

Back on Hospitable Grounds, Hotels Set to Grow in FY24 Despite Uncertainties

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Synopsis

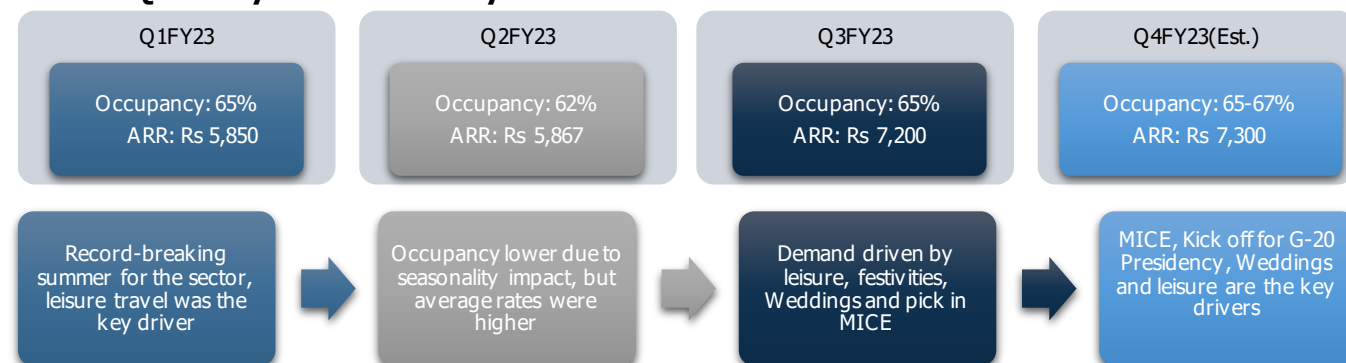
The hospitality industry, which suffered a significant setback due to the pandemic in the past two years, has experienced a reversal of fortunes in the fiscal year 2023 and is now steadily heading towards its growth path. The domestic hospitality sector's demand outlook is positive, indicating a promising future for the industry.

- The hospitality sector's RevPAR, which is estimated to reach Rs 4,000-4,100 by the end of FY23, reflects marginal growth over FY19 levels, thanks to the strong recovery in occupancy and average rates.
- The RevPAR's recovery was mainly driven by the average daily room rate (ARR), with weddings and domestic leisure travel being significant contributors to the ARR jump in FY23.
- Despite the possibility of inflation putting pressure on the growth rate in FY24, the ARR has already recovered above the pre-pandemic level indexed at 105-107 when compared to FY19 levels.
- Leveraging India's G-20 presidency, the ICC Cricket World Cup, and the resumption of foreign inbound travel, along with robust domestic leisure travel, the sector's ARR should continue to inch higher in FY24, boosting RevPAR. CareEdge estimates that RevPAR should grow 3-5% over FY23 levels.
- All key performance indicators such as RevPAR, ARR, and occupancy rate are ahead of pre-pandemic levels, and the industry is on its way back to profitability. Domestic hotel players are now in a favorable position to resume pending projects and undertake new ones, given the improved revenues and enhanced accruals cushioned by the realignment of the cost structure by the players. This, in turn, will boost the sector's supply.

Industry RevPAR's outgrown pre-pandemic levels

With demand aligning with pre-pandemic levels, FY23 is expected to end on a promising note, as earlier predicted by CareEdge Ratings in its publication "[Hotel Occupancy in FY23 Set to Cross Pre-Covid Levels at 67-69%.](#)" Festivals, the wedding season, and a likely pickup in foreign inbound travel and MICE (Meetings, Incentives, Conferences and Exhibitions) activity have supported demand in FY23. However, soaring international airfares and longer waiting times for travel approvals/visa amid rising inflation have limited outbound travel from India, thus enhancing domestic demand in the current fiscal year.

Chart 1: Quarterly Growth Journey of KPI's

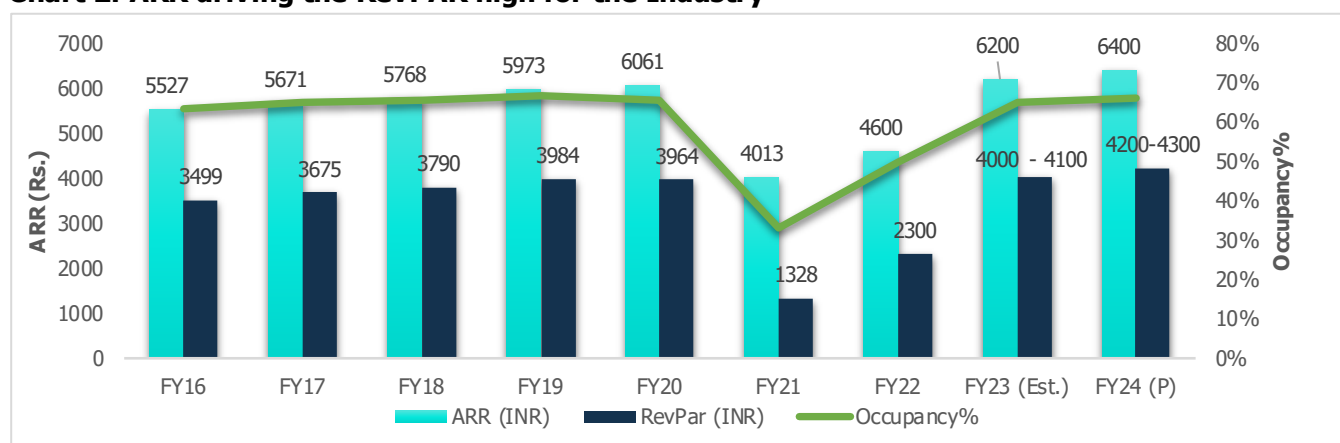


Source: CareEdge, HVS Anarock, Industry Average

KPI: Key performance indicators, ARR: Average room rate, RevPAR: Revenue per available room

"FY23 saw a significant comeback in travel, and demand for FY24 looks promising. The G20 Summit meetings, the ICC ODI Cricket World Cup, and the resumption of foreign inbound travel, coupled with domestic leisure and MICE travel, are expected to keep occupancy rates high. The key announcements in the Union Budget 2023-24, promoting the tourism industry through active participation of state and public-private partnerships, will further provide demand impetus for the sector and act as a booster dose. This, in turn, will create more demand for the hospitality sector, supporting occupancy levels. Additionally, the focus on increased regional connectivity and additional airports, as announced, will promote tourism throughout the country and be a positive development for the sector," said Ravleen Sethi, Associate Director at CareEdge Ratings.

Chart 2: ARR driving the RevPAR high for the Industry



Source: CareEdge, HVS Anarock, Industry Average

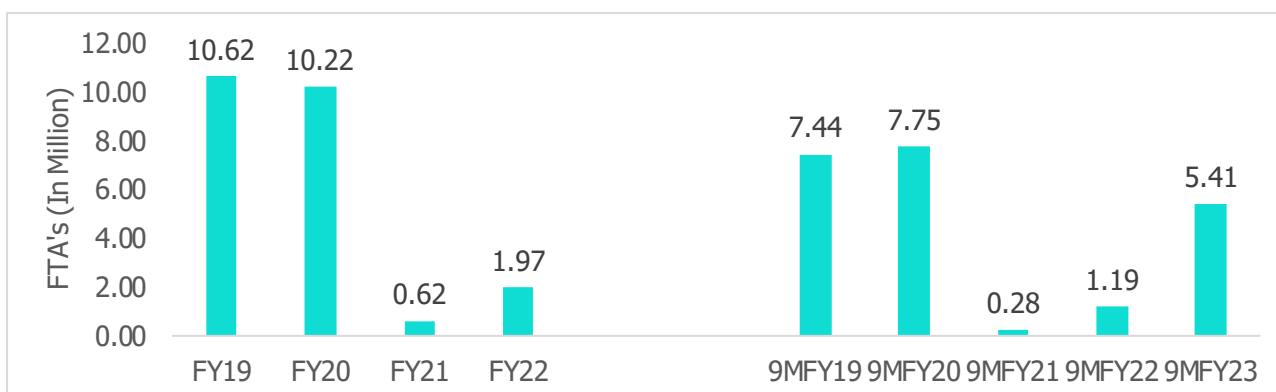
The hospitality sector has witnessed a strong recovery in occupancy and average rates, cushioning its RevPAR, which is estimated to reach Rs 4,000-4,100 by the end of FY23, reflecting marginal growth over pre-pandemic levels in FY19. The narrowing gap between supply and demand, owing to lower supplies in the past two years due to the pandemic, has led to an improvement in occupancy in the current fiscal year, resulting in better pricing power for players. In FY24, pan-India average hotel occupancy is expected to be at 67-69%, with ARR at Rs 6,200-6,400.

However, rising costs of raw materials, high manpower costs, and increasing borrowing costs due to rising interest rates may hurt operating profitability. Despite these challenges, industry players have been able to increase ARR, supported by strong demand trends. The ARR is expected to continue to inch higher, thereby boosting RevPAR for industry players, which is estimated to grow 3-5% over FY23 levels by CareEdge.

Although foreign tourist arrivals (FTAs) have witnessed a year-on-year uptick, global macroeconomic conditions continue to pose a hindrance. The sudden emergence of the Covid-19 pandemic led to countries closing their borders and suspending international airline services, leading to an unprecedented fall in international tourism. FTAs witnessed a y-o-y de-growth of 94% during FY21. Though international travel continued to suffer in FY22, there was a sharp recovery as compared to the previous year, but the overall FTA stood at just 2 million in FY22. While inbound foreign travel has increased recently, backed by recovering travel demand, withdrawal of quarantine norms for arrivals in the country, and resumption of e-visa services, it is still far from pre-Covid levels. Despite the strong upward movement in 9MFY23, FTAs remained at about 70% of pre-Covid levels. Foreign tourist arrivals in

India are unlikely to fully recover in the medium term due to uncertain macroeconomic conditions, which may impact discretionary spending by foreign tourists.

Chart 3: FTA's trend

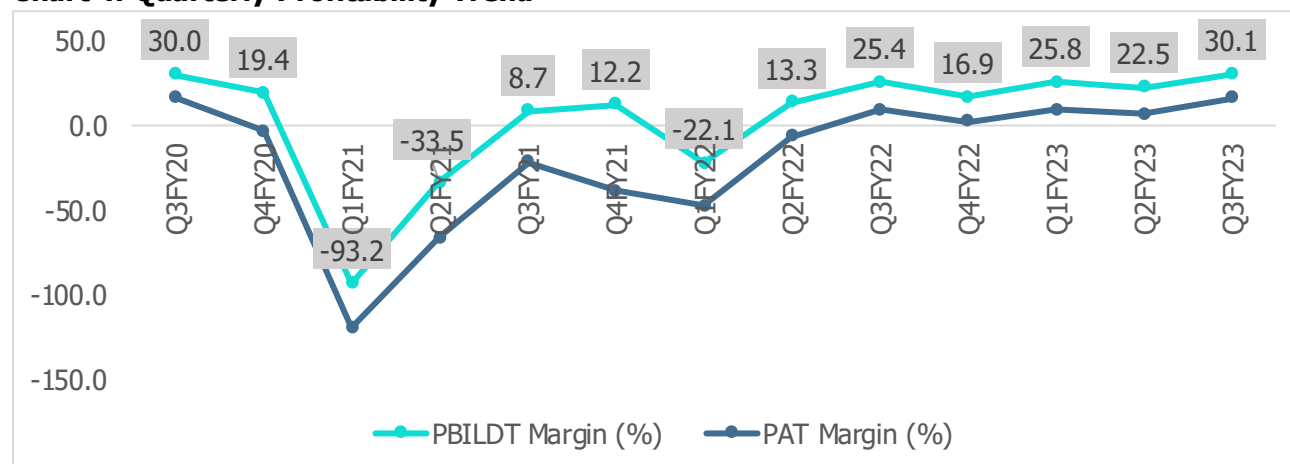


Source: CMIE, CareEdge

Operating Margins trending Strong

With the rise in occupancies, costs for all the players have though inched up, the same remains still remains lower than the pre-covid levels aiding margin growth for the industry. As revenues improved in the past few quarters amidst the realignment of the cost structure done by players, the industry has been able to post profits at the operating level since Q2FY22. The industry registered its best-ever operating profit in Q3FY23 and profitability remained strong at the net level as well.

Chart 4: Quarterly Profitability Trend



Source: CMIE, CareEdge (sample set of listed players)

CareEdge View

"The Indian hospitality industry has shown resilience, bouncing back from the steep decline in the COVID-hit years with sharper inclines thereafter. FY21 was a survival year, FY22 was a revival year, and FY23 has been a growth year for the sector. The strong demand from leisure travel brought much-needed relief to the sector. Even weddings made a comeback with several hotels being completely sold out during the season. The demand outlook for the Indian hospitality industry for FY24 is positive. Domestic leisure travel may not remain as strong as it was in FY23, but it will still be significant and important. FTAs for leisure and medical purposes are picking up, despite growing concerns about recession and global geopolitical issues. Corporate travel is expected to rise year on year in FY24, but it may still be impacted by ongoing global economic uncertainty, as companies are tapering travel costs and

using more technology solutions in place of in-person meetings. In addition, the G20 presidency of India and events such as the ICC World Cup will increase demand for hotels.

While the ARR growth rate in FY24 may be lower compared to FY23, it will still remain elevated above FY19 (pre-pandemic levels) in absolute terms. Occupancy increases, combined with labor shortages, inflationary pressures, and consumer willingness to pay for experiences, have validated the current room rates as the new normal. The fixed cost-saving initiatives undertaken by all players in the industry over the last two years and better operating leverage have helped hotel players register growth in operating margins in FY23. Players are ending the year on a high note. With the rebound in occupancies expected to continue and the sustainability of higher ARR, the sector's revenue profile is expected to grow, driving profitability even in FY24," said Ravleen Sethi, Associate Director at CareEdge Ratings.

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