

Hotel industry to register strong top-line growth of 10-11% in FY2019: ICRA

The Indian hotel industry is expected to report a strong top-line growth of 10 -11% (as against ICRA's expectations of 8.5%+) during FY2019e, aided by 5-6% growth in RevPAR and increasing F&B (and MICE) income. This compares favourably with the 2.5% reported growth (and 4% adjusted growth for renovation/closures) during FY2018. The demand for room is expected to continue to grow by about 8-9% Y-o-Y over the medium term, led by increasing domestic travel, buoyant MICE activity and higher FTAs, despite immediate term headwinds from global geopolitical concerns and increasing local airfare. This aided by a low supply pipeline and robust domestic travel, will result in an estimated FY2019 RevPAR growth of 5-6% growth.

The RevPAR improvement is likely to be driven by uptick in both ARR and occupancy. Also, the RevPAR for FY2019 is likely to be the highest since FY2012. ICRA research is currently tracking a premium pipeline inventory of 1,02,400 rooms across 12 key cities, up from 98,900 rooms in November 2018. The assessed supply growth has increased from 5% and 4,600 rooms to 7% and 5,800 keys in FY2020, with the biggest incremental supply happening in NCR and Goa. However, supply is still expected to lag demand and the demand-supply gap will remain the backbone for the current up-cycle. As per ICRA, though pan-India average occupancy improved marginally by one percentage point Y-o-Y to 66% in 9M FY2019, monthly occupancies were at the highest levels since FY2009, during 9M FY2019. The Average Room Rate (ARR) grew by 2-3% to Rs 5,900 in 9M FY2019. RevPAR also continued to improve in 9M FY2019, driven by uptick in ARR and occupancy. The 9M FY2019 RevPAR stood at Rs. 3,900 at a Y-o-Y growth of 4-4.5%. The third quarter, Q3 FY2019 has been the 18th consecutive quarter of RevPAR growth. Although RevPAR growth has been steady over the past four years, the current RevPAR level is at more than 20% discount to the peak levels witnessed in 9M FY2009. All key markets except Chennai and Goa saw improvement in RevPAR in 9M FY2019. ICRA expects the RevPAR for FY2019 to be the highest since FY2012. Strong demand in the gateway city of Mumbai will drive ARR. Healthy demand and limited supply in Delhi (which has about 75% of the NCR inventory) is expected to drive ARR in the region, while Gurugram would continue to struggle in the immediate term because of the DIAL Aerocity supply. Hyderabad and Pune are expected to be strong growth markets over the next two years while healthy demand will support Bengaluru, despite heavy supply addition.