MARKET REPORT

HVS Monday Musings: Indian Hotel Industry Continues to be a Nascent Transaction Market

SEPTEMBER 18, 2022

This article discusses the factors that have led to sluggish transaction activity in the Indian hotel industry.

The deal activity in the global travel and tourism industry has been improving, with 573 deals (including M&A, private equity, and venture financing) being announced during the first half of 2022, up 3.1% over the same period in 2021. However, deal activity in India continues to be lackluster, as the industry has also not yet witnessed a flurry of distressed transactions in the fallout of COVID. Nonetheless, there are several hotel assets for sale in the market and HVS currently has over a dozen buy-side, sell-side, and capital restructuring mandates.

Strong hotel demand, improving industry performance, and stabilizing cash flows are helping open the transactions market and bringing buyers back to the table as they look to capitalize on the impending growth cycle in the industry. However, with the rebound in industry performance owners are torn between selling now and holding on to their assets for future appreciation. Moreover, compared to COVID-times when the industry was not positively viewed as a lending category for banks, borrowing for the industry has become relatively easier, even though it is at a higher cost. Additionally, asset owners want to capture the expected future performance in the valuation. At the same time, buyers continue to discount valuation due to COVID's impact on the asset's performance in the last couple of years. As a result, the price mismatch continues to act as a deterrent. Even assets under the National Company Law Tribunal (NCLT) have not yet been actively traded.

Buyers must recognize that as COVID was an anomaly, the asset's valuation should take into account both its historical (particularly pre-COVID) and anticipated future performance. On the other hand, owners who want to exit or reduce debt should realistically take advantage of the improving market sentiments. As long as this conflict continues to play out, transactions will continue to remain sluggish in the near term in an otherwise gradually maturing hospitality market.