

## **Sunny days ahead for hospitality sector, set to grow by 9-10 per cent through FY23**

The hospitality industry is expected to grow annually by 9-10 per cent over the next four years, mainly due to robust domestic demand and a muted supply pipeline. Going forward, rating agency Icri expects revenue improvement and margin expansion for the hotel industry and growth is expected to be 9-10 per cent over the next four years, with a strong 10-12 per cent during 2018-19. The domestic demand in FY19 will continue to be driven by increased air connectivity, and higher appetite for domestic leisure travel. Besides this, domestic demand to get a boost from the robust corporate performance which has witnessed the strongest top-line growth in the last 10 quarters in the September quarter of the current fiscal year.

The supply side, however, is likely to lag demand over the medium term and grow at a subdued 3.6 per cent over the next five years. But the situation is set to improve given the inventory and the number of premium rooms across 12 key cities is likely to go up from 82,800 in FY18 to 98,900 by FY23. This low supply growth is expected to be the backbone for the current up-cycle, as demand is expected to grow at a much faster rate. The demand-supply gap is expected to go up from around 1 per cent in FY18 to 5 per cent in FY2023. Margins are likely to expand due to operating leverage, with the return of stronger revenue growth, it adds. Interest and debt cover are likely to improve gradually over the medium term but the return on capital employed is expected to remain at sub-cost of capital at least till FY20, notes the report. The total debt for the industry is set to improve to 1.2 times in FY23 from 3.9 times in FY2018 and 3.1 times in FY19.

The stable outlook will be driven by robust domestic demand and a muted supply pipeline. The return of pricing power across key markets will be more evident from the next rate cycle beginning January 2019 and a consequent improvement in financial performance is expected.