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INDIAN HOTEL INDUSTRY

Industry to witness a healthy H2 FY2025

OCTOBER 2024

Agenda

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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 stable in FY2025. Along with robust margins, this would result in improvement in accruals. ICRA has a 'Positive' outlook on the Indian Hospitality Industry.

Compared to the previous downcycle in FY2009, which saw untimely supply increases of over 15% of the inventory at the bottom of the cycle during FY2009-FY2013, the current inventory growth is 4.5-5% for the period FY2023-FY2026. This is expected to facilitate an upcycle, as demand improves over the medium term.

- **ICRA estimates the pan-India premium hotel occupancy to be at ~70-72% in FY2025**, after a similar 70-72% in FY2024 while the pan-India premium hotel average room rates (ARRs) may rise to Rs. 7,800-8,000 in FY2025 (up 8% YoY). Despite improvement in ARRs, the revenue per available room (RevPAR) is expected to have been at an 8-12% discount compared to the FY2008 peak in FY2024. It is expected to inch towards the FY2008 peak 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 hospitality industry to grow by 7-9% YoY in FY2025, over a 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 led to a sharp expansion in margins over pre-Covid levels. ICRA's sample set of 13 large hotel entities is likely to report operating margins of 31-33% for FY2025, against 20-22% during the pre-Covid period.

- **Higher business accruals have supported the capital structure improvement and debt metrics.** Debt coverage metrics are likely to improve further, going forward. The credit ratio has been improving since H2 FY2022, with significantly more upgrades than downgrades during FY2023–YTD FY2025.

- **The demand uptick led to a pick-up in supply announcements and commencement of deferred projects in the last 24-30 months.** However, supply, which is expected to increase at a CAGR of 4.5-5% over the medium term (13,500 incremental premium rooms across 12 key markets), would lag demand. The per room cost for premium category rooms (ex-land) is Rs. 1.5-2.0 crore.

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Thank You!