ICRA

INDIAN HOTEL INDUSTRY

Festive season and ongoing ICC Cricket World Cup to drive hotel demand in Q3 FY2024

OCTOBER 2023

Agenda

1 Demand Dynamics

2 Trend In Operating Metrics

3 Inventory Addition Over The Last Few Months

4 Credit Rating Movements

5 ICRA Ratings In Hospitality

Highlights

Industry sustains strong performance over the last several months. ICRA expects the demand to remain strong in FY2024 as well.

- **ICRA estimates pan-India premium hotel occupancy to be ~70-72% in FY2024**, after recovering to 68-70% in FY2023. Pan-India premium hotel average room rate (ARR) is expected to be ~Rs. 6,000-6,200 in FY2024. While the occupancy is expected to be at decadal highs, the RevPAR is expected to remain at a 20-25% discount to the FY2008 peak. Sustenance of domestic leisure travel, demand from the MICE and business travel segments, along with rise in FTAs would support operating metrics. The industry has benefitted from the G20 summit and is expected to benefit from the ongoing ICC World Cup 2023.

- **ICRA expects the industry to report double-digit revenue growth in FY2024**. The sustenance of a large part of the cost-optimisation measures undertaken during the Covid-19 period, along with operating leverage benefits, resulted in significant improvement in operating margins for hotel companies. ICRA's sample set is expected to report operating margins of 25-28% for FY2024, against 20-22% pre-Covid. While there would be some moderation in margins from the FY2023 levels with increase in some cost heads like refurbishment/maintenance, they are likely to be higher than the pre-Covid levels over the medium term. Debt metrics for hoteliers are expected to be better than the pre-Covid levels in FY2024, aided by business accruals. The extent of improvement in the RoCE remains constrained by high capital cost of new properties owing to increased land and construction costs.

- **ICRA has a Positive outlook on the Indian hotel industry.** About 94% of ICRA's ratings have a Stable outlook at present. The credit ratio has been improving since H2 FY2022 and there were more upgrades than downgrades in FY2023 and H1 FY2024.

- **The demand uptick resulted in a pick-up in supply announcements and commencement of deferred projects in the last 12-15 months.** However, supply, which is expected to increase at a CAGR of 3.5-4% over the medium term, would lag demand.

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President and Group Head	shamsherd@icraindia.com	0124 – 4545 328
Srikumar K	Senior Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 – 4596 4318
Vinutaa S	Vice-President and Sector Head	vinutaa.s@icraindia.com	044 – 4596 4305

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860

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Thank You!