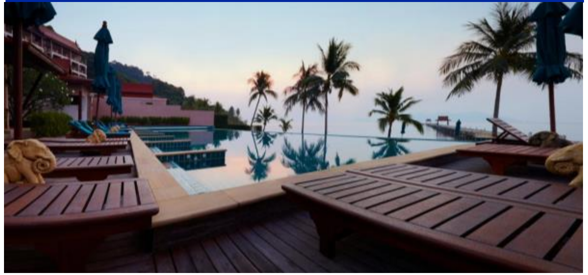
AUGUST 2024

Agenda

1 **Demand Dynamics**

2 **Trend in Operating Metrics**

3 **Inventory Addition over Last Few Months**



4 **Credit Rating Movements**

5 **ICRA Ratings in the Hospitality Sector**

Highlights

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ICRA expects demand to remain healthy in FY2025. This, along with robust margins, would result in healthy 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 asset-heavy expansion, the extent of improvement in RoCE has remained constrained by the high capital cost of new properties.

- **ICRA estimates the pan-India premium hotel occupancy to be at ~70-72% in FY2025**, after a healthy FY2024. The pan-India premium hotel average room rates (ARRs) are expected to rise to Rs. 7,800-8,000 in FY2025. The revenue per available room (RevPAR) was at an 8-12% discount to the FY2008 peak in FY2024. It is likely to inch towards the FY2008 levels in FY2025. The spike in ARRs in some hotels and specific pockets has been higher than the average, with a few outliers crossing the FY2008 peak in FY2024.

- **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. For Q1 FY2025, the sample set reported YoY revenue growth of ~8% and OPM of 30%, flattish on YoY basis.

- **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 FY2023-4M FY2025.

- **The demand uptick led to a pick-up 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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Thank You!