

India's Hotel Sector Set for Strong Growth by 2029

The hospitality industry suffered severely during the Covid19 pandemic due to travel restrictions and recovery of travel was impacted during different waves of the pandemic and due to varied restrictions in overseas source markets. However, it demonstrated remarkable resilience and recovery appetite once restrictions eased. Future demand in India's hospitality sector will be driven by diverse domestic and inbound travel needs – business, leisure, MICE, weddings, social events, pilgrimages and other personal travels, political and business delegations and airline crew.

India's hospitality sector has benefitted from improved infrastructure, connectivity, and the growing disposable income of its expanding middle class, leading to a surge in domestic travel, leisure tourism, staycations, remote working from resorts. As of June 2024, India has 192,000 chain-affiliated hotel rooms, with foreign chains operating/ franchising about 45 per cent of the chain affiliated hotel rooms. Supply has grown notably, with about 68,000 rooms added from the start of FY09 to end of FY15 and about 36,000 rooms added from the start of FY22 to end of FY24. Supply addition in these 11 years comprises 62 per cent of supply creation over the last 24 years. Foreign chains expanded by aggressively pursuing management contracts, offering multiple brands and supporting the development of hotels with larger rooms inventory and function spaces. Demand for chain-affiliated hotels has nearly doubled, from 61,000 rooms per day in Fiscal 2015 to 116,000 in Fiscal 2024, and is projected to grow further, driven by diverse travel needs including business, leisure, MICE, weddings, and pilgrimages. Between July 2024 and March 2029, 100,000 new rooms are expected to be added, but demand growth is anticipated to outpace supply, creating a demand-supply gap that favours increased occupancy and potentially support robust Average Daily Rates (ADR).

This demand-supply mismatch positions investors and developers with existing hotel inventory to benefit significantly in the coming years, making India's hospitality sector an attractive investment avenue.

Indian hospitality's significance on global stage

The Indian hospitality sector has grown significantly, with a balanced supply composition: 34.8 per cent in Luxury-Upper Upscale segments, 38.6 per cent in Upscale and Upper Midscale segments, and 26.7 per cent in Midscale Economy segments. Demand for chain-affiliated hotels has surged, growing at a 9.9 per cent CAGR from Fiscal 2001 to Fiscal 2024, reaching 116,000 rooms daily. As of June 2024, India has 192,000 chain-affiliated hotel rooms, with international chains share risen from 21 per cent in FY01 to 45-48 per cent for the last 10 years; this is expected to remain at 47 per cent at end Fiscal 2029. Foreign chains have gained material supply share through multiple brands. Hotel development by a widening group of investors and owners has provided the asset base that suits the management/ franchise model sought by foreign chains.

Foreign Tourist Arrivals (FTA) surpassed 10 million annually during calendar years 2017-2019, rebounded post-Covid19 to 9.2 million for calendar year 2023, and grew by 9.1 per cent in H1-2024 compared to H1-2023. The World Travel & Tourism Council (WTTC) projects the travel and tourism sector's contribution to India's economy to grow from Rs 16.5 trillion in 2023 to Rs 37 trillion by 2034, growing at a 7.6 per cent CAGR. HAI estimates the hotel sector GDP contribution to reach \$1 trillion by 2047, reflecting significant multiplier benefits.

Future demand will be driven by diverse travel segments, including business, leisure, MICE, weddings, pilgrimages and sporting events, supported by urbanisation, improved infrastructure, and changing consumer preferences. A growing focus on experiential travel, wellness, and recreation will further boost discretionary spending. These trends present substantial growth opportunities for the hospitality industry and domestic players, to strengthen their market position and capitalise on increasing domestic and inbound travel demand.

Key strategies for next decade

The Horwath HTL Report predicts demand growth at a CAGR of 9.6 per cent in Bengaluru, 4.1 per cent in Chennai, and 6.8 per cent in Hyderabad from FY2024 to FY2029, surpassing supply growth. To address this, we intend to expand our hospitality operations, focussing on selecting regions with high-growth potential and demand in India. Recent developments include the launch

of the 130-key ibis Styles Mysuru, increasing total keys from 1,474 in March 2022 to 1,604 as on October 30, 2024. Our expansion plans include development of five new hotels, including a luxury beach resort in Chennai, two upper midscale hotels in Bengaluru, and a wellness resort in Kerala, targeting an inventory of 2,600 keys by FY2029. We may also consider expanding our portfolio to newer geographies across India such as into Goa and South India. We also intend to explore opportunities for development of resorts and hotels at pilgrimage destinations.

We intend to implement measures to reduce operating costs, such as introducing electric vehicles, optimising staffing, reducing energy consumption, implementing energy saving practices and negotiating better supplier terms on raw materials. We have already reduced operating expenses as a percentage of revenue from 92.56 per cent in FY2022 to 64.78 per cent in FY2024. Revenue-enhancing strategies include annual rate increases, weekend and holiday packages from March to September, collaborating with local artists, cultural events and food festivals, establishing tie-ups with wedding venues, participating in sponsored advertisements and listings on online booking platforms, optimising direct bookings through operator managed loyalty programmes, expanding presence in emerging digital channels and mobile-first platforms and targeted marketing for eco-tourism and wellness. These initiatives are to drive unique experiences, and offering curated VIP experiences for high-value customers to strengthen brand loyalty and repeat business to continue driving revenue growth and enhancing our financial performance.

We may also explore inorganic expansion strategy through acquisitions of companies and operating hotels to enhance our market presence. Leveraging the expertise of our promoter and management to assess growth opportunities. We believe that our experience in owning and managing hotels will enable us to operate acquired properties cost-efficiently while consolidating our position in existing cities and entering new geographies across India. A disciplined acquisition approach will prioritise market potential, asset quality, and synergies with current operations to strengthen and expand our footprint in the hospitality sector as well as capitalise on India's growing demand for hospitality services.