PRESS RELEASE
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ICRA downgrades the Indian hospitality sector from stable to negative outlook

- ***Occupancies across hotels in India have crashed during March 2020, by over 40% in many cases; and cancellations are at all-time highs***
- ***The travel and tourism industry is expected to witness one of the longest tail periods of impact, potentially running into multiple quarters, following the covid-19 wave***

ICRA has revised the outlook on the Indian hospitality sector from stable to negative, following the global spread of the Covid-19 pandemic. Since India reported its first coronavirus patient on January 30, 2020, the impact on the Indian travel and tourism industry has been severe, more so during March 2020 as corporate actions on localised containment was followed by sharp clampdowns by the government on a pan India basis. Apart from state level clampdown like in case of Kerala and Maharashtra, the GoI has imposed sweeping visa and travel restrictions, heightened airport screening and announced plans to stop all international flights in the coming days. Airlines have grounded fleet and several companies in India (and globally) have issued strong diktats on travel, deferring/cancelling all group activities. Citizens have been asked to limit local and inter-state travel to only that for essential and medical purposes. The global course and contagion of the viral pandemic has been unprecedented in history, also because the world is more inter-connected that ever before. Global travel for leisure and business has increased exponentially in the past several years, since we saw a pandemic like the 2003 SARS. Complex interlinked supply chains refuse to contain the impact of this contagion to regional markets anymore.

Says, Ms. Pavethra Ponniah, Vice President and Sector Head, ICRA "Occupancies across hotels in India have crashed during March 2020, by over 40% in many cases. Cancellations are at all-time highs. Risk aversion to travel and unfamiliar surroundings is at a high. Group events felt the first impact of Covid-19, with mass cancellations impacting banqueting and allied income for hotels starting in February 2020, even before the impact of the contagion was visible in India and the Indian government sprang into action. This was followed by curtailment on all non-essential and eventually any deferable individual business travel. Subsequently in March 2020, leisure travel has trickled to low levels, not only because of wary travellers, but also as the government has shut down many tourist sites like the Taj Mahal. While India is far from witnessing hotel closures yet, containment in the event of a mass outbreak in India and operational viability of hotels at low occupancies could raise this question. Given the scenario, the outlook has been downgraded from stable to negative."

Over the past few years, India has moved from a foreign traveller driven market to a more domestic market. Nevertheless, while globally too, markets dependent on domestic travellers have performed better initially, the contagion has eventually engulfed all markets and hotels, irrespective of star-category and price points.

ICRA expects the travel and tourism industry to witness one of the longest tail periods of impact, potentially running into multiple quarters, following the covid-19 wave. While some deferred travel, particularly for business will re-flow in, room nights are essentially perishable commodities. Business on books for hotels, going into the summer months is low. This will severely hamper the industry's ability to support its rates. Typically, while Q1 is not a business travel period, domestic travel for leisure is high in the summer months due to school closures.

While hotels regularly play a balancing game of occupancies versus rates, hotels so far have attempted to hold on to rates as much as possible, understanding the futility of reducing rates to attract guests. History has proven that while mass disruptions pass, the decision taken on rates now, would have a bearing on hotel revenues for quarters and years to come. It took hotels months and often years before rates could be pulled up to previous highs following global disruptions like the 9/11 attacks and the 2008 financial crisis.

Two broad contours to understand the potential impact are: 1. Given the contagion impact, India will not be able to isolate its economy and the hospitality industry within its geographical boundaries, however much the Indian hospitality industry becomes domestic traffic dependent. Given the rapid contagion, sovereign boundaries cannot become porous again until the viral impact is contained to a very large extent across the world. 2. The financial cost of this global disruption will be unprecedented and unfathomable—far higher than previous economic meltdowns. The trickle-down effect of this pandemic will be felt on all sectors—some more deeply than others. These factors will prolong the impact of covid-19 far beyond what the world experienced during the 2003 SARS or the 2008 crisis.

On a positive note, China, the epicenter and the first impacted country is witnessing some green shoots of recovery, even though occupancies still languish in the sub 20%.

ICRA assessed the credit impact of this pandemic on the hospitality sector in two ways: 1. The immediate term impact on liquidity and the hotel's ability to manage costs. Hotels, as with hospitals, theatres, malls and amusement parks, have elevated operating and financial leverage, making them highly susceptible to any reduction in revenues. Hotels now are operating at significantly sub-par occupancies and 10-20% lower ARRs. Allied income sources from MICE and F&B (non-resident) have been significantly curtailed, in most cases almost entirely shut down. Several hotels are pruning all costs, fixed and variable, letting go of contract employees, controlling power and fuel costs, deferring all deferable payments like for leases and maintenance contracts. Hotels with liquidity support in the form of cash balances (often minimal) or undrawn lines of credit will fare better. The recent banking crisis adds to industry woes as credit availability has become scarce.

2. Ability to recover post the crisis. The hospitality industry world over, and more so in India demands deep pockets. Longer the downcycle, more hotels will struggle to revive. Stock of stressed hotel assets will increase over the next few months.

"Eventually, ICRA expects the recovery cycle to start with individual business travellers, followed by group and leisure travel. Foreign travel will revive with a significant lag. Overall, the impact on the Indian travel and tourism sector would be a decline in occupancies, MICE activity and consequently rate pressures. The depth of the contraction would be contingent on the duration and breadth of the pandemic," adds Ms. Ponniah.

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