

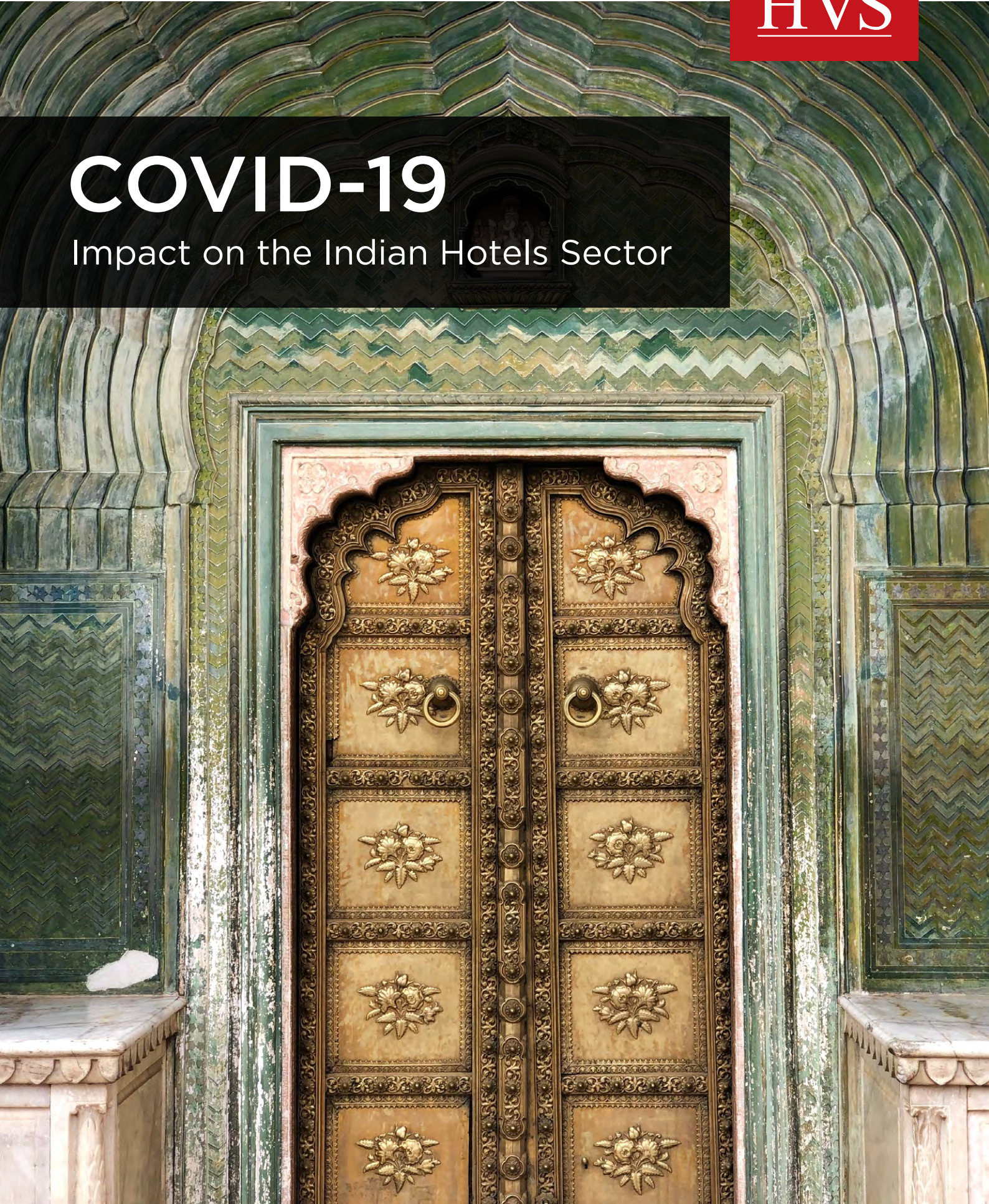
 hvs.com

 HVS India & South Asia



COVID-19

Impact on the Indian Hotels Sector



Introduction

The world is still coming to terms with the Covid-19 outbreak and there is no doubt that the pandemic will change the world as we know it. With the globalized world going into partial or complete shutdown, the overall impact on human life, economic growth and businesses is immeasurable, both in the short term and long term due to the uncertainty as things evolve.

While most Economists and Analysts currently expect the global economy to rebound, by some measure in the latter part of 2020, the exact timeline cannot be determined till the virus is contained across the globe.

Nearer home, the Indian hotels sector has been hit hard, grappling with significantly low demand, with very few future bookings. Essentially, all transient demand has completely vanished - the remaining is largely on account of either a few long stay guests, or hotels having been prescribed by the Government for the international travelers returning to India.

Nothing could have ever prepared us for the Covid-19-shock and although, the current crisis is unlike any other we have ever faced, not all is lost. The Indian hotels sector can recover from this crisis as well, by adjusting strategies in the near term and preparing for the future.

In this report, we have tried to quantify the impact of Covid-19 on the Indian hotels sector, while discussing some of the immediate steps that are needed to help the sector get back on its feet.

We would like to emphasize that our analysis is based on data available to us as on 23rd March 2020. However, as the situation and implications are evolving rapidly, some of the insights in the report may quickly be outdated.

It is imperative that all the industry participants collaborate and work harmoniously in the current crisis by sharing best practices, keep the workforce motivated and seek to put the industry back into recovery mode, because this too shall pass sooner rather than later.



Covid-19: Unprecedented impact on the global economy

To say that the economic impact of the outbreak has been devastating, is putting it mildly. Most Economists believe that the full impact will only emerge once the outbreak is completely contained.

Economists world-over expect the global economy to shrink in the first quarter of 2020, a first since the 2008 financial crisis.

With the number of cases rising sharply on a daily basis, even if the pandemic is contained soon, the ripple-effects will be felt across the world well into the year, pushing all major economies into a possible recession.


The Travel & Tourism (T&T) sector across the globe is undoubtedly the biggest casualty of the Covid-19 pandemic. Several countries have issued travel advisories and are in lock down mode, with all major global business, social and sporting events getting cancelled since February.

Impact on global T&T sector - a few alarming estimates

In their fight for survival against the Covid-19 pandemic, IATA estimates that global airlines need

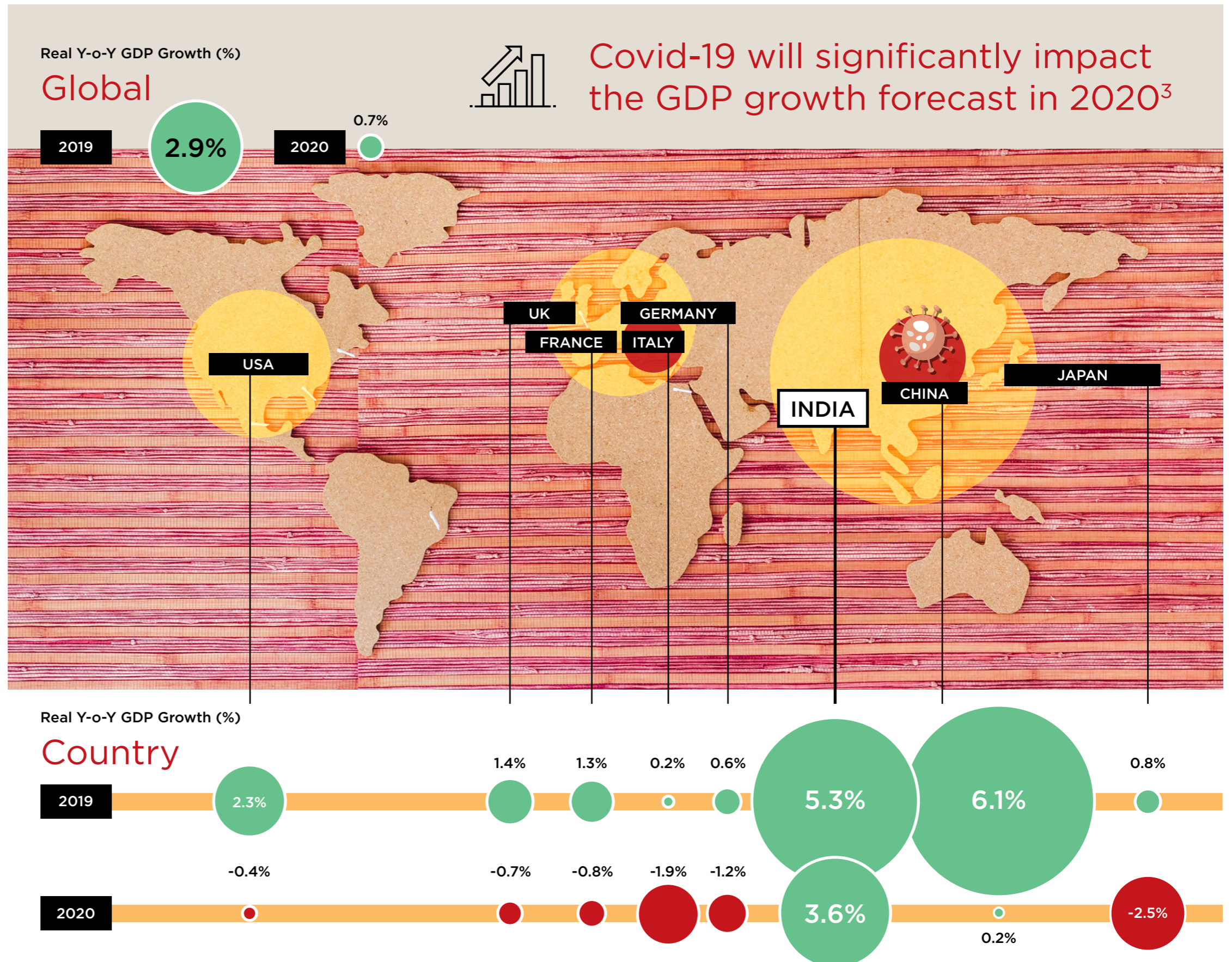
 **USD 200 Bn¹**
Emergency fund

According to the World Travel & Tourism Council,

 **50 Mn**
Jobs likely to be slashed
↓12-14%²
Reduction in T&T jobs worldwide

International travel could be adversely impacted by up to 25% this year, equivalent to a loss of three months of travel².

The industry could take up to 10 months to recover after the outbreak is over².



¹“Global airlines need up to USD 200 billion in emergency aid, says IATA,” Business Standard, 19th March 2020
²“This is how coronavirus could affect the travel and tourism industry,” The World Economic Forum, 17th March 2020
³“Global Economic Outlook,” Economic Quarterly Report, RaboBank, 19th March 2020

Covid-19 & its Impact on Indian Hotels Sector

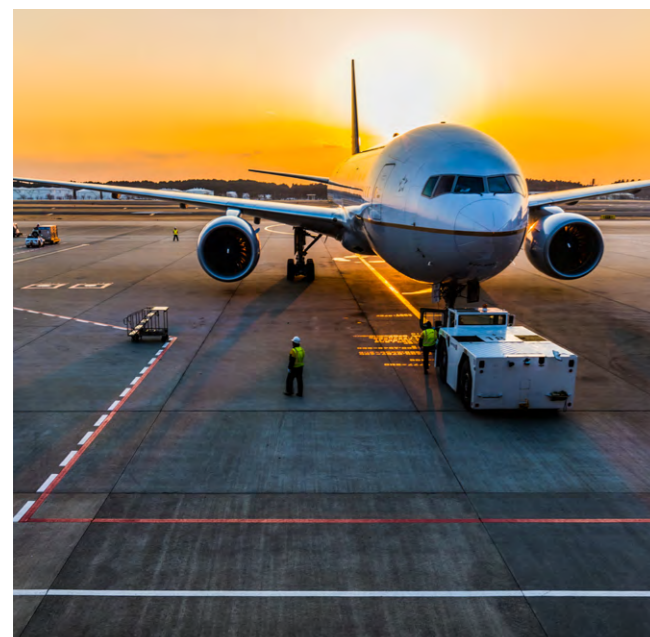
The Indian hotels sector is undoubtedly one of the biggest casualties of the Covid-19 outbreak as demand has declined to an all-time low. Global travel advisories, suspension of Visas, imposition of Section-144 (prohibition against mass gatherings), India like most other countries is on a lock down, the ramifications of which are unprecedented.

Inbound Foreign tourism comes to a grinding halt and limited scope for quick revival

Foreign Tourist Arrivals (FTAs) into India (particularly leisure travelers) started softening in February, as the spread continued its unabated movement to other countries.

Following suit, the Indian Government suspended travel visas (with a few exceptions) till 15th April 2020, which in all likelihood will be extended. Even if it is not, the paranoia surrounding the events will continue to have a major impact on travel.

Demand from FTAs is not expected to pick up any time soon. In our opinion, travel bans across the globe will fully roll down only by the end of the year, even though such a process will commence much sooner. Furthermore, majority of the future travel bookings for winter i.e. October-March – the strong season for our industry - are done in the summer months, have largely evaporated.



Domestic Travel will be key to the revival

With new confirmed cases being reported daily, the penetration of the Covid-19 virus in India has caused mass hysteria, the reverberations of which are expected to continue well into the second quarter of the calendar year 2020.

The current situation is extremely grim, as domestic flights have been ordered to shut shop from 25th March 2020 and all other demand segments such as MICE, business, social and sporting events have been cancelled or deferred indefinitely for the foreseeable future.

The silver lining to such devastation is that it has brought multiple representative bodies from Travel, Tourism and Hotels to collectively make representations to the Government and the Prime Minister's Office. As we go to print, in all likelihood the Government should announce measures to revive and support the distressed sectors, with specific focus to the hotels sector, among others. Further in this report, we have highlighted our recommendations to the Government that will assist in the revival of the sector.

Government assistance in revival of demand will go a long way in cushioning the blow to the sector, which in our opinion, should include, in large part, assistance to domestic travellers.

The impact on the Indian hotel sector will be significant

The Indian hotels sector sailed smoothly into January 2020, after a record year in 2019, with 2020 set to be "even bigger". The country first started feeling the ripple effects of the global Covid-19 turmoil towards the end of February 2020, which worsened in the beginning of March. Occupancy across hotels in key cities declined rapidly and as per our estimates has declined by a staggering 45 percentage points compared to previous year. Such a steep decline in a such a short period of time has never been witnessed by the sector.

We predict the second quarter of the year to be the worst hit. Hotels will be unable to drive rates and may even seek to attract business at deep discounts.

While the veracity of the impact on the sector may only be fully known much after the cessation of the pandemic, at HVS we have tried to determine the total loss in revenues faced by industry using two scenarios - both assuming that demand growth will resume prior to the end of the year.

The overall occupancy in the branded hotels segment in 2020 is estimated to decline by 16.7% - 20.5% points over 2019, while ADRs are estimated to decline by 7% to 8% for the year. As a result, RevPAR will witness a significant decline of 31% to 36.2%.

Scenario 1: Demand picks up in July*

	BRANDED	SEMI-ORGANISED	UNORGANISED
Revenue Loss	USD 3.35 Bn	USD 0.9 Bn	USD 4.4 Bn
Occupancy	↓ 16.7 percentage points		
RevPAR	↓ 31%		

Scenario 2: Demand picks up in October - November*

	BRANDED	SEMI-ORGANISED	UNORGANISED
Revenue Loss	USD 4.1 Bn	USD 1 Bn	USD 4.95 Bn
Occupancy	↓ 20.5 percentage points		
RevPAR	↓ 36.2%		

*Analysis based on data available as of 23rd March 2020

Source: HVS Research

Therefore, the overall revenue of the Indian hotel sector is set to decline by anywhere between USD 8.85 Bn to USD 10 Bn, reflecting an erosion of 39% to 45% compared over last year. Besides the actual business loss, the hotel owners will also incur losses due to fixed operating expenses, debt repayments, interest payments and several other compliances required to be undertaken as part of the sector.

It is important to note that the magnitude of the impact can change drastically if the outbreak is not contained immediately. In such an event, our scenarios will turn invalid.

The Way Forward

While the pandemic has brought the hotel sector in India to its knees, our hope is that the industry will be in recovery mode sooner than later.



Recommendations for the Government

The Government has already taken a step in the right direction by announcing its plans to set up a Covid-19 Taskforce to undertake measures necessary to combat the economic effects of the pandemic on the country. On our part, we have highlighted some sector-specific measures that we believe will assist the taskforce in evaluating multiple measures to help the Indian hotel industry weather the current storm.



Policy Support

Annual renewal of licenses paid for in 2020 should be extended till the end of 2021 without an incremental fee or charges.



Monetary Support

Stimulus package to stabilize and support the sector in the near term, including a workforce support fund to ensure that there are no job losses.

Provide a moratorium of ~ 6 - 12 months on all loans (principle & interest), including working capital payments and overdrafts.

Ensure that Credit Rating agencies do not down-grade ratings of businesses, due to the expected volatility of the business in the short to medium term.

With the fall in oil prices, subsidies on Heat-Light-Power (HLP) costs should be extended, as HLP is among the largest fixed cost for the sector.



Fiscal Support

Provide a 12-month corporate tax holiday to travel, tourism & hospitality sectors.

Defer all statutory dues such as advance tax, custom duties, excise duties, PF, bank charges etc. at central and state level for 12 months.

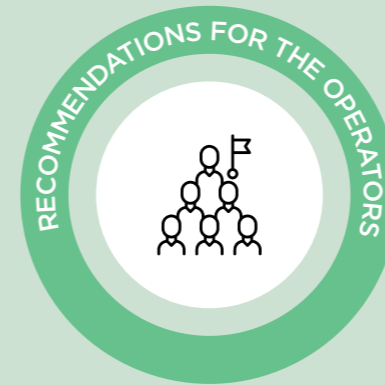


Direct support to revive demand

Appoint a think tank to evaluate and decide the measures necessary for the revival of the sector.

Waive / Reduce GST on products offered by the sector for one-year period.

Incentivise travel by introducing a **one-time opportunity** for Leave Travel Allowance to be part of the new income tax slabs.



Recommendations for the Operators

The hotels sector at large has been the biggest casualty of the Covid-19 shock, with demand at an all-time low across the globe. As the sector continues to build contingency plans to alleviate the fallout of the crisis, in our opinion, hotel operators should also look to extend the hand of solidarity to their owners by providing certain relief measures.



One-time waiver or reduction in Base & Incentive Fees

The relief should be in the form of a one-time waiver or reduction in Base and Incentive Fees as well as Distribution, Technology and reimbursable costs, measured by correlating the total impact of the crisis on the hotel to the return of normalcy in operation post Covid-19.



Defer certain brand standard provisions

All brand standard provisions that do not have direct impact on revenues of the hotel and / or cannot be planned as per the revised capex budget for the current year, should be deferred until such time normalcy in operation returns.

While FF&E is an important fund set up by the hotel for periodic replacement and upgradation, the funds should be released immediately and redeployed either towards initial working capital to resume hotel operations or towards reduction in debt, as may apply to each situation.



Recommendations for Hotels

According to recent reports, over 90% of domestic hotels in China had resumed operations at the end of February 2020, just 2 months after the first Covid-19 case was reported in the country. Hotel bookings have also been increasing with business travellers accounting for the largest segment. Hotels located in proximity to transportation hubs have been the popular choice. All the above news comes as a silver lining as it provides the Indian hotels sector a window to look for in the future, as it comes to terms with Covid-19 related travel restrictions and cancellations.

Our industry has proactively taken several precautionary steps to mitigate the immediate impact. However, we must forewarn that now more than ever, hotels will need to continue their efforts to quickly adapt to the rapidly changing business environment.

To assist with the same, we have highlighted a few measures that will assist hotels with the current onslaught below:

1. Stop Gap Plan

Hotels should use the opportunity to devise and implement a “Stop Gap Plan” to ensure that when demand bounces back, the hotels are well prepared to benefit from the upswing.

Among essential items the Stop Gap Plan should include:

- 1 Bare minimum operations sufficient enough for quick recommencement when the opportunity arrives
- 2 Implement a subtle digital and social media marketing strategy to retain mindshare of customers
- 3 Engage with suppliers / vendors to compute their capacity to re-engage with the hotel on recommencement
- 4 Develop and maintain communication lines with key customers and team members
- 5 Continue to remain in discussion with relevant local government authorities
- 6 Develop a Reopening Plan and Budget
- 7 Utilize this period for implementing Ken-fix-it / upgradation, wherever possible

“

We at HVS are absolutely certain that when demand returns, it will do so in a manner that will require hotels to respond in a quick and efficient manner. To continue delivering quality to its returning customers, hotel managers will need valuable support of team members, who are currently away. Hotels should not consider retrenchment plans, unless the situation inhibits continuing operations under current conditions.



2. Prepare & plan the reopening

The reopening plan of a hotel should be viewed through the prism of past preopening plans that were devised for the hotel prior to its initial opening. The only critical difference in this instance being that hotel will now reopen post a horrific event that would have fundamentally altered the foundation of hotels sector globally.

Hotels should look to implement the reopening plan in the shortest possible time available, as when demand returns the customer will become a bigger and more demanding 'King'. Below, we have provided some key tasks that hotels will need to consider as part of their reopening plan:

Task Force Management Team

- 1 'Stop Gap Plan' task force team to handover the hotel to an operational 'Reopening Plan' task force team.
- 2 The task force team should evaluate short term recruitment to bridge any gaps in operations.

Sales & Marketing

- 1 Carrying forward from the 'Stop Gap Plan', aggressive efforts to reestablish connections with all customer through all available channels should be implemented.
- 2 Effective digital and social media strategies must be rolled out as part of the communication plan.
- 3 Follow a mechanism whereby all the bookings that were previously cancelled or deferred are honored in good spirit.
- 4 Instead of 'Glocal' go 'Local': demand from outstation travelers will be low in 2020, hence, it is time to focus and rely on local demand. Special experiential packages and promotions targeted at 'locals' should be the driving mantra.
- 5 Promote packages for specific target groups such as 'Staycations'.

Initial Working Capital

- 1 A 90 to 180 days initial working capital credit line should be established.

Re-engagement & Support for Returning Team Members

- 1 Provide adequate support to the returning employees to restart their work life, including assistance on matters such as housing etc.
- 2 Roll out a training and re-engagement processes for their specific duties and departments.

Front of House Facilities

- 1 'Demand outlook' should be the funnel through which decisions for opening of multiple front of the house facilities such as restaurants, Spas and Gyms be made.

As demand improves, hotels should gradually reopen the areas which earlier were temporarily shut down.

Prudent Spending

- 1 Refrain from any form of spending that may not have a direct revenue benefit.
- 2 Continue cost saving measures even when demand is back to normal to recover the losses during the crisis.

Increase Ancillary Revenues

- 1 Focus on ancillary revenues that maybe generated through non- core revenue generating areas such as Gyms, Spas, etc.
- 2 Provide services that have traditionally not been part of the hotel's core offerings such as food delivery through online platforms or leasing of kitchens for cloud kitchen requirements.

Maintain Pricing Charts

- 1 Hotels should think 'long-term' and promote value-added services and flexible booking terms instead of reducing rates.
- 2 Discounts can be creatively packaged, by bundling services into customized packages & promotions, without adding substantially to the hotel's cost while leveraging the property's exclusive characteristics to remain competitive.
- 3 Offering a flexible cancellation and rebooking policy will reassure existing & potential guests.

Compliances

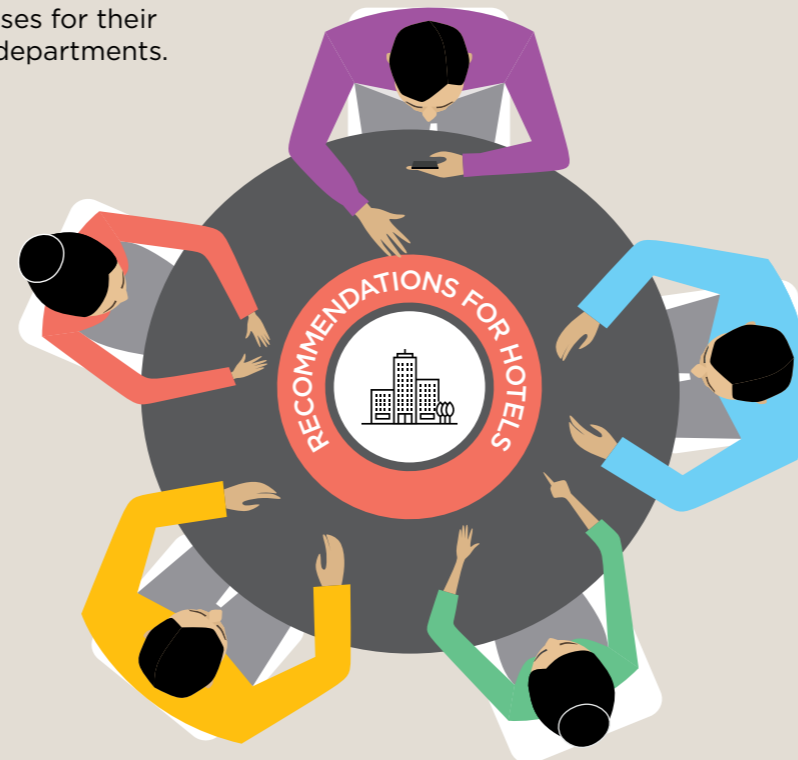
- 1 Ensure that the hotel is complaint with any revised government and brand norms.
- 2 Ensure the hotel continues to follow the health and cleanliness guidelines.
- 3 Reassure Guests and Employees by intensifying routine maintenance and increasing deep clean measures.

Vendor Management

- 1 Post assessment of supplier capability and categorization of all operating supplies including perishables in order of importance, the procurement team must ensure proper stock piling.

Conduct Dry Runs

- 1 At the end of such dry runs, the hotels should be able to understand any gaps remaining prior to full roll out of the hotel.



Superior results through unrivalled hospitality intelligence. Everywhere.

HVS is the only global consulting firm focused exclusively on the hospitality industry. We provide comprehensive solutions through our single - minded focus; helping you succeed in the complex hospitality area through our global reach and in depth understanding of the local market. HVS has over 50+ offices in 5 continents, with 300+ industry specialists having delivered 60,000+ assignments in over 6,000+ markets.

ANAROCK is India's leading independent real estate services company with a presence across India and the Middle East. The Chairman, Mr. Anuj Puri, is a highly respected industry veteran and India's most prominent real estate thought leader. The Company has diversified interests across the real estate lifecycle and deploys its proprietary technology platform to accelerate marketing and sales. ANAROCK's services include Residential Broking and Technology, Retail, Commercial, Investment Banking, Hospitality (via HVS ANAROCK), Land Services, Warehousing and Logistics, Investment Management, Research and Strategic Advisory & Valuations.

The Company has a unique business model, which is an amalgamation of traditional product sales supported by a modern technology platform with automated analytical and reporting tools. This offers timely solutions to its clients, while delivering financially favourable and efficient results.

ANAROCK has a team of over 2,000 certified and experienced real estate professionals who operate across all major Indian (Mumbai, Navi Mumbai, Pune, Ahmedabad, NCR - Delhi, Gurugram, Noida, Ghaziabad, Chennai, Bengaluru, Hyderabad, Kolkata, Lucknow) and GCC markets, and within a period of two years, has successfully completed over 300 exclusive project mandates. ANAROCK also manages over 80,000 established channel partners to ensure global business coverage.

Our assurance of consistent ethical dealing with clients and partners reflects our motto - Values Over Value.



Our Services

**Brokerage & Transaction
Advisory**

Consulting & Valuation

Asset Management

Executive Search

hvs.com | anarock.com

HVS ANAROCK Hotel Advisory Services Pvt. Ltd.

GURUGRAM

Level 7, Tower B
Building No. 9
DLF Cyber City, Phase III
Gurugram 122 002

+91 124 488 5580

MUMBAI

1002, 10th Floor, B Wing
ONE BKC, Plot No. C-66, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051

+91 22 4293 4293

Key Contributors

Mandeep S. Lamba

President
(South Asia)

mlamba@hvs.com

Akash Datta

Sr. Vice President
(South Asia)
Consulting & Valuation
adatta@hvs.com

Ajay Mehtani

Sr. Vice President
(South Asia)
Asset Management & Executive Search
amehtani@hvs.com

Dipti Mohan

Senior Manager
Research
dmoohan@hvs.com

Dr. Paridhi Gupta

Asst. Vice President
Design, ANAROCK Capital
paridhi.gupta@anarock.com