

## Hospitality Sector

12 April 2018

### Confirmation Of Bull Cycle; Higher Realisation To Drive Growth

We organised an Experts Day event recently where we interacted with Mr. Saurabh Gupta, managing partner of Hotelivate (a hotel consultancy firm). The key highlights of the interaction are as follows: 1) ARR/ADR (average revenue per room/average daily room rate) has declined from its peak of Rs7,772 in FY08-FY09 to Rs5,527 in FY15-FY16 and gradually recovered to Rs5,841 in FY17-FY18. 2) Occupancy rate increased from 59.5% in FY08-FY09 to 67.1% in FY17-FY18. 3) RevPAR (revenue per available room) posted 4.6% CAGR over the past five years driven by a higher occupancy rate. 4) Inventory posted 6.4% CAGR over 2013-18; capping the increase in ARR. 5) Cities like Mumbai, Delhi, Bengaluru and Gurugram are in a sweet spot with lower proposed room addition. 6) Kolkata and Lucknow are likely to witness relatively higher room addition over the next three to four years which could lead to volatility in the occupancy rate.

**ARR expected to increase with lower inventory addition:** Since the peak of FY08-FY09, ARR has declined from Rs7,722 to Rs5,527 in FY14-FY15. Thereafter, there has been a gradual recovery in ARR to Rs5,841 in FY17-FY18. For further details refer to Exhibit 1. Key highlights relating to the movement of ARR during FY08-FY18 are: 1) The 5-star hotels in FY08-FY09 accounted for a higher proportion of total hotels in India. Post FY08-FY09, there has been a substantial addition of hotels catering to the affordable segment. Therefore, comparing the average ARR of different periods is inappropriate. 2) Younger hotels (started three to four years ago) are not able to increase their prices as desired because their focus is on increasing the occupancy rate and creating a strong client base. 3) Although there was increase in demand for hotel rooms in the past few years, we have also seen inventory grow at 6.4% CAGR over the past five years leading to lower ARR growth. Going forward, inventory addition is expected to slow down which should translate into higher ARR.

**Occupancy rate has risen sharply; limited head-room for further increase:** Occupancy rate increased from 59.5% in FY08-FY09 to 67.1% in FY17-FY18. Hotel demand increased in the past few years leading to a rise in the occupancy rate. The potential for further increase in the occupancy rate could be limited because for a hotel to achieve ~70% occupancy, it needs to be occupied 100% during weekdays with a relatively lower occupancy during weekends.

**Modest growth in RevPAR driven by a higher occupancy rate:** RevPAR is computed by multiplying the occupancy rate to ARR. RevPAR has grown at 4.6% CAGR over the past five years. The increase in RevPAR is primarily on account of a rise in the occupancy rate from 57.8% in FY12-FY13 to 67.1% in FY17-FY18. ARR posted 1% CAGR over the past five years. Going forward, RevPAR could increase driven by higher ARR as the occupancy rate has limited headroom for growth.

**Hotels in Mumbai, Bengaluru, Delhi and Gurugram to benefit from lower inventory addition:** Room addition expected in the next three to four years is less than 10% of existing rooms in cities like Mumbai, Delhi and Gurugram. In Bengaluru, the proposed room addition is expected to be lower than 25% of existing rooms. However, Kolkata and Lucknow may face volatility in the occupancy rate as the proposed room addition will account for more than 50% of existing rooms.

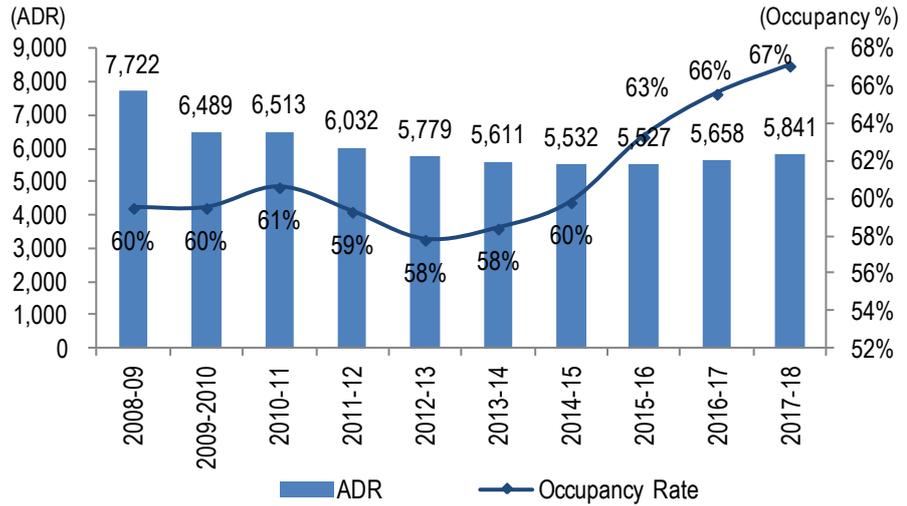
**Goods and Services Tax or GST negatively impacts luxury hotels:** In India, luxury hotels constitute a very small portion of the hotel industry. Before GST implementation the tax rate used to vary depending on location of the hotel. Currently, luxury hotels charge 28% GST and are unable to pass on the entire burden to consumers.

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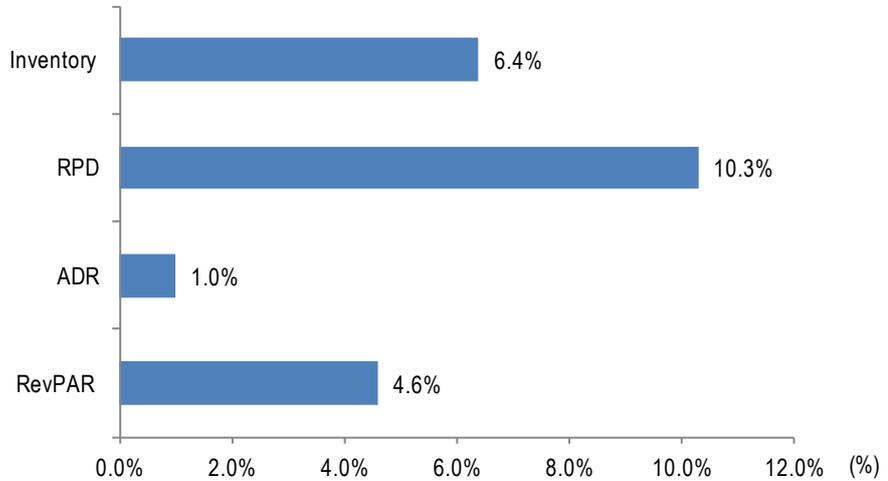
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**Exhibit 1: Hotel occupancy rate and average daily room rate or ADR snapshot – 10 years**



Source: HOTELIVATE

**Exhibit 2: Five-year CAGR – Key indicators**



Source: HOTELIVATE

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