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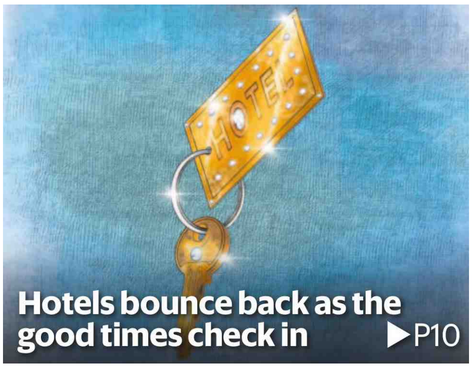

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HOTELS BOUNCE BACK AS THE GOOD TIMES CHECK IN

Sustained demand from domestic tourists is driving up occupancy and has led to a surge in hotel room rates

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NEW DELHI

What can ₹70,000 buy you? A month's rent in a 3-BHK in a south Delhi apartment or a 1-BHK in Mumbai. But in some hotels, that money may not be enough even for a night's stay. Take five-star resorts in most parts of the country right now, like AmanBagh, a sprawling property in an obscure location in Ajabgarh, in Rajasthan's Alwar district. Planning well ahead will still cost you at least ₹70,000 a night without taxes in the peak summer. During the holiday season the same room goes up to as much as ₹85,000 plus taxes, well above its pre-covid rate.

On the *ghats* of the Ganges in Varanasi, the story is no different. The BrijRama Palace hotel, a smaller, more bespoke property that is 210 years old, charges upwards of ₹25,000 a night on average. Brij Hospitality Pvt. Ltd, the hotel management company that runs the luxury small-key asset, has hiked the room rates of its marquee property by 50% since the pandemic began. A 'small key' asset is a property with 50 rooms or less.

For two years now, Indian hospitality companies have been having a good run. Hotel rates have shot up significantly and occupancies have also normalized to a higher level than before the pandemic began thanks to a surge in demand from domestic tourists.

Anant Apurv Kumar, one of the directors of Brij Hospitality, said the demand pattern was drastically different pre-covid, when Indians would go on less frequent but longer holidays. To add to that, there were far fewer hotels offering "immersive experiences" for a luxurious stay catering to Indian travellers. Today, more frequent short breaks have prompted a surge in prices for Indian tourists. In February, ratings agency Crisil, in an analysis of branded hotel companies with 70,000 rooms across various segments, said the industry would see healthy revenue growth of 11-13% this fiscal year (2024-25) after strong, 15-17% growth last fiscal year. The growth, it noted, would be backed by steady domestic demand and some increase in demand from foreign inbound travellers. The demand dynamics, along with modest or limited new supply, will keep the industry's operating performance healthy, at least in the near term, and augur well for profitability at the operating level, Crisil said.

Another rating agency, CareEdge Ratings, also said in a report that hotels will see 9-11% revenue growth in 2024-25, the third straight year of growth in the current upcycle.

"Before covid, the industry was not necessarily in the best of health. But post-covid, things have dramatically changed, with average rates going up," said Manav Thadani, the top boss at hospitality consultancy Hotelivate. "As a result, the market performances of some hotels have zoomed in value—3-4x of what they were before and during covid."

On their part, hotel chains are making the most of the opportunity to tap into the country's tourism potential. The Oberoi, Taj, Leela, The Lalit, Lemon Tree, and even international hotel operators are charging a substantial premium over their pre-covid years. And it's not just leisure hotels and resorts that are driving up and sustaining room rates—there is sustained demand for city hotels from the domestic business traveller, as well. Amid all this, supply is estimated to record a compound annual growth rate of 4% to 5% over the next four-five years, said the CareEdge Ratings report, adding just 50,000 rooms to the country's current inventory of approximately 160,000 branded rooms.

THE ECONOMICS

More people have money to travel now, and there aren't enough hotels to keep up. This is similar to what happened in other countries that are now wealthy or at least that's how Patanjali G. Keswani, chairman and managing director of Lemon Tree Hotels Ltd, puts it.

In Keswani's view, what changed between 2019 and today is the stable demand for hotels from Indians. Lemon Tree Hotels Ltd, which had its initial public offering (IPO) in 2018, has seen its market capitalization more than double in five years.

India, he said, is at an inflection point in its current journey of economic growth and the change in the overall economic dynamics of the country is behind the boom in the hospitality sector. The supply of hotels, he added, will not catch up with demand, simply because the demand growth rate will have a hockey stick curve.

"The number of people who use branded hotel rooms will grow 3-5x in the next five years. In China and Indonesia, around 2006-07, when they were at this point in their economy, hotel room demand grew over 22% every year. Multiple discretionary consumption sectors will see a much larger cohort of consumers. This is what large international investors are looking out for in India," said Keswani.

Interestingly, the CareEdge Ratings report cited earlier noted that the supply concentration in the luxury upper upscale segment has reduced from 39% in 2014-15 to 32% in 2022-23 and is expected to slide further to 26% by 2026-27, as the majority of new supply is in the 'upscale', 'upper midscale' and economy hotel categories (upscale hotels are five stars and above; midscale is generally four stars; economy is three-star hotels).

TARUN KUMAR SAHU/MINT

ROOM FOR GROWTH

In 2023, the hotel industry witnessed a record number of signings and openings

Company	Brands	Total hotels in India*	Pipeline in India
Indian Hotels Company	Taj, SeleQtions, Vivanta, Ginger	194	88
Marriott International	JW Marriott, Westin, W	148**	83
Sarovar Hotels	Sarovar Premiere, Sarovar Portico, Hometel and Golden Tulip	120	70
Radisson Hotel Group	Radisson, Park Inn By Radisson,	117	60
Lemon Tree Hotels	Aurika Hotels & Resorts, Lemon Tree Hotels, Red Fox Hotels, Keys Hotels	103	64
ITC	ITC Hotel, Storii, Fortune	97	70
Wyndham Hotels & Resorts	Wyndham, Ramada	62	40
Accor	Pullman, Novotel, Grand Mercure, Ibis, Raffles, Fairmont, Sofitel	61	11
Hyatt	Hyatt Regency, Hyatt, Hyatt Centric	51	50
IHG (Intercontinental)	Holiday Inn, Holiday Inn Express, Crowne Plaza, Intercontinental, Six Senses	45	45
Hilton	Hilton, Hilton Garden Inn	36	19
Oberoi Hotels (EIH)	Oberoi, Trident	30	50
Leela Palaces Hotels and Resorts	The Leela	12	1-2

* Till April 2024, **includes ITC Hotels' portfolio

Source: Mint research

MORE BRANDED HOTELS

All the interest in hotels has meant many more investors and operators have come to the fore. Established hotel companies have begun to chase more growth, by managing hotels for others and giving them their brand rather than putting in their own capital.

The asset-light growth model makes sense in India because most companies are not interested in investing in assets, and instead look for independent asset owners or real estate companies, which put in the capital to lease or buy and build a hotel. All the hotel company then does is manage the hotel or lend its brand for a smaller fee for the hotel to run as a franchise.

For instance, EIH Ltd, which runs The Oberoi Group of Hotels, is now looking to grow aggressively in the management business too. It is now sharply focused on expanding business by taking on more management contracts. The Vikramjit Singh Oberoi-led chain plans to expand with both owned hotels and managed hotels and has an ambitious vision to have 50 new properties by 2030, including a palace near Khajuraho, a Madhya Pradesh jungle resort, and developments in Bengaluru and Goa. Additionally, EIH will have management contracts with and without equity participation in other locations.

mint SHORT STORY

WHAT

For two years now, hospitality companies have been having a good run. Hotel rates have shot up and occupancies have normalized to a higher level than before the pandemic.

AND

The dramatic rebound after the decimation the industry suffered during the covid outbreak has been driven by a surge in demand from domestic tourists, who are travelling more.

NOW

The new demand dynamics, along with modest or limited new supply, will keep the industry's operating performance healthy in the near term, says ratings agency Crisil.

Similarly, The Lalit has partnered with a third-party company to secure management contracts, focusing on establishing smaller, mid-segment hotels under 'The Lalit Traveller' brand. Hotel management company Radisson Hotel Group for now has become the second largest international hotel chain in India, following in the footsteps of Marriott, with 117 hotels under its Radisson, Park Inn, and Suites by Radisson brands and roughly 60 additional properties in the pipeline. Marriott has 148 hotels (including the ITC Hotels portfolio it markets), while Taj has about 200 existing hotels that it owns and manages.

But the big picture may be mixed, at least in the short run. Analysts say January was a strong month this year but February did not meet expectations. March then rose again unlike in the pre-covid era, when demand would dip. Again, while a lot of businesses are feeling encouraged thanks to the ongoing Indian Premier League, there is a bit of a worry because of the elections, which always have some impact on travel. So, though hotel companies are optimistic about growth, it may not match the 2023 level and occupancies may decline slightly owing to the anticipated disruption during the two months of elections.

What is filling companies with optimism is the fact that the rates they charge have been going up consistently, despite occupancy being difficult to predict right now. Last year, a huge amount of demand was created by the ICC Men's Cricket World Cup and the G20 Summit. But there are no major big-ticket events expected this year.

NEW CROP OF OWNERS

Hotelivate's Thadani said the big differentiator now is that many new hotel owners, including first-time owners, have come into the industry unlike seven-eight years ago. Newer owners mean newer and greater opportunities for growth for management contract firms such as his. There have also been a number of IPOs, including those of Park Hotels, Samhi Hotels (Thadani was an early investor in it) and Juniper Hotels (the owners of several Hyatt branded hotels in India), among others. ITC Hotels is expected to list this year after being demerged from its parent last year.

All this has brought in new owners across both leisure and city hotels. A recent big-ticket deal involved K. Raheja Corp's Chalet Hotels buying out a Courtyard by Marriott property in Faridabad for ₹315 crore. The company had been hoping to expand beyond its primary market, central India, into other territories, such as the North, in a bid to rapidly expand.

Interestingly, the typical profile of owners in South Asia or India has become HNI/UHNI (ultra high networth individual). For HNIs/UHNIs, a management contract fee is a significant factor, as compared to the contract length.

Thadani also observes a stronger momentum than ever before in feasibility studies (done before a hotel project is signed) and hotel conversions (when branded hotels either change hands or

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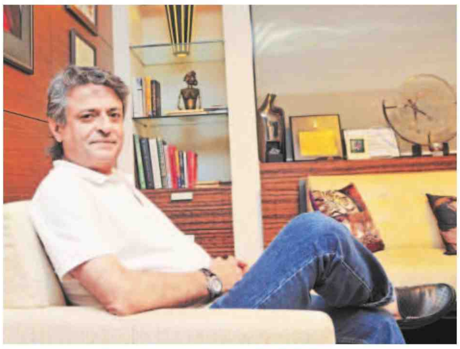
move from unbranded to branded), both for international and domestic hotel brands. This makes sense when viewed through another consultancy's numbers. Hotel transaction volumes in Q4 FY24 stood at $78 million. This is very much in line with the stupendous growth last calendar year, when transactions worth
1 $401 million were recorded by real estate consultancy JLL's hotels and hospitality group in India. It observed that a record number of hotel signings and openings took place last year, with as many as 25,176 rooms signed and in the pipeline and 12,647 keys opened. Hotelivate estimates that approximately 25% of the total value was transacted for under-construction hotels across business and leisure locations.

While more hotels are being signed and announced than ever before, whether project deliveries are on track is anyone's guess. A hotel project takes anywhere from four to six years to materialize. There are a multitude of licences and approvals that have to be obtained from local authorities.



Patanjali Keswani, chairman and MD of Lemon Tree Hotels. MINT

Additionally, the route to India's future success in hospitality will lie in franchising, said Keswani. Because today, most of the country's hotels are under 40 rooms and hotel companies will not find it viable to run such small inventory hotels themselves. But if the big boys want to grow, they will have to rely on franchising as a method. Future growth will come from these properties. So, hotel management companies may need to rely on the sub-50 room economy hotels to grow their management businesses here.

Some of the top domestic hotel chains are becoming even more flexible, with just 50 or sub-50 hotel rooms. "This is something that was not there ever before. This will continue," said Thadani.

Taj-brand parent IHCL is now way ahead of any other company signing hotels to management. It is the local brand of choice but Marriott is not far behind. ITC and Oberoi have become more aggressive than ever before. Radisson, too, continues to be a strong operator, while others, such as Hilton, IHG and Accor, are only playing catch up.

"Under Puneet Chhatwal, IHCL's head, things have rapidly changed. Innovation has happened and every hotel opportunity is being capitalized by the company. There are market opportunities and they are willing to go after them aggressively—in a way, they are filling the void of their biggest competitor, American hotel major Marriott International, which has many more brand standards to fulfil," said Thadani.

WHAT NEXT?

Another reason for the hospitality sector's burgeoning optimism is because most observers expect the current government to return to power and so expect continuity in policy.

While the government has spoken a lot about tourism, it hasn't invested much, as China did. But with the general sense of continuity, and better airline and road infrastructure, as well as railways, there is a sense of confidence, said Rajeev Menon, president for Asia Pacific (excluding China), Marriott International. The more people are mobile in India, the greater the chances of hotels continuing to show strong momentum. Even if domestic travel continues to grow at 7-8%, the organized hotel supply will not be able to keep up.