PRESS RELEASE
Oct 09, 2020

Sharp decline in hotel industry's performance as RevPARs fall in 5M FY2021 due to the pandemic; record decline expected in FY2021: ICRA

- ***Recovery to pre-covid levels is atleast three years away, as RevPARs take a 55-60% hit in FY2021***
- ***With a large number of companies having opted for moratorium, and others borrowing incrementally, debt levels in the industry are expected to increase sharply***

The Indian hotel industry is grappling with challenging times triggered by the Covid-19 pandemic. Occupancies fell to lows of ~13-15% while ARRs fell by 30-35% during 5MFY2021. In Q1FY2021, room night demand was largely limited to Vande Bharat repatriation travelers, medical/other frontline workers, stranded travelers and work-from-hotel guests. After hotels re-opened gradually with Government permission on June 8,2020, small incremental demand has come from staycations, drive-to-leisure and social Meetings, Incentives, Conferences, and Exhibitions (MICE) during Q2 FY2021. However, the road ahead is rough as revenues and margins are expected to post record decline in FY2021 with losses mounting over the next two years. Recovery to pre-Covid levels profits is atleast three years away.

Commenting on the industry, Ms. Pavethra Ponniah, Vice President and Sector Head, ICRA, says, "In addition to the record low occupancies of 13-15%, Average room rates (ARR) declined by 30-35% in 5M FY2021 with pan-India average ARR falling to ~Rs. 3,300-3,3400. We expect pan-India RevPAR to decline by ~55-60% in FY2021 with losses expected over the next two years. Conserving liquidity will be critical to tide over the long down-cycle. The credit profile of industry players has significantly weakened with 66% of ICRA's hospitality portfolio availing of the RBI provided moratorium. About 70% of the portfolio saw negative rating action post Covid."

In terms of market-wise performance, Mumbai and Delhi markets have fared better occupancy-wise; social MICE markets like Jaipur and Udaipur have witnessed some traction in demand while other markets like Bangalore, Chennai, Pune, Kolkata, Goa and Gurugram were significantly impacted. Drivable leisure destinations such as Coorg and Ooty in South and parts of Rajasthan in North India have benefited from the slow reopening in Q2FY2021.

International tourist arrivals (ITA)s have dropped drastically in CY2020. On the back of travel restrictions across countries, the UNWTO expects a demand drop of close to 70% in CY2020 with Asia-Pacific hit the hardest. This is worst decline in recorded history (since 1950). Though travel restrictions are being eased by different countries gradually, ITAs will take considerable time to return to CY2019 levels. Foreign Tourist Arrivals (FTA) to India (ex-Bangladesh) witnessed a ~60% Y-o-Y decline in 7M CY2020 and is expected to remain weak in CY2020 and CY2021. However, domestic tourism is expected to return faster and stronger.

Hotel room night demand at drive-to destinations and from staycations and weddings/social MICE are expected to be primary demand drivers in the near term. While Government and business-critical travel are likely to come back in the next few months, long-haul travel is expected to stay muted. Some part of business travel will turn virtual permanently. Corporate travel though an important contributor to industry revenues will take 2-3 quarters for recovery and about three years for near normalcy. It will depend on the recovery in the economy and corporate performance.

On the supply side, new room pipeline is relatively low and will recover only when demand picks up. Further, low demand will result in a large number of hotels staying shut in CY2020 with some part of current inventory being shut down permanently. New supply deferment will also happen due to tight liquidity and financing issues. Permanent reduction in supply with repurposing of hotels for alternative uses like co-living, senior housing and office spaces is also expected.

Past supply trends show that even pre-Covid, the active supply pipeline was low, compared to the 2009 supply pipeline immediately post the global financial meltdown and 26/11 in FY2009. The 4-year CAGR (FY2010-13) in rooms supply stood at 17.2% or ~29,700 rooms and higher than the estimated 4-year CAGR (FY2021-24) of 4.5%, or ~17,500 rooms. This low supply pipeline will support the eventual recovery

The hotel industry witnessed one of the worst revenue declines, in Q1 FY2021, with revenues for the industry sample declining by 85%. Given the high operating and financial leverage in the industry, the revenue decline led to huge operating and net losses (operating and net margin declined to -149.4% and -207.6% respectively) in Q1 FY2021 despite the extensive cost-cutting measures adopted by most entities in the industry. Despite sharp weakening in interest coverage, recourse to the RBI provided moratorium on debt servicing as part of its Covid relief package announced in March 2020 (extended until August 31, 2020) supported the industry. About 66% of ICRA's hospitality portfolio applied for moratorium under this scheme and several of these will apply for restructuring under the KV Kamath committee too.

Although hotels have been gradually allowed to reopen, occupancies have remained subdued in H1FY2021. This will keep revenues moderated, resulting in operating losses and stretched debt metrics during FY2021 and FY2022. The industry reported a 2.7% de-growth in topline with flat operating margins at ~22% in FY2020. With an 85% Y-o-Y decline witnessed in revenues in Q1 FY2021 and subdued occupancies witnessed in Q2 FY2021 as well, industry wide revenues are expected to witness sharp de-growth of 60-65% for FY2021. Despite several measures taken by the companies to variabilise the fixed costs, the industry is likely to report massive operating and net losses in FY2021. As for FY2022, although ICRA expects revenues to grow by ~50%, given the low base of FY2021, the operating margins could vary between -5% to +5% largely depending on the extent of cost control measures taken by the companies. The situation is still evolving and will be reviewed in the coming months.

Debt coverage metrics too are expected to sharply deteriorate in FY2021 owing to massive operating losses and high interest cost. With a large number of companies having opted for moratorium and others borrowing incrementally for re-starting operations and longer term liquidity, debt levels in the industry are expected to increase sharply. Return on capital employed (RoCE), which is at sub cost of capital, was earlier expected to improve from FY2021 onwards; however, with recovery currently a few years away, RoCE is expected to remain sub cost of capital until FY2024. ICRA research expects the industry capex to moderate sharply to bare minimum levels over the next three years.

Adds Ms. Vinutaa. S, AVP, "Covid-19 has taken the industry into one of the worst down-cycles and demand recovery pattern will be different from other crises. Recovery to pre-Covid levels will take about three years and low supply pipeline will support recovery when demand picks up. Market-wise, Mumbai and Delhi being gateway cities could recover faster; Goa could recover faster driven by domestic tourism and low Covid rate. However, other cities dependent on business traffic like Chennai, Bengaluru and Hyderabad are expected to be the worst performers in FY2021."

For further information, please contact:

Media Contacts:

Naznin Prodhani Head Media & Communications ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email:naznin.prodhani@icraindia.com	Venkat Raman Manager - Media & Communications ICRA Ltd Tel: +91 90297 92600 Email:venkat.raman@icraindia.com	Poornima Tyagi Deputy Manager- Media & Communications ICRA Ltd Tel: +(91-124)4545300, Ext: 840 Email:poornima.tyagi@icraindia.com
Girish Dikey/ Khushal Devera Ketchum Sampark Mob: 7738020260/ 9819666376 Email:girish.dikey@ketchumsampark.com/ khushal.devera@ketchumsampark.com		

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

https://www.linkedin.com/company/icralimited/ @ICRALimited