ROOM FOR LENDER

Banks are again lending a helping hand to the hospitality sector, which was an outcast during the pandemic

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The hotel industry was one of the worst-hit contact-intensive sectors during the Covid-19 pandemic. So much so that lenders did not want to touch it with a barge pole. Finally, there is a shift in debt financing in India's hospitality sector.

Lending by banks in the current financial year, from April to October, has recorded a double-digit growth, year-on-year, compared with a below 1% growth in the same period last year.

Take the case of InterGlobe Hotels. A joint venture between InterGlobe Enterprises and the French hotel major Accor, it opened two properties this year and will be opening two more by 2025. The helping hand came from banks extending loans. "The management was able to favourably refinance its near-term repayments in FY2023," says Manoj Agarwal, head, asset management, InterGlobe Hotels. It availed approximately ₹350 crore of fresh-term loans. Around ₹130 crore was for an under-construction project in Bengaluru, and the rest was refinanced with better repayment schedules and used for hotel renovation.

Loans of several hotel companies have been refinanced recently by private banks at substantially lower rates of interest. Royal Orchid, for instance, managed to transfer a ₹40 crore loan from ICICI Bank and got it refinanced by HDFC. "We got a substantial interest saving of 3.5%," says Chander Baljee, CMD of Royal Orchid, who now finds several banks reaching out with better terms to refinance another loan.

"The management was able to favourably refinance its near-term repayments in FY2023"
MANOJ AGARWAL, head, asset management, InterGlobe Hotels

Instead of a deep reluctance that marked the pandemic age, now public and private banks, NBFCs and special situation funds are actively seeking opportunities to lend to hotels. The overall bank exposure in terms of loans to the sector rose to ₹76,413 crore in October 2023 from ₹64,466 crore in March 2023. Lending for "tourism, hotels and restaurants" rose by 10% in April-October this fiscal, compared with 0.9% in the same period in 2022, according to the latest data by the Reserve Bank of India. A huge erosion in demand during the peak of the pandemic had put pressure on liquidity of hotel owners, especially those who had single properties, nudging them towards closure, repurposing or rebranding, according to a report by ratings firm Crisil.

The driving force behind lenders' renewed interest is the substantial increase in average daily rates (ADR) and occupancies of hotels. "This uptick has significantly contributed to a surge in unit profitability, thereby expediting debt repayment timelines," says Nandivardhan Jain, CEO of Noesis Capital Advisors, a hotel investment and consulting firm. From a decade-long repayment schedule, it has become a more manageable seven- to eight-year period. This would result in a bigger cash flow, instilling confidence in financial institutions, says Jain.

To provide relief to certain contact-intensive sectors in the middle of the pandemic in June 2021, the RBI had tried to incentivise banks by opening a separate liquidity window of ₹15,000 crore with tenures of up to three years at the prevailing repo rate. Under this, banks could park their surplus liquidity equivalent to the size of the Covid loan book for these sectors with the RBI under the reverse repo window and earn 40 bps higher than the prevailing return. These sectors included hotels and restaurants.

"We got a substantial interest saving of 3.5% (on a loan refinanced by HDFC), and several other banks are reaching out with better terms to refinance another loan"
CHANDER BALJEE, CMD, Royal Orchid & Regenta Hotels

However, more than the regulator's handholding, what has helped the hospitality sector rebound were major events like the G20 Summit and the cricket World Cup, which were held in India this year, creating a huge demand for hotel rooms. This has lent much comfort to lenders. In addition to domestic tourism, inbound foreign tourism, which had vanished during the Covid years, impacting the financials of the hotel industry, is picking up. India's foreign exchange earnings from travel in the April-June quarter rose 36% to $6.4 billion from $4.7 billion in the same period a year ago.

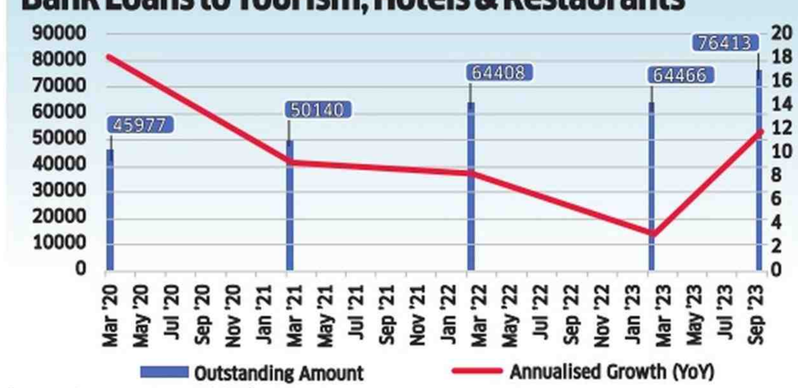
The rate of growth in loans, however, is far from the pre-pandemic rate of 17.9% in FY2020. Still, a turnaround is visible. The growth in loans was a meagre 3.2% in March 2023. From October 2022 to October 2023, it has risen to 11.7%.

Patu Keswani, chairman and MD of Lemon Tree Hotels, is waiting and watching as he says banks look at a hotel's pedigree and cash flow positions while deciding on the cost of debt. "In six months, we expect interest rates to come down further. We will look at refinancing the loans, then," he says.

PHOTO: GETTYIMAGES

As demand for hotels escalates across Tier-I, -II, -III and -IV cities, a substantial influx of new properties is expected. The industry could add more than 20,000 rooms a year, according to Noesis Capital Advisors. However, India might need 50,000 new rooms a year

Bank Loans to Tourism, Hotels & Restaurants



(Amount in ₹ crore & growth in %)

Source: RBI

Several leading banks such as Axis, HDFC Bank and Yes Bank have increased their exposure to hotel companies.

"The hospitality sector is driving increasing investor and lender interest as assets turn sustainable. This has led to a sharp rise in investor appetite with financial sponsors," says Ganesh Sankaran, group executive—wholesale banking coverage group, Axis Bank. "From a lenders' perspective, banks look at a hotel operator, asset performance metrics and debt serviceability/leverage as the principal determining factors while taking a credit decision."

"As the sector strives to keep pace with escalating demand, securing rationalised financing options remains pivotal for sustaining growth"
NANDIVARDHAN JAIN, CEO, Noesis Capital Advisors

SUITE SURPRISE

Given the sustenance of domestic leisure travel, growing demand for MICE (meetings, incentives, conferences and exhibitions) and business travel, along with an increase in foreign tourist arrivals, ICRA expects the industry to report a double-digit revenue growth in FY2024. In FY23, the industry returned to pre Covid levels.

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GANESH SANKARAN, group executive—wholesale banking coverage group, Axis Bank.

In the medium term, a healthy demand amid property upgrades could lead to higher ARRs (average room rates) for hotels. Larger players would also benefit from asset-light expansion and diversified revenue sources. Given the improvement in the business environment for hotels, bankers are not quite raising concerns on asset quality.

While an increase in overhead costs, due to refurbishment and maintenance, could lead to some moderation in margins from the current levels, the margins are still expected to be higher than pre-Covid levels.

The improvement in business revenues is expected to strengthen the capital structure of hoteliers.

"Banks look at a hotel's pedigree and cash flow positions while deciding on the cost of debt"
PATU KESWANI, CMD, Lemon Tree

However, the return on capital employed will be constrained in the medium term if hotels go for asset-heavy expansion because of the high cost of land and construction, say bankers.

As demand for hotels continues to escalate across Tier-I, -II, -III and -IV cities, a substantial influx of new properties is expected. The industry could add more than 20,000 rooms a year, according to Noesis Capital Advisors. However, India might need 50,000 new rooms a year, if one takes into account the demand that could stem from infrastructure development such as new highways, airports and industrial corridors. The industry needs rationalised and substantial financing options to take off. "The buoyant outlook from financial institutions is a catalyst for the expansion of the Indian hospitality industry. As the sector strives to keep pace with escalating demand, securing rationalised financing options is pivotal for sustaining growth," says Jain of Noesis.

However, there's a note of caution. A sharp rise in travel costs, change in tax structure and inflation could hit the travel plans of many and impact the profitability of the sector. That could sour the mood of lenders, too, who would then be scrambling to check out.

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