

HVS | ANAROCK

India Hospitality

INDUSTRY REVIEW 2018



The Oberoi Udaivilas Udaipur

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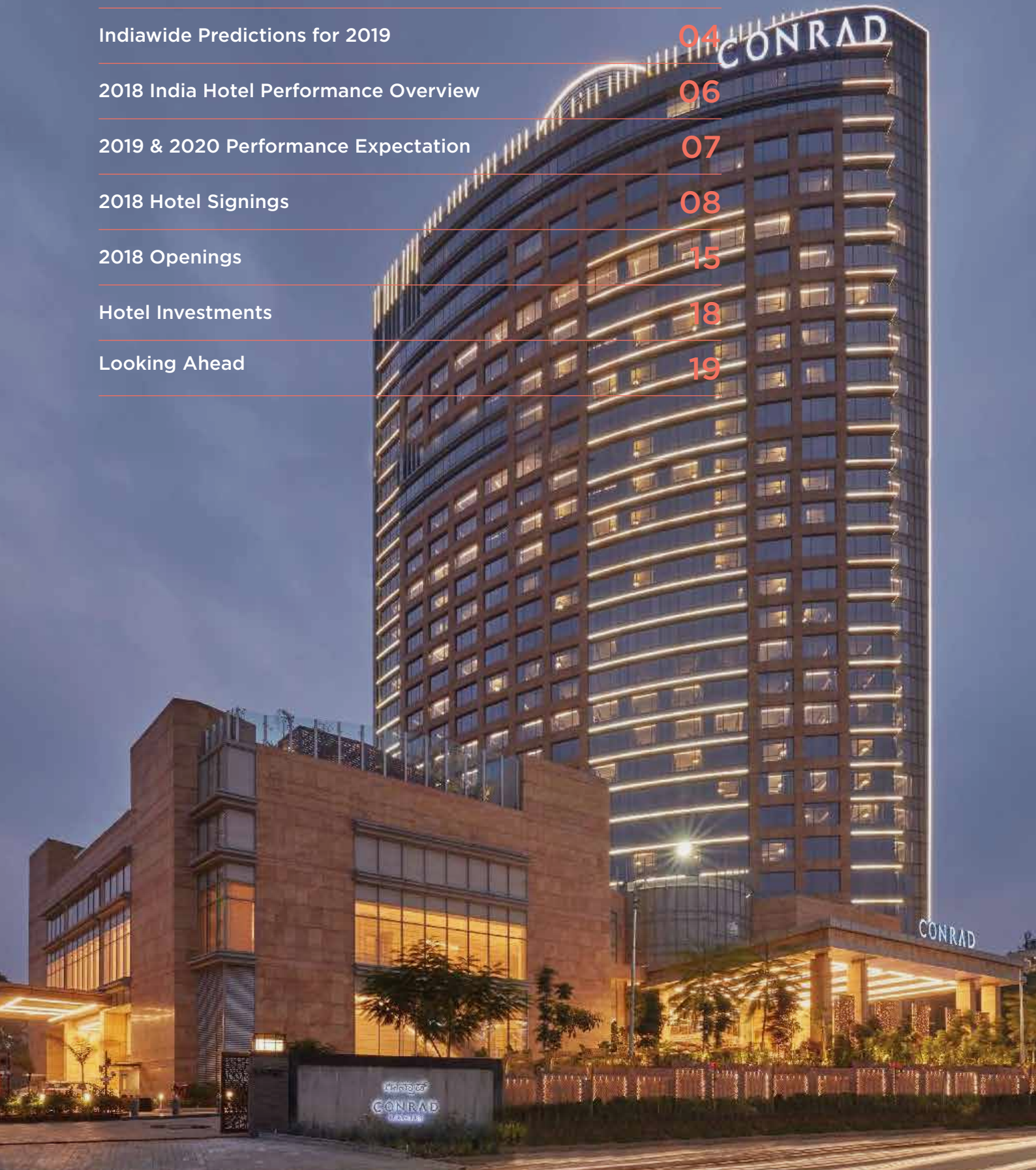
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Indiawide Predictions for 2019

RevPAR should grow by 9.5%, largely on the back of growth in Average Daily Rates (ADR)

GOP margins are likely to improve by 8.0%

Supply is anticipated to grow by 4.0% and demand by 7.0%

Estimated volume of hotel transactions is pegged at circa USD 800 Mn



2018 India Hotel Performance Overview

There is wisdom in commencing hotel operations when the pricing curve starts to trend upward. The year 2018 in many ways is the hotel industry's inflection point: Average rates grew by approximately 6.25% in 2018, unlike in 2017 and 2016 where occupancy was the main driver of growth in RevPAR. After a long hiatus, the industrywide ADRs in 2018 grew at a rate faster than long-term inflation rate of 4.5%, suggesting that markets are now on a steady path to recovery, even though they have a long way to tread before they can reach levels witnessed during the Boom Period from 2005 to 2008.

In 2018, the industry witnessed an India-wide RevPAR growth of 9.6% over 2017 to arrive at an absolute RevPAR of 3,927. In Rupee terms however, the 2018 RevPAR is approximately 40% lower than that of the Boom Period, which was even more stark in absolute Dollar terms, where it is approximately 147% lower than the Boom Period.



At current rate of growth in RevPAR, the industry is expected to take almost 5 years in Rupee terms and almost 10 years in Dollar terms to reach levels of the Boom Period.

Indiawide Hotel Market Performance (2016 to 2018)



2019 & 2020 Performance Expectation

2019 Forecast

For better part of this decade, the biggest stumbling block for the hospitality industry was the strong growth in hotel supply, which remained nearly consistent with demand growth. Only recently have the two trend lines started to diverge, with demand outpacing supply. Over the last 2 years, hotel supply grew by 3.7% in 2017 and 3.5% in 2018, whilst demand grew by 7% and 6.8% in the respective years. While both the past years have paved the way for strong growth in demand for 2019 driven by strong economic growth in the country, some headwinds in 2019 are expected to dampen the performance turnout for the year.

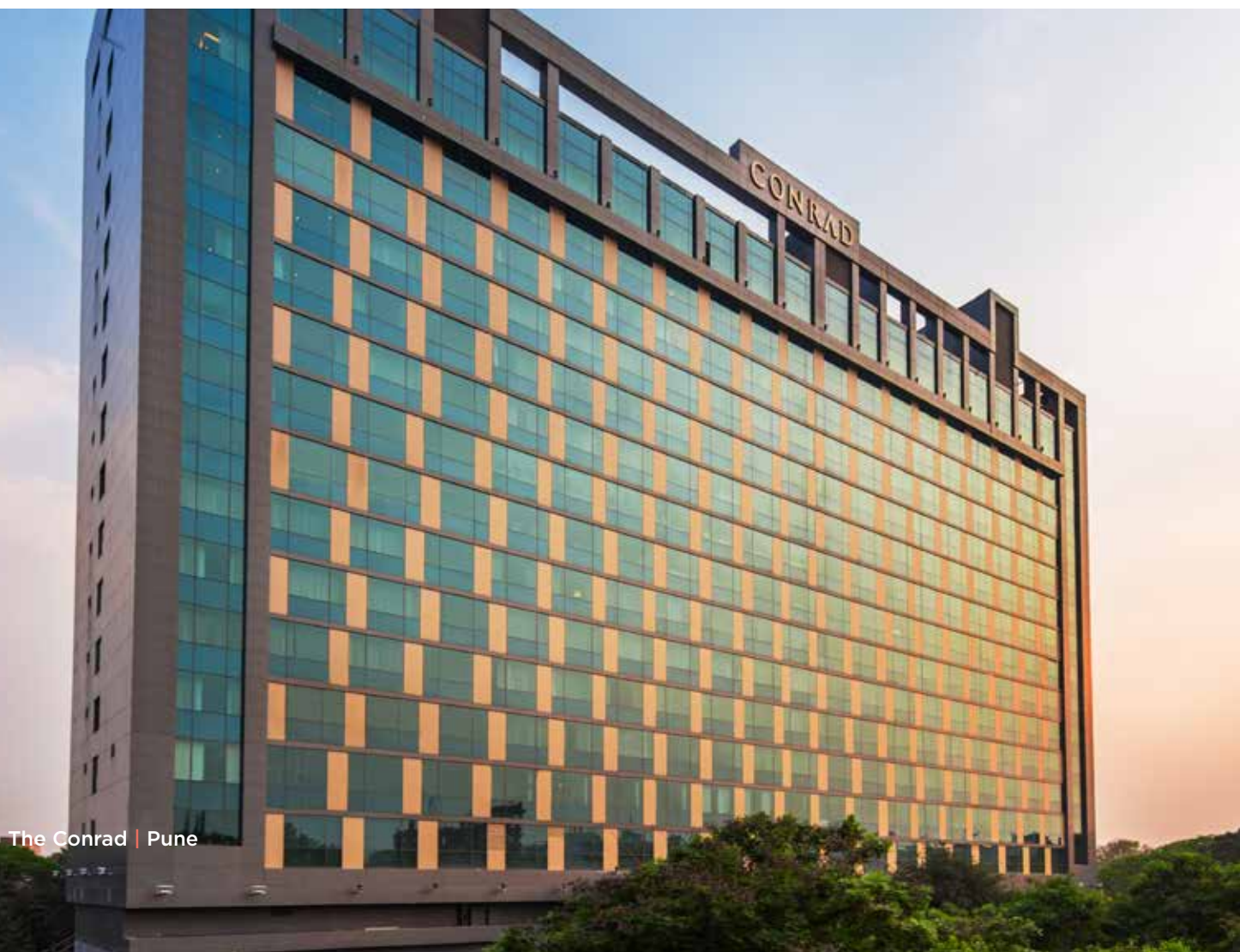
The first major reason is the country's general election, during which the commercial market, the main stay for hotels in the country, puts on hold all decision making in anticipation of the election results that could potentially have a material impact on several policy initiatives of the government. Thankfully though, elections will be held in the summer months when demand in the country is comparatively low, limiting its negative impact on hotel performances.

The second major reason is the impact of new hotel supply that is expected to commence operations in the current year. As per our estimates, 8,574 keys will enter the market in 2019, a nearly 19% rise over the last two years.

Our confidence in the market was reassured by the stellar performance of the first two months of 2019, which recorded a staggering all India growth of nearly 11% in RevPAR, backed by strong growth in both occupancy and ADR in almost all key demand segments in the country.

2020 Forecast

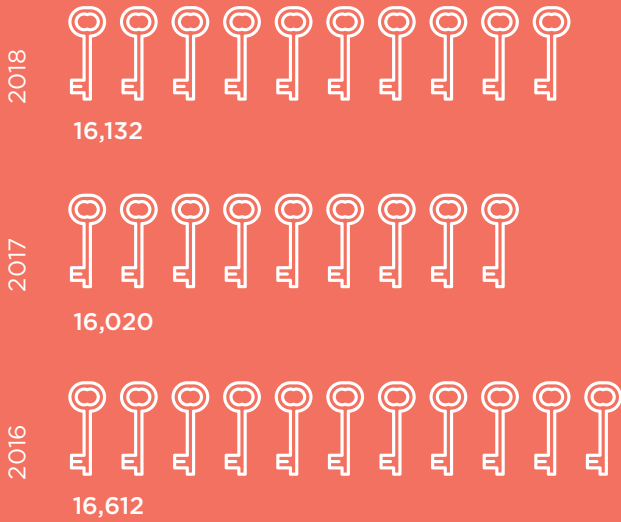
While 2019 performance may be dampened by the election, we expect the tide to change in 2020 as market sentiments recover on the assumption that the country will enter the year with a stable government and strong economic growth. Should the above two parameters squarely line up combined with little new supply expected to open in 2020, we anticipate the hotel industry to record its highest occupancy ever since the beginning of the century, outpacing 2006, which was recorded as a superlative year for the industry in this metric.



2018 Hotel Signings

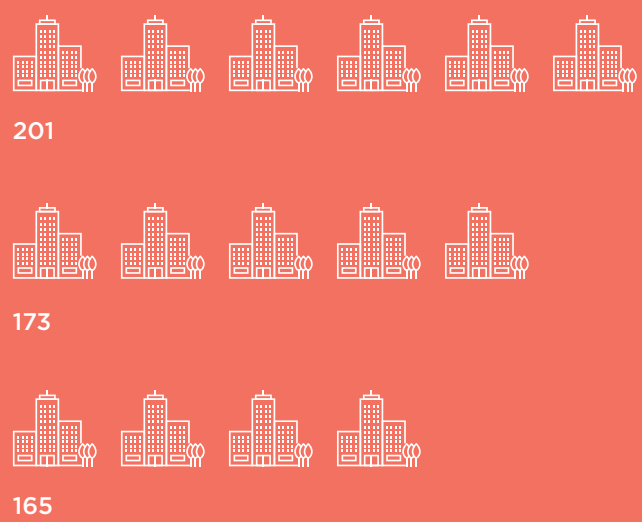
Brand Signings (2016 to 2018)

By Keys



Source: HVS Research

By Properties



The branded hotel sector comprises of a collection of around 50 hotel companies, each actively competing to find mind share with hotel owners & developers, who are further looking to either convert or build a new property. Over 2016 and 2017, new hotel signings in the country remained in the region of ~170 signings, but in 2018, the industry set a record with signing of 201 hotels containing 19,128 keys, signalling a strong growth in investor sentiment.

Having said so, the quantum of rooms signed by all mainstream hotel operators dwarfs in comparison to the aggressive growth marked by the outlier companies such as Oyo, who alone in 2018 signed more than 120,000 keys, a whopping over 700% higher than all the others put together.

In 2018, domestic hotel operators signed more hotels than their international peers though due to the significantly lower key count, the international operators have garnered the higher share of total keys.

Analysis of the past 3 years suggests that a new normal has developed. International operators are continuing to grow unabated, building larger format of hotels compared to majority of their domestic peers who continue to sign much smaller inventory hotels. In 2018, international hotel operators also signed more hotel keys than their domestic peers.

Brand Signing 2018 : International v/s Domestic*

By Properties



By Keys



Source: HVS Research

*Domestic hotel companies are defined as those of Indian origin and headquartered in India.

**Brand Singings 2018:
Average Key Count**



Domestic Brands



International Brands

Source: HVS Research



Ranking for most no. of keys signed by Operators in 2018*

- TAJ

- Radisson
HOTELS & RESORTS

- Marriott.
HOTELS & RESORTS

- HYATT®

- ACCOR



Ranking for most no. of hotels signed by Operators in 2018*

- Cygnett
hotels | inns | resorts

- TAJ

- mango.hotels
as alive as you lemon tree
HOTELS

- Marriott.
HOTELS & RESORTS Radisson
HOTELS & RESORTS

- HYATT®

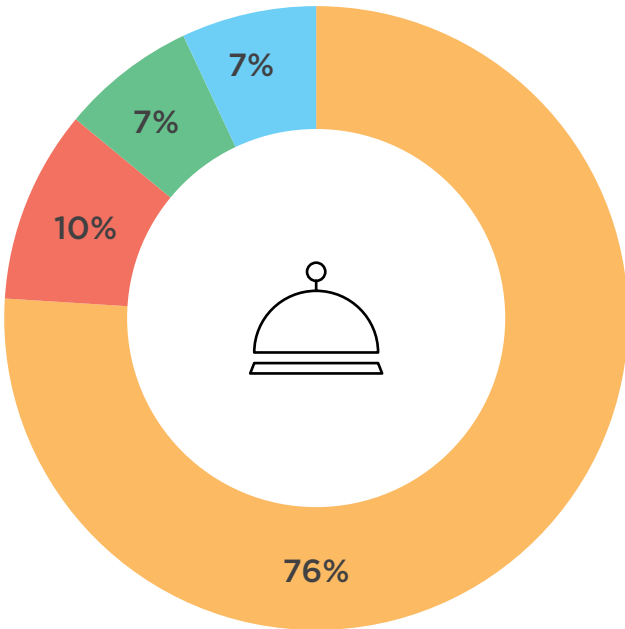
*As per information received from Hotel Brands



Hyatt Centric | Candolim, Goa

The preferred form of signing in 2018 continued to be Management Agreements... no surprises here...

Brand Signings: Contract Type

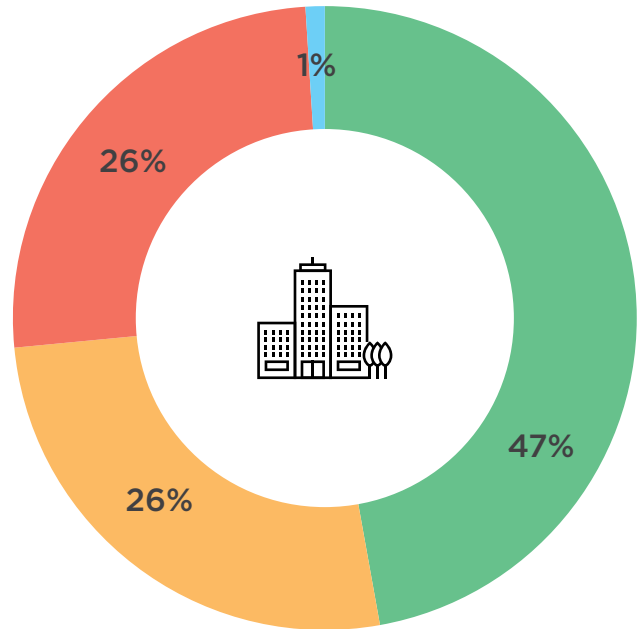


- Franchised
- Managed
- Leased
- Others

Source: HVS Research

In 2018, Rebranding and Brownfield developments continue to remain important for hotel operators.

Brand Signings: Development Status



- Rebranding
- Brownfield
- Greenfield
- Others

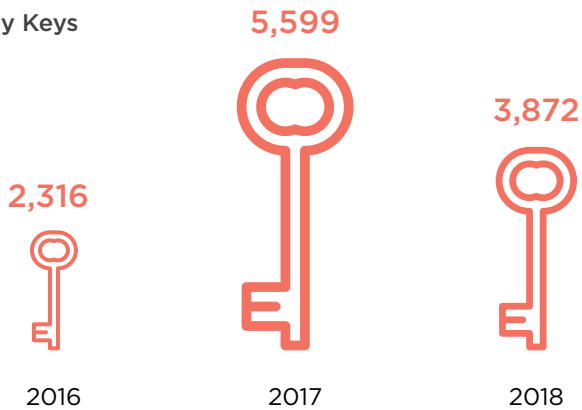
Source: HVS Research

A few international operators continue to lead the charge on franchising, a growth medium very well established in the West. However, there continue to be limited number of third-party management companies, an opportunity we believe some of the smaller domestic operators should evaluate.

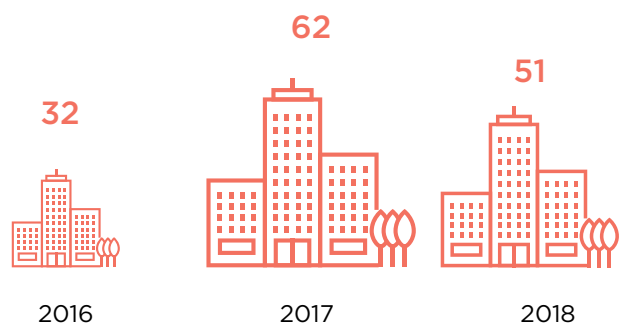
A growing trend over the last few years for the brands has been to choose projects that are less risky and hold a higher chance of being built out rather than greenfield projects, which run with a high risk of cancellation. And so, over the past 3 years a total of 142 hotels have been converted either from unbranded to becoming branded or migrated from one brand to another. The Rebranding effort is largely concentrated with the domestic brands, who've with the intent of growing quickly have actively Rebranded hotels.

Rebranding (2016 to 2018)

By Keys



By Properties

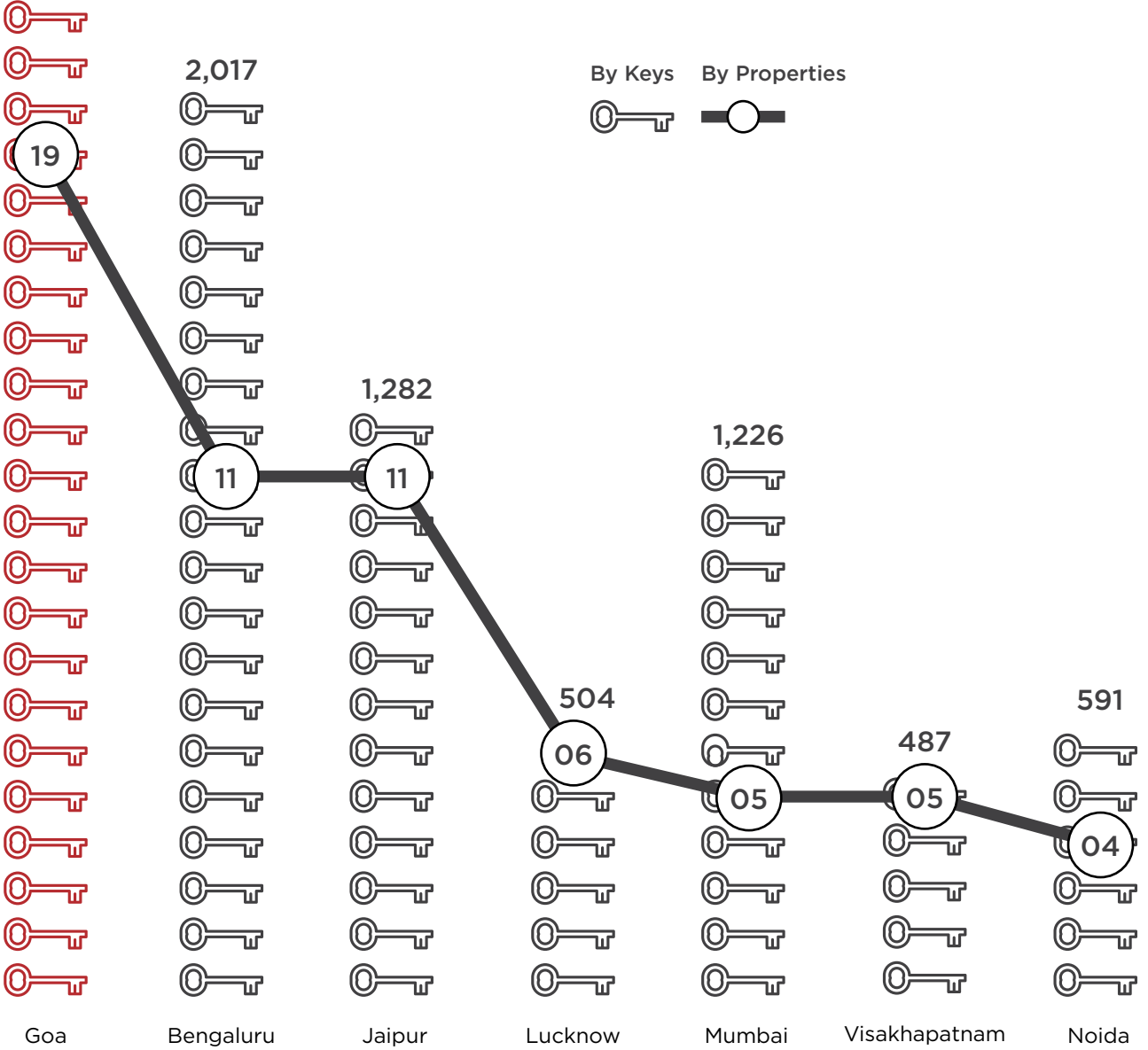


Source: HVS Research

The mainstream destinations maintained the charge on signings.

Brand Signings: Top Destinations

2,209



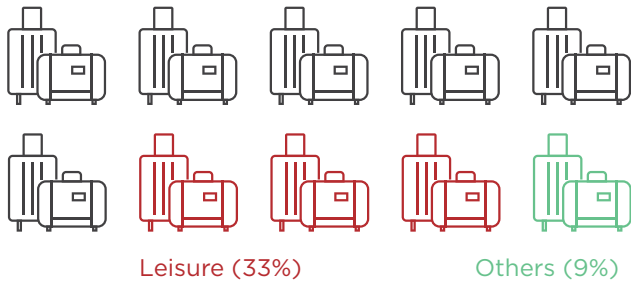
In 2018, Goa witnessed the largest signing of keys, eclipsing Bengaluru by a mere margin of 192 keys. It was heartening to witness Goa rank at the top of the list, as the strong increase in supply will prove to be beneficial for the destination. We however remain concerned about Jaipur, which is continuing to witness growth in room supply.

Source: HVS Research



Brand Signings: Market Segment

Commercial (58%)



Source: HVS Research

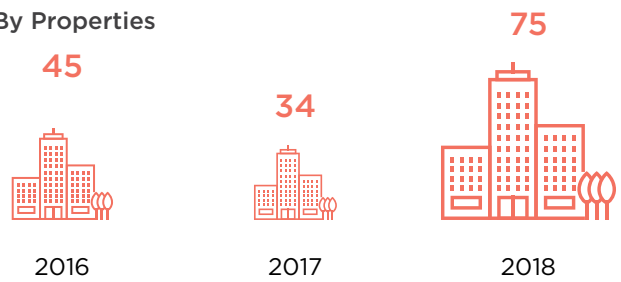
Leisure hotel signings increasing in proportion

By Keys



The potential of domestic tourism is finally receiving the pedestal it has always deserved. Many leisure destinations, led by Goa are now witnessing increasing interest in signing on branded hotels to tap onto the burgeoning domestic traveller, who in 2018 also came to the rescue of Goa, which witnessed the cancellation of many charter flights.

By Properties

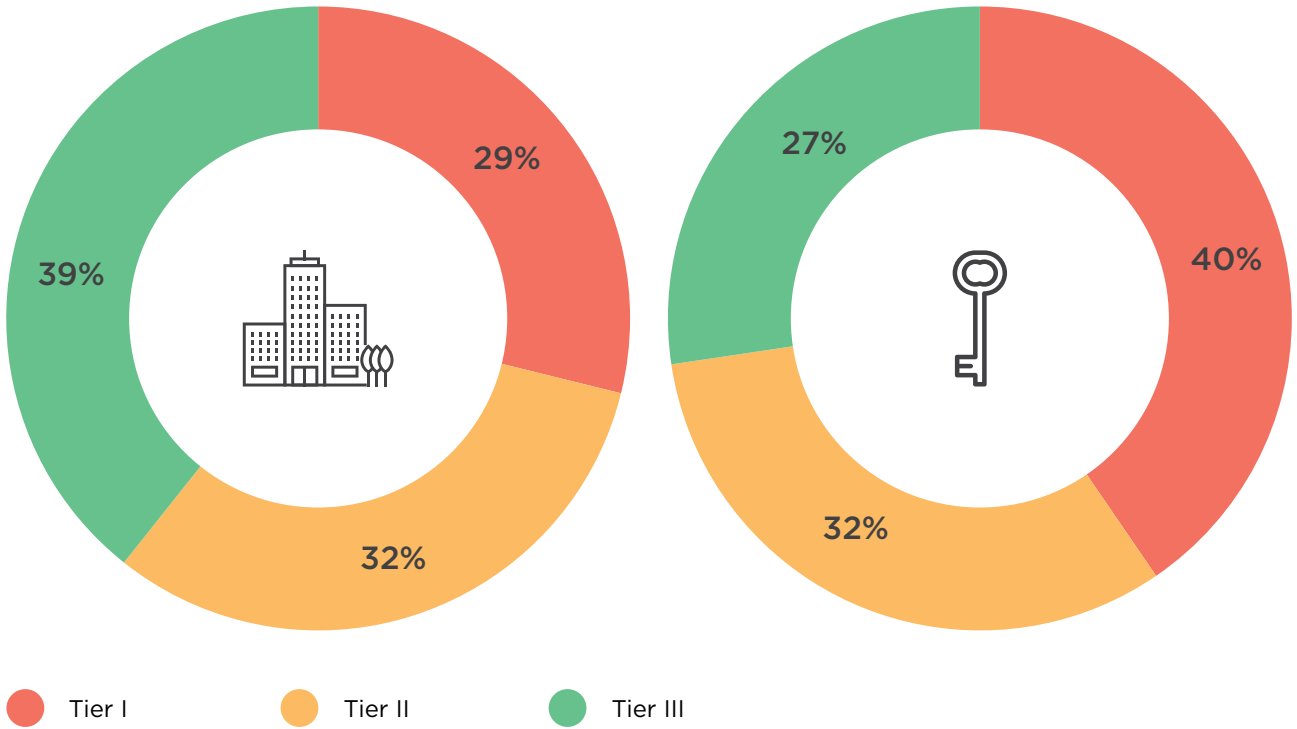


Source: HVS Research

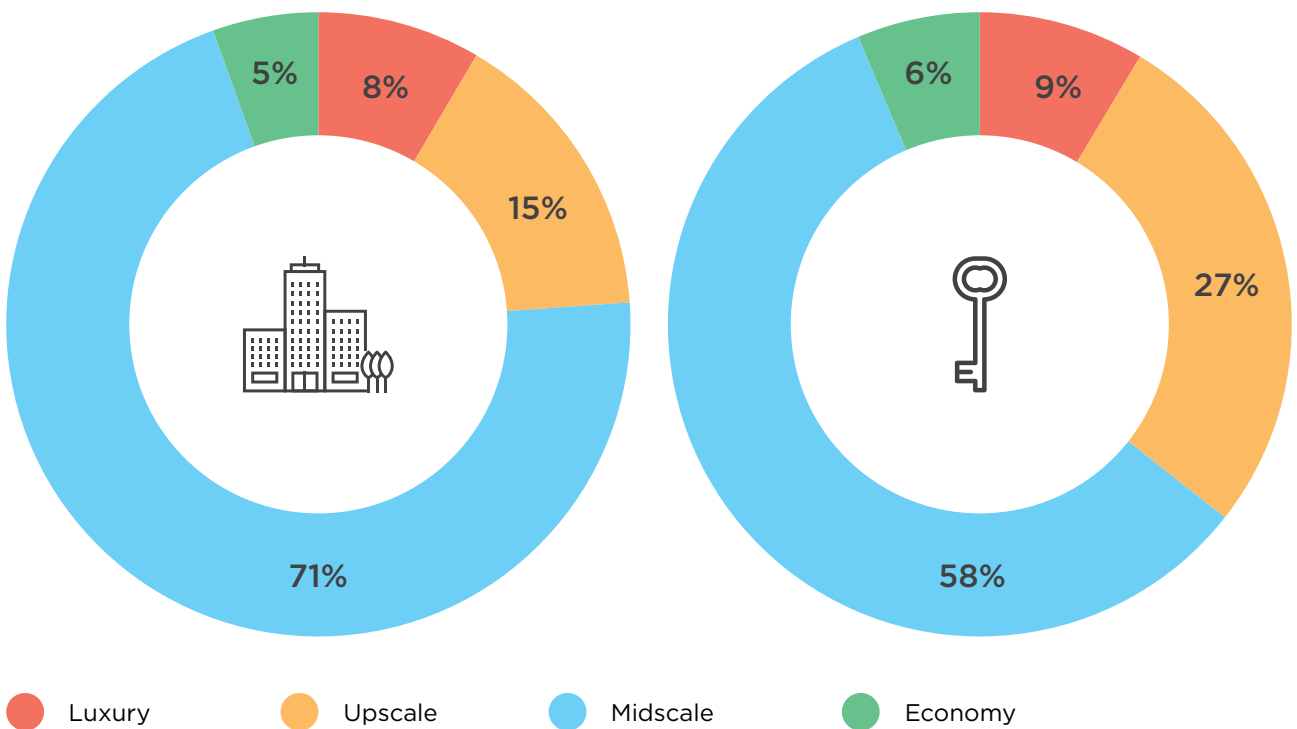


Brand Signings: Tier Classification

Rapid urbanization in the country, is increasingly making Tier 3 markets more relevant in the eyes of the hotel brands, who are witnessing nearly a third of their new hotel signings emerge from them, despite hotels being much smaller than those located in Tier 1 markets. This is also happening on account of newer Hotel Management companies setting shop as also the smaller ones looking to grow rapidly through franchise or management agreement of smaller stand alone hotels in tier 2 & tier 3 cities.

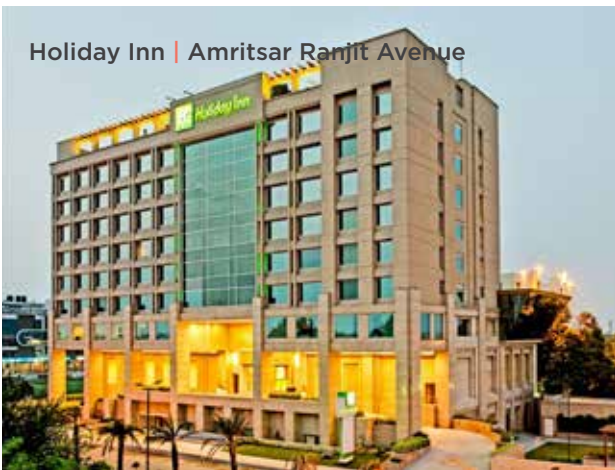


Brand Signings: Market Positioning

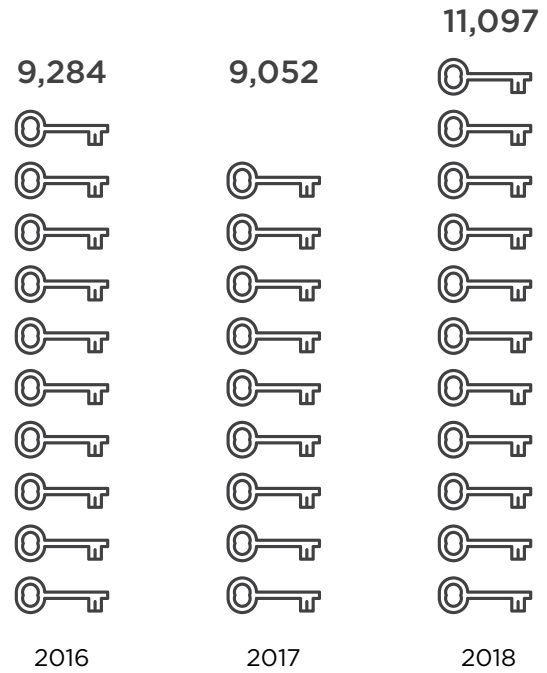


Midscale hotels continue to remain the king...

The value-driven volume customer, seeking a full-service hotel continues to drive the growth in midscale space, leaving far behind the branded economy segment, which is yet to fully find its footing in the Indian market. To add further fuel to fire, the relatively new-kids-on-the-block and considered to be outliers, such as Oyo, Treebo and Fabhotels have very quickly come to dominate the economy segment, setting the goal post a further drift for the mainstream brands.



Midscale Signings Growth: By Keys



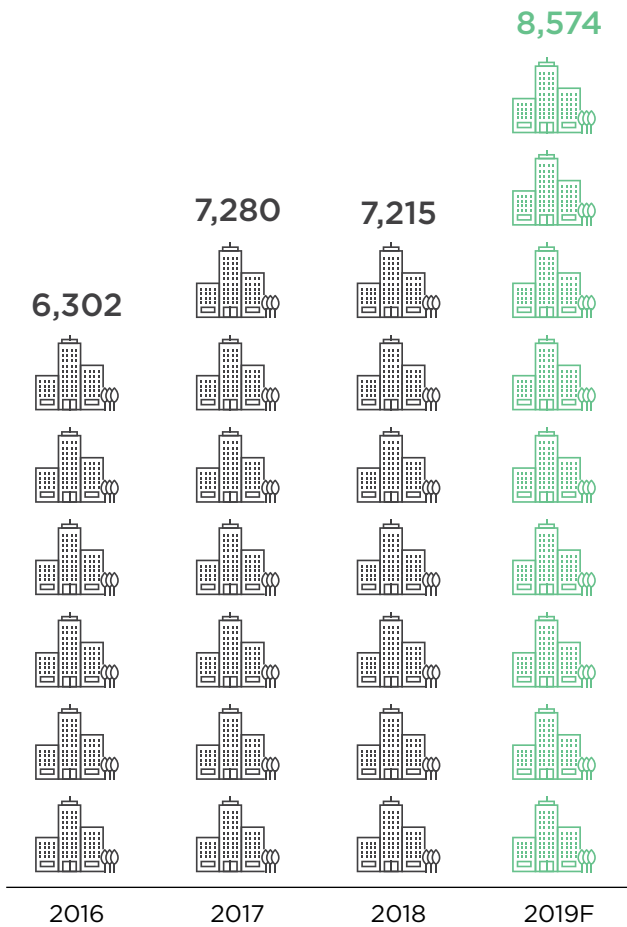
Source: HVS Research

Radisson Blu | Guwahati



2018 Openings

Openings: New Hotels & Rebranded



Source: HVS Research



The importance of a brand tie-up in a highly digitalised economy is continuing to become ever more important. This fact combined with a few dissatisfied owners who are migrating from one operator to another has made Rebranding once again the centre piece of the new openings in 2018.

The significant jump in 2018 and 2017 hotel openings over 2016 is partly a result of Rebranding, the most notable being the migration of a 14 hotel portfolio with almost 2000 keys owned by SAMHI hotels in key locations, to Holiday Inn Express. Rebranded Openings accounted for 24% of the openings in 2018.

The year 2019 is expected to outpace 2018 with a total of 105 new branded hotel openings with a total key count of 8,574 keys. The effort to open new hotels, big or small, requires hotel operators to coordinate large amounts of preopening effort. So, while domestic operators opened 65 hotels of the total 134 openings in 2018, which represents nearly half of all the openings, in terms of key counts, domestic operators represented only 32% of the total 7,215 keys.

Openings: International Vs Domestic*

By Properties

52% (Domestic)

48% (International)



By Keys

32% (Domestic)

68% (International)



Source: HVS Research

*Domestic hotel companies are defined as those of Indian origin and headquartered in India.

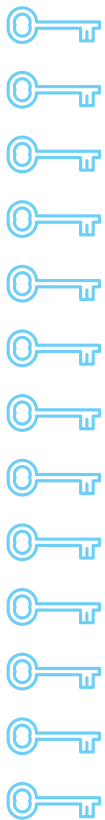


ITC Kohenuur | Hyderabad

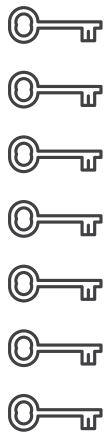
Openings: Top Cities 2018

By Keys

1,346



712



589



447



410



Bengaluru

Hyderabad

Chennai

Pune

Gurugram

By Properties

08



05



05



03



03



Bengaluru

Hyderabad

Chennai

Pune

Gurugram

Source: HVS Research

Bengaluru witnessed the largest number of new openings by a large margin, in part due to the opening of the Sheraton Grand Bengaluru Whitefield Hotel & Convention Centre with 360 keys.



Ranking for most no. of keys opened in 2018*

Ranking for most no. of hotels opened in 2018*



*As per information received from Hotel Brands

Grand Hyatt | Kochi Bolgatty



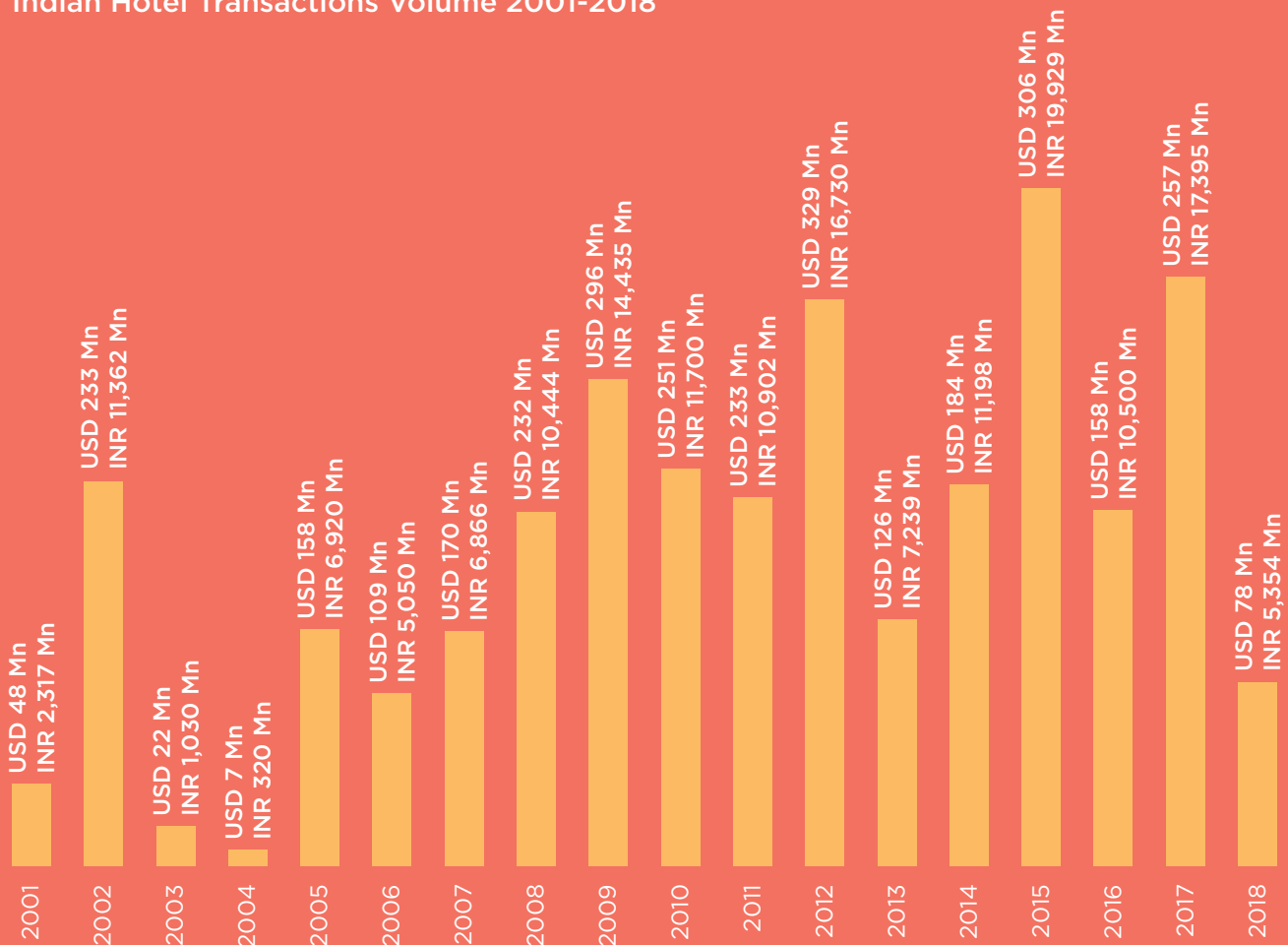
Hotel Investments

The Insolvency and Bankruptcy Code, 2016 (IBC) has had the biggest impact on hotel asset sales since the year 2001, which witnessed the disinvestment of 13 hotels of India Tourism Development Corporation (ITDC). The only difference being the manner of impact. While the disinvestment laid the road for the hotel transactions market in the country, the IBC has had a short-term negative impact on the volume of sales, which in 2015 had peaked. Not to be mistaken, the IBC is a boon to the industry and not a bane. The IBC combined with the influence of Asset Reconstruction Companies (ARCs) is compelling the fiscally imprudent assets to slowly but steadily become available for transaction.

2018: Laggard Year for Hotel Transactions

The hotel transaction volumes contracted in 2018 to its lowest ever since 2005 in dollar terms. In Indian Rupee terms however, the total volume recorded was 6% higher than 2005.

Indian Hotel Transactions Volume 2001-2018



Source: HVS Research

Opinion for 2019

In 2019, we anticipate the market to witness an upsurge in transaction volumes on the back of distressed pricing of hotel assets. Our research suggests that the current year will witness sale of high value hotel assets in almost all key hotel markets of the country estimated at circa 800 mn USD, potentially setting a record for hotel transactions in the country.

Chalet Hotels makes its Initial Public Offering (IPO)...

Following the strong debut of the Lemon Tree Hotels IPO in April 2018 which was subscribed 1.19 times, both Bharat Hotels and Chalet Hotels filed their respective prospectuses with SEBI to float IPOs. The Chalet Hotels IPO issue opened on 29th January 2019, raised INR 1,641 crore which was subscribed 1.57 times on account of strong interest shown by institutional investors. With the offer price at INR 280 per equity share, 28 times its face value, the company was valued at 25.4 times EBITDA, as compared to a peer average of 27.5x.

Looking Ahead

The year 2019 is expected to be a tricky one, especially since 2018 has seen growth in performance over 2017 in almost all major markets across India, with the momentum carrying into the first quarter of 2019, where performance of January & February 2019 is a stellar 11% higher in RevPAR performance than same period last year. The tricky part though is the impact of elections on the industry combined with a strong growth in hotel supply in the year. Given the headstart that 2019 has received coupled with the general momentum that has built over the last two years, we are of the opinion that RevPar's will grow.

It is evident that the majority domestic hotel companies have developed a niche for themselves by targeting hotel owning clients who are often missed out by international and a few domestic operators such as Oberoi, Taj and ITC, as they offer hotel branding options with small inventory sizes. The domestic hotel operators though should watch out for the new age companies, such as Oyo, Treebo and Fabhotels, who are aggressively growing in a space that is largely ignored by others, and which is quickly placing them in a position to target the midscale clientele of domestic hotel operators.

It was heartening to see an increase of hotel brand signings in leisure markets, especially since majority of the hotel demand in the country today is commercial in nature, while the domestic travellers fret to find good quality leisure getaways. Leisure destinations allow for a certain level of hedging risks emanating from being too commercial demand focused. We believe that leisure markets will continue to see higher levels of interest from hotel investors and operators albeit with smaller room inventories

The transactions segment is expected to resume strongly in 2019 on the back of a few transactions slated to consummate before elections this year, setting a record for the industry. The listing of the first REIT by Embassy and Blackstone will also be very closely watched as the bucket of assets of the REIT contain hotel assets. A good listing could propel other players to follow suit and lead to the acquisition/mergers of hotel portfolios to be part of the REIT listing.

The successful listing of the Lemon Tree and Chalet IPOs as well as the recent transactions of the Keys and Leela portfolio is likely to prompt further investments in the sector.



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