INDUSTRY REPORT – UPPER TIER AND UPPER MIDSCALE HOTELS

Horwath HTL™

Hotel, Tourism and Leisure

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Crowe Horwath HTL Consultants Pvt. Ltd.

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18 August 2023

Mr. Vijay Dewan
Managing Director
Apeejay Surrendra Park Hotels Ltd
17, Park Street
Kolkata 700 016

Dear Mr. Dewan,

We were retained by your Company to prepare an industry report comprising (a) an overview of the Indian hospitality industry, and (b) perspectives on the future outlook for the industry in general, with more specific focus on cities and markets in which the Company owns or operates hotels or intends to pursue projects in the medium term. Accordingly, this report concentrates on Upper Tier (Upper Upscale and Upscale) Hotels and Upper Midscale Hotels in India. We understand that the Company intends to use data from this industry report in connection with the proposed Initial Public Offering of the Company.

This report covers the following key aspects:

- Overview of the Indian hospitality industry including insights on market size, historical performance of key markets, and segmental composition with its impact on market-wide rates.
- Overview of impact of Covid-19 pandemic related challenges on the sector
- Overview of several key factors that impact hotel sector demand and performance
- Supply analysis of chain-affiliated hotels, with stress on segments that are relevant to the Company.
- Analysis of current demand and expectations of future demand
- Analysis on the future supply over the next four years and its impact on the overall performance.
- Future outlook for key cities / micro-markets relevant to the Company

In this report, we have examined various general and specific aspects relating to India's hospitality industry. The focus is on the Upper Upscale, Upscale and Upper Midscale segments, as these are relevant to the Company; other segments are discussed only to the extent this is relevant to provide a more comprehensive overview of the industry. Hotel inventory and other data used for this report is as on 31 March 2023. We have updated this data based on information available to us as at 31 May 2023; we have not updated this for any events occurring after that date notwithstanding that in some cases the report may contain a comment on a material event after that date. Further, we have no obligation to update the information and our comments for changes and events that occur after 31 May 2023.

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Information herein is based on our research and knowledge of the market; it is possible that corporate plans and other confidential information, which are not within our knowledge may provide an understanding that may be different from the statements and conclusions herein.

For sake of making the report meaningful, we have been selective in the data included herein; we have sought to avoid providing a mass of data that may be less comprehendible – however, it is possible that additional data may cause a reader to reach a different conclusion.

As is typical of such studies, our estimates / projections / outlook and statements that may be regarded as forward-looking statements cannot be guaranteed in any manner; these have, however, been prepared after conscientious research and analysis.

We shall be pleased to provide any further clarifications or assistance as may be required.

Thank you and with regards,

Yours truly,
For Crowe Horwath HTL Consultants Pvt. Ltd.

Vijay Thacker
Managing Director

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Our opinions are based on information available to us at the time of preparation of the report and economic, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. Should circumstances change significantly, or additional information become available, after the issuance of this report, the conclusions and opinions expressed herein may require revision. There is no requirement for CHHTL to update this report in any such circumstances. The statements and opinions expressed in this report are made in good faith and in the belief that such statements and opinions are not false or misleading. Recipients should make their own enquiries and evaluations they consider appropriate to verify the information contained in the Industry Report. This Industry Report does not purport to provide all of the information the recipient may require in order to arrive at a decision.

Forward-Looking Statements

This Industry Report contains estimates / projections / outlook and statements that may be regarded as forward-looking statements. These statements are based on a number of assumptions, expectations and estimates which, while considered by us to be reasonable, are inherently subject to significant uncertainties and contingencies many of which are beyond the control of ourselves or Apeejay Surrendra Park Hotels Limited (on whose behalf this report has been prepared) or which may reflect future business decisions which are subject to change. Recipients of this information are advised that the estimates / projections / outlook may be regarded as inherently tentative. Due to the subjective judgments and inherent uncertainties of statements about future events, there can be no assurance that the future results, or subsequent estimates / projections / outlook will not vary significantly from the estimates / projections / outlook and other statements set out in Industry Report.

This disclaimer must accompany every copy of this Industry Report, which is an integral document and must be read in its entirety".

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HORWATH HTL CREDENTIALS

Horwath HTL India is a member of Crowe Global. Crowe Global is currently among the 10 largest accounting and consulting network worldwide. Crowe Global member firms engaged in the field of consulting to the Hotel, Tourism and Leisure industry, under the name and style of Horwath HTL, are recognised as being the premier consultants to this industry, providing practical and well-reasoned professional advice to their clients.

The consulting experience of Horwath HTL India covers over 120 Indian cities, towns and destinations and over 20 international destinations. Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors, international lenders, including several major international and domestic hotel chains and their associates.

Our hospitality consulting practice has advised on significant and diverse projects and the principal services provided by us are market and financial feasibility studies, strategic planning for hotel chains, operator search and management contract negotiations, valuation of hotel companies and hotel properties, structuring financial bids, operational reviews, efficiency audits and service audits and systems design and reviews for hotels.

Abbreviations

Abbreviation	Full Form	Abbreviation	Full Form
AAI	Airports Authority of India	Lux	Luxury Class
ADR	Average Daily Rate	MICE	Meetings, Incentives, Conferences & Exhibitions
ASPHL	Apeejay Surrendra Park Hotels Ltd	Mid	Midscale Class
CAGR	Compound Annual Growth Rate	Mn	Million
COVID	Coronavirus Disease	MoSPI	Ministry of Statistics and Programme Implementation
CY	Calendar Year	NCP	National Commission on Population
DIPP	Department of Industrial Policy & Promotion	NCR	National Capital Region
DMRC	Delhi Metro Rail Corporation	Occ	Occupancy
EBITDA	Earnings Before Interest Taxes Depreciation & Amortization	Pax	Passengers
Eco	Economy Class	Q1	Quarter 1
E-Visa	Electronic Visa	RevPAR	Revenue Per Available Room
F&B	Food & Beverage	SAARC	South Asian Association of Regional Cooperation
FDI	Foreign Direct Investment	STR	Smith Travel Research
FHRAI	Federation of Hotel and Restaurant Associations of India	TPH	THE PARK Hotels
FTA	Foreign Tourist Arrivals	UDAN	Ude Desh Ka Aam Naagrik
FY	Financial Year	UNWTO	United Nations World Tourism Organization
GDP	Gross Domestic Product	UP	Uttar Pradesh
GOP	Gross Operating Profit	UpMid	Upper Midscale Class
GST	Goods and Services Tax	UpperUp	Upper Upscale Class
H1	First Half	Ups	Upscale Class
H2	Second Half	USA	United States of America
IMF	International Monetary Fund	USD	US Dollars
IT	Information Technology	ZTP	Zone By The Park
k	Thousand		

Industry Report – Upper Tier and Upper Midscale Hotels

1. Overview of Key Market Characteristics

Some key characteristics of India's hospitality industry, relevant for a better understanding of the market and more particularly the upper-tier and upscale segments, are briefly set out herein.

1.1. India has only 171k chain affiliated hotel rooms, across segments, as at 31 March 2023. Supply at independent hotels is widely fragmented and substantially of midscale and lower positioning.

1.2. India's share of global tourism is limited, with Foreign Tourist Arrivals (FTA) between 10.2 mn and 10.6 mn for FY18-FY20 *(Source: Ministry of Tourism, Govt of India)*. For 2019, India had only 0.73% of global tourist arrivals *(Source: Ministry of Tourism, Govt of India and UNWTO World Tourism Barometer, January 2020)*. On the other hand, the domestic travel industry in India has been robust and has grown materially.

1.3. Chain affiliated supply has evolved materially - (a) total supply as at Financial Year 2023 (FY23) is nearly 7.2 times the FY01 inventory; (b) rooms supply is now more balanced across different segments having initially been more heavily weighted towards luxury and upper upscale hotels; (c) ownership patterns have shifted from chain or chain-led ownership of hotels to greater ownership by private sector developers and investors, and some institutional investors; (d) consequently, international chains have established strong presence, increasing supply share from 21% in FY01 to 47% as at 31 March 2023; (e) guest preferences have evolved with greater appreciation of lifestyle and boutique hotel offerings, well-curated Food and Beverage (F&B) experiences, leisure, recreation and entertainment.

1.4. 11 states have granted industry status to hotels, enabling benefits such as industrial rates for energy, water, property tax incentives etc; in some cases, the real flow of benefits is yet to occur. A nation-wide recognition of Hotel sector with industry status would be materially beneficial.

1.5. The hotel sector suffered due to lockdowns during the pandemic but has recovered positively since then. Several positives elements for the hotel sector include (a) robust domestic travel for business, leisure, Meetings, Incentives, Conferences and Exhibitions (MICE), weddings, and social purposes, with better rate paying potential; (b) increased use of hotels for leisure, weddings and social travel; (c) increased urbanisation and access infrastructure creating new travel destinations and micro-markets for hotels; (d) changing demographics, with millennials and younger travellers seeking experiences and willing to spend on entertainment and recreation; (e) evolving attitudes towards recreation, entertainment, wellness and lifestyle.

1.6. Domestic leisure and weddings demand has been a vital factor in reviving business after the Covid-19 pandemic.

2. India – Macro Economic Overview

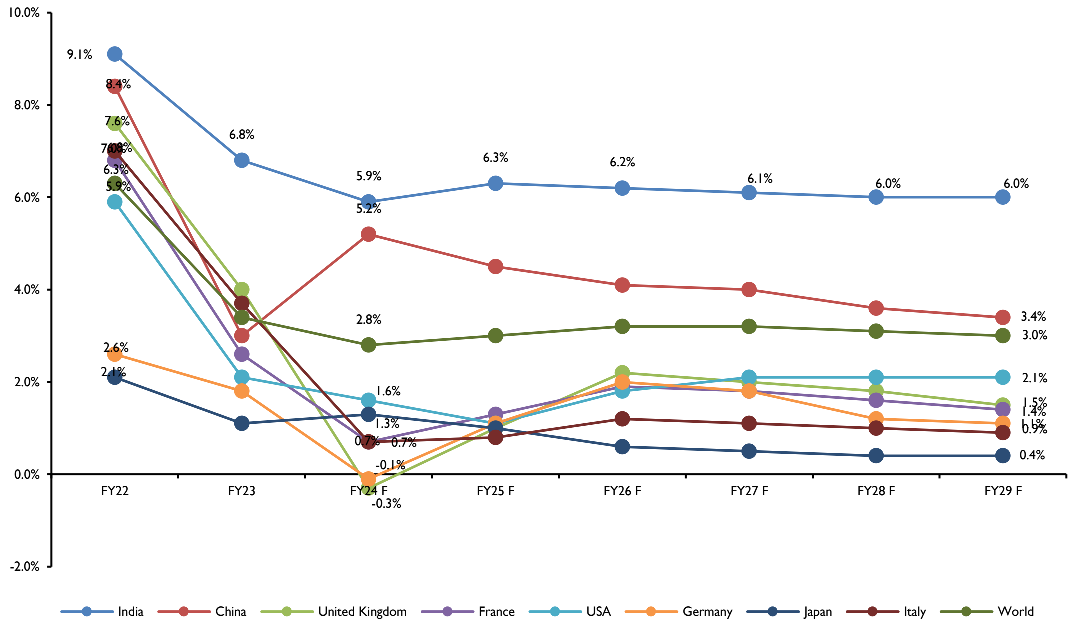
2.1. <u>India GDP</u>

In FY22, India was the fifth largest global economy with Gross Domestic Product (GDP) at current prices of United States Dollars (USD) 3.18 trillion *(Source: World Development Indicators Database, World Bank, 15 January 2023)*. India's economy source grew by 9% in FY22, against -5.8% decline caused by coronavirus pandemic in FY21. The GDP growth for FY23 is estimated at 7.2% *(Source: National Statistics Office, Ministry of Statistics & Programme Implementation - MoSPI, Govt of India)*; latest International Monetary Fund (IMF) estimates placed this at 6.8%.

IMF's World Economic Outlook Report (April 2023) forecasts India's (a) GDP growth at 5.9% for FY24, 6.3% for FY25 and 6.2%, 6.1% and 6% for the next three years; and (b) per capita GDP to grow at 7.8% CAGR between FY23-FY28. In its announcement on April 6, 2023, Reserve Bank of India (RBI) has projected FY24 GDP growth at 6.5%. India is considered among the lead growth engines for the coming decade, in terms of GDP growth rate. 6-6.5% growth will be important for India's economy to hit the USD 5 trillion mark.

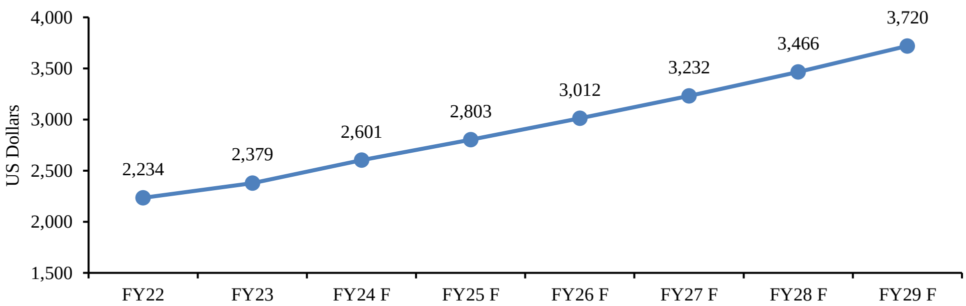
Chart 1a provides IMF forecast for GDP growth rate (at constant prices) for India and the top seven global economies through FY29.

Chart 1a - India and Top 7 Global economies GDP Forecast



Source: World Economic Outlook, IMF, April 2023

Chart 1b - India Per Capita GDP Forecast



Source: World Economic Outlook, IMF, April 2023

The hotel industry would likely benefit from increased individual incomes, which can reasonably be expected to create additional discretionary spending, particularly as supply growth occurs in tier 2 and tier 3 markets. This will also likely benefit Apeejay Surrendra Park Hotels Limited (ASPHL) with its THE PARK (TPH) hotels in all metro cities and some other key markets, and expansion of Zone by The Park (ZTP) and Zone Connect hotels across multiple markets at upper-midscale positioning.

2.2. **Key Demographic Aspects**

2.2.1. Increased Urbanisation: There is a clear and growing trend towards increased urbanisation. India's urban population increased from 27.8% in 2001 to 31.2% in 2011 and was projected to increase further to 34.4% in 2021. Urban population grew by 91 million (mn) between 2001-2011, and was projected to grow by 92 mn between 2011-2021; corresponding rural population growth was 90 mn and 60 mn respectively.

Source: Census of India 2011 and Population Projections for India and States 2011 – 2036, July 2020

2.2.2. Per United Nations' World Urbanisation Prospects Report (The 2018 Revision)

- In 2018, India had 461 mn urban dwellers (11% of global urban population). This is projected at 543 mn by 2025 (37.4% of total population), becoming the second largest urban population globally after China.
- India currently has 5 megacities - Mumbai, Delhi National Capital Region (Delhi NCR), Bengaluru, Kolkata and Chennai – which are urban agglomerations with population > 10 mn. Ahmedabad and Hyderabad (presently with 7 to 9.5 mn inhabitants) are expected to become megacities by 2030. ASPHL already has hotels in six of these seven megacities.

2.2.3. Per Population Projections for India and States 2011-2036 Report (July 2020) of Technical Group constituted by the National Commission on Population (NCP) under the Ministry of Health and Family Welfare

- India's urban population is projected to increase from 377 mn in 2011 (31.1% share) to 594 mn in 2036 (39.1% share) by 2036 – the UN Report projects 38% share by 2025. This growth by 2036 will materially come from existing and new urban areas.
- Delhi with 98% urban population (2011) is projected at 100% by 2036.
- Tamil Nadu, Kerala, Maharashtra, Karnataka and Gujarat are expected to have more than 50% urban population by 2036.

Cities / urban agglomerations with population exceeding 1 mn increased from 35 in 2001 to 53 in 2011. Cities and towns have expanded, often creating multiple micro-markets and business districts and opening new opportunities for hotels. (*Source: Census 2011)*

Urbanisation creates the need for jobs, thereby attracting investment and development of multiple business sectors, including manufacturing and services. Growth in business and business opportunities due to increased urban-led activity is evidenced by increase in air traffic, wider real estate activity, and growth of hotels in several existing and newer markets in metro cites, primary and secondary cities and towns.

2.2.4. <u>Middle Class Population:</u> "The Rise of India's Middle Class" Report published in November 2022 by People Research on India's Consumer Economy (PRICE) estimates India's middle-class population at 432 mn in FY21, 715 mn in FY31 and 1,015 mn by FY47, moving ahead of US and China within this decade. The middle class spans a wide economic segment, with sections of the middle class slowly graduating to the upper class due to attitudinal and lifestyle changes creating demand potential for different services (rooms, F&B, functions, entertainment) at upper tier hotels.

2.2.5. <u>Young Population (15-29 Years):</u> Per Youth in India Report 2022, published by Ministry of Statistics and Programme Implementation (MoSPI)

- The young population has increased from 223 mn in 1991 to 333 mn in 2011, 360 mn in 2016, and 371 mn in 2021 (27.2% of total population).
- India is experiencing a demographic window of opportunity - a "youth bulge" (growth in youth as a share of total population) in the working-age population, expected to last till 2055.
- The large working age population will require jobs, placing importance on employment creation – the hotel and tourism sector has substantial ability to create jobs, directly and as a multiplier effect, if the sector is sufficiently enabled. A large working population also carries enhanced discretionary spend capacity and propensity to spend on lifestyle aspects, which could benefit the hotel sector.
- From an ASPHL perspective, its lifestyle and design led hotels with strong focus on entertainment and dining are products that appeal to the younger generation; this boutique model has also been adopted for the ZTP hotels, serving and benefitting from lifestyle expectations of the younger population over multiple second tier markets.

3. Industry size – chain affiliated hotels

3.1. In this section, we provide an overview of supply and demand size and supply composition. Reference to Select Markets is to the six metro cities (Mumbai metropolitan area, Delhi NCR, Bengaluru, Chennai, Hyderabad and Kolkata), Goa and Pune – these are the main markets where ASPHL has THE PARK hotels, or is developing an owned asset under this brand. The report also often refers to Key Markets – these are the top 10 markets in India in terms of rooms inventory and comprise the Select Markets plus Ahmedabad and Jaipur.

3.2. Our analysis of hotel supply and demand principally deals with chain-affiliated hotels, i.e. hotels that are either (i) owned and operated by hotel chains, or (ii) operated by hotel chains on behalf of other owners or (iii) operated under franchise from hotel chains. For this purpose, we have included all recognised international chains operating in India and domestic hotel chains that are generally considered as operating under common branding; other domestic chains are considered if they have 5 or more hotels operating at least regionally in India. For clarity, groups with multiple hotels only within one state are not considered unless these are generally regarded as hotel chains by the market. Exclusions include hotel companies that primarily operate time-share facilities, one-star hotels and hotels under aggregators (such as Oyo, Treebo and FabHotels).

3.3. Classifications: Industry terms for classifying, categorising and segmenting hotels are explained below. Each segment will include entry-level hotels in that segment besides hotels that are more fully of segment standards.

- Luxury and Upper Upscale segment typically comprise top tier hotels; in India, these are generally classified as 5 star, deluxe and luxury hotels. Several brands classify themselves as luxury hotels, based on certain criteria (e.g., room size) without having the service standards and consistent guest profile typically associated with true luxury hotels.
- Upscale segment comprises hotels which are more moderately positioned and priced, generally with smaller room sizes than the top tier hotels. In India, upscale hotels are generally classified as 4 or 5 star hotels (typically carrying entry level 5 star quality).
- Upper Midscale segment (Up-Mid) comprises full service or select service hotels, typically with lesser public areas and facilities and smaller room sizes, which are more moderately positioned and priced than upscale hotels. In India, these would generally be classified as 4 star and sometimes 3 star hotels.
- Midscale segment typically are 3 star hotels with distinctly moderate room sizes, quality and pricing, and a lower standard of services; domestic brand midscale hotels often offer more services than select service international branded midscale hotels.
- Economy segment (Eco) are typically 2 star hotels providing functional accommodation and limited services, being focussed on price consciousness.

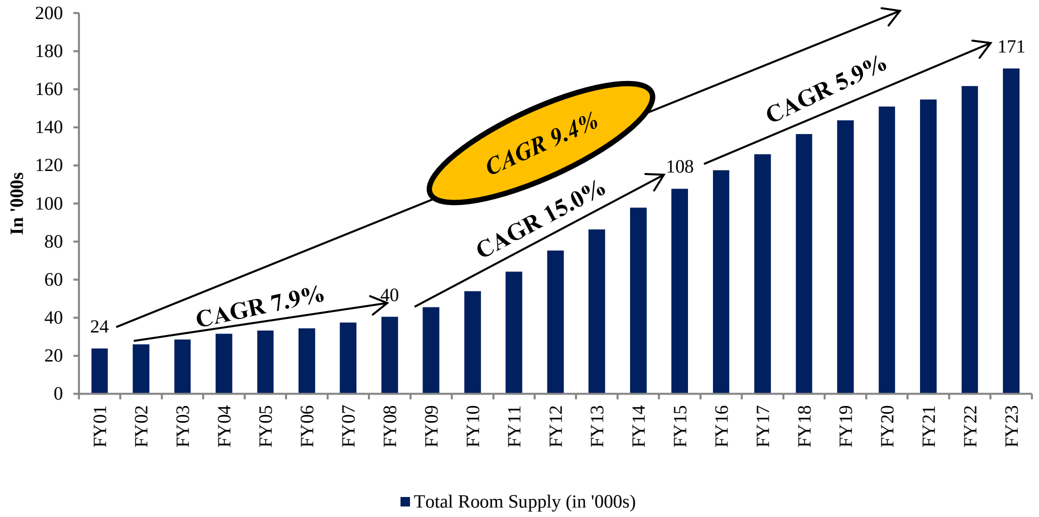
Segmental classifications are essentially based on the intended positioning and overall rate structure of respective hotel brands; actual standards of individual properties may vary, but adjustment is not made on subjective basis. If a chain has modified the positioning of a brand, such change would be reflected in current and previous period data.

3.4. This report generally does not cover independent hotels, except to the extent that some independent hotels may have participated in collection of any reported data.

Other Independent hotels have been excluded from our analysis due to – (a) lack of sufficiently co-ordinated, reliable and consistent data for independent hotels; (b) increasingly challenged competitiveness of several independent hotels against growing presence of chain-affiliated hotels, (c) longer-term constraints on independent hotel growth as hotel chains grow into second-tier markets and smaller towns; (d) general reluctance of banks to finance large projects unless these have access to suitable chain marketing and management systems. We believe that an analysis based mainly on chain-affiliated hotels (while also competing with any independent hotels in the relevant catchment area) is adequate reflection of the overall market conditions.

3.5. Charts 2 and 3 below reflect All India Chain affiliated hotel room supply and hotel room supply in the Upper Upscale, Upscale and Upper Midscale segments.

Chart 2 - All India Chain Affiliated Rooms Supply

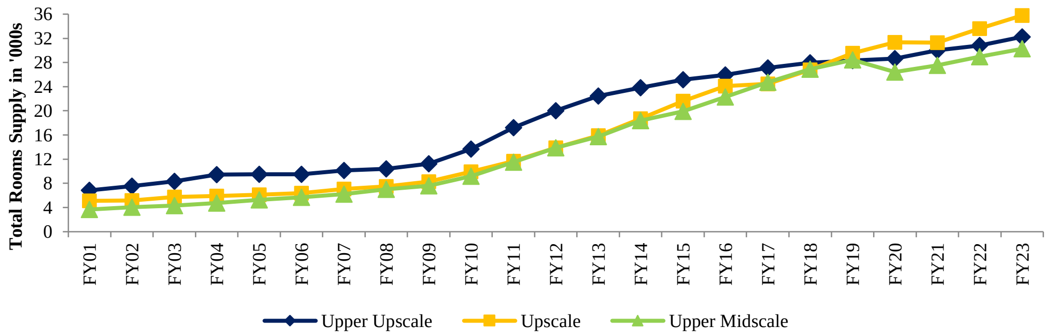


Source: Horwath HTL

Major supply growth occurred between FY08-FY15, fuelled by strong business conditions from FY05 through initial months of FY09 when occupancies and Average Daily Rate (ADR) were strong in most markets. On the other hand, declining demand and economic activity from FY10 through FY14 was not supportive of new development commitments, leading to slower supply growth for FY16-FY23; this was exacerbated by the Covid pandemic. Yet, overall Compounded Annual Growth Rate (CAGR) of 9.4% over 22 years reflects material supply addition, although off a small supply base as at FY01.

About 18,500 rooms were added in FY10 and FY11, and about 43,500 rooms in the years FY12-FY15. Another 43,000 rooms were added between FY16-FY20; and about 20,000 rooms between FY21-FY23 - a sharp decline due to Covid-19 pandemic; and yet reasonable growth in spite of the pandemic.

Chart 3 - All India Chain Affiliated Rooms Supply – Upper Upscale, Upscale and Upper Midscale Segment



Source: Horwath HTL

3.6. Segmental supply has evolved significantly since FY01 as reflected in Table 2 below:

Table 2 – Segmental Composition (Inventory in 000s)

Category	FY01	FY08	FY15	FY23	FY27	CAGR FY01-08	CAGR FY08-15	CAGR FY15-23	CAGR FY23-27
Luxury	6	10	17	28	35	6.9%	7.8%	6.3%	5.7%
Upper Upscale	7	10	25	32	41	6.2%	13.5%	3.2%	6.2%
Upscale	5	8	22	36	50	5.7%	16.3%	6.5%	8.9%
Upper Midscale	4	7	20	31	42	9.7%	16.1%	5.5%	8.2%
Midscale-Economy	2	5	24	44	62	17.1%	24.2%	8.0%	8.9%
Total	**24**	**40**	**108**	**171**	**230**	7.9%	15.0%	5.9%	7.8%
% of Total									
Luxury	27.0%	25.4%	16.1%	16.5%	15.3%				
Upper Upscale	28.8%	25.8%	23.4%	19.0%	17.9%				
Upscale	21.5%	18.6%	20.1%	20.9%	21.8%				
Upper Midscale	15.5%	17.4%	18.5%	18.0%	18.2%				
Midscale-Economy	7.2%	12.9%	21.9%	25.6%	26.7%				

Source: Horwath HTL

Supply composition has evolved towards greater segmental balance. Concentration of the Luxury-Upper Upscale segment has diluted substantially as upscale, upper midscale and Midscale & Economy (M-E) hotels gained traction and wider footprint. A similar trend is broadly expected for the next 3-5 years, with Luxury-UpperUp supply share continuing to gradually decline, with supply share gains in the Upscale and M-E segments.

In absolute numbers, the Upper-Up, Upscale and Up-Mid segments added about 25k rooms, 31k rooms and 27k rooms respectively between FY01-FY23. Upscale and Up-Mid supply growth started from FY06, particularly as Upper Midscale hotels opened across main cities and other markets. Up-Mid inventory was on par with the Upscale segment by FY12, while all three segments converged in size by FY19. (Note: inventory decline in some years is mainly due to brand re-classification).

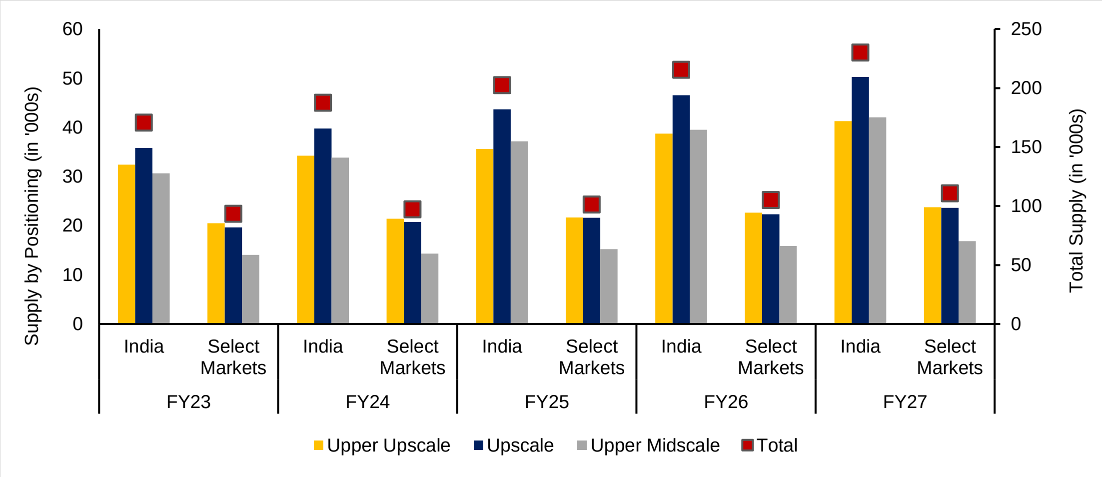
The Upper Upscale segment lost its lead position beginning FY19, as the widening supply outside the Key Markets is creating strong growth momentum for the upscale and upper midscale segments.

3.7. Supply growth includes changes due to conversion of hotels, with 4k rooms (net) added to chain affiliated supply between FY15 and FY23 - about 25k rooms at independent hotels were converted into chain affiliated hotels; while about 21k chain-affiliated rooms were de-flagged.

3.8. 59k rooms are expected to be added by FY27 – given the past track record of materialised supply being at a slower rate, actual inventory growth may be smaller. It is possible that growth may happen somewhat speedily if more conversions occur as these need a slower lead time to fruition.

3.9. Chart 4 indicates the expected supply through FY27, on an all-India basis and for Select Markets and segments. Limited supply may not be operational for some periods, during insolvency resolution processes – such cases will be nominal in the overall context.

Chart 4: Expected Supply (Inventory in 000s)



Source: Horwath HTL

70% of new supply will occur outside the Select Markets; thus, supply expansion will expand overall demand and not have dilutive impact on occupancies in Select Markets. About 27% of new supply will be in the Luxury-Upper Upscale segment, 24% and 19% in the Upscale and Upper-Midscale segments and 30% in the Midscale-Economy segment.

4. Supply spread

4.1 The top 10 markets have nearly 62% of rooms supply as at FY23; declining from 69% supply share at end FY15. Hotel rooms supply across market categories is summarised in Table 3 below.

Table 3 –Supply Distribution

Market Category	Room Count ('000)				% Share			
	FY01	FY15	FY23	FY27	FY01	FY15	FY23	FY27
3 Main Metros	9.6	41.2	55.4	68.0	40.0%	38.3%	32.4%	29.5%
3 Other Metros	3.4	15.4	22.5	24.6	14.3%	14.3%	13.2%	10.7%
Other Key Markets	2.9	18.2	27.4	34.1	12.2%	16.9%	16.0%	14.8%
Other Markets	7.9	32.9	65.6	103.6	33.4%	30.5%	38.4%	45.0%
Total	**23.8**	**107.7**	**170.8**	**230.3**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Horwath HTL; Note: Other Key Markets are Pune, Ahmedabad, Jaipur and Goa

ASPHL has THE PARK hotels in seven of the Key Markets, and is pursuing a THE PARK hotel project in Pune. Besides, it has a ZTP Hotel in Jaipur.

Comments:

- Supply at the 3 Main Metros is 2.5 times the Other Metros; other Key Markets have larger inventory than the Other Metros. Among Key Markets, supply growth over the next 4 years will mainly be at the 3 Major Metros [NCR (excluding Delhi), Mumbai and Bengaluru – 3.4k, 4.5k and 3.5 k rooms respectively] and other Key Markets.
- Goa and Jaipur are the only two essentially leisure destinations amongst top 10 markets, with combined inventory of 15k rooms. New supply will add over 5k rooms by FY27.

- Supply spread to Other Markets is an important evolution of the industry with 58k rooms added between FY01 and FY23 and another 38k expected to be added by FY27.
- The Key Markets led supply creation between FY01-FY15; in the last 8 years, increased urbanisation and improved air / road infrastructure have encouraged supply creation in Other Markets enabling between 44% to 56% supply share for the Other Markets during this period. Hotels in Other Markets tend to be smaller and concentrated at the mid-priced and upscale levels.

Table 4: Supply Growth – Segmental Share of Other Markets

	Upper Upscale	Upscale	Upper Midscale
1 April 2001 to 31 March 2008	14.6%	31.5%	39.7%
1 April 2008 to 31 March 2015	26.7%	25.0%	39.9%
1 April 2015 to 31 March 2023	50.1%	44.2%	55.3%

Source: Horwath HTL

Table 5a – Room Supply by Market and Segment

Room Count ('000)	Upper Upscale			Upscale			Upper Midscale		
	FY01	FY23	FY27	FY01	FY23	FY27	FY01	FY23	FY27
Top 3 Metros	3	12	15	2	12	14	1	7	9
Other Key Markets	2	10	12	0	11	13	1	10	11
Other Markets	1	10	14	3	13	23	2	14	22
Total	**7**	**32**	**41**	**5**	**36**	**50**	**4**	**31**	**42**

Source: Horwath HTL

Table 5b - Segmental Supply breakup by Market Category

Market Category	Upper Upscale			Upscale			Upper Midscale		
	FY01	FY23	FY27	FY01	FY23	FY27	FY01	FY23	FY27
Top 3 Metros	48%	38%	36%	38%	33%	28%	14%	22%	20%
Other Key Markets	30%	32%	29%	7%	30%	25%	31%	31%	27%
Other Markets	22%	30%	35%	56%	37%	46%	55%	47%	53%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Horwath HTL

Table 5c - Market Supply Composition by Segments

Market Category	Upper Upscale			Upscale			Upper Midscale		
	FY01	FY23	FY27	FY01	FY23	FY27	FY01	FY23	FY27
Top 3 Metros	35%	22%	22%	20%	21%	21%	5%	12%	13%
Other Key Markets	33%	21%	21%	6%	22%	22%	18%	19%	19%
Other Markets	19%	15%	14%	36%	20%	22%	26%	22%	21%
All India	**29%**	**19%**	**18%**	**22%**	**21%**	**22%**	**15%**	**18%**	**18%**

Source: Horwath HTL

Comments:

- In absolute terms, Upscale segment had the largest supply growth between FY01-FY23 with almost even growth across market categories – yet, it has ceded supply share to other segments as travel needs have diversified, particularly among leisure markets and secondary cities. Among Key markets, Bengaluru, Delhi NCR and Chennai have seen material upscale supply growth, while NCR (excluding Delhi) and Mumbai will see large supply addition between FY23 and FY27.

- Upper Upscale supply growth between FY01-FY23 has materially occurred in NCR (excluding Delhi), Bengaluru, Mumbai and Other Markets; Other Markets have over 50% share of new supply between FY23-FY27, followed by Bengaluru, Delhi NCR, Mumbai and Jaipur.
- Up-Mid Hotels have gained material supply share in the Top 3 metros, particularly Bengaluru and NCR (excluding Delhi). While absolute supply has grown in several markets, other segments have had material share of the overall growth.
- Change in supply composition for each of the main cities was inevitable considering the top-heavy nature of the market and modest supply levels in FY01. While acknowledging the better segmental balance within cities, the impact on overall ADR levels in cities must also be recognised – city-wide ADR will move downward, as a natural result of more mid-tier and lower-tier hotels in the city.

4.2 Between FY01-FY23, Foreign chains have gained material supply share through multiple brands and diversified hotel development investment and ownership which suits the management / franchise model sought by foreign chains.

Table 6: Foreign & Domestic Chain Affiliated Supply

	FY01		FY08		FY15		FY23		FY27	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Overall	**80%**	**20%**	**73%**	**27%**	**55%**	**45%**	**53%**	**47%**	**52%**	**48%**
Lux	100%	0%	80%	20%	66%	34%	65%	35%	63%	37%
Up-Ups	60%	40%	56%	44%	36%	64%	28%	72%	28%	72%
Ups	91%	9%	76%	24%	41%	59%	36%	64%	37%	63%
Up-Mid	74%	26%	81%	19%	67%	33%	52%	48%	46%	54%
Mid-Eco	55%	45%	80%	20%	70%	30%	77%	23%	79%	21%

Source: Horwath HTL

Comments:

- Foreign chains now operate / franchise about 47% of the chain affiliated hotel rooms in India; their ownership share is very limited.
- Foreign chains expanded by aggressively pursuing management contracts, offering multiple brands mainly in Luxury, Upper-Up, Upscale and Up-Mid segments, and supporting the development of hotels with larger rooms inventory and function spaces.
- Several domestic chains were initially asset heavy and have gradually shifted to an asset-light or hybrid model (combination of owned properties and management contracts). The hybrid model has enabled chain expansions; for instance, ASPHL has grown its otherwise luxury boutique portfolio (mainly owned hotels) through management contracts for upper-midscale hotels under the ZTP and Zone Connect brands (one hotel in FY15 to 16 hotels in FY23). Domestic chains have added brand range and successfully positioned products and brands in the Upscale, Up-Mid and M-E segments – these have enabled domestic chains to gain larger share of new supply in the Upscale, Up-Mid and M-E segments since FY15.
- An asset-ownership based model has several merits particularly in terms of (a) asset appreciation; (b) larger earnings gains under strong market conditions, as the gross revenue and profits belong to the hotel chain; (c) advantage in creating better returns, if land banks are available at historical costs; (d) the ability to create and showcase the value and profitability of differentiated products (such as luxury boutique hotels under THE PARK brand). Undoubtedly, situations such as the Covid pandemic create cash flow stress from asset ownership, to cover fixed costs and debt service burdens. However, when business recovers, the full flow through of revenues is also an advantage.

During stressed situations, fee- based incomes get materially diluted in amounts and suffer material collection delays.

4.3 Supply and Ownership Analysis

4.3.1 Supply composition – Hotel Chains

- Six hotel chains – Marriott, IHCL, Radisson Hotel Group, ITC, Accor and Hyatt – each have 5% or greater inventory share by number of rooms; in aggregate, these chains have 50% share of total supply
- Certain hotel chains have made sizeable investments in hotel assets – while the ownership share was 69% at end FY01, this has reduced to 26% at end FY23 as greater private / institutional capital has invested in the hotel sector and enabled chain growth through management contracts and franchises

Table 7 – Ownership Pattern – as at 31 March 2023

	Hotels	%	Rooms ('000)	%
Chain Owned / Leased	393	*23%*	45.2	*26%*
Developer / Investor	1,321	*77%*	125.6	*74%*
Total	**1,714**		**170.8**	

Source: Horwath HTL

Note: Chain ownership in the Table above excludes joint venture investments by Hyatt, Accor and Radisson Hotels Group (1.4k rooms, 5.2k rooms and 0.15k rooms respectively) as the Chains do not have controlling ownership interest in the hotel owing entity.

- Ten hotel chains have invested capital for development of hotel properties, either with ownership of land or with land and / or buildings taken on lease, with aggregate rooms inventory exceeding 1,000 rooms. These are given in Table 8 below.

Table 8 – Chain Owned – All Segments

Group	Owned (in '000s)	Total Inventory (in '000s)	Ownership Share	Owned -Avg keys / hotel
Indian Hotels Company Ltd (IHCL)	11.9	18.9	63%	116
ITC	5.5	11.5	48%	221
Lemon Tree	5.0	8.2	61%	128
EIH	3.2	3.9	81%	158
Bharat Hotels	2.3	2.4	95%	161
Kamat Hotels India Limited (KHIL)	1.5	2.2	65%	122
Royal Orchid	1.3	5.2	26%	89
ASPHL	1.3	2.0	64%	128
Pride	1.2	2.1	59%	151
Leela#	1.0	3.4	30%	254
Other Chains	11.0	27.3	40%	77
Total	**45.2**	**87.0**	**52%**	***115***

Source: Horwath HTL
 # held by Brookfield, a Private Equity Investor; included in chain ownership as Brookfield ownership includes the brand and management company

- If joint venture investments by Accor and Hyatt, without majority / controlling ownership, were considered under chain ownership then the ownership share of hotel chains would increase from 23% and 28% of hotels and rooms respectively and these chains would be among top 10 chains owning hotels in India.
- Among hotel chains with asset ownership, ASPHL ranks as the eighth largest in India. There is material concentration with four chains which together own 57% of total chain owned hotel inventory.
- ASPHL is one of only two hotel chains owning more than 1k rooms in the Upscale segment – see Table 9.

Table 9 – Chain Owned – Upscale Segment

Group	Total Owned Inventory ('000s)	Owned Upscale Inventory ('000s)
ASPHL	1.3	1.1
Pride Hotels	1.2	1.2

Source: Horwath HTL

4.4 Future Demand

In this section we have projected future demand. Our estimates of future demand are based on demand achieved in FY19, growth in domestic demand over FY19 and gradual recovery in foreign demand. Our estimates of the pace of recovery and subsequent demand growth are given in Table 10:

Table 10 – Demand Recovery / Growth estimates

Year	Projected Foreign Demand Recovery (relative to FY19)	Projected Domestic Demand Growth (over FY23 demand)	Projected Growth – Overall Demand (over FY23 demand)
FY24	80%	12%	13%
FY25	100%	8%	10%
FY26	115%	10%	11%
FY27	130%	10%	10%

Comments:

- Foreign Demand – FTA recovery from Top 10 countries (excluding South Asian Association of Regional Co-operation - SAARC nations) was at 66%. We have assumed recovery of 80% for FY24 and full recovery in FY25. A sizeable portion of foreign travel demand is from Information Technology (IT) sector which has presently slowed down and unlike other sectors sizeable workforce is still working remotely. Hence overall foreign travel recovery is expected to be gradual. We have assumed a growth of 15% and 30% on FY19 demand in FY26 and FY27 respectively.
- Domestic Demand – FY23 witnessed significant growth of 29% over FY19 demand and this was driven mainly by pent-up corporate and MICE travel demand. Strong growth levels are expected to continue in FY24 and a likely slowdown in FY25 since there will be general elections. Growth in FY26 and FY27 is assumed at 10% (based on long term CAGR of 9.8% between FY08 and FY23).

In Table 11, we have summarised the supply and demand CAGR

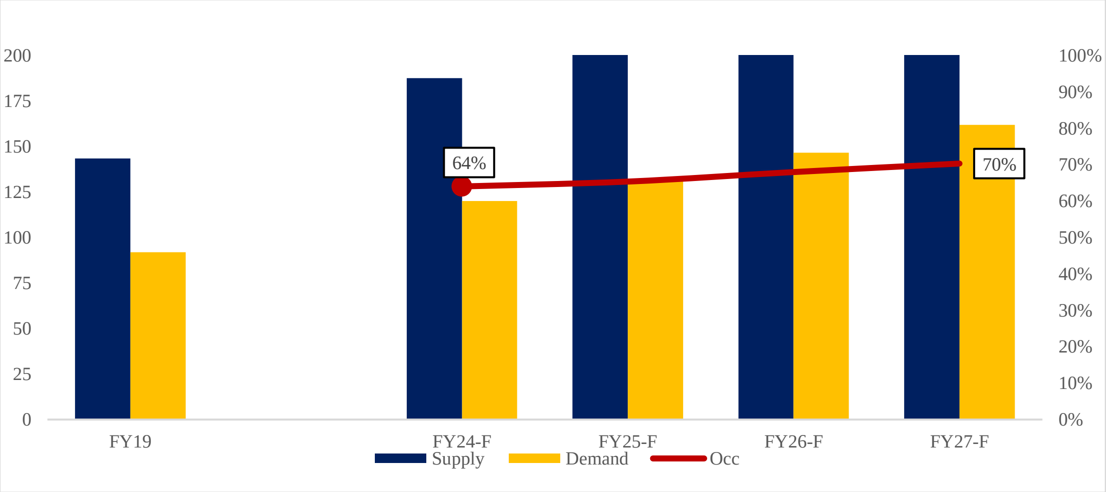
Table 11 – Supply and Demand CAGR

CAGR	FY16-FY23	FY24-27
Supply CAGR	5.5%	7.1%
Demand CAGR	6.2%	10.5%

Source: Horwath HTL

Based thereon, and with reference to our estimates of Future Supply described earlier, the occupancy estimates upto FY27 evolve as reflected in Chart 5.

Chart 5: All India – Rooms Supply vs Demand and Occupancy Estimates – (FY23–FY27)



Source: Horwath HTL

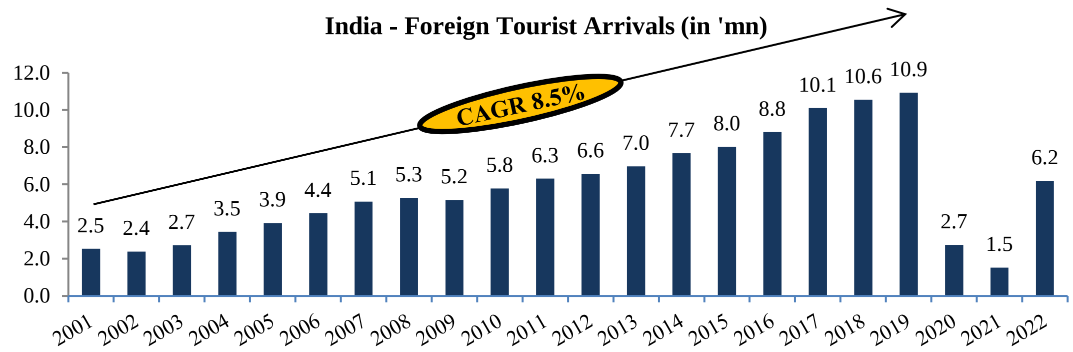
5. Overview of Key Impact Factors

In this section we provide an overview of several key factors that impact demand for hotels, performance of the hotel sector and future development of the industry.

5.1 Foreign Tourist Arrivals (FTA)

FTA was reported at 10.1 mn, 10.6 mn and 10.9 mn for Calendar Year 2017 (CY17), CY18 and CY19 respectively *(Source: Ministry of Tourism, Govt. of India)*, crossing the 10 mn mark for the first time in CY17. FTA for the aforesaid 3 years was about twice the FTA for CY07-CY09. After the Covid period decline, FTA for CY22 has recovered well to 6.2 mn, particularly considering that the normally very busy months of January and February 22 were slow due to Omicron wave. Recovery has continued with FTA for January – February 2023 being 1.7 mn.

Chart 6 – India – Foreign Tourist Arrivals (mn)



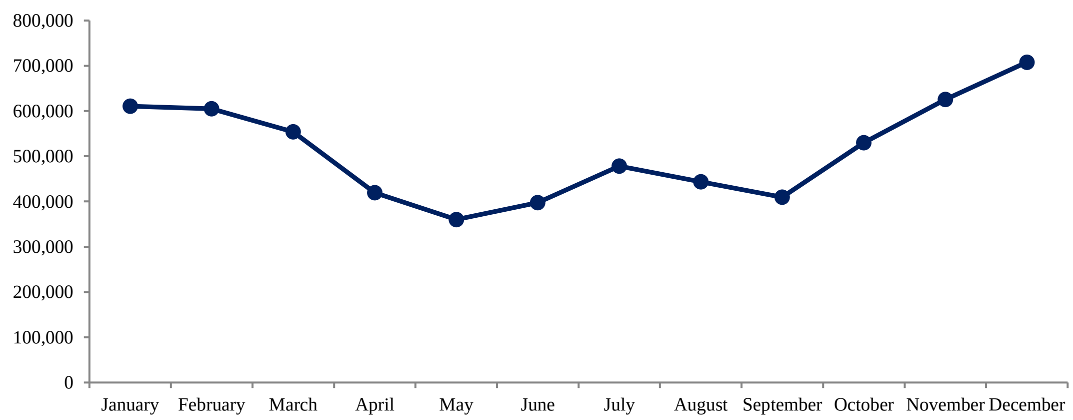
Source: Ministry of Tourism, Govt. of India

Cross-border travel is impacted by several factors including security, political and economic issues at the destination or source market. Thus, FTA declined in FY09 due to the terror attacks in Mumbai on 26 November 2008 and global financial crisis. Travel from Russia and Europe was impacted at different times due to economy related issues. Business failure of major tour operators in Europe materially constrained short-term demand in charter destinations such as Goa.

India's FTA numbers include arrivals from SAARC nations – these comprised 28.2% of total FTA for the years 2016-2021. (*Source: Ministry of Tourism, Govt. of India)*

Seasonality of FTA is reflected in Chart 7. The winter months are clearly preferred for travel into India, particularly for discretionary travel.

Chart 7 – FTA Seasonality (2001-2019)

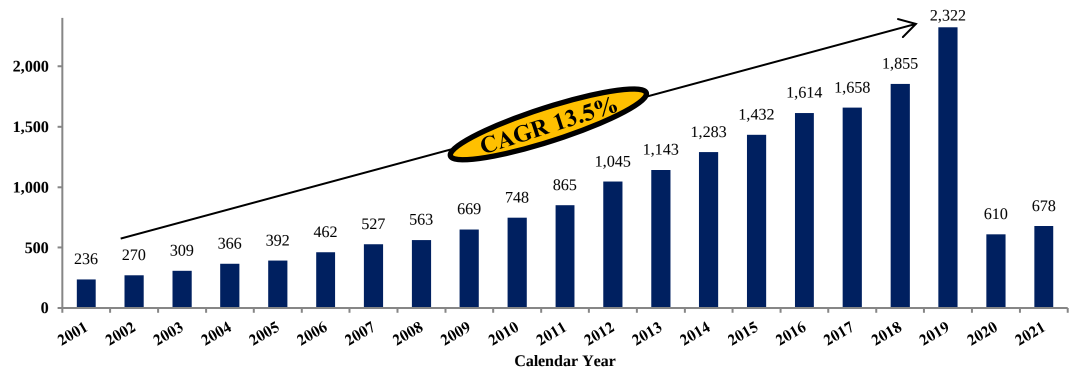


Source: Ministry of Tourism, Govt. of India

5.2 Domestic Tourism:

Domestic travel visits grew at 13.5% CAGR between CY01-CY19, based on provisional data for 2019 provided by Ministry of Tourism. Thus, domestic travel numbers have grown nearly 10 times, from 236.5 mn visits in 2001 to 2.32 billion visits in 2019.

Chart 8 – India – Domestic Tourists (mn)



Source: Ministry of Tourism, Govt. of India

Per estimates, about 2% of domestic visits result in hotel stays. This trend is gradually changing with the development of chain affiliated hotels, across varied price points, in second and third tier markets and pilgrim centres. Increase of hotel use during domestic visits, even for 0.5% of domestic visits, would provide 70% occupancy for about 50,000 new rooms.

In the pandemic period, domestic leisure, staycations, remote working from resorts and weddings demand were the mainstay of demand revival for the hotel sector. Domestic travel is expected to maintain strong growth, particularly as a large middleclass population, young working population, and overall increased individual incomes drive more discretionary travel. The domestic sector has become a key demand generator, even prior to the pandemic, with leisure, recreation, weddings and MICE demand driving weekend and off-season occupancies and enabling hotels and resorts to achieve significantly higher occupancies. Multiple markets have benefitted from this – for example, city hotels in Mumbai, hotels and resorts in Goa and Varanasi, etc.

Changes in stay patterns for domestic visits will also arise as nuclear families have smaller homes and stay for family events will need hotel accommodation,

Domestic travel numbers for CY22 are yet not available, but can reasonably be expected to show good pace of recovery.

Table 12 below reflects the demand contribution by foreign and domestic visitors at different hotel segments.

Table 12 – Hotels – Domestic vs Foreign Guests

Composition (%)	Five Star Deluxe		Five Star		Four Star		All India Average	
	FY19	FY14	FY19	FY14	FY19	FY14	FY19	FY14
Domestic Guests	65.6%	51.9%	71.1%	63.3%	76.3%	68.4%	79.3%	75.6%
Foreign Guests	34.5%	48.1%	28.9%	36.7%	23.8%	31.4%	20.7%	24.4%

Source: India Hotel Survey 2018-19 published by Federation of Hotel and Restaurant Associations of India (FHRAI), Horwath HTL & STR; India Hotel Survey 2013-14 published by FHRAI & HVS

Five Star and Five Star deluxe hotels have greater demand share from foreign guests while the Four Star and lower hotels attract a larger share of domestic visitors. The seeming decline in relative share for foreign guests is due to a combination of factors such as (a) substantial domestic travel growth, compared to inbound travel; (b) spread of hotels to second-tier and other markets which have limited scope for foreign guests; (c) MICE and weddings related demand growth predominantly from domestic guests.

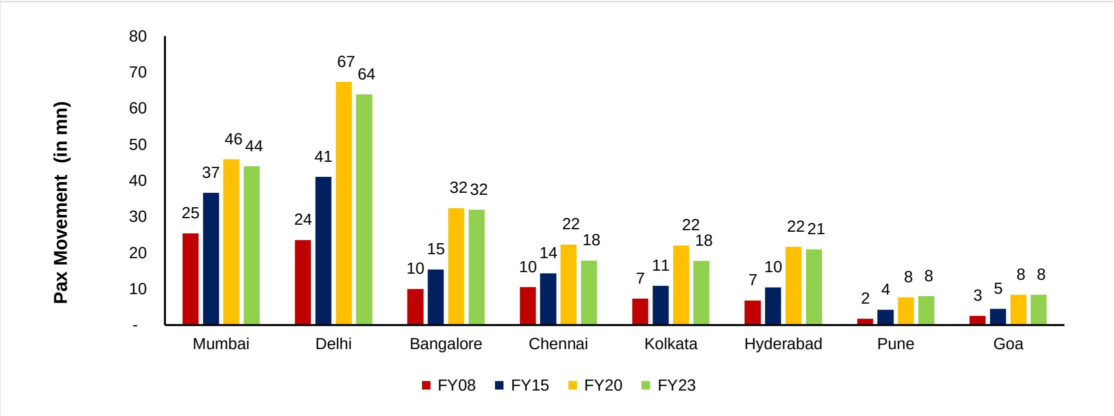
5.3. Access Infrastructure

Better roads and airport infrastructure have enabled easier domestic and inbound travel, growth of established markets and development of newer markets including second and third-tier cities and towns. Highway and expressway linkages between metro cities, regional cities and destinations, development of new airports, airport expansions and upgrades, and opening of several regional airports through Ude Desh ka Aam Nagrik (UDAN) initiatives have each widened the business, leisure, destination weddings and MICE location options. The benefit is seen at Key Markets and numerous other destinations, for example Dehradun, Rishikesh and hill stations in Uttarakhand and Himachal Pradesh, Varanasi, Indore, Udaipur, Jodhpur, Jaisalmer, Pushkar, Coorg, Hampi, etc.

<u>Air Traffic</u>

Growth in air travel for some key cities is summarised in Chart 9 below. FY20 travel suffered a slowdown in inbound travel starting late January 20, and lockdown from 25 March 2020. Most markets are close to complete recovery of air travel in FY23 compared to FY20.

Chart 9 – Passenger (Pax) Movement in mn for Key Markets



Source: Airports Authority of India (AAI)

Between FY08 and FY20, passenger movement (domestic + international) at these select markets and on all-India basis grew at 8.3% and 9.5% CAGR.

Table 13 - Pax Movement in mn

Year	Select Markets*	All India	Select Market Share
FY08	88	115	76.6%
FY15	137	190	72.2%
FY19	235	345	68.1%
FY20	228	341	66.7%
FY23	213	332	64.0%
CAGR (FY08-19)	***9.3%***	***10.5%***	
CAGR (FY15-23)	***5.6%***	***7.2%***	

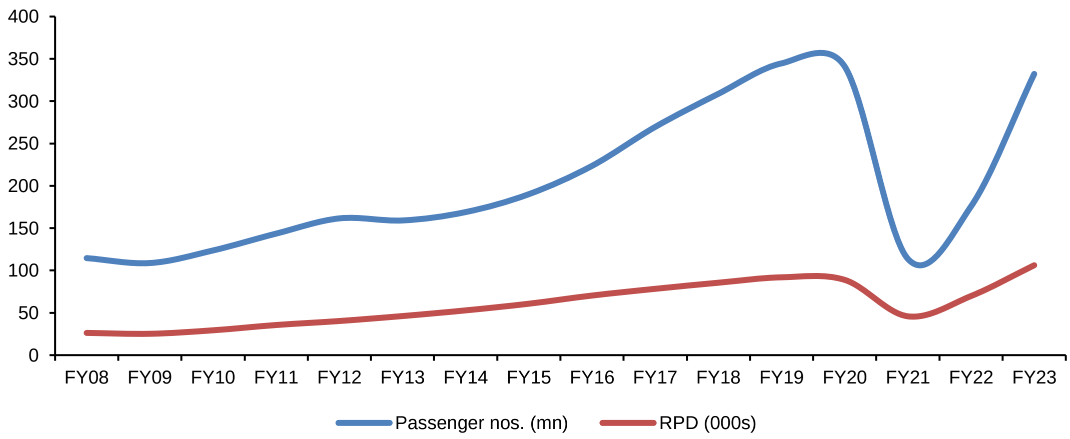
Source: AAI

** Mumbai, Delhi, Bengaluru, Chennai, Kolkata, Hyderabad, Goa and Pune*

Comments:

- The Select Markets represent about 2/3rds of air travel, even considering the substantial increase in travel numbers since FY08. The travel share of these markets may have slightly reduced in FY23, due to consistent travel increase across other markets and destinations.
- Clearly, there is significant air travel growth and this trend is expected to continue going forward as daily passenger numbers on all India level crossed 450k in May 2023.
- Importantly, travel numbers will also grow into other cities and towns; ASPHL presence and expansion through ZTP brand will be beneficial as travel grows outside these key markets.
- As a destination, Goa is an excellent example of strong gain from air capacity increase by opening of a new airport at Mopa (>125 domestic flight arrivals per day).
- Chart 10 below indicates the movement of airline passenger movement and hotel rooms demand since FY08. It shows that the ratio of hotel rooms demand to airline passengers movement for FY23 was similar to FY15 (32%), although FY19 was lower at about 27%.

Chart 10 – Airline passenger movement vs Hotel rooms demand



Source: AAI (Air Traffic Data) and Horwath HTL (Rooms per day)

5.4. **E-visa**

Electronic Visa (E-visa) scheme made available effective November 2014 has successfully enabled inbound visitors to come in with short lead-time. FTA using E-visas increased from 0.7 mn in FY16 to 2.86 mn in FY20.

5.5. **Foreign Direct Investment**

Foreign Direct Investment (FDI) in the hotel and tourism sector has aggregated USD 18 billion, between FY06-FY23, being only 2.9% of USD 621 billion total FDI into India during the same period. FDI in the hotel and tourism sector is summarised in Table 14 below:

Table 14 – FDI in Hotel and Tourism

FY	FDI (USD mn)
FY06-FY10	3,356
FY11-FY15	5,865
FY16-FY20	7,395
FY21-FY23	1,426
Total	**18,042**

**FY18-FY23 figures are provisional; Source: Department of Industrial Policy and Promotion (DIPP)*

Although foreign exchange regulations permit 100% FDI in the hotel sector, actual inflow has been limited. In our view, this is mainly on account of (a) uncertainties and absence of expected return on investment due to project delays and other factors; (b) limited investment options by way of good portfolio of assets with an investment case; (c) limitation of credible business partners with investment capability and appetite; (d) limitation of exit routes.

The hotel industry is capital intensive and therefore has large funding needs. FDI can meaningfully contribute towards the equity funding needs of the sector.

5.6. Barriers to Entry

5.6.1. Development of hotels in India faces several challenges, principal among which are:

a. Land: Availability of land at suitable locations for hotels, high land cost of available land, and limited development entitlements - create limitations on hotel development, viability, and hotel size.

b. Regulatory Approvals: Hotel projects require multiple regulatory approvals and licenses, before project implementation and prior to opening. The process is time consuming, with timing uncertainties and delays – the resultant longer time to hotel opening causes project cost escalations, significant additional interest cost, debt-service pressures, and project quality impact.

c. Policy Changes: Policy changes by government can have a material impact on hotel development, operations and profitability. For example, (a) imposition of liquor prohibition; (b) substantial delay in completion of Delhi Aerocity hotels as security issues were not resolved in a time- bound manner; (c) recent requirement for drivers accommodation in Tamil Nadu.

d. Bank Financing: Cost and availability of debt, shorter loan tenures (8 to 10 years till 2015), and repayment structures which were inconsistent with the capital-intensive nature of hotels that typically need 2-4 years to stabilise operations. Bankers now provided extended tenures of 12-15 years which is more consistent with the industry needs and cash flow patterns.

e. Availability of Equity Capital: Shortage of sufficient long-term equity capital is a significant constraint towards capacity creation, particularly a portfolio of hotels or large hotels, and funding working capital shortages.

f. Manpower Shortages: Increasing manpower shortages - staff and managers with sufficient operating experience and skills – and high attrition across managerial and staff levels poses service limitations for hotels. Increased use of technology and larger talent pool of hotel chains will be sought.

g. Brand Competition: In an environment where global hotel companies and brands can easily operate in India, the ability to create new hotel companies and brands is constrained by competitive pressure and more diversified backbone and management system needs for hotel companies. The international players, with a diversified portfolio, and global loyalty programs have established a strong presence in India. In this context, a hotel company with owned hotels and management for third parties carries an advantage to establish deeper presence and brand strength.

5.7. Key Demand Drivers

Demand for hotels arises for various purposes. The key demand drivers are briefly described herein:

5.7.1 Business Travel comprises inbound and domestic visitation for business related purposes. This includes travel on corporate account and by individual business travellers in primarily business-oriented locations. Demand often predominates between Monday and Thursday, slowing down towards the weekend or public holidays; domestic business travellers at upscale and mid-priced hotels often stay through till Saturday. Business travel also slows down during vacation periods.

5.7.2 Leisure Travel is discretionary in nature and comprises long and short stay vacations, staycations at city hotels, weekend stays for recreation and entertainment, leisure attached to a business trip or to a trip for weddings and meetings. Greater affordability, changing attitudes towards lifestyle, and improved connectivity have encouraged staycations and weekend stays at hotels with good F&B, recreation and entertainment facilities. The ability to attract weekend leisure demand at city hotels is vital to high occupancy levels for city hotels.

5.7.3 MICE – corporate, government, institution and association events (conventions, conferences, retreats, incentives and promotions, training programs, customer-facing events, staff events etc), Corporate and government demand is mainly during the working week or on Saturday; institution and association demand can be on weekends. MICE demand occurs through the year, barring the main holiday periods and the months from March through May. Cities with international convention centres are able to attract large international events.

5.7.4 Weddings and Social demand involve mainly destination weddings, residential and non-residential weddings and other social / celebratory events.

5.7.5 Diplomatic Travel comprises government leaders and representatives of other countries, often accompanied by large trade delegations, and diplomats posted to India using upper-tier hotels during the transition period.

5.7.6 Airline Crew helps create a core of demand at hotels, albeit at significantly discounted pricing. Airlines also generate limited demand for layovers due to significantly delayed flights.

5.7.7 Transit Demand comprises persons on overnight transits during air or road travel to a domestic or international destination.

Each demand segment attracts domestic and inbound travel of varying measures, also dependent upon the hotel and destination character. Demand quantum, profile and rate paying capacity is also impacted by seasonality factors which may apply differently to business and leisure hotels – for example, higher rate paying leisure travel predominates in winter; business travel predominates on weekdays and business hotels are more reliant on leisure and other demand on weekends.

6. ASPHL: Revenue composition and Operating Performance Comparison

6.1. In this section we have reviewed the operating performance of ASPHL hotels, under several parameters, relative to industry and market performance data, to the extent such data was available in the public domain. Collated data for FY23 for industry as a whole is not yet available.

6.2. Table 15.1 below provides a comparison of ASPHL performance with the reported numbers of several listed companies for FY21, FY22 and FY23.

Table 15.1 – Revenue and EBITDA - Select Listed Hotel Companies (Rs. Mn)

Company#	**FY21**			**FY22**			**FY23**		
	Revenue	**EBITDA**	**%**	**Revenue**	**EBITDA**	**%**	**Revenue**	**EBITDA**	**%**
IHCL	17,399	-1,970	-11%	32,114	5,599	17%	59,488	19,435	33%
ITC Hotels	6,639	-675	-10%	13,477	3,466	26%	26,891	8,520	32%
EIH	5,470	-230	-4%	10,440	574	6%	20,964	6,750	32%
Chalet Hotels	2,021	-1,170	-58%	4,100	-307	-7%	10,281	3,383	33%
Lemon Tree Hotels	2,650	745	28%	4,163	1,327	32%	8,786	4,511	51%
ITDC	1,938	-278	-14%	3,037	130	4%	4,805	924	19%
Taj GVK	968	-5	-0.5%	2,283	521	23%	4,124	1,477	36%
Oriental Hotels	1,231	-248	-20%	2,264	305	13%	4,080	1,261	31%
Kamat Hotels	675	104	15%	1,456	378	26%	2,990	1,127	38%
Royal Orchid Hotels	888	-31	-4%	1,559	404	26%	2,797	980	35%
Total / Avg@	**37,679**	**-5,759**	**-15.3%**	**70,345**	**8,911**	**12.7%**	**137,002**	**45,630**	**33.3%**
ASPHL	1,903	228	12%	2,678	583	21.8%	5,256	1,771	33.7%

Source: Listed Company annual reports / quarterly reports; ASPHL management for ASPHL data
 # consolidated numbers unless otherwise stated; Revenue includes Other income
@ excludes Taj GVK and Oriental Hotels as these are included in IHCL consolidated numbers

Earnings before Interest, tax, Depreciation and Amortisation (EBITDA) margins for ASPHL for FY21, FY22 and FY23 are higher than the average margins for several listed companies (as per Table 15.1).

6.3. Table 15.2 below provides a comparison of ASPHL F&B performance with the reported F&B numbers of certain listed companies for FY21, FY22 and FY23. For each financial year the numbers of hotels rooms for which the data is provided in Table 15.2.

Table 15.2 – F&B and Total Revenue - Select Listed Hotel Companies (Rs. Mn)

	FY21	FY22	FY23
Listed Cos#			
Rooms (in '000s)	25	26	17
Total Revenue (Rs. Mn)	31,041	56,868	90,733
F&B Revenue (Rs. Mn)	9,337	18,223	32,303
% (F&B to Total Rev)	30%	32%	36%
ASPHL			
Total Revenue (Rs. Mn)	1,728	2,435	4,866
F&B Revenue (Rs. Mn)	623	883	1,902
% (F&B to Total Rev)	36%	36%	39%

Source: Listed Company annual reports / quarterly reports; ASPHL management for ASPHL (hotels only) financial performance data
 # consolidated numbers unless otherwise stated; Revenue includes Other income

F&B contribution to total revenue at ASPHL hotels for FY21, FY22 and FY23 is higher than average F&B contribution referred in Table 15.2. In case of ASPHL, the F&B revenue mainly arises from its outlets and entertainment oriented products.

The F&B contributions and EBITDA margins at ASPHL hotels also reflect the benefit of location value of their hotels.

7. Market Performance Analysis

In this section we provide an analysis of the performance of hotels on all India basis and for Select Markets. Data is presented for the full market (comprising hotels of all positioning). As data availability varies from market to market based on extent of participation by hotels in different cities, data provided may cover different periods for various markets.

7.1. All India

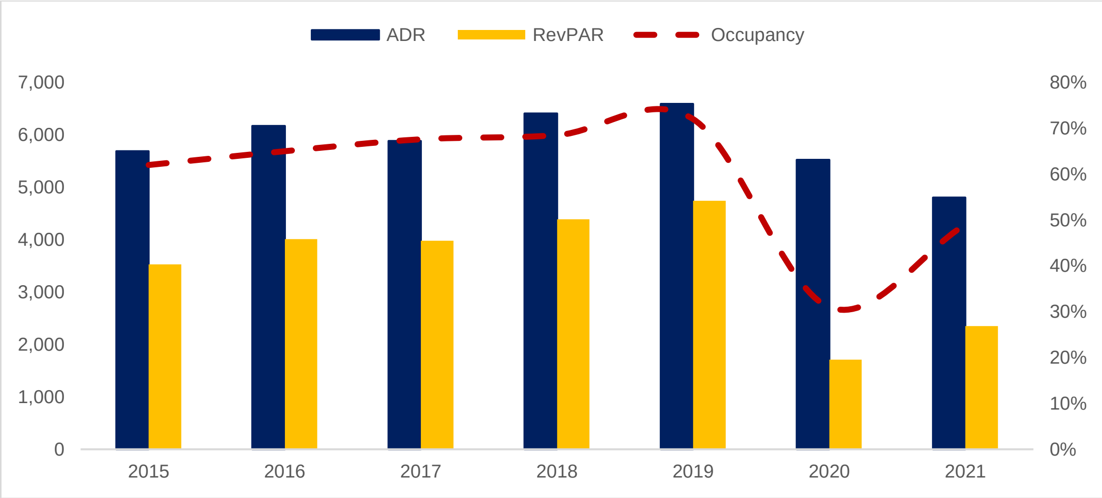
7.1.1. We present below the following information and charts:

a. Chart 11 showing all-India performance of chain-affiliated hotels, across all segments, for the years 2015-2021. This is effectively for several years in the pre-Covid period.

b. Key growth parameters (CY15-Q1-CY23) of chain-affiliated hotels on all India basis, in Table 16

c. Chart 12 provides monthly all-India monthly performance from January 2022 reflecting the strong recovery and business growth in 2022 which was considered to be among the best performing years for the hotel sector.

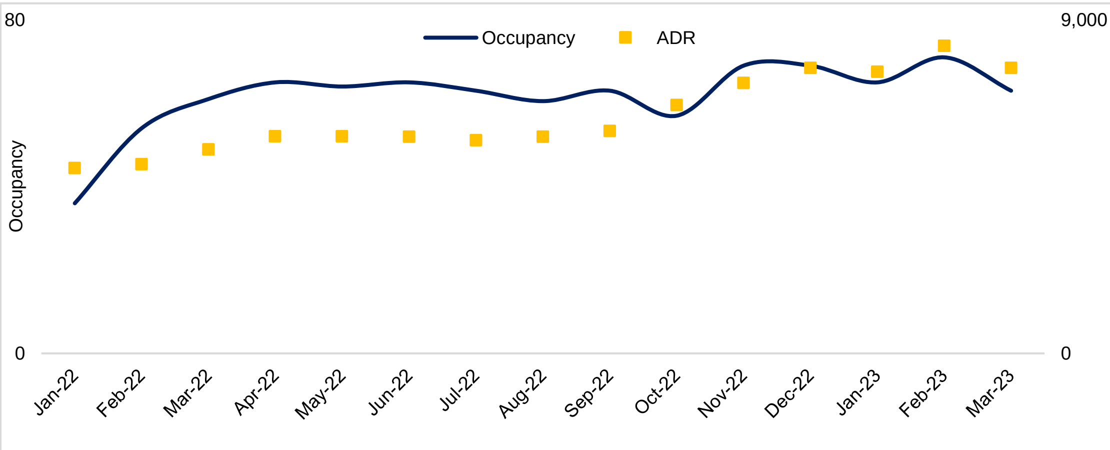
Chart 11 - India Hotel Market Performance



Source: Horwath HTL

Chart 12 - India Hotel Market Monthly Performance – January 2022 to March 2023

The data provided in the market reports contain a performance range for occupancy and ADR. The numbers presented in the chart are a simple average of the range provided in the report.



Source: HVS Anarock – Hotels and Hospitality Overview Report

Table 16 - Key Growth Parameters – all India CAGR

	CY15-CY19	CY19-Q123	CY15-Q123	CY20-Q123
Supply	7.0%	4.0%	5.6%	5.0%
Demand	11.5%	2.0%	7.1%	47.3%
ADR	3.7%	5.6%	4.6%	17.0%
Revenue per Available Room (RevPAR)	7.7%	2.9%	5.5%	63.9%

CY20-Q123 reflects much higher numbers because of the unusual situation due to the initial steep decline and then recovery from Covid-19 pandemic

Source: Horwath HTL & HVS Anarock – India Hospitality Industry Overview 2022 Report and Hotels and Hospitality Overview Report

7.1.2. From a macro-perspective, the following elements emerge:

a. The hotel sector had a difficult period from late 2008, mainly because expected demand growth did not occur to match supply created in anticipation of demand growth. The economy and investment climate were not supportive of demand growth; security issues occurred in some years. During this period, supply growth was 44k rooms while demand grew by 25k rooms.

b. Slowing occupancy invariably leads to softer ADR thereby impacting RevPAR levels. Rates were impacted by the dual factor of slower demand and occupancy generally, and diversification of supply profile so that wider options of quality and price points became available; this appealed well to the growing domestic demand.

c. Rate revival often lags occupancy revival; rates are pushed higher only once hotel managements have greater confidence of business levels. Simultaneously, constraints on bookings push a reluctant demand side to pay higher room rates. Further, a positive business climate creates more positivity in travel and draws a wider profile of international and domestic business travellers – this also helps to improve the rate sentiment.

d. Demand pattern changes in favour of shorter booking lead times also create occupancy uncertainty among revenue managers, causing reluctance for stronger rates.

e. Barring the impact from the Covid-19 pandemic, occupancy has revived since 2015 as demand conditions improved and new supply had slowed. The upward trend in RevPAR upto December 2019 was materially occupancy led, with improved occupancy gradually enabling ADR increases.

f. The Covid-19 pandemic was a major disruption with severe travel and operating restrictions, and material drop of occupancies and ADR - corporate, MICE, inbound, and crew travel reduced very materially. Recovery started in the late summer of 2020 and then gained momentum; recovery from wave 2 of Covid was much more rapid enabling a strong H2-21 performance. The Omicron wave was disruptive between mid-December 21 to February 22 but has then given way to strong performance through April 23.

   The overall challenging period of recovery from Covid saw some hotels and groups showing greater creativity and resilience in responding to the crises thereby enabling more rapid recovery.

g. As stated earlier in the report, All-India and market-level ADRs were also impacted by changed supply composition, with increased supply share of upscale and lower priced hotels.

8 Performance and Outlook for Select Markets

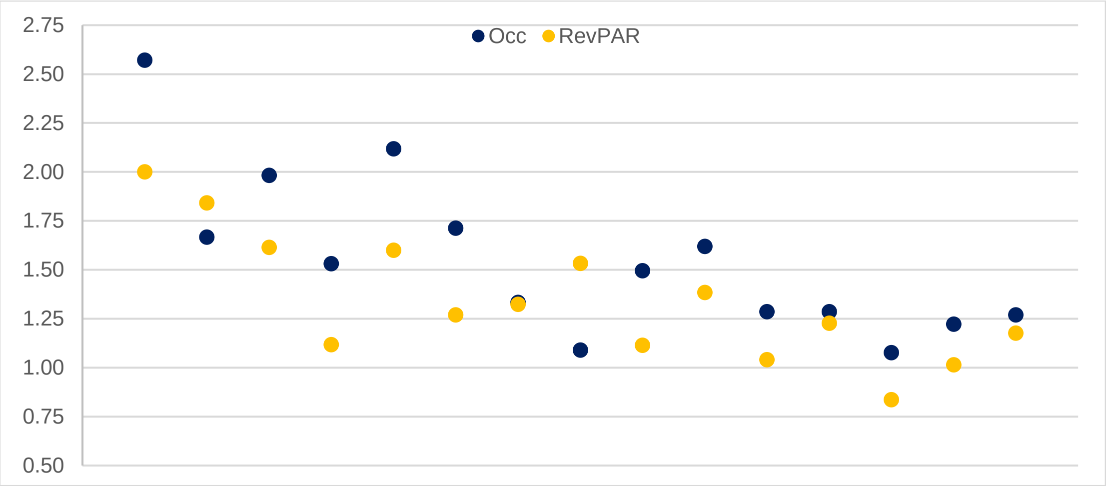
8.1 High occupancy levels at The Park Hotels (TPH) hotels enable strong RevPAR. RevPAR is a key performance parameter reflecting the effective yield on guest rooms. The occupancy and RevPAR indices (hotel performance for Occupancy and RevPAR over the market Occupancy and RevPAR) below reflect that TPH parameters are ahead of the market in 29 of the 30 data points. In this sub-section, we present the rooms performance of individual ASPHL owned hotels relative to the performance of respective markets.

Table 24 – Comparison between ASPHL owned hotels performance and respective market performance

City	New Delhi	Bengaluru	Kolkata	Hyderabad	Chennai
Occupancy Index					
FY21	2.12	2.57	1.67	1.53	1.98
FY22	1.62	1.71	1.33	1.50	1.09
FY23	1.27	1.29	1.29	1.22	1.08
RevPAR Index					
FY21	1.60	2.00	1.84	1.12	1.62
FY22	1.38	1.27	1.32	1.11	1.53
FY23	1.18	1.04	1.23	1.02	0.84

Source: Amadeus Demand360 TM

Chart 23 – Comparative Performance Index – Occupancy and RevPAR Index for FY21, FY22 and FY23



Source: Amadeus Demand360 TM

Considering that the market data available for this purpose normally comprises upper-tier hotels with naturally higher ADR than for upscale hotels (such as TPH), the RevPAR index reflects positively on the effective yield for guestrooms at TPH.

8.2 Kolkata

8.2.1 Outlook

- The city has reasonably absorbed new supply between 2014 and 2018, with city occupancy holding between 64% and 67%, and ADR fluctuating in a narrow band of Rs. 200. The city had a sharp occupancy recovery after the second wave of Covid, with Occ then broadly stabilising around 70% after the Omicron wave ended. ADR levels were slower to recover and crossed Rs 6k only in Q4-22.
- Substantial supply (1.2k rooms) was added across segments between 2014 and 2018. On the other hand, new supply pipeline is limited (about 700 rooms) upto FY26, providing space for hotels to regain stronger positions. Supply growth in the core city centre with proximity to affluent residential areas has been limited (only 300 rooms added since 2010; pipeline of only 150 rooms).

- The city has limited strength of corporate demand and the absence of MICE has constrained market performance. F&B revenue, weddings and social demand continue to be strong.
- New hotels positioned at luxury-upper upscale level may help improve city-wide ADR in the medium term.
- The Park has established segmental leadership particularly gaining from its high occupancy and F&B capabilities.
- The city thrives on MICE and weddings demand and, more recently demand from sports related events. Greater business travel demand would be very beneficial.
- Strong local demand for dining, entertainment and weddings is expected to sustain, and benefit hotels with the facilities, product and recognition for quality and innovation; good F&B is also a driver for rooms demand for weddings and on weekends.

8.3 New Delhi

8.3.1 Outlook

- The city saw strong occupancy recovery after the second wave of Covid with average occupancies estimated at around 65-67%. As is typical, ADR recovery was initially slow but then gathered momentum to enable most hotels to achieve double-digit ADR growth, surpassing pre-Covid ADR levels.
- The hotel sector has gained from strong domestic demand (business travel, weddings, MICE, leisure, staycations, transit) and moderate recovery of inbound demand which has also gained from G20 related travel. More sustained recovery of foreign business and leisure travel will help sustain business levels and growth for Delhi hotels
- The sector will also benefit from limited supply pipeline comprising about 1.2k rooms through FY27.
- The capacity and positioning of Delhi Airport will be an advantage in the medium term, as well as in the long term as the airport expands; some demand shift could arise as Jewar airport is commissioned (projected as Q3-2024), although this is not likely to draw business from central Delhi hotels, where THE PARK Delhi is located. On the other hand, the city will gain MICE and events demand from the new convention centre at Pragati Maidan (close to central Delhi) and the Delhi Metro Rail Corporation (DMRC) led convention centre on Dwarka Expressway.

8.4 Bengaluru

8.4.1 Outlook

- The city with predominant IT sector focus also has the largest hotel room inventory in India and is yet to fully rebound to consistently higher occupancy and ADR.
- Bengaluru suffered very severely in the pandemic as lack of inbound travel and WFH impacted demand from the IT and ITeS sectors. Recovery has been gradual and gained momentum as travel restrictions were lifted, new joinees were inducted and MICE demand started reviving.
- The IT sector continues to materially work remotely, affecting domestic and inbound travel needs; while air traffic has recovered smartly, this includes personal travel and is yet to fully translate to more consistent business travel and particularly inbound visitation. On the other hand the city has gained from G20 related demand and travel for newer projects and investments across various sectors.

- Bengaluru also has a significant balance of supply share across various price points, thereby creating the likelihood for a lower city-wide ADR.
- Expansion of Bengaluru airport, large existing inventory of commercial spaces and resumption of growth efforts, significant expansion of the aero and defence sector, are all positive factors towards a stronger future, with reduced WFH at the IT and ITeS sectors being the key tipping point when it occurs.
- The changed travel profile for the last 24-30 months has created more demand at city centre hotels, at some cost to hotels that are more IT Parks centric. The city centre area (where THE PARK is located) remains a strong core for business and entertainment.
- The hotel supply pipeline has slowed (1.7k rooms by FY26).
- Bengaluru demographics point to opportunity for entertainment and F&B spends, at hotels with the requisite appeal and draw

8.5 Chennai

8.5.1 Outlook

- Occupancy recovery from Covid has been slow, particularly as the IT sector travel and demand growth have yet to recover and fructify, respectively. Lower occupancies at hotels serving the IT corridor (about 26% of total inventory) has restrained city wide occupancy to an estimated level of 60-63%. On the other hand, ADR levels have gained over 10% growth to pre-pandemic levels benefitting from stronger business performance (Occupancy and ADR) at city centre hotels and hotels that are not IT demand centric.
- A very limited supply growth pipeline (0.7k rooms upto FY27) should help the market stabilise and consolidate occupancy and ADR; yet, Chennai has seldom reached ADR levels of other business cities.
- Changing demographics will push for more experience-based and differentiated products, particularly for F&B and entertainment.
- Completion of metro projects in the city-centre (where THE PARK is located), will facilitate easier demand flow into city centre hotels.

8.6 Mumbai and Navi Mumbai

8.6.1 Outlook

- Mumbai has seen a sharp rebound of business post Covid, with Occupancies crossing 75% in the first half of 2023; occupancy levels for the first quarter are estimated at about 77-78%, declining marginally in the summer. The city has also gained material ADR growth; with double digit growth in ADR at most hotels, and the substantial upper tier share of supply in the city, market wide ADR is reasonably estimated around Rs 9k.
- Demand is led by business travel, MICE, weddings and crew and is supported by social and leisure travel. Each of these are in growth mode.
- The supply pipeline comprises 4k rooms by FY26; we reasonably expect this to be absorbed by new organic growth demand, major demand from the recently opened Jio World Convention Centre and Nita Mukesh Ambani Cultural Centre (NMACC), and the opening of Navi Mumbai international airport by end 2024. Occupancy and ADR levels can expect to remain very positive.

- Navi Mumbai business conditions, mainly linked to the IT and other services sectors and project demand are expected to remain healthy as IT companies resume work from office, newer facilities are developed and the airport opens.

8.7 Goa

8.7.1 Outlook

- Goa enjoyed a true V-shaped recovery from the pandemic and has continued to grow demand, and consequently growth in ADR. With strong performance and demand for upper tier resorts, and a higher rate propensity in the domestic market, we estimate the market-wide ADR to be around Rs. 10k, possibly above the 5-digit level. Several luxury and upper upscale hotels have gained 20-35% ADR growth over pre-pandemic levels.
- Together with Rajasthan, Goa is the torch-bearer of India's leisure sector surge.
- Mopa airport has added travel capacity and enabled a strong Occupancy and ADR push in this market – leisure, MICE, weddings, casinos, and limited business travel are the key demand elements.
- The supply pipeline through FY26 comprises only 2.6k rooms through FY27, while demand continues to grow.
- Importantly, there is hardly any supply creation on beach front properties – in the last about 10 years, growth of chain affiliated supply includes only 2 resorts on beach fronts (including one which is a conversion of an older independent resort, to a chain affiliated resort). This creates added value for beach front properties.
- Demand for Goa could see a negative impact from the Goods and Services Tax (GST) to be levied on casinos with effect on hotels that materially rely on casino demand. On the other hand, beach front resorts and differentiated products that are leisure orientated will gain from the more leisure related demand that will flow to the destination.

8.8 Vizag

8.8.1 Outlook

- A major business city in Andhra Pradesh, it benefits from business travel, leisure, MICE and weddings demand. Vizag is set to become the state capital of Andhra Pradesh.
- With limited inventory of less than 2k rooms, Vizag has substantial growth potential, in occupancy and ADR.
- The city has substantial spend character and propensity for F&B and entertainment, to be benefit of hotels that have the facilities and quality for these.
- The city Occupancy is estimated around 60-63% with scope to grow as travel demand becomes more consistent and is supplemented by MICE, weddings and leisure demand.
- A new airport is being developed for the city and this will create larger travel capacities for domestic and inbound visitors.
- Being on the coast, Vizag has opportunity for business travel and leisure. Hotels that are on beach front (such as The Park and Radisson Blu) having an advantage to attract business, leisure and group demand.

8.9 **Pune**

8.9.1 Outlook

- Pune is a business and MICE city, with demand from manufacturing and services.
- It recovered well from supply surge between 2010-2014 – occupancy and ADR were generally on an upward curve in the pre-Covid period; supported by continued supply growth for commercial space.
- It has also recovered well from the Covid pandemic, with occupancy levels for 2022 and early 2023 in the high 60's. Hotels have also gained ADR, benefitting from over 25% ADR gain at certain luxury hotels which has created space for ADR growth across segments.
- Healthy demand potential from business travel and for corporate MICE; demand for residential weddings is also positive although at upper tier hotels.
- Expect positive trend in occupancy and ADR over the long-term.
- Material foreign demand, and younger demographics will help create demand for quality F&B outlets and entertainment facilities.