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Indian Hotels Performance H1 2020-21

The Dominance of Branded Hotels in the Hospitality Sector

Foreword

The Indian Hospitality sector has undergone severe changes over the last six months. The sector which was at its peak during 2019 witnessed a hard blow due to the outbreak of COVID-19 impacting the economic activities across the globe. The tourism sector which contributed around 9% to the global GDP was one of the worst impacted by this.

In India, approximately 1 million hotel rooms are catering to the varied needs of travelers excluding the rented accommodations which are listed with various other agencies. Of the total room supply, branded rooms contributed a mere 16% to the overall supply.

The induced lockdown has ensured we go back to our basics and draw a new strategy for the new normal. One of many outcomes which turned positive for the industry was unbranded hotel owners looking to re-brand their hotels by tying up with branded hotel chains for the operations in the new normal.

As per a survey conducted by Noesis Capital Advisors during the lockdown, nearly 73% of respondents said they are looking for branded hotels for their upcoming vacation plans and they are ready to pay a 15-20% premium in terms of room rents as they don't want to compromise on the health and safety of themselves and their family workers.

As a result of the conversion, we can expect the share of branded hotels to rise from 16% to 20-22% in the medium term and branded hotels are expected to reach into tier-II and III cities through these brownfield conversions and look beyond the top metro and tier-I cities.

The impact of COVID-19 on the Indian hotel industry was such that from occupancy of 65% in 2019, the average occupancy dropped to as low as 9% during the first half of fiscal 2021 impacting the industry overall performance significantly. With the lean performance, it has become difficult for the hotel owners to operate and service their debts with the subdued income.

No matter how hard the first half of fiscal 2021 has been for the industry, the second half is expected to witness a sharp revival of the industry. Staycations and weekend getaways have already started gaining traction amongst the millennial population. After being locked under the homes for 180 days, now the millennial population is seeking short vacations to change the environment around them. Not only this but by the end of the third quarter of the fiscal, we also anticipate the wedding business to come back to the hotels.

In the current report, "Indian Hotels Performance H1 2020-21- Dominance of Branded Hotels In the Hospitality Sector", we have captured the performance of Indian hotels across the top business and leisure destinations in India and compared them with the performance of branded hotels. The report also covers the destination wise performance of branded hotels and gives a glance at the impact of lockdown on the hotel industry during the first half of the current fiscal.

Happy reading !!



A handwritten signature in black ink that reads "Nandivardhan Jain".

Nandivardhan Jain
CEO
Noesis Capital Advisors

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Overview of Indian Tourism Industry

India has a rich and diverse culture that attracts tourists from all around the world to come and experience the vast opportunities the country has to offer. With a mix of different kinds of tourism, the country can cater to the needs of every type of travelers in the world. As of August 2019, UNESCO has recognized 38 World Heritage sites in India. These are places of importance of culture or natural heritage as described in UNESCO's World Heritage Convention established in 1972.

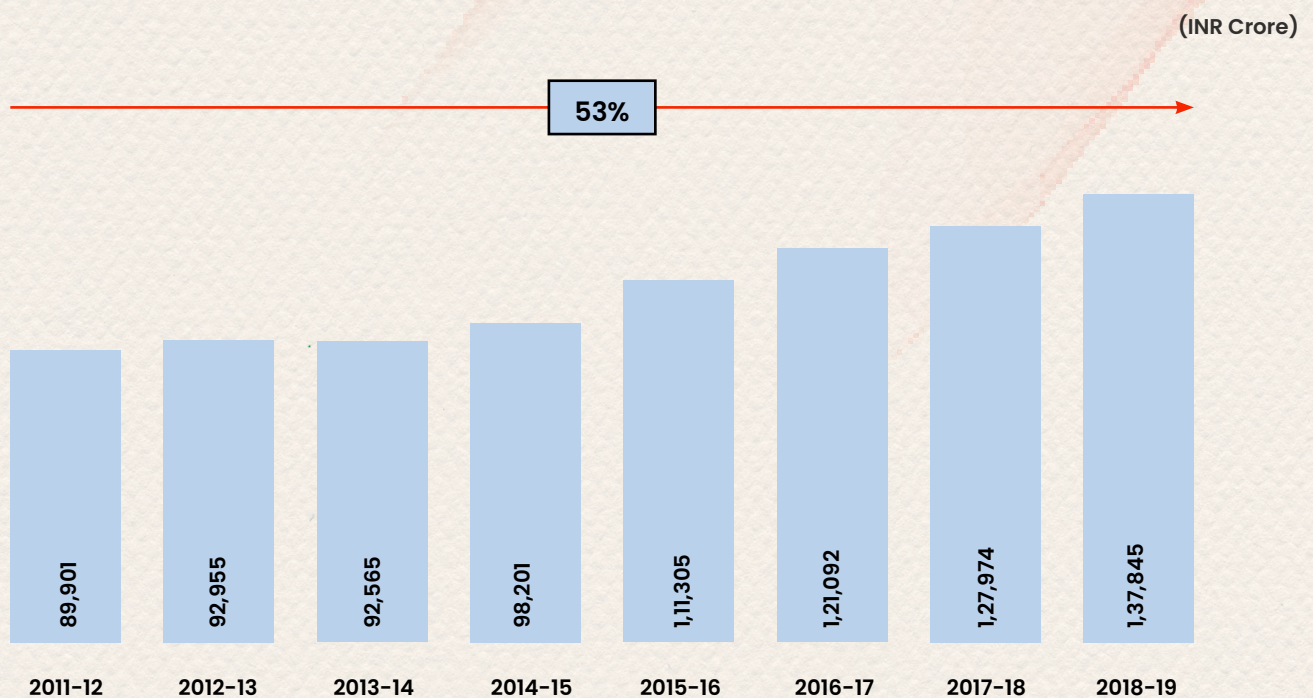
Tourism in India is an important parameter for economic development. As per World Travel and Tourism Council (WTTC), tourism generated nearly INR 16.92 trillion (US\$ 240 billion) or 9.2% of India's GDP in 2018 and supported more than 42 million jobs which are 8.1% of the total employment.

India's travel & tourism competitiveness index improved significantly over the last few years. From the 65th ranking in the TCI during 2013, the ranking has improved to 34th in 2019. The improvement in ranking was primarily driven by easing out the policy, improving on the current infrastructure, improvement in the business environment, etc.

Contribution Of Tourism To GDP

India's tourism industry clocked a growth of 53% between 2011-12 to 2018-19 (at a constant rate) to touch INR 1.37 trillion of gross value added by the end of 2018-19. Significant tourism growth is due to the rising need for travel arising from domestic as well as international travelers. Opening up new tourism destinations within the country coupled with allowing e-tourist visas to 170 countries fueled the growth for the industry.

Total Gross Value Added by Tourism to GVA



Source: National Account Statistics 2020

The Impact Of Covid-19 On Indian Tourism

COVID-19 has struck the world's economy sparing no industry. The tourism industry was one of the most impacted industries of all. India where the tourism industry contributes to nearly 9.2% of the GDP and employees more than 8% of the total workforce, has come to a standstill. Shutting down international borders and imposing restrictions to travel within the country as well is expected to give the Indian tourism industry a blow of US\$ 9 billion to US\$ 12 billion. With overall 1 million rooms (16% organized), the average occupancy for Indian Hotels in 2019 was 65%. However, with the imposed lockdown, restriction on weddings, MICE shifting online, the demand has seen a 50% decline over 2019.

Demand Impact

In April, post lockdown was put in place, the occupancy rate (OR) in India fell to 10%. The primary demand generators for the hotel industry in India were the medical staff and patients who opted for a facility quarantine at hotels instead of a hospital. Since then, the demand has improved significantly to 35-37% by August due to increased demand by travelers coming back to the country via Vande Bharat Mission, Airlines and Shipping crew, and the medical staff & patients. Though with the improvement in occupancy, the demand is still 50% lower than the 2019 levels but with the relaxation of lockdown in India, the demand is expected to start picking up in the next 2-3 quarters.

Supply Impact

The planned supply, in the Indian hotel industry, is continuing to surface with a delay of 1-2 quarters. But the actual impact COVID-19 gave on the Indian hotel supply a positive note where the unorganized segment is shifting sides and joining the organized side. The hotels at niche locations, leisure destinations are the first one's to go for the conversion. The demand in India is returning to the organized hotel first as the confidence the customers have with the SOPs that the branded/organized hotels will put in place for the safety of its guests is pushing the demand to the branded side.

As per a survey conducted by Noesis Capital Advisors, during the lockdown, 73% of customers are looking for a safe and hygienic environment for their next vacation for which they are ready to pay additional 15-20% room rent for a safe and hygienic environment for themselves and their family. Looking at this opportunity, to beat the market sentiments, independent hotel owners are tying up with organized/branded chains to capture the first share of demand in the new normal.



Indian Tourism & Hotel Industry at a Glance

India as a country has become one of the major tourist destinations on the world map. Tourist from around the globe visits India for leisure, business, medical tourism, etc. The cast culture, different types of tourism, different terrains bring in tourists from all corners of the world to come and experience what India has to offer.

International Tourist Arrivals in World & India

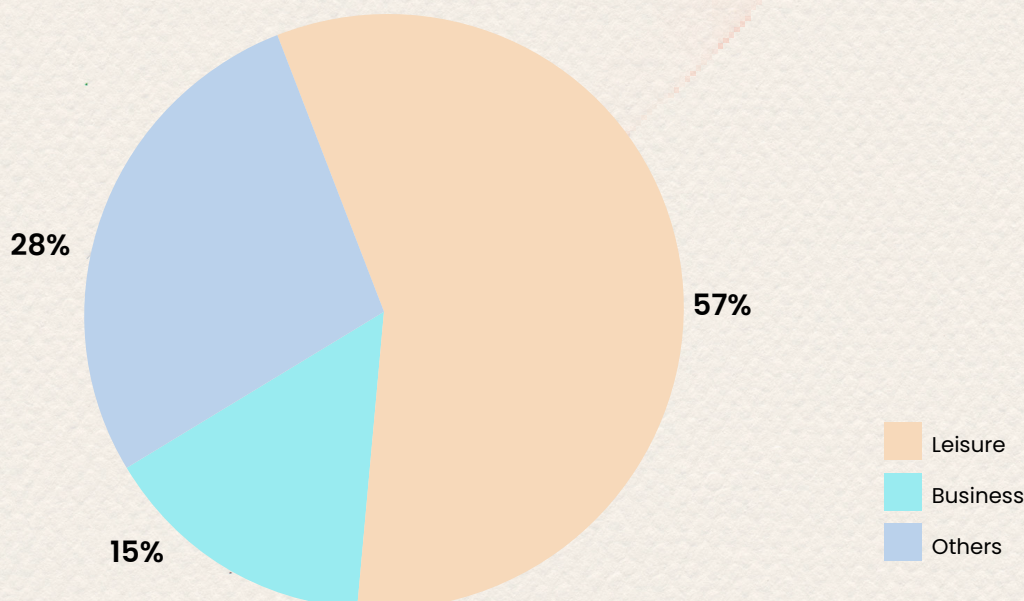
Year	World (in Million)	India (in Million)	The percentage share of India	Rank of India
2000	683.3	2.65	0.39%	50th
2005	803.4	3.92	0.49%	43rd
2010	948.0	5.78	0.61%	42nd
2011	994.0	6.31	0.63%	38th
2012	1039.0	6.58	0.63%	41st
2013	1087.0	6.97	0.64%	41st
2014	1137.0	13.11	1.15%	24th
2015	1196.0	13.76	1.15%	24th
2016	1241.0	15.03	1.21%	26th
2017	1329.0	16.81	1.26%	22nd
2018	1401.0	17.42	1.24%	22nd
2019 (P)	1,460.0	17.91	1.23%	23rd

Source: Ministry of Tourism, Ngage Hospitality

Purpose Of Visit To India (2019 P)

India as a destination experiences visitors/travelers from all across the globe for different purposes. People from all across the globe visit India for mainly 4 purposes i.e. business, leisure, NRI's visiting home, medical, and education. As of 2019, India was preferred by ~57% of tourists for leisure purposes. The vast variety of tourism within the country attracts tourists from all corners of the world.

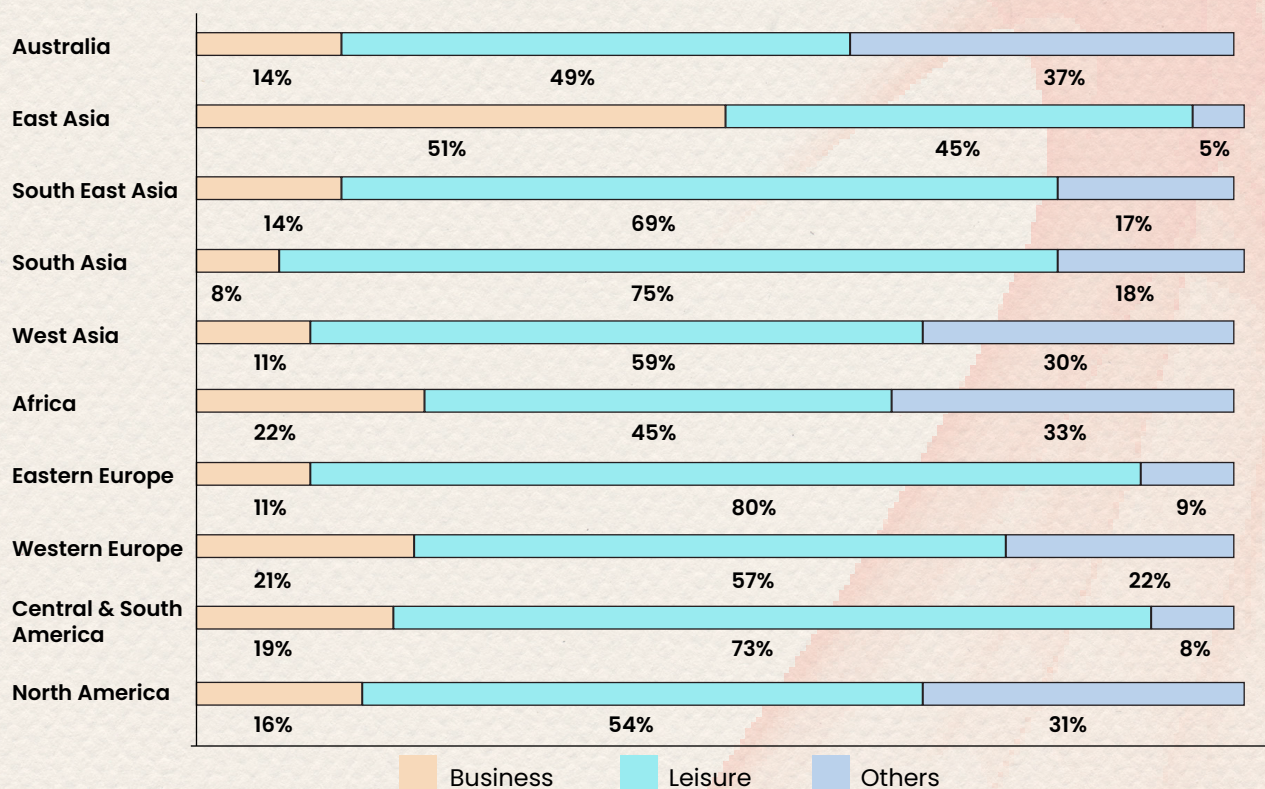
Break-up of tourism



Note: Sum not equal to 100% is due to round-off error; Others include all other categories of tourism

Source: Ministry of Tourism, India Statistics Report 2020, Ngage Hospitality

The Regional Break-Up Of Tourism (2018)

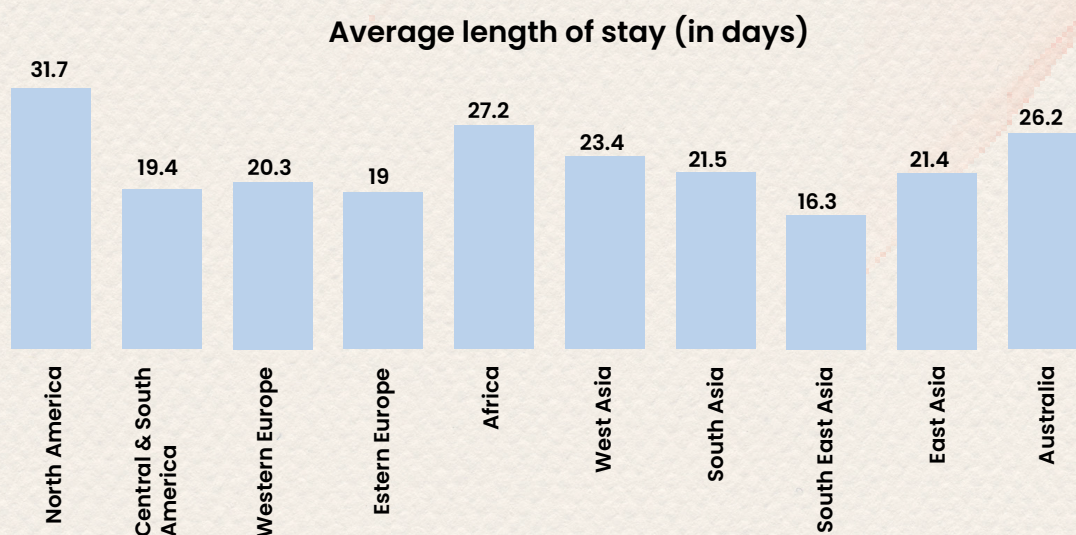


Note: Sum not equal to 100% is due to round-off error; Others include all other categories of tourism

Source: Ministry of Tourism, India Statistics Report 2019, Ngage Hospitality

Foreign travelers from Eastern Europe and Central & South America primarily visit India for tourism. However, the East Asia region comprising of Japan, China, Korea, etc. have a mix of business and leisure as the purpose to visit India.

Average Length Of Stay (2018)



Source: Ministry of Tourism, India Statistics Report 2019, Ngage Hospitality

The average length of stay for the tourists in India for all the regions combines is around 22.7 days. This shows the high demand India has in terms of tourism. Between the year 2001- 2019, the foreign tourist arrivals in India has grown by more than 8% annual growth. With 10.93 million tourists every year staying for an average of 23 nights, India's hotel industry requires a minimum of ~251 million nights only for foreign tourists. Adding domestic tourism to it, the current supply of 365 million room nights of supply available in India is expected to grow sharply looking at the current demand trends and the share of organized supply is expected to increase significantly.

Organized Supply In India

India is estimated to have a total of 1 million rooms of which 16% or 160,000 rooms are only organized in nature. Of these 160,000 rooms, international chains dominate the majority of supply within the country. The majority of these branded rooms are spread across the top major business and leisure destinations in India. Of these 160,000 rooms, nearly 95,000 rooms are spread across the top Indian cities and the remaining rooms are distributed among the remaining cities in India. The hotel brands have very recently started expanding beyond the top cities due to the fact the top cities are getting saturated and tourism in India is going to more niche destinations and is no longer restricted to top cities.

Branded Existing and Upcoming Room Supply Across Major Cities In India

City	Existing Rooms (2018-19)	Upcoming Rooms (2023-24)
Agra	2,100	600
Ahmedabad	3,000	2,000
Bengaluru	14,300	4,600
Chennai	9,900	400
New Delhi	14,700	800
Gurugram	5,900	1,800
Noida	1,400	1,000
Goa	6,800	2,100
Hyderabad	7,000	700
Jaipur	5,600	2,600
Kolkata	3,700	1,700
Mumbai	13,800	4,800
Pune	6,500	800
Others	65,400	30,000

Source: Industry Estimates, Ngage Hospitality

In the next 4 years, looking at the rising demand from domestic and international tourists nearly 54,000 new planned rooms both Greenfield and brownfield before COVID-19 hit the world. With the outbreak of the pandemic, the new branded supply that is expected to come in the next 4 years is expected to be much more than the planned number. Many independent hotel owners during the lockdown have identified the shift in demand that will happen in the new normal scenario and are exploring the option to tie-up with a branded chain to make their hotel ready for the new normal.



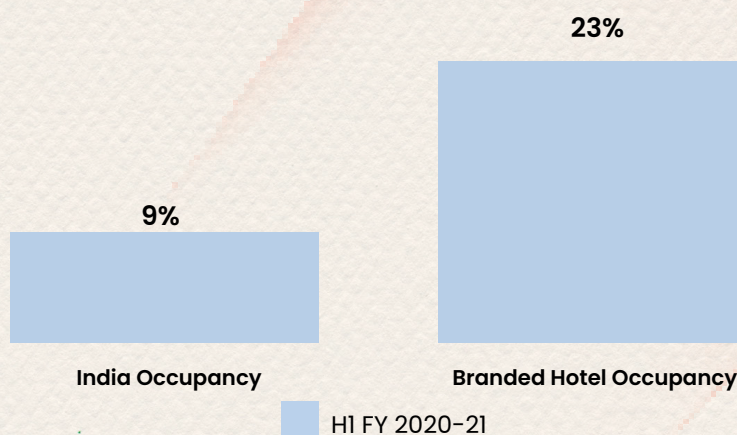
Hotel Performance Across Major Destinations In India During H1 2020-21

COVID-19 resulted in most of the hotels being shut with no guests for more than 90 days during the first half of the fiscal. Many hotels both branded and unbranded were shut for more than 180 days and as a result of minimum to no business.. Several hotels have temporarily closed down; others have significantly scaled down operations. Full or partial closures continued as lockdowns were extended and divergent travel protocols inhibited resumption of operations even in June (in fact, even to date in several key markets). Lockdown period demand has been a mix of quarantine support, healthcare persons, and international travelers awaiting repatriation, some corporate demand for critical employees, and some long-stay custom. A smattering of demand for senior citizen support, crew rooms and some personal travel in June added nominally to occupancy. The expectation of demand for staycations and leisure has materialised, but only in August, as varied travel regulations and state policies discouraged travel in June.

During the same time, many unbranded hotels saw the opportunity and these independent hotel owners are now converting their properties by tying up with branded hotels as the demand of branded hotels is much higher than the unbranded hotels during the current pandemic. During H1 2020-21, the Indian Hotels average occupancy clocked around 9% including hotels which were not operational for the full 180 day period. However during the same time, the average occupancy across branded hotels was much higher at 23%.

The occupancy during the first half of the year was extremely low as majority of hotels during the time were not operational due to the pandemic. For the purpose of this study, we have considered the entire room supply available in the country. As per estimates, there are approximately 1 million hotel rooms in the country and around 160,000 branded rooms.

Hotels Occupancy H1 FY 2021



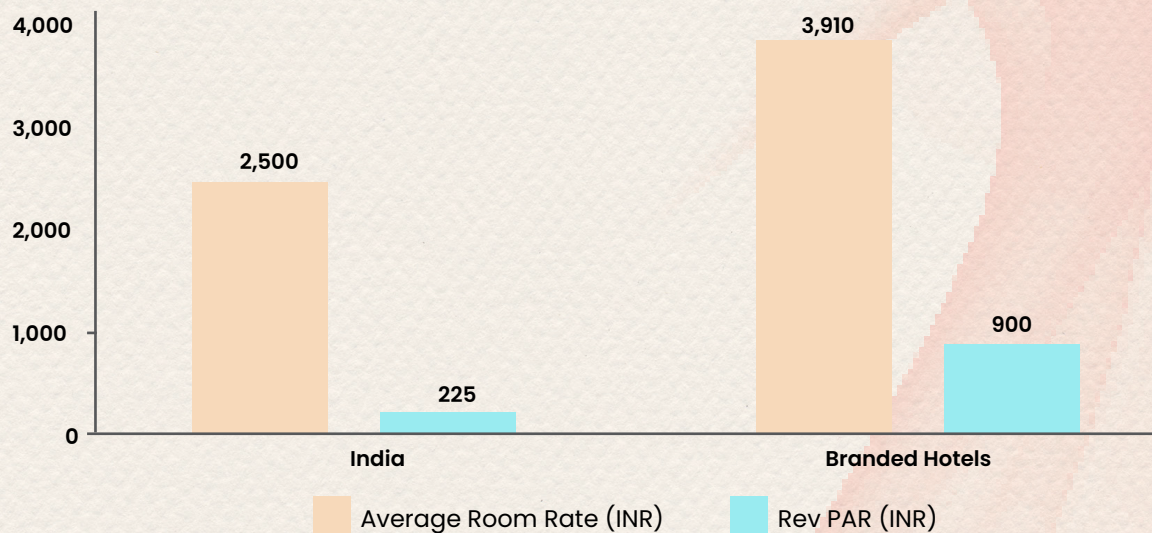
Note: India occupancy includes branded and unbranded hotels both

Source: Industry, Ngage Hospitality

India recorded an average room rate per night of INR 2,500 and a RevPAR of INR 225 per night, while during the same time, branded hotels recorded an average room rate per night of INR 3,910 and a RevPAR of INR 900 per night. The major reason for the fall in the RevPAR is primarily due to the fact that majority of hotels have not been operational during the current pandemic.

Considering 2019 as the best performing year for the hotel industry over the decade, 2020 has been the worst performing year for the hotel industry. In aggregate therefore, the revenue loss for the March to June period is a massive Rs. 80 billion. This loss could likely increase by 180% to 200% when unbranded hotels are also included in the estimation.

Room Rates And Room Revenue HI FY 2021



Note: India occupancy includes branded and unbranded hotels both
Source: Industry, Ngage Hospitality

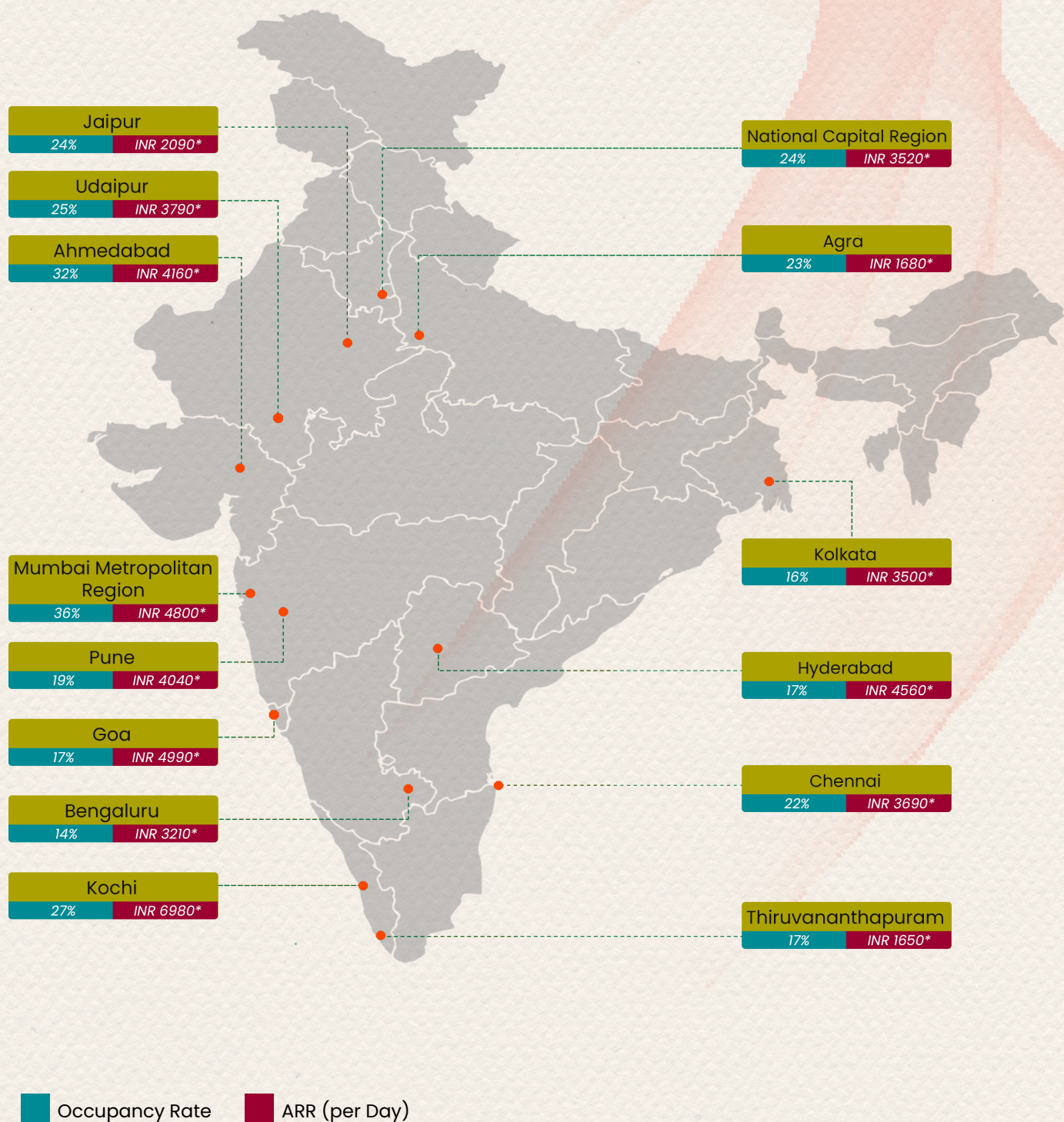
Hotel supply across India started witnessing slowdown in demand from March 2020 itself when the outbreak of COVID-19 started spreading across many countries outside China as well. Many travel plans were postponed due to suspension of domestic and international travel at the point. Domestic air travel restarted after 2 months of suspension with limited flights each day. However, international travel remains suspended even after 180 days of lockdown.

As a result of complete travel suspension during the first quarter of the fiscal 2021, majority of hotels also were shut down and only 5-7% of the overall supply was operational during the time which catered to medical staff, COVID patients who opted for a facility quarantine and travelers coming by Vande Bharat Mission who had a mandatory facility quarantine for 14 days.

As a result of this more than 90% of the hotel supply in India remained unoccupied. The only supply which was occupied during the time was branded hotels which were undertaken by the government to be used as a COVID facility. During the first quarter of fiscal 2021, the average occupancy across India had fell down to 3-4% (including un-operational supply). It is when the travel restrictions were uplifted and domestic travel started picking up pace, hotels have shown significant signs of revival with branded hotels clocking an occupancy of 23% (HI FY21) much higher compared to unbranded hotels.



City-Wise Performance Of Branded Hotels



Source: Ngage Hospitality

Business destinations such as NCR, MMR, Bengaluru, Chennai, Hyderabad, Ahmedabad, Pune, and Kolkata have witnessed an average occupancy of 23% and an average room rate of INR 3,940. Many branded hotels across these destinations were used as COVID centres occupied by medical staff and people who wished to quarantine themselves at a facility outside the government centres. Additionally, as these destinations are directly connected with the other parts of the world, these destinations also catered to Vande Bharat Mission and provided quarantine facility for those traveling to India under the mission.

Interestingly, the IT cities of India; Bengaluru, Chennai, Hyderabad and Pune have witnessed the lowest occupancy compared to other business destinations. Primary reason for the lower occupancy rates at these cities is due to lack of corporate travel which accounted for nearly 90% of the hotel demand. IT industry which is primarily operating from home during the COVID-19 times has resulted in complete suspension of business travel until notified otherwise. However, with the penetration of technology going deeper post COVID-19, the demand for these IT cities is expected to bounce back much faster once things go back to normal.

Leisure destinations are expected to pick up the improving trends of room demand as the travel restrictions have eased significantly over the last two months. Leisure destinations like Agra, Jaipur and Udaipur witnessed better occupancy rates than other destinations primarily due easy approach from many neighboring metro cities which led to staycation and weekend getaways to these destinations easier compared to others.

With the easing travel restrictions and rising urge to leave the house, leisure destinations are expected to pick-up pace faster than the business destinations in India.



The Way Forward

The hotel industry witnessed one of the lowest performing years during the current fiscal of the decade. The impact on the performance though induced due to the lockdown enforced by the spread of novel coronavirus. However, after the imposed lockdown of 180 days, the government has slowly re-opened the economy by removing the restrictions slowly and gradually. The travel restrictions though have been uplifted completely but the restrictions on room sales for hoteliers are still there. The way government has eased the restriction on the industry, we can expect the restrictions on room sales also to be uplifted soon.

With the work from home culture still on-going, demand for staycations and weekend getaways is expected to rise significantly over the next two quarters. Room demand across leisure destinations is expected to pick-up pace. The leisure destinations will not only cater to the rising demand from travelers but social events and weddings are also expected to gain pace across these destinations. People who hosted events at standalone banquet space/lawns will also shift to branded hotels to cater their needs. These events with restricted guests are expected to move to destinations which will provide them with experience with proper safety and hygiene standards.

In the next two quarters, we expect the hotels to pick-up in terms of occupancy and reach at 2019 levels by the end of fourth quarter of fiscal 2021. The rooms rates on the contrary will take more time to reach the same levels of 2019 as the competition amongst the branded hotels is set to increase as more independent hotel owners/operators will resort to branded chains for the operations of their property in the new normal. We may witness many brownfield conversions across major cities of India as independent hotel owners have also realized the importance of tying up with a branded chain and the share of branded chains is set to increase from 16% in the pre-COVID era to 20-22% in the medium term.



About The Company

Noesis Capital Advisors (www.noesis.co.in) India's leading Hotel Transaction advisory and consulting company provides end to end hospitality solutions across India and South Asia. Founded and headed by Mr. Nandivardhan Jain back in 2010, the company has already done more than 2000 assignments in the industry with USD 250 million worth fundraised, buy/sell transactions, debt raised, etc. The company specializes in buy-sell advisory, brand & operator search, contract negotiation, consulting, feasibility, valuations, capital raising, debt restructuring and turn around advisory for new & existing hospitality projects.

Ngage Hospitality as the name suggests is about engaging clients with industry experts/business leaders with the help of a structured methodology that has proven successful ever since inception. Under the leadership of Mr. Nandivardhan Jain and Mr. Ganesh Babu, the company has successfully created an AI-run interface that allows buyers, sellers, or even explorers to connect with industry experts 365 days a year. The services of the company go beyond events organized for the hotel industry to service the requirements and needs of existing and upcoming projects.

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