

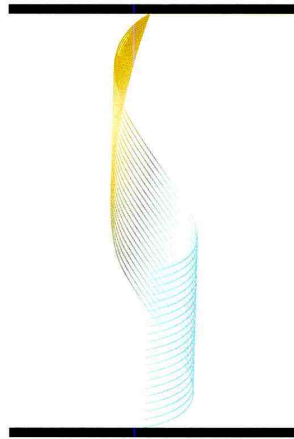
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INDIAN ENTREPRENEURS' tryst with the hospitality business has always been a fascinating one. If Jamsetji Nusserwanji Tata, the founder of the Tata Group, built the Taj Mahal Palace Hotel in Bombay in 1903 following the discriminatory approach of the British towards Indians, Rai Bahadur Mohan Singh Oberoi laid the foundation for India's second-largest hotel group in the 1930s when British businessman Ernest Clarke sold his hotel in Shimla to Oberoi, who had to mortgage his wife's jewel-

lery and his assets to buy the same. Even today the allure of hospitality is such that every other celeb or sports personality has dabbled in either opening a restaurant or owning a hotel.

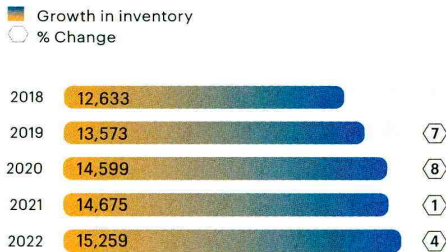
But every time an economic downturn or catastrophic event takes place, it's the hospitality industry that bears the brunt first and its after-effects can linger for longer than in other businesses. Hence, it is interesting to see the industry enjoying a remarkable turnaround since the pandemic. With the rise of domestic tourism and opening of international travel, occupancy rates and average room rate (ARR) have skyrocketed, giving players a chance to make money. At least for now.

Puneet Chhatwal, CEO of Indian Hotels Company, the country's largest hospitality player and South Asia's largest hospitality company by market cap, set the tone of the year, post the Q4 earnings call. "If we take the three best consecutive years in the history of Indian Hotels, 2006 to 2008 and 2017 to 2020, the combined performance of the three years is less than the financial performance of this year," said Chhatwal.

The changing fortunes have spurred the industry into an expansionary mode, with the country expected to add around 59,238 rooms between 2022 and 2027. About 6.4% of the additions are in the luxury category, and 27.5% comprise upscale hotels.

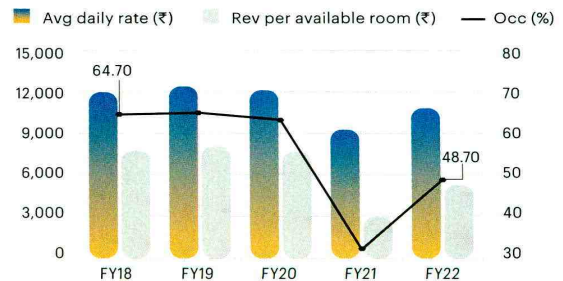
Rooms With A View

Growth in inventory of luxury rooms is coming back amid strong recovery in domestic, and foreign traveller traffic.



Back In Comfort Zone

Revenue per room has recovered sharply post the pandemic lows.



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▲ The Rosetta by Ferns luxury resort in Karnataka.

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Majority of the new rooms will be concentrated in three major cities — Bengaluru will see the largest increase, with 20,824 rooms by 2027 (up from 14,022), followed by Goa with 11,054 rooms (up from 8,244) and Chennai with 10,604 rooms (up from 9,763), according to consulting firm Hotelivate, which surveyed 1,364 hotels, 53 companies, and 152,000 rooms across 238 cities and 174 brands.

What's pertinent to note is that the luxury segment is where all the money is going in.

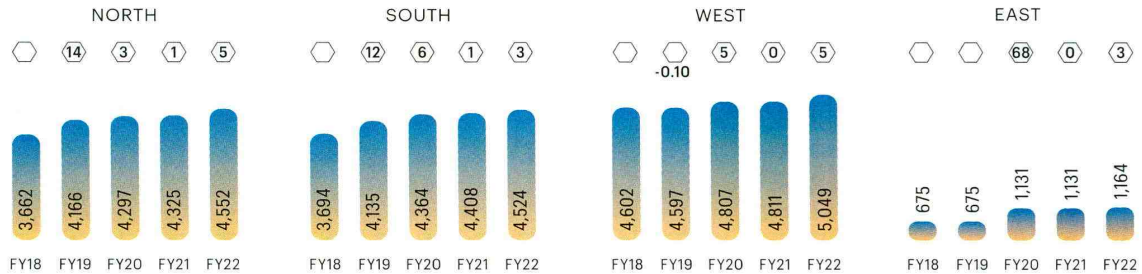
The number of luxury rooms in the country has grown from 13,573 to 15,259 between FY19 and FY22 (See: *Rooms With A View*). In the north, the increase in inventory was seen in Rajasthan, Delhi NCR, Himachal Pradesh and Uttarakhand with Rajasthan being the biggest contributor. Leisure destinations such as Udaipur

followed by Jaipur witnessed new hotel openings by IHCL (Taj Aravalli Resort and Spa in 2019) and Accor (101-key Raffles Udaipur in 2020). For instance, IHCL's luxury brand, Taj, is at the forefront of growth. "Taj has 100 hotels in operation or in development versus five years ago when we had 31 hotels in operation, a 2.5x growth despite two years of Covid," said Chhatwal. Other cities in the north that saw an increase in luxury rooms include Ranthambore (48-key Six Senses Fort Barwara in 2022), Haridwar (35-key IHCL SeleQtions in 2022), Shimla (83-key Taj Theog Resort and Spa in 2019) and Rishikesh (75-key Taj Rishikesh Resort and Spa in 2020).

Keeping company with IHCL is EIH, the flagship company of the Oberoi group. Vikramjit Singh Oberoi, MD & CEO, during the Q3 earnings call highlighted the supply squeeze facing the industry. "I'm hoping prices remain high, not only for us but for others and that leads to further development of hotels," Oberoi said. The observation comes on the firming up of average daily rate from ₹9,267 in FY21 to ₹10,814 in FY22 and RevPAR (revenue generated per available room) from ₹2,970 in FY21 to ₹5,263 in FY22 (See: *Back In Comfort Zone*). The company, which was yet to announce its Q4 numbers, clocked a profit of ₹237 crore in the nine months

Southern Comfort

But for the one property by ITC in the east, north and south has seen highest room additions in last five years.

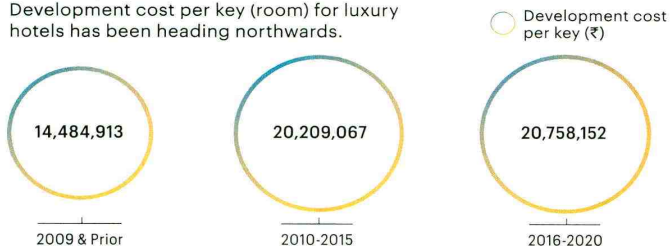


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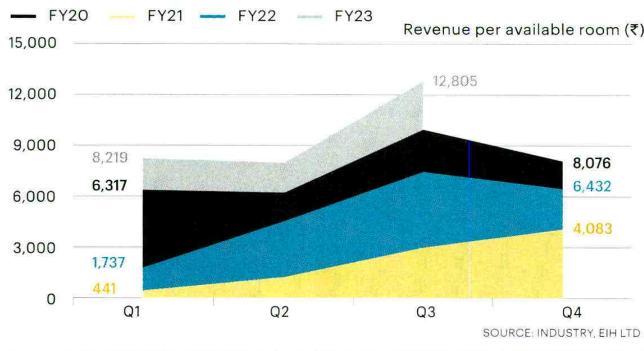
LUXURY SPECIAL

A Pricey Affair

Development cost per key (room) for luxury hotels has been heading northwards.

**Housefull**

The hospitality industry has seen a 10x jump in revenue per available room since the pandemic lows.



of FY23 on a revenue of ₹1,432 crore. The industry ARR is expected to continue to inch higher, thereby boosting RevPAR, which is estimated to grow 3-5% over FY23 levels, states a report by CareEdge. While the ARR growth rate in FY24 may be lower compared to FY23, it will still be above FY19 (pre-pandemic levels) in absolute terms.

The underlying optimism is not only lifting the tide of goliaths, but also creating opportunities for boutique luxury hospitality brands.

For instance, Leela Hotels veteran Jai Sreedhar, who had joined hands with gated communities pioneer, Errol Fernandes of Ferns Estates and Developers to create luxury timeshare product, Rosetta by Ferns in Bengaluru, is bullish about hyper-local

tourism. “The idea is to develop leisure properties within drivable distance from metros and urban centres,” says Sreedhar. Involving an investment of ₹174 crore, the 126-key 5-Star coffee plantation luxury resort, Rosetta by Ferns, at Sakleshpur, on the outskirts of Bengaluru, has been open to business since May 2022. Currently, the resort is clocking 50-60% occupancy with an ARR of ₹15,000. “Rosetta is a debt-free company, and we are targeting a topline of ₹45 crore with revenue coming in from both timeshare and resort businesses,” says Sreedhar. The second phase of expansion at the resort will see 74 more keys being built with an investment of ₹50 crore.

The expansion spree is also driven by a revival in occupancy levels, which has crossed the 50% mark with the national ARR just shy of ₹5,000 in 2021-22 against occupancy levels of 66% seen in 2019. “FY23 will achieve 68% plus hotel occupancy and nationwide average daily rates will be closer to ₹5,700,” says Achin Khanna, managing partner, Hotelivate. According to the report by CareEdge Rating, the narrowing gap between supply and demand, owing to lower supplies in the past two years following the pandemic, has led to an improvement in occupancy, resulting in better pricing power. In FY24, as per CareEdge, pan-India average hotel occupancy is expected to be at 67-69%, with ARR in the ₹6,200-6,400 range.

B

Business meetings, conferences and weddings are expected to generate demand for luxury accommodation with a focus on Tier-I, Tier-II and Tier-III cities in the coming years. Besides, India’s G20 presidency is also giving a fillip to the industry given that, as of April 2023, over 100 in-person G20 meetings across the country saw the presence of over 12,300 delegates from 110 nationalities. India is expected to host more than 200 G20 meetings at over 50 locations, including Rajasthan, Goa, and Jammu & Kashmir, through the year.

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Luxury dining restaurant at the Taj Palace, New Delhi.

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A

An added booster is the rising preference among Indians for high-end domestic leisure locations with a focus on wellness and sustainability. To cash in on the trend, players such as The Fern are looking at expansion. The company has begun work on three new properties: a 60-room resort at Kalyapura (70 km from Bengaluru), Magge (near Coorg), and Ooty (the Nilgiris) entailing an investment of ₹180 crore.

The new-found travel bug is also fuelling a new trend.

Ashwin Chadha, founder & president-India, Sotheby's International Realty, sees increasingly affluent Indians looking at either owning or co-owning holiday homes and villas. "The average price of a villa in Goa today is over a million dollars and we have done ₹280-300 crore worth of transactions in Goa in the past 10 months. The buyers are coming from Delhi, Hyderabad, Mumbai and Bengaluru. A lot of buyers want to get a high yield from a villa worth ₹20 crore and hand it over to an operator to run it as a high-end BNB (Bed and Breakfast) and get a yield of 8-10%. This is a new category of hybrid buyers," says Chadha.

While the industry seems to be at the cusp of a super cycle, analysts believe players are not moving quickly enough to meet demand over the next five years. "The story is more about average daily rates than occupancies," wrote Jefferies analyst Kumar

Prateek. One reason for that is because the development cost of per key has only been trending higher since the global financial crisis and the recent inflationary wave has only compounded the industry's problems (See: *A Pricey Affair*).

However, Oberoi believes that compared with the developing world, West Asia or Europe, luxury hotels in India offer a much better value proposition. "You'll be paying upwards of \$1,200 to \$1,400 per night in New York, and in London, you'll be paying upwards of GBP 1,200 to GBP 1,400. So, we are really, really good value and I hope all of us give our guests an incredible experience that is hard to replicate in other markets," he said. Sreedhar of Rosetta by Ferns shares a similar view. "After a very rough patch with the onset of the pandemic, the rebound has been phenomenal for the hospitality industry. It's been the best V-shaped recovery in the shortest possible time," says Sreedhar.

The optimism is showing on the Street with the stock of the industry bellwether, IHCL, more than tripling to ₹365 as the company clocked its best-ever revenue of ₹5,949 crore in FY23 and a record profit of ₹1,003 crore. That performance comes against the backdrop of a string of losses for 8 years between FY11 and FY22. Not surprising Chhatwal believes the trend is here to stay, when he tells analysts: "It's not like *Kal Ho Naa Ho* factor ... people are still saving but are willing to spend a bit more than they were pre-Covid."

How long the party will last is anybody's guess, but for now, a five-star holiday in India is as expensive as it can get. ■

₹ 365

Stock price of IHCL on the BSE on May 17, a 3x rise on the back of its best-ever revenue of ₹5,949 crore in FY23 and a record profit of ₹1,003 crore