MARKET REPORT

HVS Monday Musings: Indian Hotel Sector – 2022 Performance Review

JANUARY 29, 2023

The Indian hospitality sector made a significant comeback in 2022. Read on to know more.

The strong recovery in 2022 brought much relief to a sector devastated by COVID-19. The quick retraction of onerous COVID-19 policies, released the much pent-up demand in the market, making it the single biggest reason for a strong recovery. While occupancy remained slightly 5-7 percentage points (pp) lower than the full year 2019, in large part due to the much lower-than-expected Q1 2022, ARRs for 2022 recovered fully, crossing 2019 levels by almost 1-3%, in large part due to strong ARRs in Q4 2022. Similar to 2021, domestic travel was responsible for the strong recovery in demand. Buoyed by segments such as weddings and events, the hospitality sector continued its unabated growth in ARRs to recover in part the losses of the previous two years. Corporate travel recovered as well, contributing to the overall recovery of the sector.

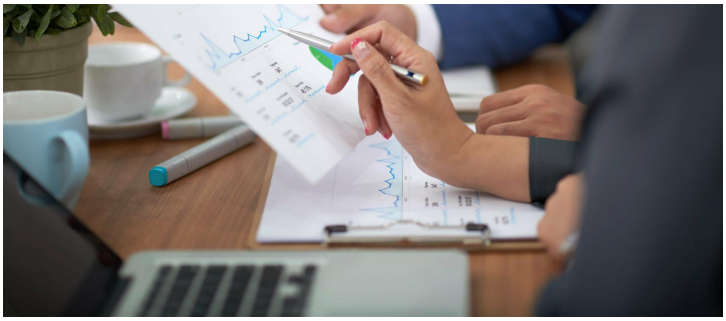
Q1 2022

2022 began disappointingly on the back of the 3rd COVID wave, which due to its predecessor's impact and the unfortunate war in Ukraine, led to a significant decline. Bolstered by the vaccine program of the country and the pent-up demand, the recovery in the sector was swift, quietly leaving behind its woes. By March 2022, the recovery in the hospitality sector was steadfast with ARRs recovering by 22-24% in Q1 2022 against the same period in 2021, despite the occupancy rate for the same period remaining flat.

Q2 2022

On the back of strong growth in demand, the sector flourished, beating the peaks of the previous decade. Despite the strong surge in ARRs for the full year 2022, only Q2 2022 recorded an occupancy rate stronger than the same quarter in 2019. A 5-7% higher ARR, resulted in a 7-9% higher RevPAR for Q2 2022 compared to the same period in 2019. The recovery was 'V-shaped' after a steady recovery in the latter months of 2021.





Source: Freepik

Q3 2022

The travel demand appeared to have recovered to near 2019 levels, with many key metro markets leading consistent growth in ARR and RevPAR; some faster than others. As a result, while occupancy in Q3 2022 was 1-3 pp lower than in Q3 2019, ARRs continued to remain elevated, recording a 7-9% increase over the same period in 2019. The dichotomy between occupancy and ARR caused RevPAR to be higher by only 5-7% than in the same period in 2019.

Q4 2022

The strongest quarter of the full year, Q4 2022 set a record by witnessing nearly 11-13% higher ARR than the same period in 2019. The pent-up demand steadily absorbed the stark growth in ARRs, recording only 3-5 pp lower occupancy than in the same period in 2019. The strong growth in Q4 2022 ARRs played a large role in nullifying the ARR loss of Q1 2022.

Outlook

The Indian hospitality industry's performance outlook remains stable despite a variety of headwinds such as recession risk in the US and Europe, global inflationary pressures, and manpower shortages, continuing to impact the global economy. Domestic leisure demand will continue to be strong, despite pent-up demand tapering off and outbound travel picking up pace. The MICE segment is also expected to provide much support to the overall growth of the sector. Corporate travel, however, will be impacted by the ongoing global economic uncertainty, as companies reduce travel costs and revert to using technology solutions at workplaces in place of in-person meetings.

We are optimistic that the upcoming budget, the incumbent government's last before the next elections, will shelter the country's economy from the global headwinds, providing impetus to the hospitality sector as well. Granting the sector's long-standing request for industry and infrastructure lending status, regardless of project cost, will help boost investment and incentivize hotel development, particularly in several off-beat leisure destinations and Tier 2 and 3 cities across the country. Additionally, enhancing the ease of doing business in the sector through online single window clearances and lowering the GST rate on hotel tariffs are the much-awaited announcements that will aid the sector's growth momentum.