ICRA

THE INDIAN HOSPITALITY INDUSTRY

Robust demand and lagging supply to support strong revenue growth and earnings in FY2024

DECEMBER 2023

Agenda

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1 Trend in Key Operating Metrics

2 Demand Dynamics

3 Supply Trends

4 Financial Forecasts

5 Credit Rating Movements

6 Peer Comparison & Annexure

Highlights

Revenue growth and earnings would remain supported by robust demand.

Debt metrics for hoteliers are expected to be better than pre-Covid levels in FY2024 and FY2025, aided by business accruals.

The extent of improvement in RoCE may be constrained by high capital value of new properties owing to increased land and construction cost, in case of asset-heavy expansion.

- **ICRA estimates pan-India premium hotel occupancy to be at ~70-72% in FY2024 and ~72-74% in FY2025**, after recovering to 68-70% in FY2023. Pan-India premium hotel average room rate (ARR) is expected to be ~Rs. 6,300-6,400 in FY2024 and ~Rs. 6,400-6,600 in FY2025. While the occupancy is expected to be at decadal highs, the RevPAR is likely to remain at a 15-20% discount in FY2024 compared to the FY2008 peak. Sustenance of domestic leisure travel, demand from the MICE and business travel segments, along with the rise in FTAs have supported the operating metrics. In FY2024, the industry has benefitted from the G20 summit and the ICC Men's World Cup 2023.

- **ICRA expects the industry to report revenue growth of 12-15% in FY2024 and 6-8% in FY2025**. 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 27-30% for FY2024 and 26-28% in FY2025, against 20-22% pre-Covid. While there would be some moderation in margins in FY2024 and FY2025, compared to FY2023 levels with increase in some cost heads like refurbishment/maintenance, they are likely to be higher than the pre-Covid levels.

- **The demand uptick resulted in a pick-up in supply announcements** and commencement of deferred projects in the last 15-18 months. However, supply, which is expected to grow at a CAGR of 4.5-5.0% over the medium term, would lag demand, facilitating a structural upcycle in the industry. Lenders and investors are keen on funding hotel projects at present, with industry uptick.

- **The healthy business accruals have led to improvement in credit profile as well, in several companies**. This has resulted in upgrades exceeding downgrades in FY2023 and YTD FY2024. About 94% of ICRA's ratings are on stable outlook at present, back to pre-Covid levels.

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Thank You!