

OCCUPANCIES WILL BE ON TRACK BY 2018-19

BY PATU KESWANI



INDIA IS AT PRESENT an under-penetrated hotel market. In terms of hotel rooms per 10,000 people, India has a little over one, compared with 28 globally and 180 in the US. Even if one assumes that the country's consuming population is only 10 per cent of the actual population, there should still be a requirement of three rooms per 10,000 people based on the global average.

Due to structural issues, India is also a unique market for hotel development. The high cost of land, the high cost of short-duration debt and opaque localised approval processes create significant barriers to entry. Consequently (and unlike in the rest of the world, especially the US), most of the hotels in the country are owned by individuals (rather than institutions) with an inverted pyramid of supply, wherein

a majority of hotel rooms in India are either upscale or better. As an analogy, imagine a scenario in which the majority of airline seats in India were business class.

Clearly, as a result of these factors, there is a price-demand mismatch with more high-priced rooms than required and far fewer lower-priced rooms. It means that over the next few years, India can easily absorb another 200,000 rooms in the 'right'-priced mid-scale (three-star) and economy (one- or two-star) categories.

If one looks at the aggregate demand-supply mismatch in India, it was in favour of hotels up until about 2007-8, when occupancies across the country were in excess of 70 per cent. Over the past six or seven years, supply has grown at close to 16 per cent Compound Annual Growth Rate (CAGR), and demand at only 12 per cent CAGR.

Consequently, national occupancies for the last few years have been under 60 per cent. This has led to irrational pricing, great financial stress for hotels and significant debt on their balance sheets. Going forward, additional supply injections are slowing down to about 7 per cent CAGR over the next four or five years, whereas demand is expected to continue to rise at a minimum 12 per cent CAGR.

It is clear therefore that by 2018-19, hotel occupancies across the country will once again cross the magic figure of 70 per cent. Indian hotels have a bright future provided they are able to manage short- to mid-term cash flows and debt service obligations.

The Lemon Tree Hotel Company (LTH) at present owns 3,000 rooms and manages an additional 300 rooms across 15 cities in India. Since the launch of its first hotel in 2004, the company has grown at close to 50 per cent CAGR over the past decade. Another nine owned hotels aggregating 2,000 rooms are under development. By 2020, LTH will most likely own 7,500 rooms and manage an additional 10,000 in 30 cities across India. At that point in time, the company will control about 7 per cent of the total supply of branded hotel rooms in the country and more than 15 per cent of mid-market rooms. Of these, about a third will be upscale (four-star), another third, midscale (three-star) and the balance, economy (two-star).

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