

## *Press Release*

### ***Huge supply influx to put pricing pressure on hoteliers in the medium term***

Demand for the hotels industry started showing signs of revival in the latter part of FY10. The demand was driven by, domestic and foreign tourists. The domestic tourists grew from 640 million in CY09 to 740 million in CY10, registering a growth of 10.4 per cent on y-o-y basis, wherein, the Foreign Tourist Arrivals (FTAs) grew by 8.2 per cent to 5.6 million in CY10. The FTAs flowing into India have shown an increase of 10.6 per cent in the January-October period of CY 11 as compared to the corresponding period in the previous year. The growth in the number of tourists can be attributed to the surge in the economy leading to rise in disposable incomes, rising number of multinational companies setting up their operations in India, success of tourist campaigns like “Atithi devo bhava”, “Incredible India” and various state campaigns. The trend is expected to continue in the remaining months, being the peak tourist season.

However, the huge inventory added in FY10 and FY11 kept the Occupancy Rate (OR), Average Room Rate (ARRs) and Revenue per available room (RevPAR) subdued. Going forward, CARE Research expects the OR to fall from the level of 60.5 per cent in FY11 to 57.5 per cent in FY15(P) on account of higher growth in supply as compared to the growth in demand. Huge capacity addition will also make the competition stiff amongst the hoteliers, thereby preventing them from increasing the rates. The AARs for the hotel industry are likely to register a CAGR of 1.5 per cent over the period of FY11-15. The growth in ARRAs would primarily be driven by the rise in ARRAs in cities like Mumbai, Goa and Jaipur. The RevPAR is expected to grow at a miniscule CAGR of 0.24 per cent over the same period, due to the expected fall in the occupancy level and slow growth in ARRAs.

The entry of International brands like Ritz Carlton, Sofitel, W Hotels, Pullman, Novotel, Dusit2, Ista and Westin in the upscale category and IBIS and Lemon Tree in the mid market category coupled with the rigorous expansion plans by Indian hospitality majors like Indian Hotels, E I H Ltd. IHG, Leela Ventures, Kamat Hotels etc, is likely to lead to huge capacity additions in both, the upscale (which forms 42 per cent of the existing inventory) and mid-market and economy segment (which forms 55 per cent the existing inventory). The upcoming supply is likely to bridge the demand-supply gap in the midmarket and

economy segment. However, the huge expansion plans in the upscale category is likely to act against the industry especially in cities like Pune, Bengaluru, Chennai and Kolkata.

“The market size of the hotel industry (upscale and midmarket) in India is expected to grow at a CAGR of 9.4 per cent from Rs.117 billion in FY11 to Rs.168 billion in FY15(P). The growth would primarily be driven by the increase in demand from both foreign and domestic tourists which are expected to grow at a CAGR of 6.3 per cent and 15.1 per cent, respectively over the period of CY10-15,” comments **Mr. D. R. Dogra, Managing Director and CEO, CARE Ltd.** Also, revenues from renting out of rooms, the primary business of the hoteliers, will continue to remain the highest revenue contributor to the hotel companies. However, with growing number of conferences and conventions, the banqueting services are expected to grow at a faster rate. Also, food and beverages, the second largest revenue earner for the industry, is also expected to show a robust growth.

CARE Research has surveyed ten key cities and expects Bengaluru, NCR, Chennai and Kolkata to witness the highest number of room additions in the upscale category. “The huge number of room additions is expected to put pressure on OR and ARR in these cities”, feels **Ms. Revati Kasture, Head -, - CARE Research.** On the other hand, Mumbai, Goa and Jaipur are not likely to witness any significant room additions in the medium term, thereby, enabling the hoteliers to increase the room rates without losing on the occupancies in these cities.