



Horwath HTL

Hotel, Tourism and Leisure

Industry Report – India Hotel Sector

Prepared for:
ITC Hotels Ltd.

11 January 2025

Mr. Anil Chadha
Managing Director,
ITC Hotels Limited
37, Jawaharlal Nehru Road,
Kolkata – 700 071

Dear Mr. Chadha,

We were retained by ITC Hotels Limited (“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 Luxury, Upper Upscale & Upscale, and Upper Midscale Hotels in India. We understand that the Company intends to use data from this industry report in connection with the Information Memorandum (“IM”) to be filed by it with the Securities and Exchange Board of India (SEBI) and stock exchanges in connection with the proposed listing of its equity shares (issued pursuant to the Demerger Scheme) on the stock exchanges.

We have issued a report titled Industry Report – India Hotel Sector (“Industry Report”) on 11 January 2025. This Report covers the following key aspects:

- Overview of several key factors that impact the demand for, and performance of the hotel sector - factors such as tourist arrivals, seasonality, access infrastructure, key demand drivers, visa policies, government initiatives and challenges, and barriers to entry in the hospitality industry
- 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 about three years and its impact on the overall performance
- Overview and outlook for certain cities / micro-markets where the Company has owned hotels

In this Report, we have examined various general and specific aspects relating to India’s hospitality industry. The focus is on Luxury, 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 points used for this Report are as on 30 September 2024. Information on pipeline inventory and other data have been updated based on information available to us upto 15 November 2024; we have not updated this for any events occurring

after that date notwithstanding that in some cases the Report may contain a comment on an event after that date. Further, we have no obligation to update the information and our comments for changes and events that occur after the aforesaid dates.

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 comprehensible – however, it is possible that additional data may cause a reader to reach a different conclusion.

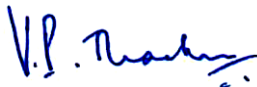
As is typical of such reports, our estimates / projections / outlook and statements that may be regarded as forward-looking statements cannot be guaranteed in any manner; these have, however, been prepared after conscientious research and analysis.

We shall be pleased to provide any further clarifications 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 ITC Hotels Ltd. (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”.

HORWATH HTL CREDENTIALS

Horwath HTL India is a member of Crowe Global. Crowe Global is among the top ten accounting and consulting networks 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 150 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.

Abbreviation	Full Form
AAI	Airports Authority of India
ADR	Average Daily Rate
APC	Average per Cover
BFSI	Banking, Financial Services and Insurance
BRICS	Brazil, Russia, India, China, South Africa
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
CY	Calendar Year
DMRC	Delhi Metro Rail Corporation
DPPH	Dekho Apna Desh People's Perspective Hackathon
EBITDA	Earnings Before Interest, Taxes, Depreciation & Amortization
FDI	Foreign Direct Investment
FHRAI	Federation of Hotel & Restaurant Association of India
FMCG	Fast Moving Consumer Goods
FTA	Foreign Tourist Arrival
FY	Financial Year
GCC	Global Capabilities Centre
GDDP	Gross District Domestic Product
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GSDP	Gross State Domestic Product
GW	Gigawatt
HFI	High Frequency Indicator
HR	Human Resources
IHCL	Indian Hotels Company Limited
IMF	International Monetary Fund
INR	Indian Rupee
IT	Information Technology
ITeS	Information Technology enabled Services
KMA	Kolkata Metropolitan Area
LEED	Leadership in Energy and Environmental Design
LTH	Lemon Tree Hotels
MICE	Meetings, Incentives, Conferences & Exhibitions
MOSPI	Ministry of Statistics and Programme Implementation
MPPA	Million Passengers Per Annum
msf	Million Square Feet
NCR	National Capital Region
NH	National Highway
NIPFP	National Institute of Public Finance and Policy
NMACC	Nita Mukesh Ambani Cultural Centre
OMR	Old Mahabalipuram Road
PFCE	Private Final Consumption Expenditure
PPP	Public-Private Partnership
PRASAD	Pilgrimage Rejuvenation and Spiritual Augmentation Drive
PRICE	People's Research on India's Consumer Economy
RBI	Reserve Bank of India
RevPAR	Revenue Per Available Room

Abbreviation	Full Form
SAARS	Severe Acute Respiratory Syndrome
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
STPI	Software Technology Parks of India
STR	Smith Travel Research
UDAN	Ude Desh ka Aam Naagrik
UHNWI	Ultra High Net Worth Individual
UK	United Kingdom
USA	United States of America
USD	United States Dollars
WTTC	World Travel & Tourism Council
YTD	Year to date

1 Overview of Key Market Characteristics

1.1 Hotel Supply in India¹

- a. **Chain Affiliated Supply:** India has 195k chain affiliated hotel rooms, across segments, as at 30 September 2024. The sector also has a robust supply pipeline, estimated at 95k rooms opening by FY29. Supply at independent hotels is widely fragmented and substantially of midscale and lower positioning; it is not considered for this report.
- b. **Supply Segmentation:** As at end FY2001, supply was heavily weighted in the Luxury and Upper Upscale segments (together 56% supply share). Supply composition has evolved materially over the years resulting in greater depth and balance across segments – current supply is comprised as 16%, 40% and 44% in the Luxury, Upper Upscale & Upscale, and Upper Midscale & Midscale-Economy segments respectively.
- c. **Supply Ownership:** Hotel ownership patterns have shifted over the last 20 years. Hotel chain and chain-led ownership of hotel rooms has dropped sharply from 71% (FY01) to 25% (YTD Sep-24), with ownership materially led by private sector developers / institutional investors. Ownership concentration is also limited. In case of luxury hotels, chain owned inventory is 44% of total luxury rooms inventory. Among the chain owned luxury supply, IHCL, ITC Hotels Ltd (“ITC”), EIH and Leela Hotels have 44%, 33%², 9.8% and 7.6% supply share.
- d. **Supply Spread:** Geographic spread of hotels continues to widen. Supply share at Key Markets (Mumbai, Delhi NCR, Bengaluru, Chennai, Hyderabad, Kolkata, Pune, Ahmedabad, Goa and Jaipur) declined from 69% at FY15 to 58% at YTD Sep24, and is expected at 50% by FY29. 66% of new supply between October 24 and end FY29 is outside the Key Markets.
- e. **Supply Share – domestic and international chains:** Supply share of international chains has risen from 21% in FY01 to 45-48% for the last ten years; it is expected to remain at 46% at end FY29.
- f. **Domestic Chains - Asset Light Approach:** Several domestic chains have traditionally been asset owners, and are now actively transitioning to an asset light approach which has enabled portfolio expansion. Consequently, the share of rooms under management contract among inventory of domestic chains has increased from 12% in FY01 to 55% at YTD Sep-24. Importantly, 54%³ of the aggregate rooms inventory under leading chains such as IHCL, EIH, ITC, Leela, The Park Hotels and LTH are owned by these chains – this ownership has provided substantial advantage to these chains in terms of strong earnings in the last about three years (and for the foreseeable future), and significant valuation gains.
- g. **Under-penetration:** With only 195k chain affiliated hotel rooms across segments as of 30 September 2024, the sector is underpenetrated compared to several developed global markets, in terms of ratio of rooms to population. Total hotel keys penetration basis population as of 31 December 2023 is at 0.3 keys per 1,000 people in India, compared to 22.1 / 10 / 2.7 / 2.2 keys per 1,000 people in the USA / UK / China / globally.

1.2 Hotel Demand

- a. **Chain Affiliated Hotel Demand:** Demand for chain affiliated hotels grew at 9.9% CAGR between FY01 and FY24 while supply during this period grew at 9.4%. Demand grew from 26k rooms per day for FY08 to 61k rooms per day for FY15 and to, 90k rooms per day for FY20. Demand has further grown rapidly to 116k rooms per day for FY24, in spite of FTA not fully recovering to pre-Covid levels. Demand is expected to increase to 192k rooms per day by FY29.
- b. **FTA and Domestic Visits:** Domestic travel visits aggregated 2.3 bn for CY 2019; post Covid recovery was sharp with 1.73 bn visits for CY 2022 (subsequent data not available)⁴. FTA was above 10 mn for

¹ Source: Horwath HTL India

² Includes hotel owned by ITC Limited

³ Includes hotel owned by ITC Limited

⁴ Source: Ministry of Tourism, Govt. of India estimates

CY2017-19 and, post Covid, has recovered to 9.2 mn for CY23. FTA for Jan-Aug 24 at 6.2 mn is up by 6.5% over Jan-Aug 23. (the latter also has sizeable G20 travel)⁵.

HAI estimates FTA to cross 30 mn by CY 2037 and 100 mn by 2047, besides 15 bn domestic visits by 2047. The expected FTA and domestic visits by 2047, compared to CY19, reflect CAGR of 8.2% and 6.9% respectively. A Bookings.com and McKinsey study estimates around 5 bn domestic visits by CY 2030. Hotel supply will need very material growth to facilitate and serve the projected demand growth. Increased FTA will strengthen hotel ADRs, particularly for the upper-tier hotels.⁶

- c. Demand growth aforesaid, and ADR growth by 32% between CY2019 and CY2023, reflect a strong positive re-set of the platform for India's hospitality industry, and its resilience and recovery appetite when Covid pandemic travel restrictions were loosened and then dropped.
- d. **Corporate travel spends** (airlines, hotels and others) were estimated at US\$10.6 billion in 2023 and is expected to rise to US\$ 20.8 billion by 2030, at 10% CAGR. 34% of the spend in 2023 was for hotels. Major demand sectors were IT Services (29%), BFSI (19%), Engineering (9%), and Aviation, Oil & Gas and Pharma each at 5%. While Delhi, Mumbai, Bengaluru Chennai and Hyderabad are top visited domestic destinations, the top emerging domestic destinations comprise Ahmedabad, Vadodara, Lucknow, Bhubaneshwar, Kolkata and Vizag. ITC has hotels in all these destinations.
- e. **Large and expanding Indian diaspora** tends to return to India atleast once a year, often more frequently. These visits have increasingly tended to generate hotel demand, through family vacations, reunions at leisure destinations and additional F&B, spa and other spends. Further, the Indian diaspora tends to conduct and celebrate their weddings in India; often, generating material spending per event.
- f. Positive factors such as GDP growth, expanding airport and road infrastructure enhancement, increased domestic travel and domestic spend propensity, substantial headroom for FTA growth, and hotel supply-side growth and diversification are expected to enable sustained demand levels and demand growth in the near and medium term, estimated at 10.5% CAGR between FY24 and FY29.

1.3 Travel and Tourism – Value Generation

- a. India's Ministry of Tourism has set an ambitious target to make India a \$3 trillion tourism economy by 2047.⁷
- b. **Travel and Tourism Contribution to GDP:**

Per WTTC, the travel and tourism sector's contribution to India's economy was just over ₹19.13 trillion for CY 2023 and is estimated at ₹21.1 trillion for CY 2024. It is projected to increase to ₹43.25 trillion by 2034, growing at 7.4% CAGR from CY 2024 to CY 2034. This growth is higher than CAGR of 3.7% over the same period (CY2024 to CY 2034) for the global travel and tourism sector's contribution to the global economy.

HAI estimates the Indian hotel sector GDP contribution at USD40 billion, USD68 billion and USD one trillion in calendar years 2022, 2027 and 2047 respectively, with significant multiplier benefit. The sector creates assets, employment, foreign exchange earnings and tax revenues.

- c. **Domestic Visitor Spending:** Per WTTC, domestic visitor spending in India of ₹14.6 trillion in 2023, is 15% higher than for 2019. Domestic visitor spending is forecast to increase to ₹16 trillion in 2024, and estimated to increase to ₹33.9 trillion by CY 2034, growing at 7.8% CAGR between CY 2024 and CY 2034. Given the strength of domestic tourism in India in the post-Covid period, the increased domestic spends can be expected to boost the sector.
- d. Per a separate study by McKinsey & Co, India was the world's sixth-largest domestic travel market by spending in 2023. The study projects spending growth upto 2030 at 9% per annum which will, in turn, enable India to become the world's fourth-largest domestic travel market by spending by 2030, moving ahead of Japan and Mexico.⁸
- e. **Sector Employment:** Per WTTC, the travel & tourism sector employment is expected to employ 45.4 million people in 2024, up by 5.6% from 43 million people employed by the sector in 2023.

⁵ Source: Ministry of Tourism, Govt. of India

⁶ Source: Vision 2047 – Indian Hotel Industry, Hotel Association of India and How India Travels 2023, Bookings.com and McKinsey Report

⁷ Announcement by Ministry of Tourism on World Tourism Day 2024

⁸ Source: The state of tourism and hospitality 2024 report by McKinsey & Company

In effect, the hotel sector alone has employed over 9% of India's employed workforce in 2024. Sector employment numbers are forecast to increase to 63 million in 2034.⁹

1.4 Future Demand Drivers

- a. Tourism and travel growth is expected to drive demand through diverse domestic and inbound travel needs – for business, leisure, MICE, weddings, social events, sports, pilgrimages and other personal travels, and from political and business delegations and airline crew.
- b. Travel will be necessitated and supported by a positively growing economy, improved travel infrastructure (airports, roads, rail, cruises), new convention centres, and demand for international and national sport and entertainment sector events.
- c. Continued urbanisation, changing demographics and lifestyles, with greater search for experiential travel elements and willingness to spend on entertainment, recreation, wellness and lifestyle will drive discretionary travel and spends.
- d. Increase in affluent population will also drive increase in demand for luxury goods and experiences, including luxury hotels.

The drive to expand India's GDP from \$3.57 trillion GDP to \$6 trillion GDP by 2030, will strongly push and support travel and the hotel sector.

1.5 Demographics

Relevant demographic changes, creating demand potential for different hotel services, include – (a) increased urbanisation - per a United Nations study, India is projected to add 416 million urban dwellers by CY 2050¹⁰; (b) growing middle class, estimated at 432 mn in FY21, 715 mn in FY31 and 1,015 mn by FY47¹¹; (c) younger population, estimated at 371 mn in CY21 (27.2% of total population)¹² with the youth-bulge lasting till CY 2055, with willingness to spend on entertainment, recreation, lifestyle, and experiences.

A report by Booking.com and McKinsey projects domestic spend on tourism to rise by 170% from \$150 bn in CY 2019 to \$410 bn in CY 2030, gaining from growing household earnings and a median age of 27.6 years.

1.6 Other Key Attributes

India's hotel sector include (a) lack of scale at individual hotels, providing material long-term value to hotels with larger established inventory; (b) inherent strength of the range of cuisines in India, which attract demand and drive revenues; (c) strong linkages between expansion of airport infrastructure and growth of cities, micro-markets and new destinations; (d) demand emergence and push from sports, convention centres, entertainment and performing arts events; (e) widening private sector investment in the hospitality sector, including provision for 100% FDI under the automatic route; (f) rising land costs continuing to pose significant barriers to entry.

2 India Overview

India is among the fastest-growing major economies globally, gaining from rapid urbanization, increased consumption and spending by a growing middle-income segment population, and a large component of young population.

2.1 India: Among the fastest growing economies in the world

In FY24 India continued to be the fifth largest global economy with estimated Nominal Gross Domestic Product (GDP) of INR 295.4 trillion¹³ (US\$ 3.57 trillion¹⁴) at current prices and Real Gross Domestic Product of INR 173.8 trillion¹⁵ at constant prices. India is projected to surpass Japan to become the fourth largest economy by FY27 and projected to surpass Germany to become the third largest economy by FY29¹⁶. Nominal GDP for FY30 is forecasted at USD 6.3 trillion¹⁷. Forecasted GDP is reflected in Chart 1.

⁹ Source: World Travel & Tourism Council Economic Impact Research 2024

¹⁰ Source: UN World Urbanization Prospect Report

¹¹ Source: The Rise of India's Middle-class Report - PRICE

¹² Source: Youth in India Report 2022, MoSPI

¹³ Source: MoSPI

¹⁴ Source: International Monetary Fund, World Economic Outlook, October 2024

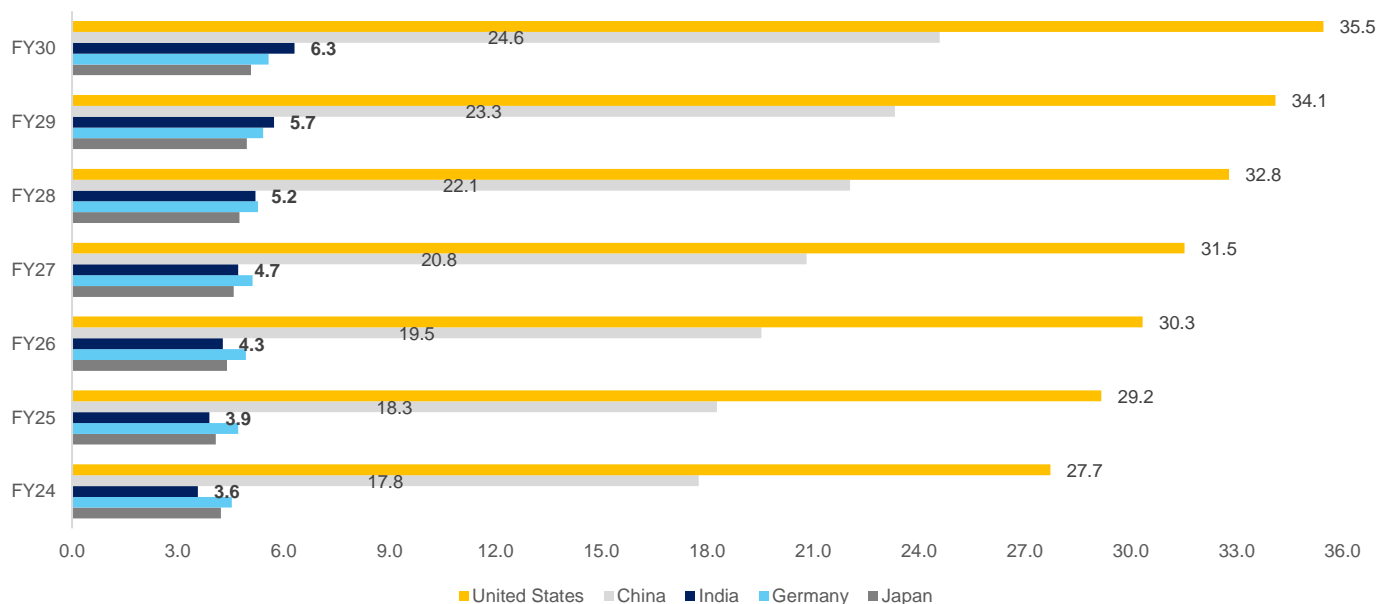
¹⁵ Source: MoSPI

¹⁶ Source: International Monetary Fund, World Economic Outlook, October 2024

¹⁷ Source: International Monetary Fund, World Economic Outlook, October 2024

The nominal GDP for India is projected to nearly double to US\$ 7 trillion in FY31 from US\$ 3.57 trillion in FY24.¹⁸

Chart 1 - Forecasted Nominal GDP in trillion US dollars



Source: World Economic Outlook Report October 2024

Since FY05, Indian economy’s growth rate has been twice as that of the world economy and it is projected to sustain this growth momentum in the long term.

GDP at constant prices grew at 8.2% in FY24, as against 7% growth in FY23¹⁹. GDP growth for FY25 is projected at 7% and thereafter between 6.46% and 6.5% till FY30²⁰. The GDP growth projections from different agencies are summarised in Table 1.

Table 1: Real GDP growth rate projections for India by different agencies

Agency	Estimated GDP Growth Rate		
	FY25	FY26	FY27
IMF*	7.0%	6.5%	6.5%
RBI	6.6%	7.0%	NA
S&P Global	6.8%	6.7%	6.9%
Morgan Stanley	6.3%	6.5%	6.5%
Asian Development Bank	6.5%	7%	NA
Fitch Ratings	6.4%	6.5%	NA

*Source: World Economic Outlook Update October 2024

RBI has reduced the growth forecast for Q1FY26 to 6.9% from 7.3%. Revised forecast for FY26 is not available. However, it is possible that the revised annual forecast may be lower than 7%

With strong GDP over the last three years and third largest Purchasing Power Parity (PPP), India is recently positioned as third largest power in Asia Power Index²¹.

GDP growth rate in Q1-FY25 was 6.6% but slowed to 5.4% in Q2-FY25²². This slowdown in July to September quarter is mainly attributed to reduced consumer spending, rising inflation, slowdown in hiring in technology sector, lower profitability in the manufacturing sector and slower government spending on capex because of general elections.

¹⁸ Source: India Forward Emerging Perspectives Report, September 2024 published by S&P

¹⁹ Source: Ministry of Economic Affairs

²⁰ Source: International Monetary Fund, World Economic Outlook, October 2024

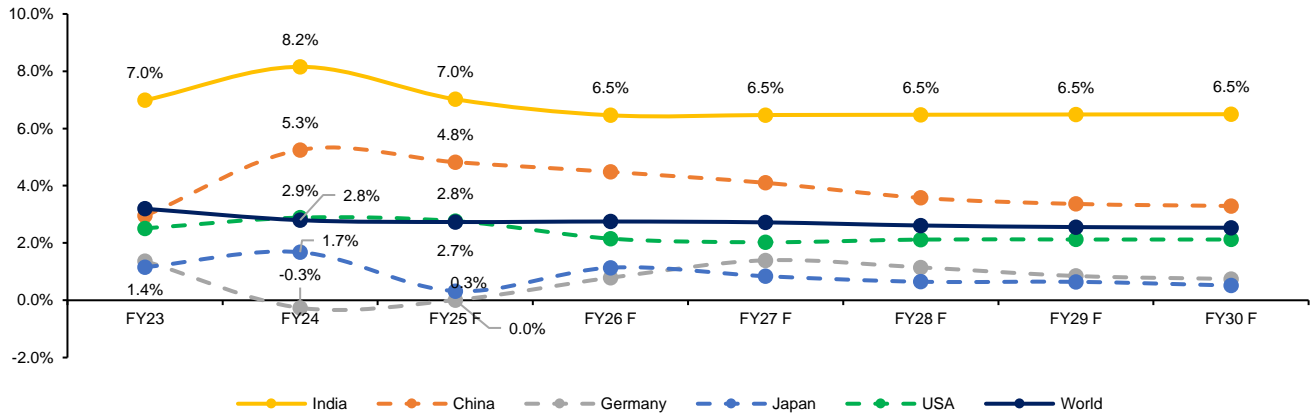
²¹ Source: Asia Power Index 2024 by Lowy Institute

²² Source: MoSPI

High frequency indicators (HFIs) for the third quarter of FY25 indicate that the Indian economy is recovering from the slowdown in momentum witnessed in Q2, driven by strong festival activity and a sustained upswing in rural demand.²³

A comparison of Real GDP growth rate (at constant prices) through FY30, for India and the other countries comprised as the top five global economies, is provided in Chart 2.

Chart 2 - India and Top 5 Global economies Real GDP Forecast

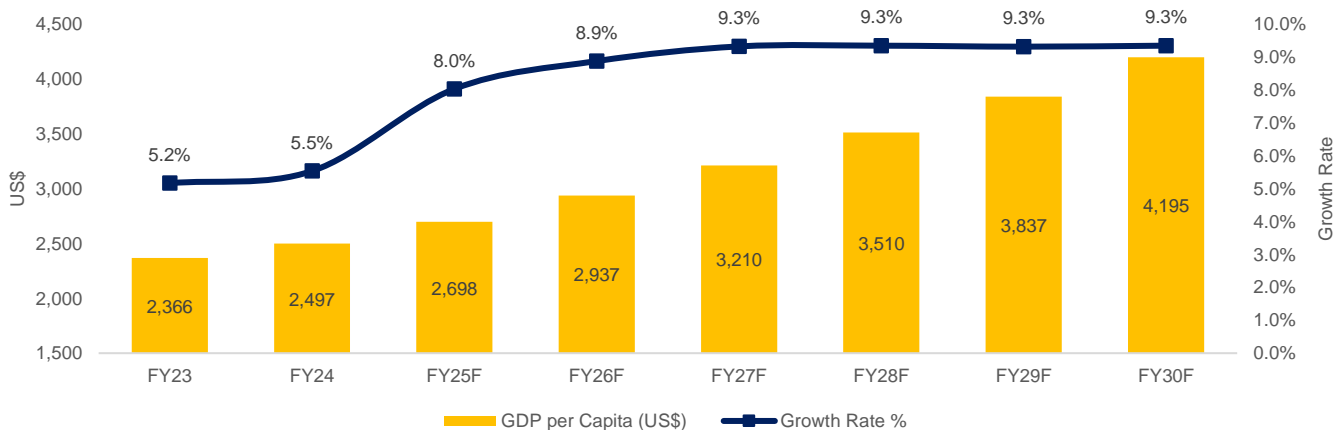


Source: World Economic Outlook, IMF, October 2024

2.2 India Per Capita GDP Forecast

Per capita nominal GDP growth for India is estimated at 8.7% CAGR between FY23-FY29. Increased individual income is expected to create additional discretionary spending, which may be beneficial for the hospitality sector.

Chart 3 - India Per Capita Nominal GDP Forecast



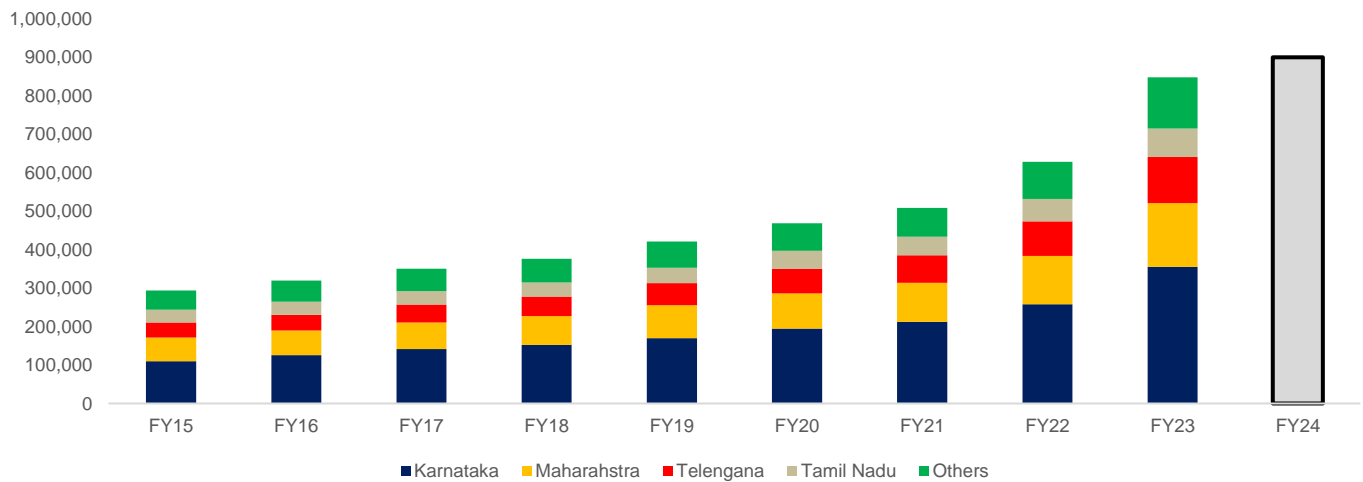
Source: World Economic Outlook, IMF, October 2024, National Statistics Office, Ministry of Statistics & Programme Implementation (MoSPI), Govt of India

²³ Source: RBI Bulletin published in December 2024

2.3 India – IT Exports

India is a hub for IT software exports. Karnataka, Tamil Nadu, Kerala and Telangana contributed about 65% of India's IT and ITeS exports for FY23, with operations mainly driven from Bengaluru, Chennai, Kochi and Hyderabad respectively.

Chart 4 – India and Select States – IT and ITeS Exports – FY15 to FY23



Note: State wise data for FY24 is not available; Source: STPI

All India exports increased by INR 2,201 billion in FY23. Karnataka, Telangana and Tamil Nadu contributed 44%, 14% and 9% respectively of the all-India increase. IT exports increased to Rs. 9 lakh crores in FY24.

Karnataka leads, with 42% share of all India IT and ITeS exports in FY23, and reasonably steady significant share for several past years.

IT and ITeS sectors have a major contribution to hotel rooms and dining demand particularly in cities such as Bengaluru, Pune, Chennai, Hyderabad, Gurugram and Noida. Growth in IT sector earnings and exports is expected to have a beneficial impact on hotel occupancy, rates and F&B revenues.

2.4 Private Final Consumption Expenditure (PFCE)²⁴

PFCE is the expenditure incurred on final consumption of goods and services by the resident households reflecting the level of consumption spending in an economy. PFCE at current prices increased from 59% of GDP in FY19 to 60% in FY24. In the 5 years from end FY19 through FY24, PFCE at current prices grew at 9.7% CAGR.

PFCE increased by 6.7% in H1-FY25 as compared to 4.0% during the corresponding period in the previous year. Growth in PFCE reflects higher discretionary income spending.

2.5 Increased Consumer Spending

India has seen an increase in consumer spending in CY21-CY23, gaining from factors such as a larger and younger workforce, double income families, a trend towards consumerism and lesser savings, and greater credit penetration. Increased spend patterns augur well for travel and F&B spends at hotels.

Results of various leading FMCG companies for Q2-FY25, reflect slowing consumer spending, particularly by the urban middle class, mainly attributed to factors such as inflation, rising food prices and slower growth in corporate employee cost budgets. On the other hand, budgets for wedding spends in the wedding season from November 24 are reported to have increased by about 40%.

Urban average monthly consumption expenditure per person has increased by Rs. 3,829 (146%) between FY12 and FY23²⁵. Increased spend patterns augur well for travel and F&B spends at hotels in India.

²⁴ Source: MoSPI

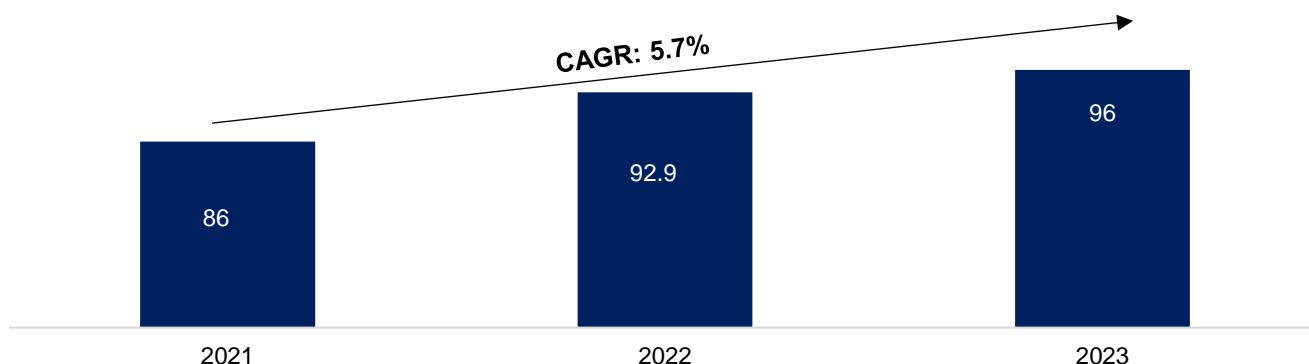
²⁵ Source: Household Consumption Expenditure Service of MoSPI

The India D2C Report 2022 has projected consumer spending for 2030 at US\$ 4 trillion, growing at 10% CAGR from spending of US\$ 1 trillion in 2021. The report attributes the growth in consumer spending to several factor including

- Large middle-class population, increase in urbanisation, large working age population and increasing female workforce participation.
- High growth in rural spends: By 2030, rural and urban per capita consumption are projected to grow at 4.3 times and 3.5 times respectively, over 2021.
- Higher internet penetration: India is projected to have over 1.3 billion smartphone and internet users and around 500 million online shoppers by 2030. In comparison, India had ~750 million smartphone users, ~830 million internet users and ~190 million online shoppers in 2021. Smartphone users are projected to grow at 7% CAGR, internet users at 5% CAGR and online shoppers at 11% CAGR during this period.

In 2021 India was the third largest retail market globally; the retail market is projected to increase to US\$ 1.8 trillion by 2030 at 10% CAGR between 2019 and 2030.²⁶

Chart 5 – Consumer Spending in India (in Rs trillion) – CY21 to CY23



Source: Statista and MOSPI

2.6 Rise of Affluent Population and increase in Luxury Spending

Working age population in India earning more than US\$ 10,000 (top-most income group) is regarded as ‘Affluent India’. On this basis, about 4% of the total Indian population (~44 million people in 2023 ~60 million people in 2024) can be categorised as ‘Affluent India’. ‘Affluent India’ population numbers have grown at 12.6% CAGR between FY19 and FY23. The report assumes this same growth rate for future and accordingly estimates ‘Affluent India’ population at ~100 million people in 2027.²⁷

The number of Ultra High Net Worth Individuals (UHNWI), people owning assets higher than US\$ 30 million, was at 12,495 for 2022 and increased by 6.1% to 13,263 for 2023. The number is expected to increase by 50.1%, to 19,908 for 2025. At 50.1% India has the highest growth rate in the world followed by China at 47%.²⁸

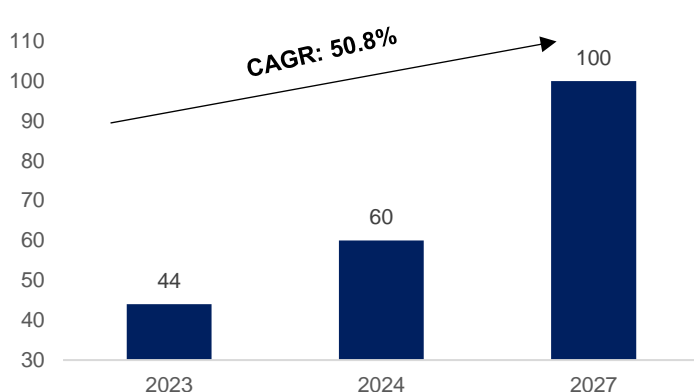
Growth of India’s affluent population has led to growth in demand for luxury goods and luxury lifestyle.

²⁶ Source: India Brand Equity Foundation

²⁷ Source: “India’s affluent population is likely to hit 100 million by 2027” article by Goldman Sachs dated 16 February 2024

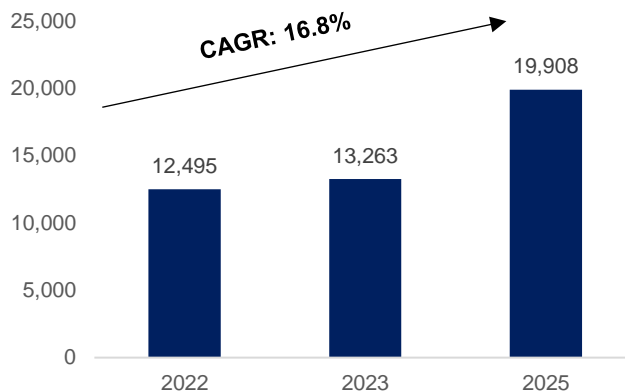
²⁸ Source: The Wealth Report 2024 by Knight Frank

Chart 6 – Number of Affluent Indians



Source: India's affluent population is likely to hit 100 million by 2027

Chart 7 – Ultra HNIs in India



Source: The Wealth Report 2024 by Knight Frank

Growth of some key luxury sectors is summarised below:

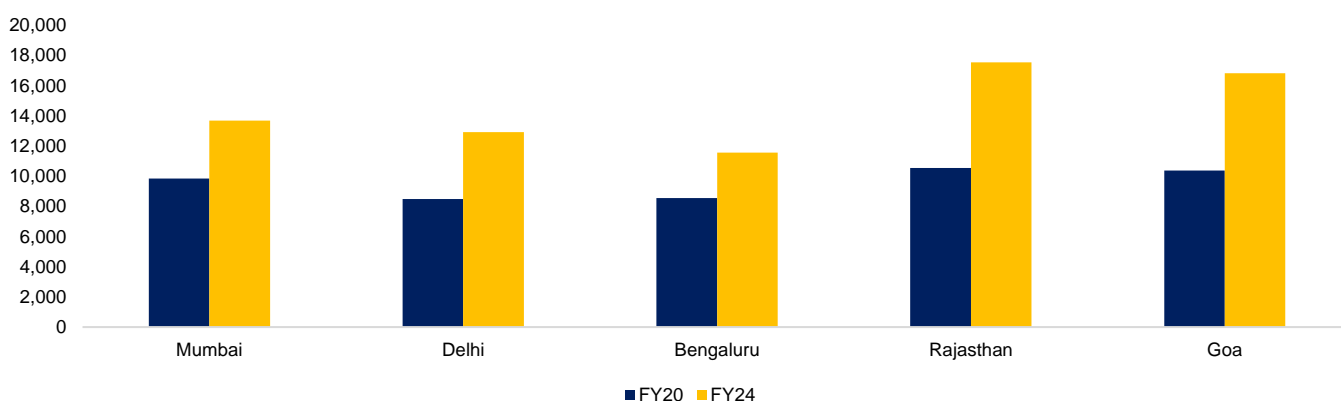
Luxury Residences – Sale of luxury residences priced at Rs.500 million aggregated Rs.43 billion in 2023 – this is 51% higher than Rs. 28 billion in 2022. In 2023 12.9k residences priced above Rs 40 million were sold compared to 7.4k residences sold in 2022, reflecting 75% growth.²⁹

Luxury Cars³⁰ – In 2023, 47k luxury vehicles were sold (+20% over 2022; Mercedes Benz had the highest sales in the luxury segment at 17.4k vehicles (+10% over 2022); BMW sold 14.2k vehicles (+18% over 2022). Luxury vehicle sales in 2024 are estimated to cross 50k vehicles.

Luxury Watches – Aggregate sale of luxury watches in India in 2023 was US\$ 3.4 billion and is estimated to increase to US\$ 4.7 billion by 2030, at 4.8% CAGR.³¹

Luxury Travel – 35% ADR growth³² and 16% demand growth for the luxury-upper upscale hotel sector in India, for CY2023 over CY2019, reflects a spend propensity for luxury and experiential travel, reflecting overall consistency with the increased spends on luxury products. Rajasthan and Goa, which are key leisure destinations, achieved over 60% ADR growth³³ for luxury-upper upscale segment in FY24 over FY20.

Chart 8: Luxury & Upper Upscale Segment ADRs for Key Business & Leisure Destinations



Source: CoStar

²⁹ Source: "Luxury revolution sweeping India: What's fueling the shift in consumer preferences?" article dated 1 April 2024

³⁰ Source: Autocar India article published in January 2024

³¹ Source: Grandview Research

³² Source: CoStar

³³ Source: CoStar

2.7 Key Demographic Aspects

2.7.1 Increased Urbanisation

India's urban population increased from 28% in CY01 to 31% in CY11³⁴ and is expected between 35% and 37% in CY24³⁵. Urbanization is under penetrated in India compared to USA (83%), UK (85%) and China (65%)³⁶.

Nevertheless, India was estimated to have second largest urban population in the world, at 518 mn in CY23 and growing to 675 mn by CY35³⁷ at CAGR of 2.2%.

India currently has 5 megacities with population > 10 mn, with Pune, Hyderabad and Ahmedabad expected to become megacities by CY30.³⁸ ITC has owned luxury hotels in all these cities, except Pune.

The number of cities with more than 1 million population is expected to have increased from 52 cities in 2011³⁹ to 75-80 cities in 2024⁴⁰. Some of the new cities that possibly have crossed one million population include Bhubaneshwar, Kochi, Gurugram, Noida, Mysore, Guntur, Trivandrum and Guwahati.

Cities and towns have expanded, creating multiple micro-markets and business districts. Urbanisation creates the need for jobs, attracting investment and development of multiple business sectors which augurs well for the hotels sector. Growth in business and business opportunities due to increased urbanisation is evidenced by increase in air traffic, wider real estate activity, and growth of hotels in several existing and newer markets.

Maharashtra, Tamil Nadu, Gujarat, West Bengal, Karnataka, Delhi, Rajasthan, Telangana and Goa are expected to have more than 50% urban population by CY 2036.⁴¹

Chart 9: India Urbanization Trend

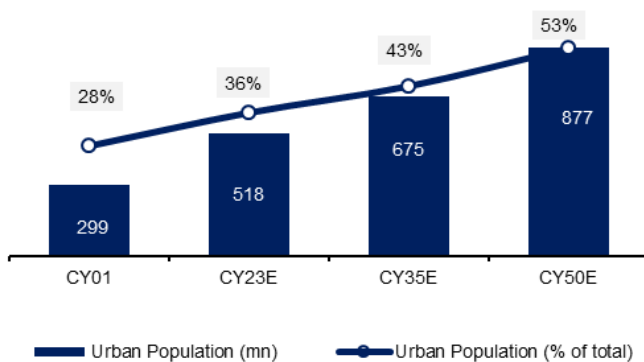
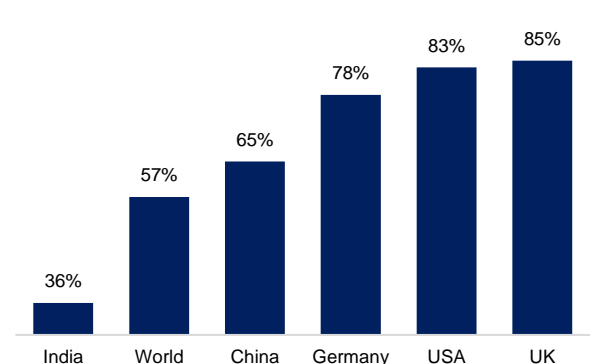


Chart 10: Urbanization % (CY23)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.

2.7.2 Rising Middle Class and High-Income Population

India's middle-class population is expected to grow from 432 mn for FY21 to 715 mn in FY31 and 1,015 mn by FY47, moving ahead of US and China within this decade⁴². The middle class spans a wide economic segment.

Increasing income levels are demonstrated by a robust growth in its middle-class and high-income population. Middle-class population (income of Rs. 0.5 mn to 3 mn per annum) grew at 4% CAGR between FY16-21, increasing its share from 26% to 31% over the period. This segment is further projected to grow and is estimated to represent

³⁴ Source: Census

³⁵ Source: SBI Research Report

³⁶ Source: United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.

³⁷ Source: United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.

³⁸ Source: Source: United Nations, Department of Economic and Social Affairs, Population Division (2018). World Urbanization Prospects: The 2018 Revision, Online Edition.

³⁹ Source: Census 2011

⁴⁰ Source: SBI Research Report

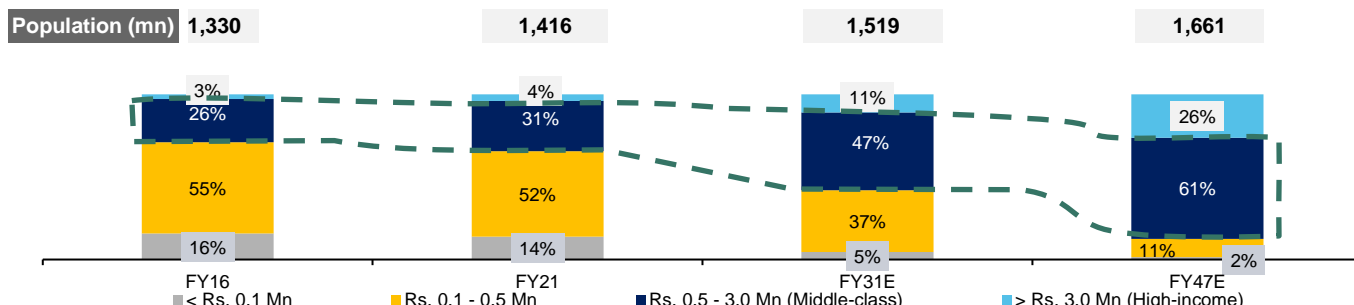
⁴¹ Source: Population Projections for India and States 2011-2036 Report (July 2020) of Technical Group constituted by the National Commission on Population under the Ministry of Health and Family Welfare

⁴² Source: The Rise of India's Middle-class Report - PRICE

approximately 47% of the population by FY31. High-income households (income > Rs. 3 mn) had 37 mn population in FY16 and is projected to be 437 million in FY47 increasing at 8% CAGR.⁴³

Rising middle class and high-income class population is an important demand driver for the hospitality sector, using midscale and upscale hotels and with aspirational demand for upper upscale hotels. The middle class slowly graduates upwards, with greater affordability and attitudinal and lifestyle changes creating demand potential for different services (rooms, F&B, functions, entertainment) at upper tier and upper midscale hotels.

Chart 11: India’s Rising Middle-Class— Share by annual income as a % of Total Population (FY16-FY47E)



Source: “The Rise of India’s Middle Class” Report published in November 2022 by People Research on India’s Consumer Economy (PRICE)

2.7.3 Young Population (15-29 Years):

India is now the world’s most populous nation, estimated at 1.4 bn people in CY23.⁴⁴ India’s young population increased from 223 mn in CY1991 to 333 mn in CY 2011, 360 mn in CY 2016, and 371 mn in CY 2021 (27.2% of total population – the largest youth population globally)⁴⁵. The demographic window of opportunity - a “youth bulge” (growth in youth as a share of total population) in the working-age population, is expected to last till CY 2055.

In 2023, the median age of India was estimated at 28.1 years which is 9.9-20.8 years younger than the median age for the G-7 countries. Median age in India is projected to remain below 30 years, until 2030.

India’s working age population (15-59 years) is estimated around 961 million in 2024, with a further 179 million people (gross, i.e. without adjustment for retirements) to be added to the workforce by 2045. Working age population was about 64% of the total population in CY2021 and is projected to increase to 64.9%⁴⁶ by 2036. 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 potential for enhanced discretionary spend propensity which could benefit the travel and hotel sector.

⁴³ Source: The Rise of India’s Middle-Class Report - PRICE

⁴⁴ Source: United Nations, Department of Economic and Social Affairs, Population Division (2022). State of World Population Report 2023, UNFPA, World Population Prospects.

⁴⁵ Source: Youth in India Report 2022, MoSPI

⁴⁶ Source: Report of the Technical Group on Population Projections for India and States 2011-2036, Ministry of Health & Family Welfare, July, 2020

Chart 12: Estimated Median Age in Years (CY23)

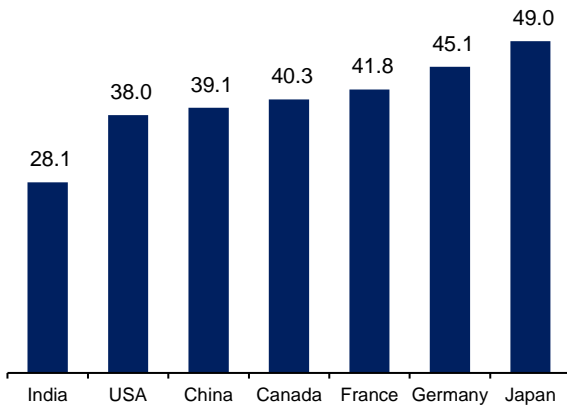


Chart 13: India population % by Age group (CY21)

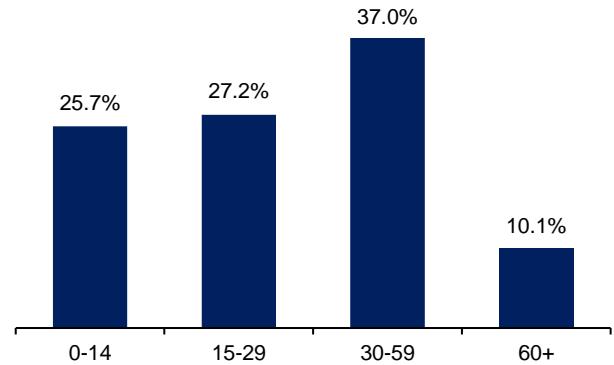


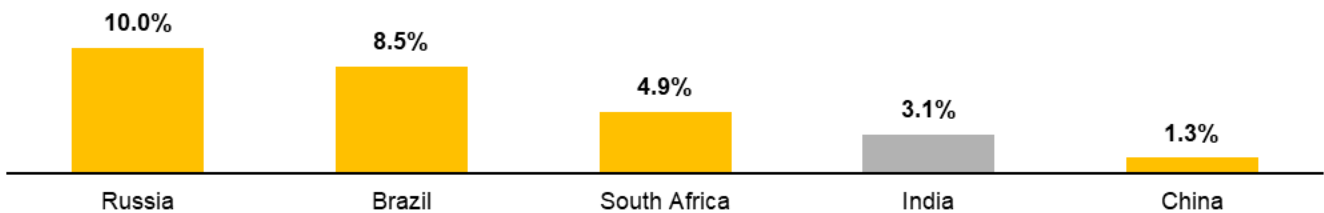
Chart 12 Source: United Nations, Department of Economic and Social Affairs, Population Division (2022). State of World Population Report 2023, UNFPA, World Population Prospects.

Chart 13 Source: The 2022 Revision and Youth in India Report 2022, published by Ministry of Statistics and Programme Implementation (MoSPI)

2.8 Stable Currency

Foreign exchange (“Forex”) reserves were near an all-time high of US\$704.9 bn at end September 2024.⁴⁷ Amongst the BRICS countries depreciation of Indian Rupee against US\$ was the second lowest at 3.1%. China had lowest depreciation at 1.3%. Major Asian currencies including the Indian Rupee have declined sharply against the US\$ between November 2024 and December 2024.

Chart 14: CAGR of currency depreciation % against US\$ (FY14 - Apr – Sep 24)

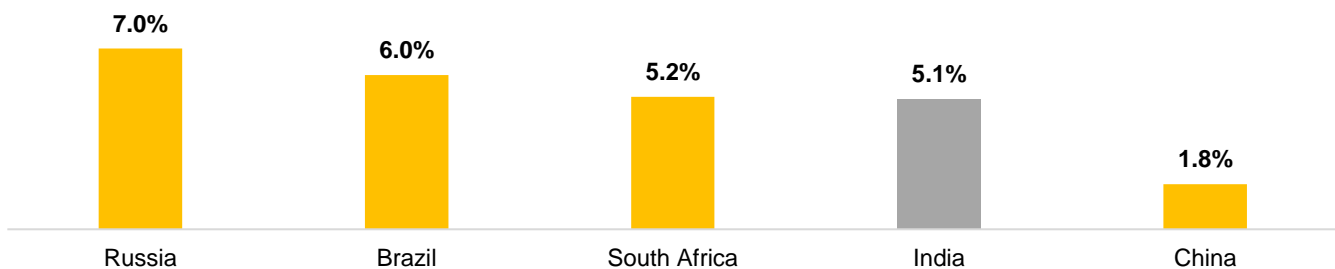


Source: Reserve Bank of India, Half Year Report on Management of Foreign Exchange Reserves, Oct 2023- Mar 2024, Foreign Exchange data is taken from Investing.com website

2.9 Stable Inflationary Environment

Inflation environment in India has been relatively stable post COVID over the past few years with FY24 consumer price index (“CPI”) inflation YoY % reported at 4.8%.

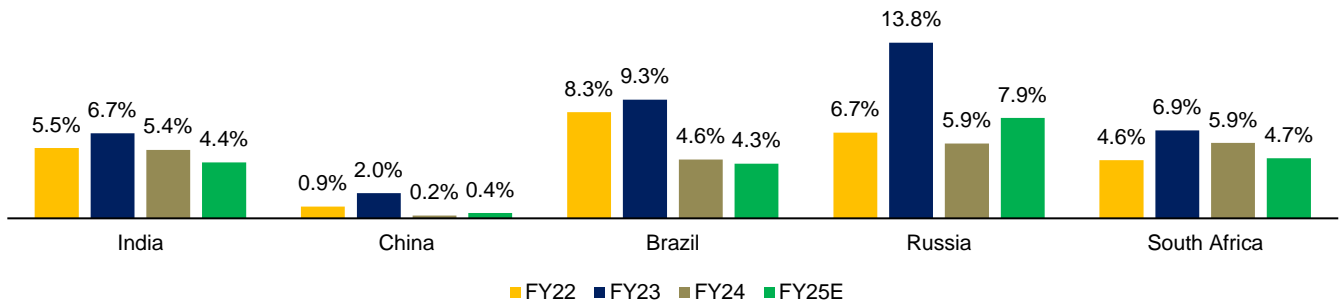
Chart 15: CPI Inflation (CAGR FY14 – YTD Sep 24)



Source: World Economic Outlook Report October 2024

⁴⁷ Source: Reserve Bank of India - Weekly Data via Indian Express

Chart 16: CPI Inflation % (FY22, FY23, FY24 and YTD Sep-24)



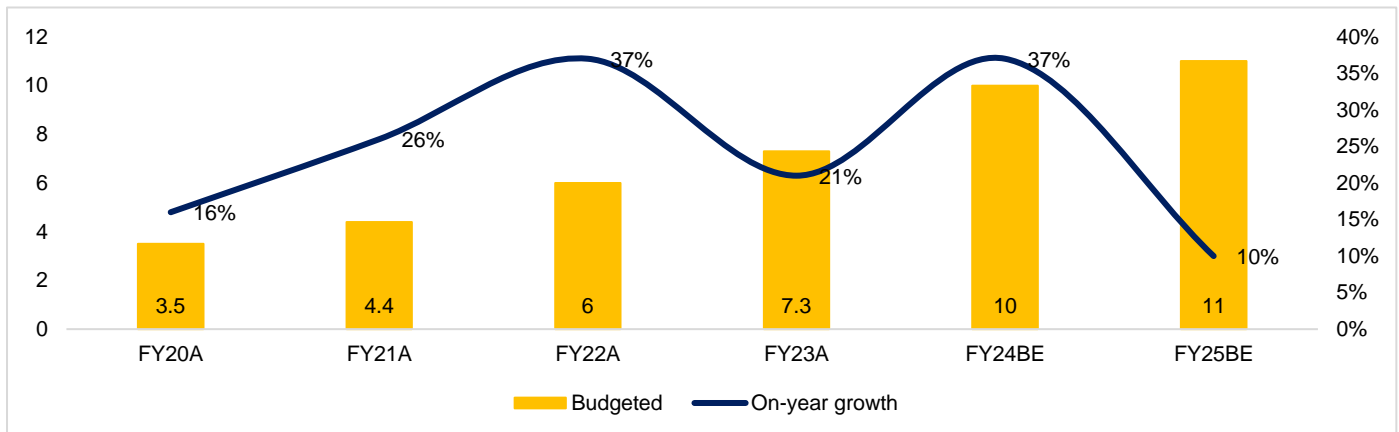
Source: World Economic Outlook Report October 2024

3 Infrastructural Developments

3.1 Infrastructure development led by significant increase in government capex outlay

Substantial government capex spending on infrastructure has enabled sustained infrastructure growth. Per NIPFP estimates, the infrastructure spend has a 2.5-3.5 times multiplier effect on GDP. Capex spends have increased from Rs.3.4 lakh crores in FY2020 to Rs.11.11 lakh crores earmarked for FY2025 budget (3.4% of GDP).⁴⁸ The spends have increased by almost 330% in the last five years. Capex on infrastructure has increased from 28% of total capex spends in FY14 to about 60% of total capex spends in FY2025.⁴⁹

Chart 17: Government Capital Outlay (Rs. in lakh crores)



Source: MOSPI

Roads and Railways account for nearly 50% of the capex spends by the government. Enhancements in these two sectors will positively benefit multiple other sectors such as hotels and tourism, power, telecom, oil and gas, mining, and real estate.

Some of the important infrastructure developments in last 10 years are⁵⁰

- National Highway network has expanded by 1.6 times, including the Bharatmala program which will add 54k kms to the NH network by end 2025.
- Introduction of 100 high-speed Vande Bharat trains, modernization of 1,318 railway stations
- Expansion of metro rail network by almost 4 times, with metro rail services now operating in 21 Indian cities
- Launch of 84 new airports

⁴⁸ Source: MOSPI

⁴⁹ Source: Transforming India's Infrastructure: A Futuristic Roadmap through Budget 2024-25 article by KPMG

⁵⁰ Source: PIB Release, Govt of India

- Private sector led development of major new international airports in Jewar and Navi Mumbai, and upgrade / expansion of several other airports under private sector management
- Sagarmala project for aiding port led developments
- Increase in power generation capacity by 70%
- Increased stress on renewable energy; 220GW of renewable energy capacity in October 2024 expected to add 35GW capacity by March 2025. Broader goal is to achieve 500GW by 2030.

Better roads and airport infrastructure have facilitated domestic and inbound travel growth across established markets and newer markets in tier 2 and tier 3 business cities / towns and newer leisure destinations. Significantly greater highway and expressway linkages, 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. Travel, across multiple demand segments, is also facilitated by the Vande Bharat train services. Consequently, travel and hotel demand have grown at Key Markets, Select Markets and several business and leisure destinations which have expanded their reach or gained newer opportunities.

Note: Select Markets comprise markets where ITC has owned hotels. These markets are Mumbai, Delhi NCR, Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad, Goa, Jaipur, Agra, Amritsar, Bhubaneshwar, Coimbatore, Guntur, Port Blair and Vadodara.

Table 2: Planned expansion in infrastructure till 2030

Category	2014	2024	2030
Airports	74	158	230-240
Road Network (km in '000s)	91	146	200 (by 2025)

Source: PIB Release, Govt of India

3.2 Increasing travel demand to be supported by increase in airport capacity

15 of 17 Select Markets have their own airport, with aggregate capacity of 309 million as of 31 October 2024. Aggregate passenger capacity at these airports is estimated to be 423 million passengers per annum (MPPA) by FY29, including expansion of certain airports.

Among Select Markets, Guntur and Puri are the only markets that currently don't have their own airport; however, a greenfield international airport is planned in Puri.

The existing and planned capacity of airports at Select Markets is provided in the below table.

Table 3: Select Markets airport capacity

Airport	Category	Capacity (MPPA)		Remarks
		Existing	Additional Planned	
New Delhi	PPP	74	20	The capacity and positioning of the Delhi Airport will be an advantage in the medium and long term as the airport expands. A greenfield international airport at Jewar in Noida is under construction and likely to open in Q1-FY25. It is planned to be India's largest airport with an initial capacity of 60 MPPA and planned capacity of 120 MPPA. This airport will help further expand travel and cargo potential for Delhi NCR.
Mumbai	PPP	60	-	A greenfield international airport at Navi Mumbai is under construction and is likely to open in Q1-FY25. The city will benefit from this new airport as the current airport capacity expansion is constrained.
Bengaluru	PPP	52	8	Bengaluru airport is expected to cross 60 mn passengers in the next 5-8 years, having achieved 38 mn for FY24. The government is planning for a new greenfield airport on the outskirts of Bengaluru.

Airport	Category	Capacity (MPPA)		Remarks
		Existing	Additional Planned	
Chennai	AAI	21	14	Terminal 2 is undergoing expansion, expected to be completed in 2026, raising its capacity from 25 to 35 MPPA. A second airport is planned at Parandur with first phase capacity of 20 MPPA by January 2029 increasing to 100 MPPA upon completion of Phase 4 of the project by 2047. The airport will have 3 terminals, spread over 5.4k acres.
Hyderabad	PPP	34	-	Airport expansion was recently completed.
Kolkata	AAI	26	20	The airport is undergoing a major Rs 5,000 crore expansion project, which includes constructing a new terminal and increase flight handling capacity. It is expected to complete by late 2025 or early 2026.
Ahmedabad	PPP	8	20	Major renovations have been carried out over the past two years, with plans to expand the passenger handling capacity from 8 to 20 MPPA by FY26.
Jaipur	PPP	3.5	6.5	A new terminal dedicated to international travellers was inaugurated in October 2024.
Goa (Dabolim & Mopa)	AAI & PPP	21	5	The newly opened Mopa Airport (in December 2022) added further capacity to expand from 4.4 MPPA to 7.7 MPPA. This will become the prime airport for Goa, in due course. Dabolim airport expansion with an investment of Rs. 256 crore is underway, enabling it to handle 13 mn passengers annually. The expansion was to be completed in 2024, however it is delayed and will likely be completed in H1-FY26. With increased importance of Mopa Airport, Dabolim airport expansion may have limited long-term relevance.
Bhubaneshwar	AAI	4	4	A new terminal (T3) is under construction to handle the increasing passenger traffic. The airport is working on expanding its runway to accommodate larger aircraft and increase flight operations.
Coimbatore	AAI	3	12	A new terminal is being constructed as part of a Rs 1,500 crore investment plan. The runway is being extended from 9,500 feet to 12,500 feet. This expansion is nearing completion and will significantly enhance the airport's capacity to handle larger aircraft and more flights.
Amritsar	AAI	2.5	1.5	Planned expansion to increase peak hour passenger handling capacity from 1,200 to 2,000 passengers.
Vadodara	AAI	1.5	-	The airport has received approval to start international services. Immigration and customs facilities are being set up, and the first international flights are expected to connect to destinations like Dubai and Sharjah.
Agra	AAI	1.5	-	A new terminal building is under construction, designed to handle 1,400 peak hour passengers.
Port Blair	AAI	5	-	The new terminal became operational in August 2023 with a capacity to handle 5 mn passengers annually.
Puri	AAI	-	-	New greenfield international airport planned to be operational by mid-2027 or early 2028.

4 Demand Overview and Characteristics

4.1 Key Demand Drivers

The key demand drivers for hotels are:

- a. **Business Travel** - Inbound and domestic visitation for business related purposes, including travel on corporate account and by individual business travellers. Demand typically predominates between Monday and Thursday, slowing towards the weekend or public holidays. Domestic business travellers at upscale and mid-segment hotels often stay through till Saturday. Business travel also slows during vacation periods.
The services sector (IT, BFSI, and professional services) and manufacturing sector are significant drivers for business travel.
- b. **Leisure Travel** - This is discretionary in nature and comprises long / short 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 and propensity, changing lifestyle, and improved connectivity have materially benefitted hotels with good F&B, recreation and entertainment facilities.
- c. **Tourism** - India is popularly known for its rich cultural heritage, historical sites, diverse landscapes, and vibrant festivals. Growth of domestic and inbound tourism contributes significantly to the demand for hotels. The Ministry of Tourism has undertaken various programs such as Swadesh Darshan Scheme, Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) scheme, Dekho Apna Desh People's Perspective Hackathon (DPPH) for growth of tourism.
- d. **MICE Travel** – For corporate, government, institution and association events (conventions, conferences, retreats, incentives, 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 main holiday periods and the months from March through May. Cities with international convention centres are able to attract large international events. Hotel demand is also gaining from sports events.
- e. **Weddings and Social demand** - This segment comprises destination weddings and other social / celebratory events, as well as substantial use of hotels for weddings and social events for local (non-residential) events. The trend for hosting weddings in city hotels or as destination weddings has grown materially and is gaining further momentum, as it percolates to the mid-market segment. Several city hotels attract large residential weddings, akin to destination weddings in leisure centres. Social travel also occurs for other social obligations and person / family visits.
- f. **Diplomatic Travel** - Government leaders and representatives of other countries, often accompanied by large trade delegations, and diplomats using upper-tier hotels during the transition period on postings to India.
- g. **Airline Crew** - Helps create a core of demand at hotels, albeit at significantly discounted pricing. Airlines also generate limited demand for layovers when flights are significantly delayed.
- h. **Transit Demand** – Comprises person on overnight stay during air or road trip to a domestic or international destination.

Each demand segment attracts domestic and inbound travel of varying measures, depending upon the hotel and destination character. Demand quantum, profile and rate paying capacity are also impacted by seasonality factors which may apply differently to business and leisure hotels. The months from October through March of any Financial Year are materially busier than the summer and monsoon seasons.

4.2 MICE Demand

MICE demand contributes hotel revenue for rooms, F&B and other services arising from various business and social events; weddings; corporate, institutional and government sponsored meetings, conferences and conventions; sports related events; performing arts and other events. Varied segments may apply to different hotels and markets.

New convention centres in Mumbai, New Delhi and Jaipur will catalyse demand in those markets, drawing varied events related demand and additional demand for guest rooms. The convention centres will also generate additional MICE demand at upper tier hotels that have sizeable function spaces, and will encourage an element of leisure travel by inbound visitors and inter-regional domestic travellers thereby adding to hotel demand and other local spends.

The G20 events were a perfect example of this; these events from December 2022 to September 2023 took international visitors to multiple destinations and provided occupancy, rate and revenue boost to hotels.

Hotels can gain materially from such events, corporate conventions and weddings by way of (a) outdoor catering and other services; and (b) accommodation and related F&B demand. Further, the experience and recognition gained from successfully hosted events, enables hotels to market to and draw other international and national events and delegations.

MICE events have contributed to the growth of F&B revenues to 32% share of total revenue and Rs. 46.2 bn in FY2024 for certain listed companies (Refer Table 33).

The trend for hosting weddings in city hotels or having destination weddings is expected to continue and is gaining momentum as the practice percolates to the mid-market segment. City hotels also benefit from destination wedding concepts. Additionally, the trend of increasing importance of various celebratory occasions (such as anniversaries and landmarks) creates demand at city hotels and resorts.

Sports based demand has gained momentum and will likely gain strength in the future. International, national, and league events across various sports (cricket, hockey, kabaddi, and football) are creating sizeable demand, across various price segments. Demand comprises of team members, officials and support staff and visiting spectators, Demand arises at the time of the event and during preceding training periods.

4.3 Food & Beverage Demand

The food & beverage industry is valued at Rs.5.69 trillion in 2024 contributing to 1.9% of India's GDP. India is estimated to surpass Japan to be the third largest food services market globally by 2028.⁵¹

The F&B industry has grown from US\$ 19.8 billion in 2015 to US\$ 68 billion in 2024 at 14.8% CAGR and is projected to grow to US\$ 93 billion at CAGR of 8.1%.

The average bill on the Dineout platform was Rs. 2,670 in 2021 compared to Rs. 1,907 in 2020.⁵²

For luxury hotels the F&B Revenue per occupied room in 2019 was Rs.10.1k which increased to Rs.11k in 2023. For luxury hotels average F&B APCs increased from Rs.1.5k to Rs.1.7k. F&B department profitability was 53% in 2019 and slightly lower at 51% in 2023 mainly because of increase in staff and food costs.⁵³

While specific projections for F&B demand in hotels are not available, the overall strong spending approach towards F&B can be expected to positively reflect on F&B demand at hotels particularly for restaurants that carry their own brand recognition (such as Bukhara, Peshawri, Dum Pukht, Dakshin, House of Ming, Jamawar etc). The positive trend for F&B in hotels is evidenced by the increase in F&B revenue from Rs. 26 billion in FY22 to Rs. 59 billion in FY24 among the group of eight hotel companies / divisions with over the last three years (Refer Table 33).

ITC hotels have sizeable function spaces in most of their luxury hotels. Further, recognizing the business importance of function spaces, newer hotels have been developed with larger function spaces enabling the hotels in Chennai, Kolkata and Hyderabad to have the largest facility among luxury hotels in those cities. Besides, ITC Mughal, Agra benefits from its large lawns and spacious indoor event spaces to lead the aggregate function capacity in that market.

4.4 Foreign Tourist Arrivals (FTA)

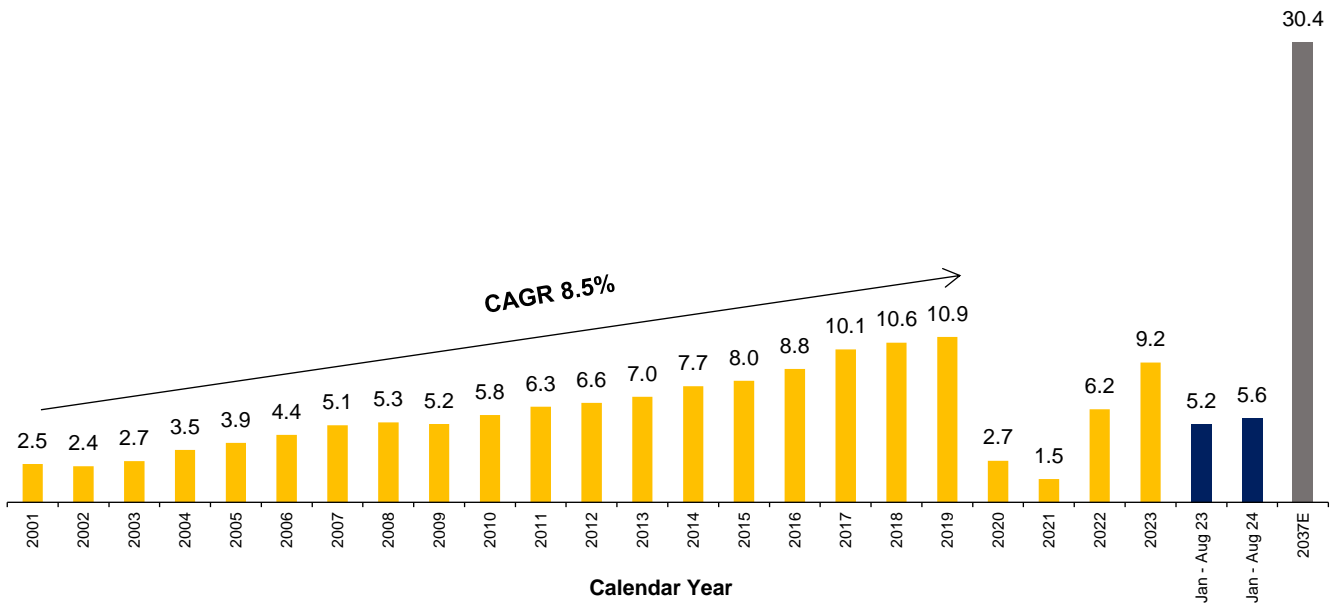
FTA aggregated 10.1 mn, 10.6 mn and 10.9 mn for CY17, CY18 and CY19 respectively, achieving the 10 mn mark for the first time in CY17. After the Covid period decline, FTA recovered to 6.2 mn for CY22 (partially constrained by the Omicron wave during the normally very busy months of January and February 22) and further to 9.2 mn for CY23 (84% of CY19 arrivals). FTA for CY24 (Jan – July 24) has risen to 5.6 mn compared to 5.3 mn for the same periods in CY23.

⁵¹ Source: India Food Services Report 2024 published by NRAI

⁵² Source: Dineout Trends Report 2021

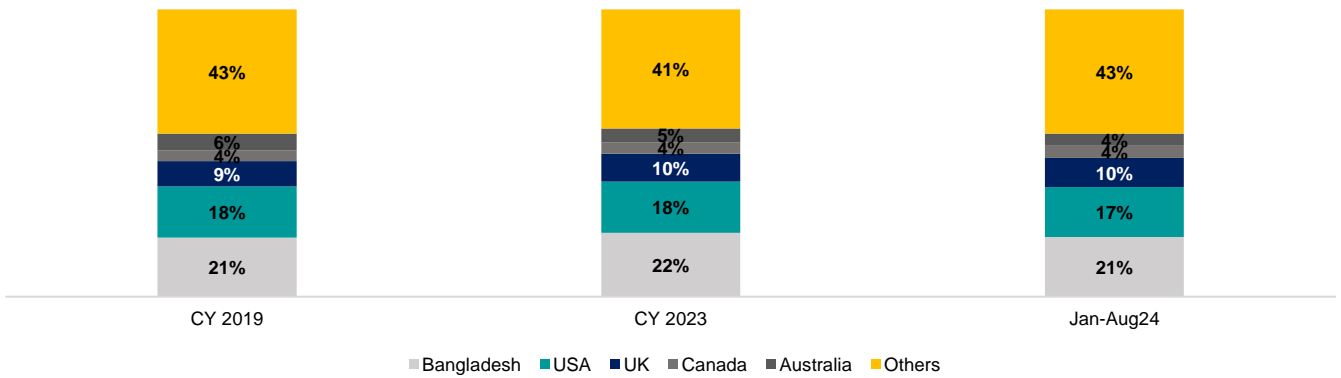
⁵³ Source: Horwath HTL Hotel Operations Survey

Chart 18: India – Foreign Tourist Arrivals (mn)



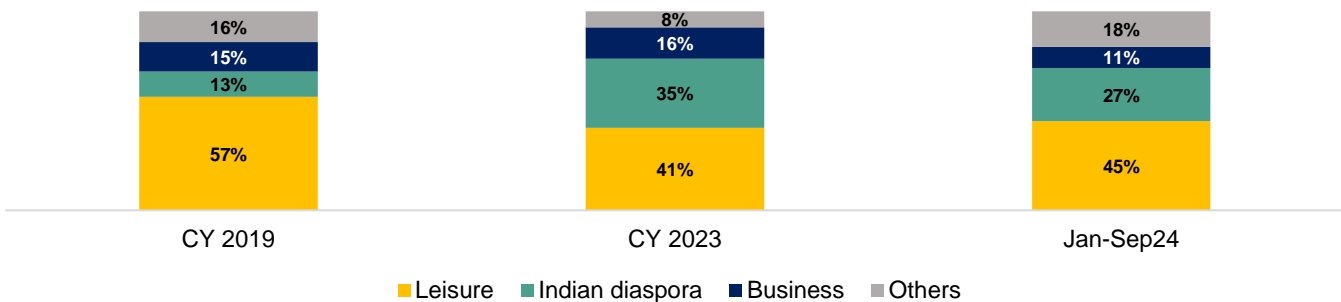
Source: Ministry of Tourism, Govt. of India

Chart 19: India – Foreign Tourist Arrivals- By Country



Source: Ministry of Tourism, Govt. of India

Chart 20: India – Foreign Tourist Arrivals- Purpose of visit



Source: Ministry of Tourism, Govt. of India

Cross-border travel is impacted by several factors including security, health, political and economic issues at the destination or source markets. High air fares are currently a constraint as global airlines cope with aircraft and staffing shortages. In past years, FTA was impacted by events such as Mumbai terror attacks on 26 November 2008, global financial crisis, economy related issues in Russia and Europe, or business failure of major tour operators in Europe.

Seasonality of FTA is reflected in Chart 22. The winter months are clearly preferred for travel into India for leisure, MICE events, leadership level business travel and high-end destination weddings.

Chart 21: FTA Seasonality (2001-2023)



Source: Ministry of Tourism, Govt. of India

Electronic Visa (E-visa) scheme made available effective November 2014, for nationals of 43 countries. As on December 2024, nationals of 173 countries are covered under the e-visa scheme, successfully enabling inbound visitors to come in with short lead-time and easier visa processes.

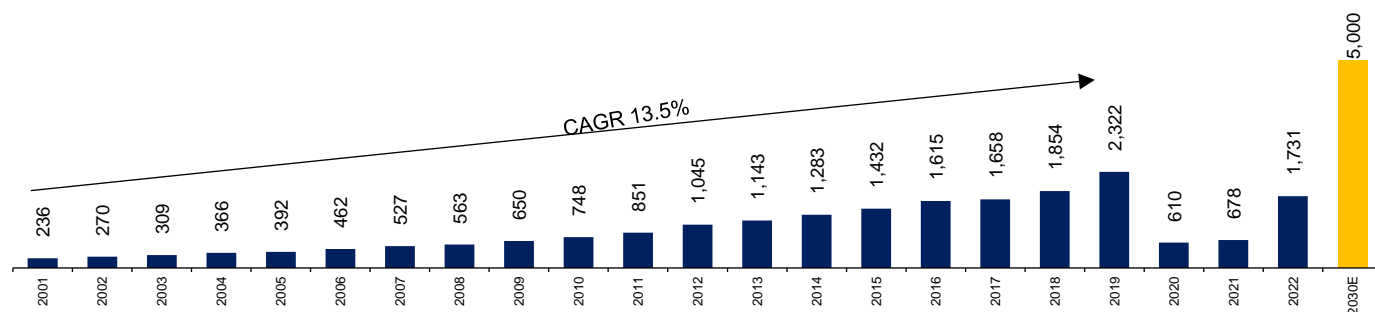
4.5 Domestic Tourism

4.5.1 Domestic Travel Visits

Domestic travel visits grew at 13.5% CAGR between CY01 - CY19, from 236 mn visits in CY01 to 2.3 bn visits in CY19. Domestic travel numbers for CY22 at 1.7 bn reflects strong recovery of 74.5% of CY19 (pre-COVID). Data for CY23 is not yet released by the government.

‘How India Travels 2023?’ report by Booking.com and McKinsey estimates 5 bn domestic travel visits by 2030. Vision 2047 report by HAI expects 15 bn domestic visits and FTA of 100 mn by 2047.

Chart 22: India – Domestic Tourists (mn)



Source: Ministry of Tourism, Govt. of India estimates, Booking.com and McKinsey- How India Travels 2023 Report

Leisure, staycations, remote working from resorts, and weddings demand have been the mainstay of domestic demand revival since the Covid pandemic. Domestic travel is expected to maintain strong growth, particularly as a large middleclass population, young working population, and overall increased individual incomes drive discretionary travel, together with supply creation across wider markets (including religious destinations) and segments. Increasing supply of luxury resorts, combined with the positive spend patterns on luxury products will also materially foster high-spend travel.

The domestic sector contributes weekend and off-season occupancies in addition to business travel, leisure and recreation, weddings and MICE demand, enabling hotels to achieve significantly higher occupancies and room rates than earlier years. Hotel demand will also grow from domestic social visits, family events, and travel to pilgrim centres.

Table 4 reflects the demand contribution by foreign and domestic visitors at different hotel segments.

Table 4 – 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

The share of domestic guests has increased over the 5 years referred in the Table above, with increase across the Five Star deluxe, Five Star and Four Star hotels.

4.5.2 Domestic Spend value on Tourism⁵⁴

Growing household earnings and a median age of 27.6 years (about 10 years younger than most countries) are expected to push the spend on tourism to rise at 9.6% CAGR from \$150 bn spent in 2019 to \$410 bn in 2030.

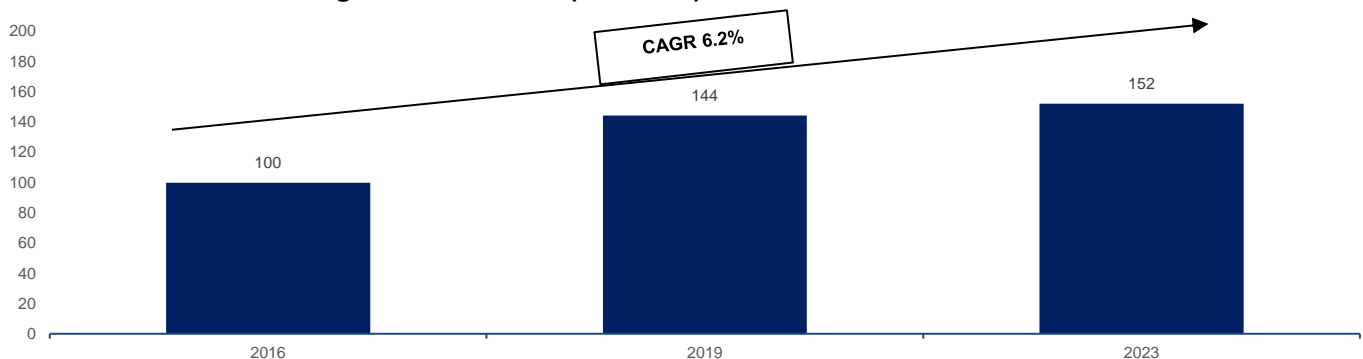
New Delhi, Bengaluru, Mumbai, Chennai, Pune, Hyderabad, Gurugram, Jaipur, Kochi and Kolkata are identified as the top 10 booked destinations in India.

Barring Pune and Kochi, ITC has operating presence and owned hotels across 8 of these top 10 booked destinations.

4.5.3 Domestic Air Traffic⁵⁵

Growth in air travel is a material driver of demand and overall market growth. In FY24, the domestic market generated 84% of aircraft movement at Indian airports and 82% of the total passengers in India. The domestic passenger movements increased by 44% in 2019 compared to 2016 reflecting CAGR of 13%. Further, it recovered well from Covid-19 related restrictions to post 8 mn growth in domestic passengers in 2023, compared to 2019. This growth was driven by opening of new airports, capacity expansions at existing airports and improved connectivity particularly to cities and towns outside the main destinations.

Chart 23: Domestic Passenger Air Movement (in million)



Source: Directorate General of Civil Aviation

Growth in air travel for Select Markets is summarised in Table 5

⁵⁴ Source: 'How India Travels 2023?' report by Booking.com and McKinsey.

⁵⁵ Source: Airports Authority of India

Table 5 - Pax Movement in mn

Year	Select Markets	All India	Select Market Share
FY08	96	115	83.2%
FY15	148	191	77.8%
FY24	271	374	72.5%
Apr23 - Jun23	106	149	71.4%
Apr24 - Jun24	131	182	71.9%
CAGR (FY15-24)	6.9%	7.8%	

Source: AAI

Note: Select Markets comprise markets where ITC has owned hotels. These markets are all Mumbai, Delhi NCR, Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad, Goa, Jaipur, Agra, Amritsar, Bhubaneshwar, Coimbatore, Guntur, Port Blair and Vadodara.

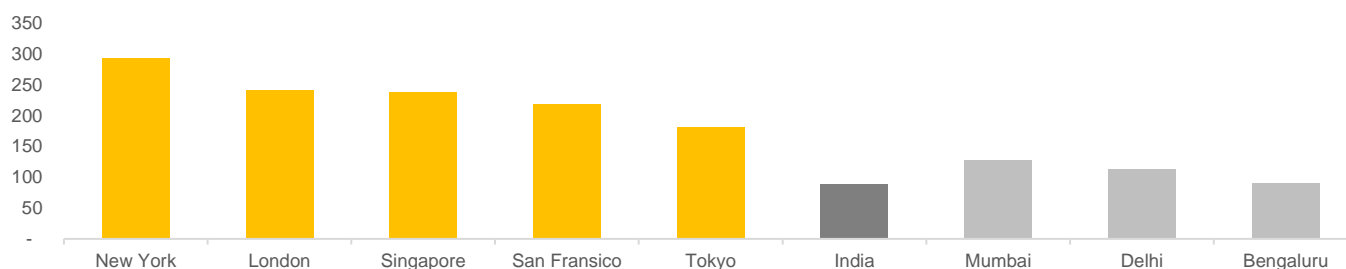
The Select Markets had 72% share of air traffic for FY24, while having 61% supply share of hotel inventory. Between FY15 and FY24, passenger movement (domestic + international) at these Select Markets grew at 6.9% CAGR.

The domestic sector has become a key demand generator with leisure, recreation, weddings and MICE demand driving weekend and off-season occupancies and enabling hotels and resorts to achieve significantly higher occupancies

4.6 Indian Hospitality Industry – Potential for greater penetration

We present herein a comparison of ADRs at India’s top 3 metro markets, with some global cities. ADRs for hotels in India have substantial space for growth, to even reasonably match major global cities.

Chart 24: ADR Comparison with Global Cities for Jan – Sep 24 (US\$)



Source: CoStar

The above comparison reflects that ADRs for hotels in India are substantially lower than for several global cities. At the same time, the hotel product and service in India, particularly at upper tier hotels, is superior to the service levels in several global markets. While, pricing is an outcome of several factors, the expansion of India’s economy at a global scale, combined with the related increased inbound travel, carries potential to generate higher ADRs that are afforded by international travellers in several other global markets.

5 India - Supply Overview

5.1 Chain Affiliated Hotels

5.1.1 The 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, (ii) operated by hotel chains on behalf of other owners or (iii) operated under franchise from hotel chains. For this purpose, all recognised international chains operating in India and domestic hotel chains that are generally considered as operating under common branding have been included. Other domestic chains are considered if they have five 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. Companies that primarily operate time-share facilities, one-star hotels and hotels under aggregators (such as Oyo, Treebo and FabHotels) are excluded from supply.

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.

Data in this section 5 (except where specifically identified) only pertains to hotels in India; it excludes hotels outside India that are owned / managed / franchised by hotel chains.

- 5.1.2 Other Independent hotels have been excluded as these – (a) lack of sufficiently co-ordinated, reliable and consistent data; (b) face increasingly challenged competitiveness against growing presence of chain-affiliated hotels, (c) have longer-term constraints on growth as chain-affiliated supply spreads to second-tier markets and smaller towns; (d) face 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 (which competing with any independent hotels in the relevant catchment area) is adequate reflection of the overall market conditions.

5.2 Segment Classification

5.2.1 The hotels are segmented into the Luxury segment, Upper Upscale & Upscale segment, Upper Midscale segment (Up-Mid), and Midscale Segment & Economy Segment. The hotels also offer additional facilities such as restaurants, bars, and function facilities for meetings and events, varying for each hotel. Each segment includes entry-level hotels in that segment besides hotels that are more fully of segment standards. These industry terms used for classifying, categorising and segmenting hotels are explained below.

- Luxury Segment typically comprise top end hotels with brand standards, facilities, spaces and standards that are associated with expectations of luxury seeking clientele; in India, these are generally classified as deluxe and luxury hotels. Several brands classify themselves as luxury hotel brands, based on certain criteria (e.g. room size) without having the service standards and consistent guest profile typically associated with true luxury hotels.
- Upper Upscale & Upscale Segment (Upper Ups & Ups) comprises first-class hotels and hotels that are moderately positioned and priced compared to first class hotels. These hotels in India are generally classified as 5 star or 4 star hotels. These hotels offer superior standards, amenities and services though not at a level that affords the exclusivity associated with luxury hotels.
- Upper Midscale segment comprises full service or select service hotels, typically with smaller room sizes and lesser public areas and facilities; these are more moderately positioned and priced than upscale hotels and would generally be classified as 4 star and sometimes 3-star hotels in India.
- Midscale - Economy Segment are typically 3-star or 2-star hotels providing functional accommodation with distinctly moderate room sizes, and limited services, being focussed on price consciousness; domestic brand midscale-economy hotels often offer more services than select service international branded midscale hotels.

In this Report reference to Upper Tier Segments will mean Luxury and Upper Upscale -Upscale Segments and reference to Mid-Segment will mean Upper Midscale and Midscale Segments.

5.2.2 Classification of hotels into the various segments is based on the definition and method adopted by CoStar for hotels participating with CoStar and followed for data reporting and market comparison by the industry. 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. Hotels considered for our report but which are not participating with CoStar have been classified by us within these segments based on our assessment of positioning of the brand / hotel. If a chain has modified the positioning of a brand, such change would be reflected in current and previous period data.

5.3 Hotel Operations Mode

Hotel Operations are typically structured as Owner-Operated, Management Contract and Franchise-based.

5.3.1 Owner Operated

Owner Operated structure is where the hotel owner is also operating the hotel for owner's benefit. This is applicable to the ITC's owned hotels, operated by ITC under its brands. Hotels may be owned on freehold or leasehold basis.

5.3.2 Management Contract

Management Contract structure comprises operation by a hotel management company, such as ITC, of hotels owned by other parties. The hotels are marketed and operated for the benefit of the owner, generally using the brand (including loyalty program) of the hotel management company. The hotel management company is paid fees for its management and brand. Some management companies serve as third-party operators, managing hotels under a brand franchise obtained by the hotel owner.

5.3.3 Franchise

Franchise-based structure comprises use by a hotel owner of the brand of a hotel company that provides use of the brand, associated loyalty program, and defined sales and marketing supporting to the hotel owner, against a franchise fee payable to the hotel company. The hotel may be owner managed or managed by another hotel company.

5.4 Focus Segments and Markets

5.4.1 This report focuses on segments and markets in which ITC has its hotels and projects. In Table 6 we have summarised by segments the number of hotels and rooms under chain ownership and under management contracts with ITC.

Table 6- ITC Existing Hotels & Projects

Segment	Owned			Managed			Total		
	E	P	Tot	E	P	Tot	E	P	Tot
Domestic Hotels									
Hotels									
Luxury	15 [#]	-	15	2	1	3	17	1	18
Upper Upscale & Upscale	9 ^{##}	1 ^{@@}	10	76	35	111	87	36	121
Upper-Midscale	1 [@]	-	1	35	8	43	36	8	44
Total	25	1	26	113	44	157	138	45	183
Rooms									
Luxury	4,437	-	4,437	181	223	404	4,618	223	4,841
Upper Upscale & Upscale	1,019	219	1,238	4,465	2,795	7,260	5,484	3,014	8,498
Upper-Midscale	77	-	77	2,470	613	3,083	2,547	613	3,160
Total	5,533	219	5,752	7,116	3,631	10,747	12,649	3,850	16,499
International Hotels									
Hotels									
Hotels	1	-	1	1	1	2	2	1	3
Rooms									
Rooms	250	102	352	66	348	414	316	450	766
Overall									
Hotels	26	1	27	114	45	159	140	46	186
Rooms	5,783	321	6,104	7,182	3,979	11,161	12,965	4,300	17,265

[#] Comprises two hotels each in Mumbai, Delhi NCR, Bengaluru, Kolkata and Hyderabad; one hotel each in Chennai, Ahmedabad, Goa, Jaipur and Agra;

^{##} Comprises one hotel each in Delhi NCR, Chennai, Bengaluru, Bhubaneshwar, Amritsar, Vadodara, Coimbatore, Guntur and Port Blair
[@] Ahmedabad; ^{@@} Puri

Owned hotels include ITC Grand Central, Mumbai, which is owned by ITC Ltd and will be operated and managed by ITC Hotels Limited through an Operating Services Agreement

Outside India, ITC owns a 352 room hotel in Colombo, Sri Lanka that opened in April 2024. The hotel is operational with 250 rooms; the remaining 102 rooms are expected to be operational in Q4-FY25. ITC manages a hotel in Bhaktapur, Nepal and has one hotel in pipeline in Kathmandu, Nepal.

Thus, ITC has total existing inventory of 140 hotels (12,965 rooms) and total pipeline of 4,300 rooms comprising 46 hotels (4,097 rooms) and capacity expansion of its hotels in Bhubaneshwar and Colombo (additional 203 rooms).

16 luxury hotels owned by ITC, including the hotel in Colombo, have an exclusive franchise licence with various affiliates of Marriott International Inc., USA ("Marriott") for 'the Luxury Collection' brand. 1 upper

upscale hotel in India owned by ITC has a franchise licence from Marriott for the ‘Sheraton’ brand. This provides ITC access to Marriott’s strong global distribution network and Marriott Bonvoy international loyalty & rewards program which has 210 mn members as at 30 June 2024. ITC also has its own loyalty program ‘Club ITC’.

Strong and consistent sustainability initiatives in the areas of energy conservation, use of renewable energy and water use efficiency, with LEED Platinum certification for multiple ITC hotels, enables positive competitive recognition and contributes to improved profitability.

5.4.2 The overview of supply and demand herein focuses on the luxury, upper upscale and upscale, and upper midscale segments in which ITC has its hotels and projects. Inventory data for provided for chain-affiliated hotel rooms existing as of 30 September 2024 and pipeline hotels signed as of 15 November 2024.

5.4.3 Data in this report is separately presented on All India basis, for Key Markets and for Select Markets.

5.4.4 Key Markets comprise the top ten markets in India in terms of hotel room inventory. These are

- Top three metro cities - Mumbai Metropolitan Region, Delhi NCR, Bengaluru
- Other three metro cities - Chennai, Hyderabad and Kolkata
- Other Key Markets - Ahmedabad, Pune, Jaipur and Goa.

5.4.5 Select Markets are markets where ITC has an owned hotel or has an owned hotel project in pipeline. ITC owns hotels in multiple markets. We have therefore bifurcated the Select Markets in two groups. These are

- Core Select Markets – All Key Markets except Pune
- Other Select Markets – Agra, Amritsar, Bhubaneshwar, Coimbatore, Guntur, Port Blair and Vadodara

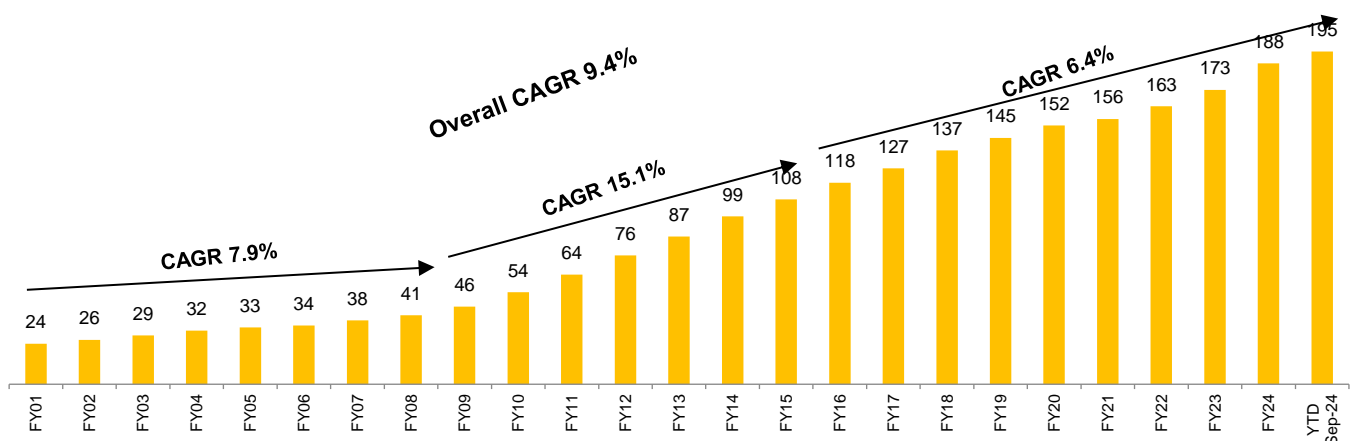
5.4.6 In this report Compound Annual Growth Rate (CAGR) between a financial year (start year) and another financial year (end year) is calculated from 31 March of the start year to 31 March of the end year, unless a different set of dates is indicated for any specific item.

5.5 All India & Select Markets – Overall Supply

5.5.1 All India – Chain Affiliated Supply

India had 195k chain-affiliated rooms as at end YTD Sep-24. This room inventory has grown at a CAGR of 9.4% since FY01. Chart 25 below reflects overall All India Chain affiliated hotel room supply.

Chart 25: All India Chain Affiliated Rooms Supply (in ‘000s)



Source: Horwath HTL

Major supply growth occurred between FY08-FY15, fuelled by strong business conditions and positive Occupancy and Average Daily Rate (ADR) trends from FY05 through initial months of FY09. On the other hand, moderate demand and economic activity from FY10 through FY14 was not supportive of new project commitments causing slower supply growth for FY16-FY23; this was exacerbated by the Covid pandemic. 9.4% CAGR between FY01 and YTD Sep-24

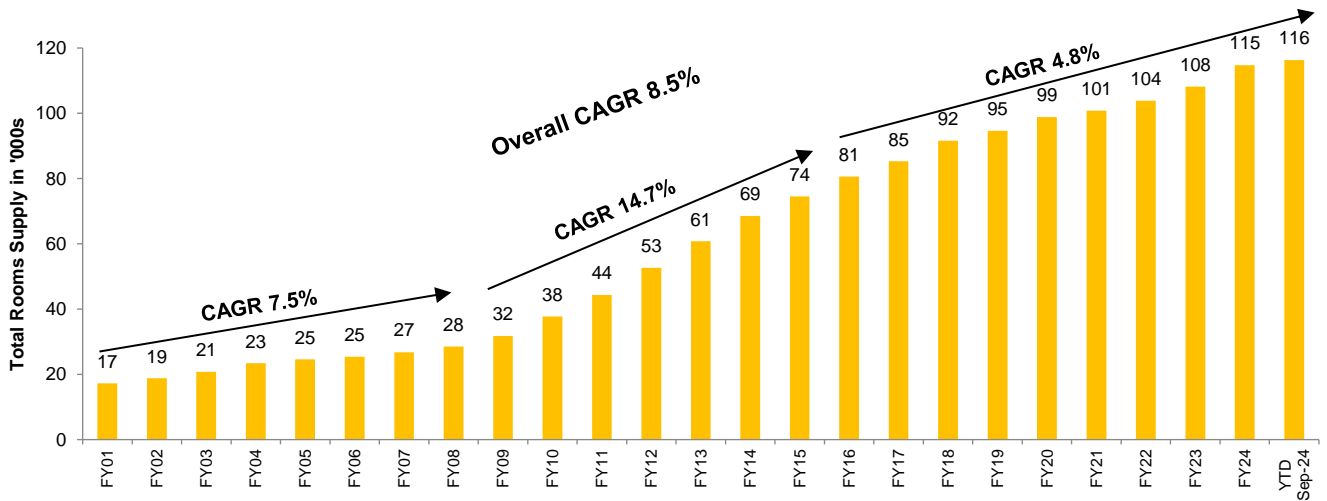
(over 23 years) reflects material supply addition, although off a small supply base as at FY01. 7k rooms have been added in H1-FY25.

About 67k rooms were added in the seven years from start of FY09 to end of FY15 and about 36k rooms in the four years from start of FY21 to end of FY24. Supply addition in these eleven years comprises 62% of supply creation over the last 24 years.

5.5.2 Select Markets – Chain Affiliated Supply

Supply growth, aggregated across the Select Markets is reflected in Chart 26 below. Supply addition between start FY09 and end FY15 was 46k rooms. Supply addition between start of FY16 and as of YTD Sep-24 was similar at 42k rooms.

Chart 26: Select Chain Affiliated Rooms Supply



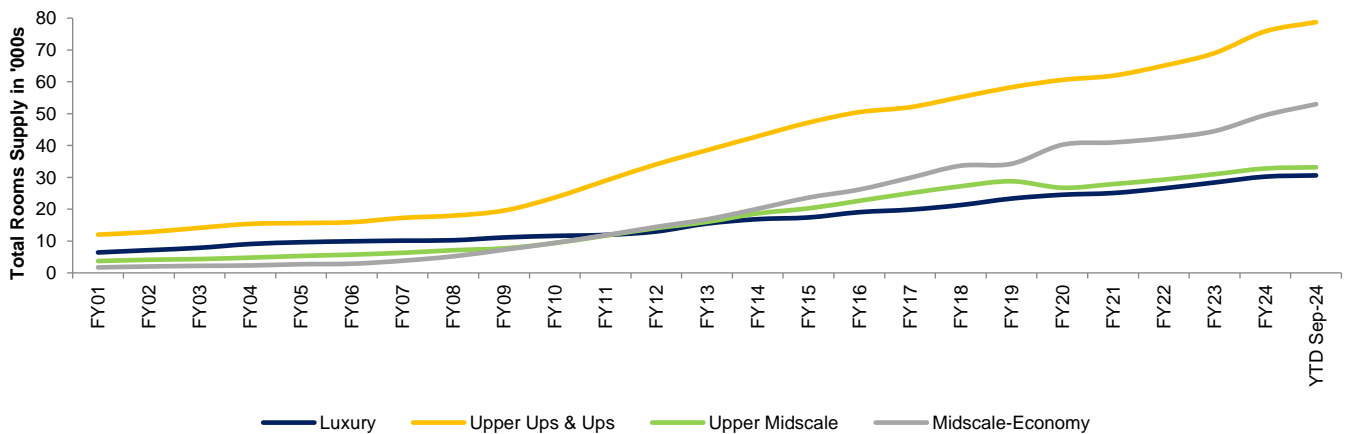
Source: Horwath HTL

Aggregate supply in Select Markets, at 116k rooms as at Sep-24, comprises 60% of all India supply; ITC has 7% share of supply in Select Markets.

5.6 All India - Segmental Supply

5.6.1 Segmental supply has evolved significantly since FY01, and continues to do so, as reflected in Chart 27 and Table 6.

Chart 27 - All India Chain Affiliated Rooms Supply – Luxury, Upper Upscale & Upscale, Upper Midscale, and Midscale-Economy Segments



Source: Horwath HTL

The pace of growth in Luxury and Upper Upscale and Upscale segments was similar between FY01 and FY10. From FY11 onwards the pace of growth in upper upscale and upscale segments and mid-scale economy segments was faster than luxury and upper midscale segments. It reflects diversification of demand and deepening of demand at varied price points.

Table 7 – Segmental Composition (Inventory in 000s)

Category	FY01	FY08	FY15	FY24	YTD Sep-24	FY29	CAGR			
							FY01-08	FY08-15	FY15-24	YTD Sep24-FY29
Luxury	6	10	17	30	31	47	6.9%	7.9%	6.2%	9.8%
Upper Ups & Ups	12	18	47	76	79	115	5.9%	14.8%	5.4%	8.7%
Upper Midscale	4	7	20	33	33	50	9.7%	16.1%	5.5%	9.7%
Midscale-Economy	2	5	24	50	53	79	17.2%	24.2%	8.6%	9.2%
Total	24	41	108	188	195	290	7.9%	15.1%	6.3%	9.2%
% of Total										
Luxury	26.9%	25.3%	16.0%	16.0%	15.7%	16.1%				
Upper Ups & Ups	50.3%	44.3%	43.5%	40.3%	40.3%	39.5%				
Upper Midscale	15.6%	17.6%	18.7%	17.4%	17.0%	17.3%				
Midscale-Economy	7.2%	12.8%	21.8%	26.3%	27.1%	27.1%				

Note: The CAGR data in table 6 above is presented on FY basis to provide a more comprehensive picture.

Supply composition has evolved towards greater segmental balance, with lesser concentration of the Upper Tier segments, and increased supply share and footprint for Upper Midscale and Midscale-Economy segments. A similar trend is broadly expected through FY29 with Upper Midscale and Midscale-Economy segments having about 45% share of new supply between Sep-24 and FY29.

In absolute numbers, the Luxury, Upper Upscale & Upscale, Upper Midscale and Midscale-Economy segments added about 25k, 67k, 29k, and 51k rooms respectively between FY01 and Sep-24. (Note: segmental inventory decline in some years is mainly due to brand re-classification/positioning change). Midscale and Economy segment had the largest CAGR growth (FY01-YTD Sep24) at 15.7%, contributing 30% to total addition of rooms since FY01. During this period the contribution in absolute terms was highest with 67k rooms for Upper Upscale & Upscale Segments.

5.6.2 Upper Tier hotels contribute higher share of revenue

Lux-UpperUp hotels remain extremely relevant to the hotel sector, as reflected by its materially larger contribution to rooms revenue, due to its superior pricing and quality. Refer Table 8 for segmental revenue share in CY23. Existing Lux-UpperUp hotels will benefit from a moderate segmental pipeline particularly in major metro cities.

Table 8 – Segmental Revenue Share

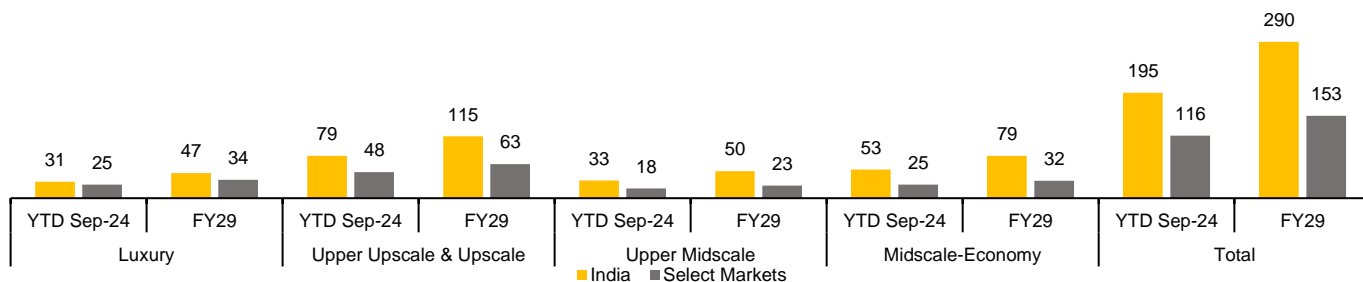
Positioning	Supply Share	Revenue Share
Lux-UpperUp	34%	55%
Up-UpMid	39%	34%
M-E	26%	11%

Source: Horwath HTL

5.7 All India - Expected Supply upto FY2029

Per data based on announcements upto 15 November 2024, 95k rooms are expected to be added between 1 October 2024 and 31 March 2029. Given the past track record of materialised supply being at a slower rate, actual inventory growth may be smaller or may be delayed from the year in which it is presently indicated. On the other hand, newer conversion efforts may cause some growth to happen somewhat speedily to partially compensate any delays in materialisation of the inventory pipeline of 95k rooms.

Chart 28 - Expected Inventory (Rooms in 000s)



Source: Horwath HTL

New supply between 1 October 24 and 31 March 29 for Select Markets is 38% of the total new supply, with 36k rooms being added through March 29. The overall supply share of Select Markets will drop from its current level of 60% to 53%. Select Markets include nine of the ten Key Markets. Decline in Select Market supply share indicates the relatively slow supply growth in Key Markets as compared to Other Markets.

Of the new supply 34% will occur in Key Markets and 66% will occur outside the Key Markets. The wider spread of new supply will likely satisfy latent demand and generate new demand.

Key Markets and several Select Markets are major business centres, with material potential for demand growth. Limited supply pipeline in these markets over the next 5 years will provide occupancy and ADR benefits for existing hotels.

Segmental Share of Select Markets supply to total supply is in the Table 9.

Table 9 – Segmental Share of Select Markets Supply to Total Supply

Segment	YTD Sep-24	FY29
Luxury	82%	73%
Upper Upscale and Upscale	61%	55%
Upper Midscale	54%	47%
Midscale-Economy	47%	41%
Overall	60%	53%

About 24% of new supply in Select Markets between 1 October 24 and 31 March 29, will be in the Luxury segment; 40%, 16% and 20% in the Upper Upscale & Upscale, Upper Midscale and Midscale-Economy segments respectively.

5.8 Supply Spread & Analysis

5.8.1 By Market Category

The Key Markets have 58% of rooms supply as at YTD-Sep24, declining from 69% supply share at end FY15. Hotel rooms supply across market categories is summarised in Table 10.

Table 10 – Supply Distribution

Market Category	FY01	FY15	FY24	YTD Sep24	FY29	FY01	FY15	FY24	YTD Sep24	FY29
	Supply (Rooms in '000s)					Demand (Rooms in '000s)				
3 Main Metros	10	41	59	60	78	NA	25	39	41	61
3 Other Metros	3	15	23	22	27	NA	9	15	15	20
Other Key Markets	3	18	30	31	40	NA	11	19	19	29
Total Key Markets	16	75	111	113	145	NA	45	73	75	110
Other Markets	8	34	77	82	145	NA	16	43	41	82
Grand Total	24	108	188	195	290	NA	61	116	116	192
	% Share on All India Supply					Occupancy				
3 Main Metros	40.1%	38.1%	31.3%	30.6%	26.8%	NA	62%	68%	69%	78%
3 Other Metros	14.3%	14.2%	12.0%	11.5%	9.4%	NA	59%	67%	67%	75%
Other Key Markets	12.1%	16.8%	15.9%	15.8%	13.8%	NA	62%	66%	62%	71%
Total Key Markets	66.5%	69.1%	59.2%	57.9%	50.0%	NA	61%	67%	67%	76%
Other Markets	33.5%	30.9%	40.8%	42.1%	50.0%	NA	47%	56%	50%	57%
Grand Total / Average	100%	100%	100%	100%	100%	NA	56%	62%	60%	66%

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

Table 11 – Supply Distribution – All Markets and Select Markets

Market Category	Room Count ('000)					% Share on All India Supply				
	FY01	FY15	FY24	YTD Sep24	FY29	FY01	FY15	FY24	YTD Sep24	FY29
Total Key Markets	16	75	111	113	145	66.5%	69.1%	59.2%	57.9%	50.0%
Other Markets	8	34	77	82	145	33.5%	30.9%	40.8%	42.1%	50.0%
Grand Total	24	108	188	195	290	100%	100%	100%	100%	100%
Core Select Markets	15	69	104	106	137	64.8%	63.7%	55.2%	54.1%	47.1%
Other Select Markets	2	5	11	11	16	7.3%	5.0%	5.7%	5.5%	5.6%
Select Markets - Total	17	74	115	116	153	72.1%	68.6%	60.9%	59.5%	52.7%

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

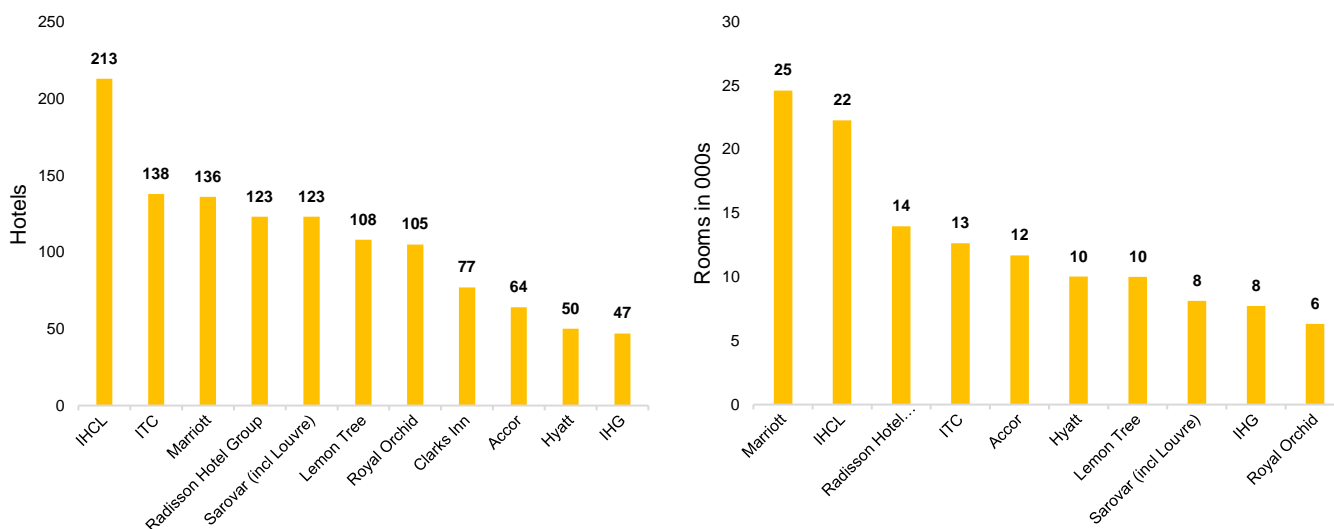
- Supply at the 3 Main Metros is nearly 2.7 times the Other Metros; Other Key Markets have materially larger inventory than the Other Metros.
- ITC has 56% of its aggregate inventory (owned and managed) in the Key Markets and 44% in Other Markets. In terms of supply share as at YTD Sep24, ITC has 6% supply share at all-India level, 6% and 7% supply share respectively in the Key Markets and Other Markets.
- 18 out of 25 existing ITC owned hotels are in Key Markets. Of the total ITC portfolio of 138 operational hotels 46 hotels are in Key Markets and 92 hotels are in Other Markets.

- The Key Markets led supply creation between FY01-FY15. Thereafter, 38k rooms have been added in the Key Markets and 48k rooms in Other Markets. Among all Key Markets, a little over 50% supply growth over the next 5 years will only be at the 3 Major Metros [Delhi NCR, Mumbai and Bengaluru – 6k, 5.6k and 6k rooms respectively], about one-sixth in the other 3 metros, and nearly 1/3rd in the Other Key Markets.
- Supply spread to Other Markets is an important evolution of the industry with 74k rooms added between FY01 and Sep-24 and another 63k expected to be added by FY29. This will support and foster continued all-India demand growth. Increased urbanisation and improved air / road infrastructure have enabled supply creation in Other Markets in the last 9 ½ years with 56% share of supply addition in this period. Hotels in Other Markets tend to be smaller and concentrated at the mid-segment and upscale levels.
- Supply addition in the Select Markets comprised 57k rooms between FY01-FY15 and 42k rooms thereafter through Sep-24. Core Select markets contributed 91% of the total supply addition at Select Market. Within Core Select Markets, overall supply growth was led by Top 3 Metros (50k rooms), Chennai and Goa which cumulatively added 16k rooms, while Hyderabad, Jaipur, Ahmedabad, and Kolkata added 23k rooms cumulatively. Pipeline share of Select Markets is 36k rooms.
- For the Select Markets the total supply increased by 4.8% CAGR between FY15 and YTD Sep-24. CAGR for 10 of 17 Select Markets was higher than the average of 5.1%.
- While supply expansion outside the Key Markets and segmental spread of supply reflects increasing market maturity and potential for wider demand growth, the resultant changing supply composition restricts market wide rate growth due to a larger share of mid-segment hotels.

5.8.2 By Hotel Chains

Supply of top 10 chains as of Sep-24 is summarised in Chart 29

Chart 29: Rooms (in 000s) and hotels Inventory of Top 10 Chains



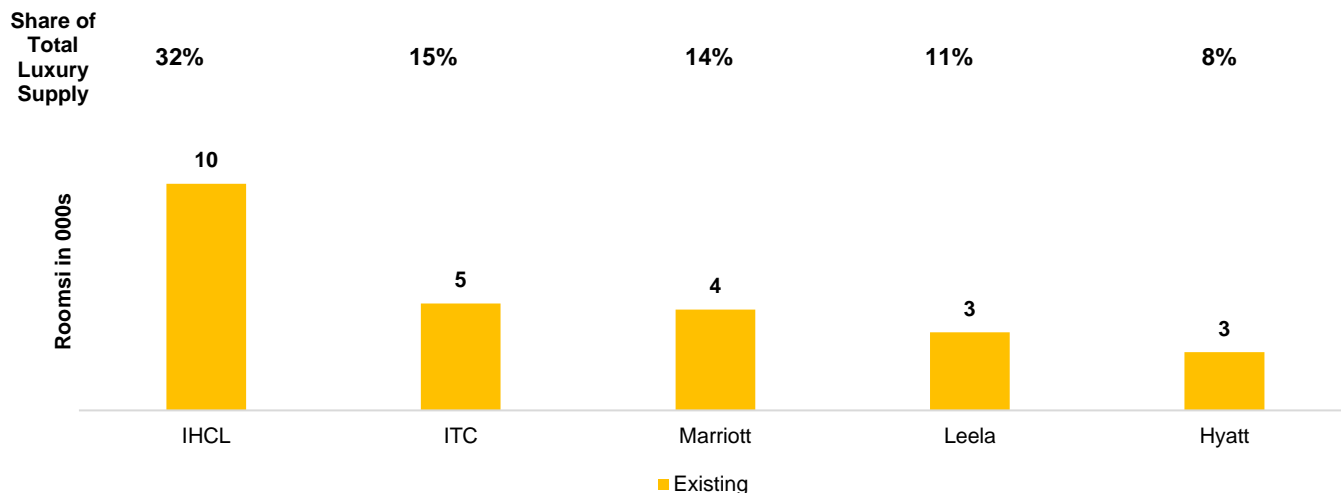
Notes: (a) Inventory reflects chain-affiliated hotels and rooms in India. Hotels owned and / or managed by domestic chains outside India are not considered (b) Marriott excludes hotels under franchise with ITC; these are included under ITC; (c) Louvre Group includes Sarovar

Source: Horwath HTL

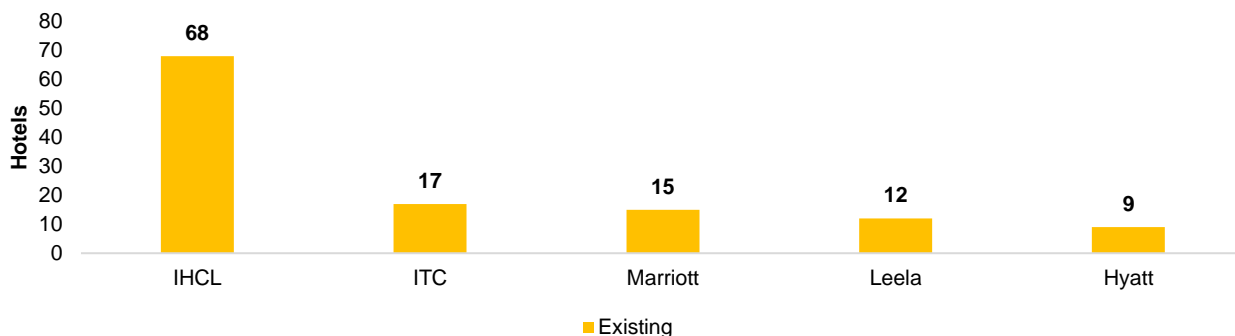
- About 65% of total inventory is controlled by the top 10 chains
- Marriott, IHCL, ITC and Radisson Hotel Group are the 4 largest chains in India. ITC is the second largest hotel chain in terms of number of hotels (reflecting a wider location spread) and the fourth largest hotel chain in India by way of number of rooms.

Supply of top 5 chains by luxury hotel rooms as of Sep-24 is summarised in Chart 30

Chart 30 - Top 5 Chains by Luxury Rooms Inventory (in 000s)



Notes: (a) Marriott excludes hotels under franchise with ITC; these are included under ITC; (b) Louvre Group includes Sarovar;
Source: Horwath HTL



Notes: (a) Marriott excludes hotels under franchise with ITC; these are included under ITC; (b) Louvre Group includes Sarovar;
Source: Horwath HTL

- Top 5 chains have 80% supply share of luxury hotel rooms, with ITC having 15% share and second only to IHCL.

5.8.3 By Foreign and Domestic Chain Affiliation

Between FY01-FY24, Foreign chains have gained material supply share through multiple brands. Hotel development by a widening group of investors and owners has provided the asset base that suits the management / franchise model sought by foreign chains.

Table 12 - Foreign & Domestic Chain Affiliated Supply

	FY01		FY15		FY24		YTD Sep-24		FY29	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Overall	80%	20%	55%	45%	55%	45%	56%	44%	54%	46%
Lux	100%	0%	67%	33%	67%	33%	67%	33%	60%	40%
Up-Ups & Ups	74%	26%	38%	62%	36%	64%	36%	64%	37%	63%
Up-Mid	75%	25%	68%	32%	52%	48%	53%	47%	47%	53%
Mid-Eco	55%	45%	70%	30%	77%	23%	79%	21%	80%	20%

Source: Horwath HTL

- At end Sep-24, foreign chains operate / franchise about 44% of the chain affiliated hotel rooms in India. Their market share has remained at 44% to 47% for the last about nine years, with no significant change through FY29.

- Foreign chains expanded by aggressively pursuing management contracts, offering multiple brands and supporting the development of hotels with larger rooms inventory and function spaces.
- Several asset heavy domestic chains have gradually shifted to an asset-light or hybrid model (combination of owned properties and management contracts) to enable expansions. Domestic chains have added brand range and successfully positioned products and brands in the Upper Upscale & Upscale, Mid-Segment and Economy segments enabling larger share of new supply in these segments since FY15.
- Domestic chains have traditionally been asset heavy but are now actively transitioning to asset light model.

Table 13 - Foreign & Domestic Chain Affiliated Supply – By ownership structure

Category	FY01		FY08		FY15		YTD Sep-24		FY29	
	Chain-owned	Managed	Chain-owned	Managed	Chain-owned	Managed	Chain-owned	Managed	Chain-owned	Managed
Domestic	88%	12%	80%	20%	64%	36%	45%	55%	33%	67%
International	4%	96%	2%	98%	2%	98%	1%	99%	1%	99%
Overall	70%	30%	59%	41%	36%	64%	25%	75%	19%	81%

5.8.4 By Size

Table 14a – Analysis by inventory size – All Segments

Inventory Size	Hotels	%	Rooms (in 000s)	%
<100	1,419	68%	71.9	37%
100-250	570	27%	84.9	43%
250-400	86	4%	26.5	14%
400-500	16	1%	6.9	4%
500 +	9	0%	5.3	3%
Total	2,100	100%	195.5	100%

Source: Horwath HTL

- ITC Grand Chola, Chennai is the second largest chain-owned hotel in India, the second largest luxury hotel in India and one among only 3 hotels with 600 or more rooms.

Table 14b – Analysis by inventory size – Luxury Segment

Inventory Size	Hotels			Rooms (in 000s)		
	Chain Owned	Managed	Total	Chain Owned	Managed	Total
<100	27	36	63	1.4	2.0	3
100-249	31	30	61	5.3	5.1	10
250-399	12	20	32	3.9	6.3	10
400-499	4	4	8	1.8	1.7	3
500 +	2	3	5	1.3	1.8	3
Total	76	93	169	14	17	31

Source: Horwath HTL

- ITC has 2 of the 4 chain-owned luxury hotels with room inventory between 400 to 499; these are ITC Maurya in New Delhi and ITC Royal Bengal in Kolkata.
- ITC has 23% share of rooms inventory among the 13 hotels with 400 or more rooms in India, including 49% share of owned rooms inventory in this category.

Size analysis for the relevant segments is presented below:

Table 14c –Segmental analysis by average inventory size (Rooms in 000s)

Segment	Hotels	Rooms	Avg Rooms / Hotel
Luxury	173	31	177
Upper-Up & Upscale	643	79	122
Upper-Mid	403	33	82
Mid-Eco	881	53	60
Total	2,100	195	93

Source: Horwath HTL

Except ITC Grand Bharat, all other ITC owned luxury hotels are materially larger than the related segmental average.

5.9 By Ownership

Chain ownership (including lease) of hotel rooms has reduced from 71% at end FY01 to 25% at end Sep-24. Private developers and institutional capital have been instrumental in asset creation over the last about 20 years, although there is very limited ownership concentration.

Table 15 – Ownership Pattern – as at YTD Sep-24

	Hotels	%	Rooms ('000)	%
Chain Owned	442	21%	49	25%
Developer / Investor	1,658	79%	146	75%
Total	2,100		195	

Source: Horwath HTL

Hotels with majority ownership/control of private developers are not considered as chain-owned. For clarity, hotels with investments by affiliate / group entity of Accor, Hyatt and Radisson are not considered as chain-owned as the hotel chains do not have controlling interest in the respective companies. The ownership pattern is further analysed in Table 15.

Table 16 – Ownership Pattern by Category – as at FY24

Ownership Structure	Hotels	Rooms (in 000s)	Avg Size
Chain Owned	442	49	112
Major Private Asset Owners ¹	190	36	187
Other Private Asset Owners ²	1,434	105	73
Institutions ³	34	6	163
Total	2,100	195	93

1 - Major private hotel asset owners comprises group companies owning more than 500 rooms

2 - Other Private hotel asset owners comprises group companies owning less than 500 rooms

3 - Institutions comprises hotels where a majority is owned by institutional investors

Source: Horwath HTL

Major private hotel asset owners have invested in some large format assets; the larger average size of hotels for this ownership category is reflective of the investment appetite, vision and opportunity in India. 5 of the nine hotels with over 500 rooms, and 9 of sixteen hotels with 400 to 499 rooms inventory are owned by major private hotel asset owners. On the other hand, several chains have invested significantly in the mid-segment and economy segments where hotels typically have lesser inventory.

Of the Chain Owned hotels, 62% of rooms are in Core Select Markets, while 8% of rooms are in Other Select markets. ITC has 15%⁵⁶ and 22% share respectively of chain owned hotel rooms in the Core Select Markets and Other Select Markets.

Asset Ownership Benefits

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. While situations such as the Covid pandemic create cash flow stress from asset ownership, to cover fixed costs and debt service burdens, the full flow-through of revenues is also an advantage when business recovers.

Several of the hotel chain entities and some developer/investor-controlled entities are listed companies. Analysed on that basis, the ownership pattern emerges as:

Table 17 – Ownership by listed/unlisted companies – as at Sep-24

Ownership	Listed companies		Unlisted companies		Total	
	Hotels	Rooms (000s)	Hotels	Rooms (000s)	Hotels	Rooms (000s)
Hotel Chains	267	35	175	14	442	49
Developer / Investor	94	19	1,564	127	1,658	146
Total	361	55	1,739	141	2,100	195

Source: Horwath HTL

Listed companies comprise (a) hotel companies which are listed companies or subsidiaries of listed companies; and (b) other large listed companies which inter alia have a dedicated hotel portfolio. Listed companies which may inter alia own a hotel asset have generally not been included and are grouped in the table above under unlisted companies.

Table 17 summarises top ten chains in Indian by hotel ownership.

Table 18– Chain Ownership

Chain	Owned Rooms - Luxury (000s)	Owned Rooms (000s)	Total Rooms (000s)	Ownership Share	Owned – Avg keys / hotel
IHCL	5.8	12.7	22.3	57%	118
ITC	4.4	5.5	12.6	44%	221
EIH	1.3	3.2	3.9	81%	158
Leela	1.2	1.2	3.4	36%	243
Lemon Tree	0.8	5.8	10.0	58%	139
Bharat Hotels	-	2.3	2.4	95%	161
Kamat Hotels	-	1.6	1.7	94%	111
Apeejay Surendra Group	-	1.3	2.4	56%	122
Pride Hotel	-	1.2	2.5	49%	151
Royal Orchid	-	1.1	6.3	18%	93
Total	13.6	35.9	67.4	53%	260

Source: Horwath HTL

Note: ITC includes ITC Grand Central, Mumbai owned by ITC Limited. ITC will operate and manage the hotel through an Operating Services Agreement

⁵⁶ Includes hotel owned by ITC Limited

- Among hotel chains with asset ownership, ITC ranks as the third largest in India in terms of chain affiliated hotel rooms inventory as of 30 September 2024. There is material concentration with Top 3 chains which together own three-fourths of total chain owned hotel inventory.

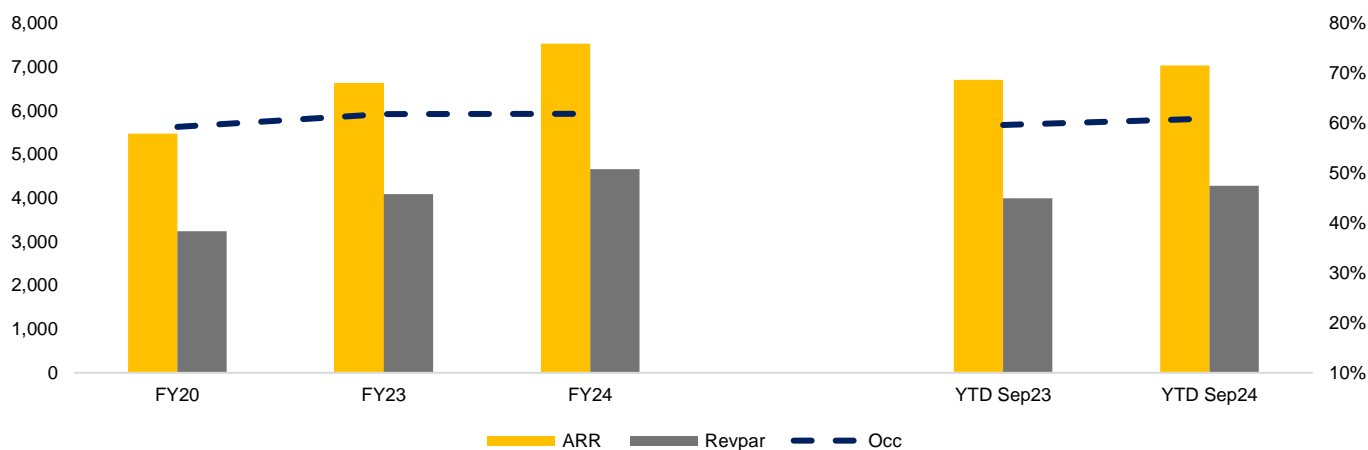
6 India - Performance Analysis

6.1 India Performance

In this section we provide an analysis of the performance of hotels on all India basis. Data is presented for the full market (comprising hotels of all positioning). Data availability varies from market to market based on extent of participation by hotels.

Chart 31 shows all-India performance of chain-affiliated hotels from FY20 through YTD Sep-24, across all segments.

Chart 31: India Performance



Source: CoStar

From a macro-perspective, the following elements emerge:

- Occupancy revived since FY16 as demand conditions improved and new inventory had slowed. The upward trend in RevPAR up to December 2019 was materially occupancy led, with improved occupancy gradually enabling ADR increases.
- The COVID-19 pandemic was a major disruption with severe travel and operating restrictions causing reduced travel across segments and a material drop in occupancies and ADR.
- Recovery started in late FY21 and continues to gain momentum giving way to strong performance through FY24.
- For FY24, ADR was at Rs. 7.5k at an occupancy of 62%. ADR for FY24 was higher by 14% compared to FY23, and by 38% compared to FY20 (pre-COVID levels)⁵⁷
- For YTD Sep-24 ADR was at Rs.7k (+5% over YTD Sep-23) and occupancy at 61%.(similar to YTD Sep-23).⁵⁸

⁵⁷ CoStar

⁵⁸ CoStar

6.2 Future Demand

In this section we have projected future demand. Assumptions underlying our estimates of future demand are given below:

- Estimated demand growth by market category (for this purpose markets are categorised as 10 Key Markets, other major tier 1 markets and other markets). The total estimated All India demand is an aggregate of demand from these three categories.
- We have adjusted the new hotel supply in FY24 for the period for which these hotels were open and for the expected supply from FY25 to FY27 for the period from when these hotels are expected to open. New hotels are generally on a ramp-up mode upon opening and need a certain period (generally two to four years) to achieve stable level occupancy. As new supply is added in a market it also leads to demand creation. During the ramp-up period we are basing our demand projections on partial absorption of new supply.

Supply and Demand CAGR

In the period FY15-FY24, demand growth for chain affiliated hotels in India across all segments is significantly higher than inventory growth. This trend is expected to continue between FY24-FY29. Stronger demand growth will likely cause increased hotel occupancy, and potentially support strong ADR levels.

In Table 19, we have summarised the supply and demand CAGR

Table 19 – Supply and Demand CAGR

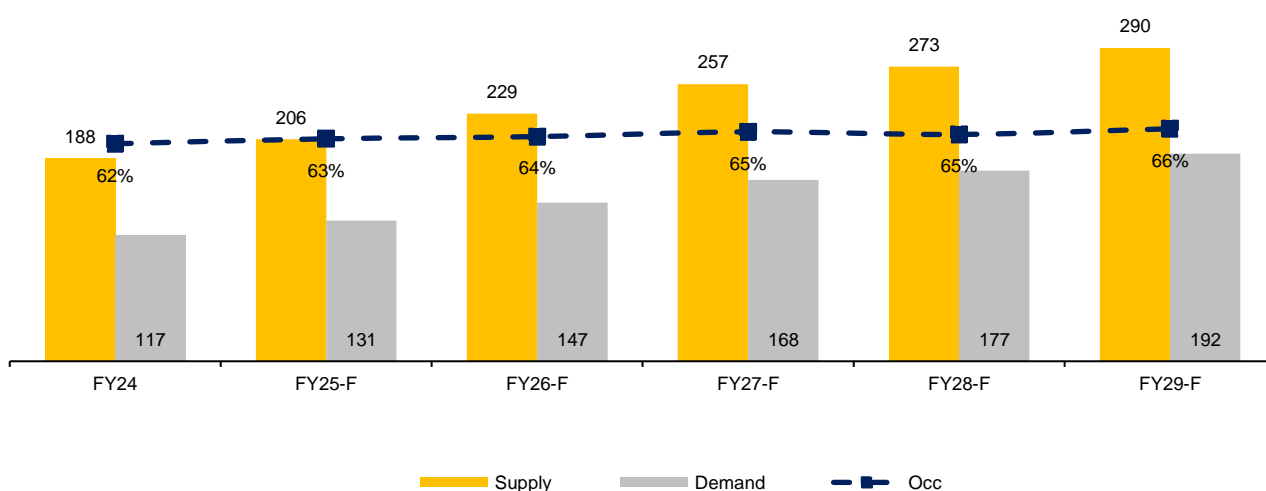
CAGR	FY15-FY24	FY24-29
Supply CAGR	6.3%	9.1%
Demand CAGR	7.4%	10.5%

Source: Horwath HTL

Supply creation across multiple markets is expected to enable further demand growth from the new supply introduced upto FY29.

Based on Future Supply and Future Demand estimates, the occupancy estimates upto FY29 evolve as reflected in Chart 32.

Chart 32: All India – Rooms Supply vs Demand and Occupancy Estimates – (FY24–FY29)



Source: Horwath HTL

7 Select Markets – Supply and Performance Analysis

7.1 Mumbai Hotel Market

7.1.1 Key Features

Certain key aspects of Mumbai are provided in Table 20

Table 20 – Mumbai Key Aspects

Aspect	Remarks			
Key Features	Capital of Maharashtra; commercial and financial capital of India			
Area	City	437 sq km	Urban Agglomeration	6.3k sq km
Population	City	21.6 mn	Urban Agglomeration	24 mn
Mumbai GDDP - FY23	4.4 trillion INR			
Air Traffic (Pax)	FY20 – 46 mn; FY24 – 52 mn; YTD Oct 24 – 31 Mn; CAGR 3.1% Constrained by capacity; Navi Mumbai International Airport to add 20 mn capacity by end FY25, which is expected to go up to 90 mn by FY33.			
Chain Affiliated Hotel Rooms	FY20 – 13.7k, FY24 – 16.7k; YTD Sep24 – 17.2k; CAGR 5.2%			
Office Space as of 30 Sep 24	116 msf			

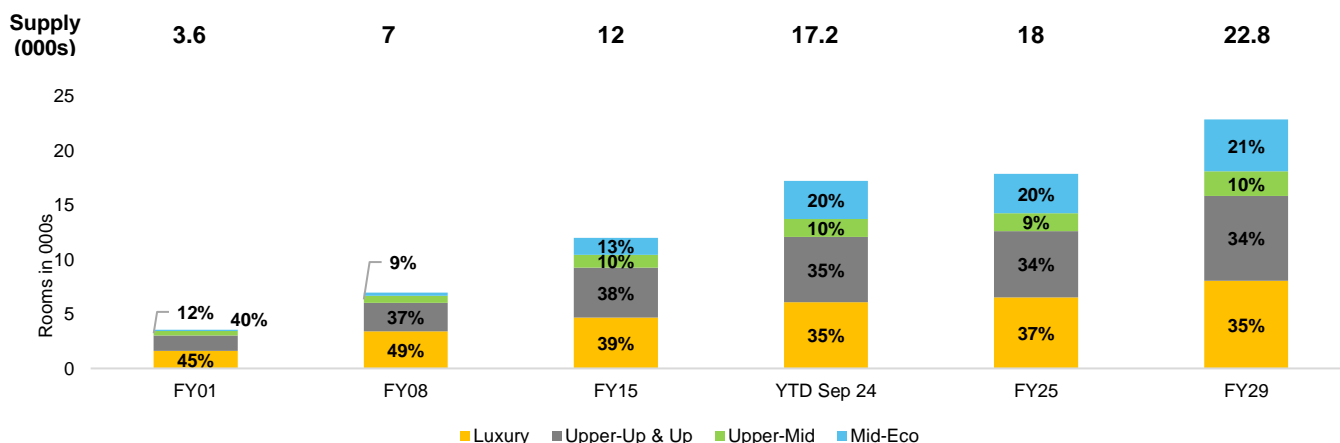
Mumbai offers vast economic opportunities drawing travel and migration. Besides being a base for several leading corporate enterprises, key sectors include BFSI, IT & ITeS, trade, commerce and port services, entertainment, retail and real estate; manufacturing has shifted to peripheral areas.

Several infrastructure developments are under implementation including multiple metro rail lines, Coastal Road (partially launched) with extension upto Virar (north-west Mumbai), Navi Mumbai International Airport, improved access roads to recently completed Atal Setu Bridge (with access enhancements to satellite areas), road connect between Borivali and Thane etc. The Jio World Convention Centre and adjacent Event Centre have added a major attraction and facility for the city.

7.1.2 Hotel Inventory

Of the chain affiliated inventory of 17.2k rooms, 2.4k rooms were added between FY23 to YTD Sep-24. The previous last major supply growth phase was 4k rooms between FY10 and FY13.

Chart 33 - Mumbai Chain affiliated Inventory – Overall and Segmental



Source: Horwath HTL

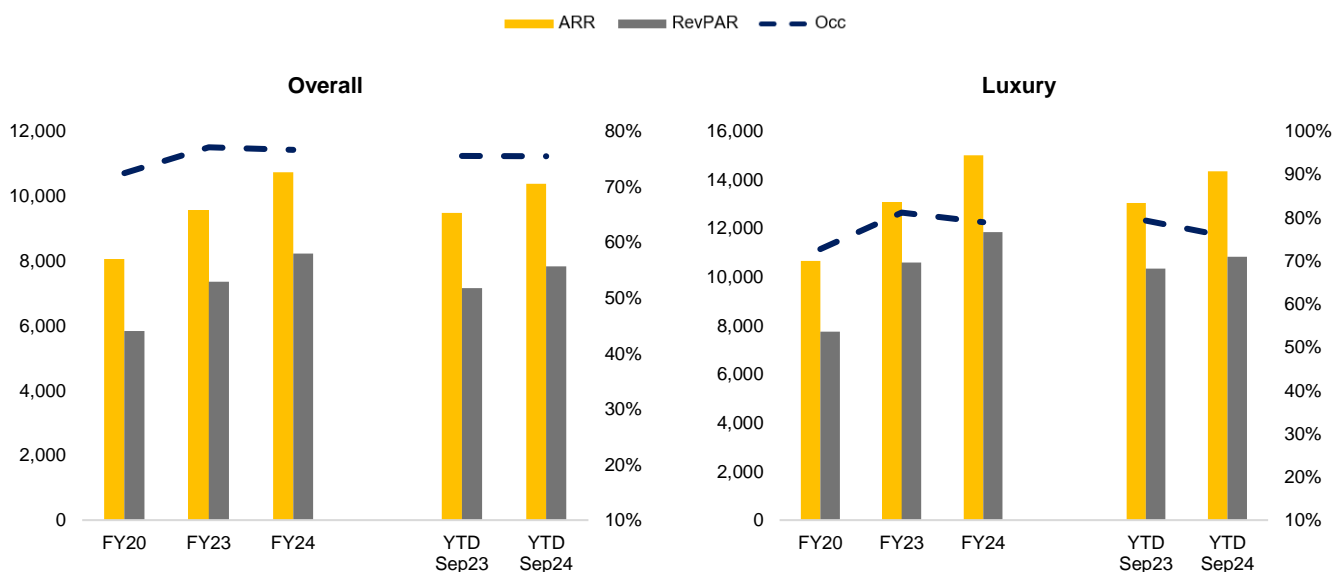
Supply is concentrated in the luxury segment, followed by the upper upscale- upscale segments. The aggregate supply share of these segments is expected to remain at about 69% through FY29. Of the luxury segment supply, IHCL, Marriott, ITC and EIH have 25%, 22%, 10% and 4.7% share respectively.

The supply pipeline of 5.6k rooms by FY29 is reasonably expected to be absorbed by organic domestic and inbound demand growth, and the demand catalysed through the Jio World Convention Centre, NMACC, opening of Navi Mumbai international airport by mid-CY2025, and increased sports related demand.

7.1.3 Market Performance

- Demand is led by business travel, MICE, weddings and crew and is materially supported by social and leisure travel. Each of these are in growth mode.
- FY24 demand of about 12.4k rooms per day was higher by 2.7k rooms over FY20, yielding average occupancy of 77%⁵⁹ and enabling a positive rate scenario. FY24 ADR was 33% higher than FY20 ADR.⁶⁰
- Occupancy for the period YTD Sep-24 at about 75% is comparable to YTD Sep-23; YoY RevPAR growth by 9% reflects ADR growth for this period.⁶¹

Chart 34: Mumbai Market Performance



Source: CoStar

⁵⁹ CoStar

⁶⁰ CoStar

⁶¹ CoStar

7.2 New Delhi Hotel Market

7.2.1 Key Features

Certain key aspects of New Delhi are provided in Table 21

Table 21 – New Delhi Key Aspects

Aspect	Remarks			
Key Features	Political capital of India; growing business and events destination			
Area	City	42.7 sq km	Urban Agglomeration	1.5k sq km
Population	City	142k	Urban Agglomeration	16.8 mn
New Delhi GDDP - FY23	10.1 trillion INR			
Air Traffic	FY20 – 67 mn; FY24 – 74 mn; YTD Oct24 – 45 mn; CAGR 2.3%			
Chain Affiliated Hotel Rooms	FY20 – 13.3k; FY24 – 13.6k; YTD Sep24 – 13.8k; CAGR 0.7%			
Office Space as of 30 Sep 24	10 msf			

New Delhi is India’s capital and an important economic and tourism centre. It has the largest airport in the country, with further expansion underway. The city, and particularly the NCR has rapidly developed as a prime business destination drawing corporate activity, IT & ITeS and the manufacturing sectors. Delhi airport presently serves the entire NCR; the upcoming Jewar airport in eastern NCR is expected to ultimately add growth potential to the overall Delhi NCR region, notwithstanding any short term impact in Delhi airport.

Delhi is part of the ‘Golden Triangle’ for tourism, together with Agra and Jaipur. Its hotels gain materially from wedding and MICE demand; this will deepen with 2 major facilities opened and a 3rd convention centre under development at New Delhi Aerocity. Delhi is also an important access and transit base for international and national visitors travelling to various business and leisure centres in North India.

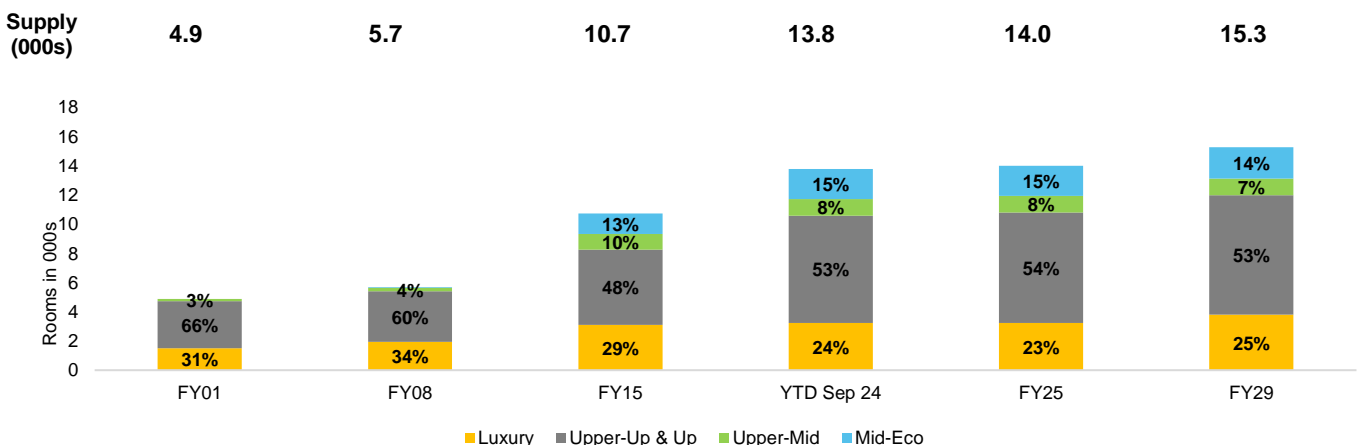
NCR areas carry much larger office spaces, which add to the 10 msf at New Delhi, and help drive business and demand in New Delhi.

7.2.2 Hotel Inventory

Of the total chain affiliated inventory of 13.8k rooms as of YTD Sep-24, 7k rooms were added between FY11 and FY17. Supply growth is across segments, with only 1.7k rooms added in the luxury segment since FY01 and no new luxury hotel opened since FY18.

The supply pipeline is limited at 1.5k rooms till FY29, including 0.6k rooms at luxury hotels (all located at Delhi airport / Aerocity). 4.1k rooms added in the Upper Upscale-Upscale segment since FY01, and the Luxury segment inventory have resulted in 77% supply share for the upper-tier hotels; this status will continue till FY29.

Chart 35 - New Delhi Chain affiliated Inventory – Overall and Segmental



Source: Horwath HTL

Among the top five chains in terms of room inventory in the luxury segment IHCL, Marriott and Leela together have 57% supply share while ITC and Hyatt 14% and 12% supply share respectively. 47% of luxury inventory is chain owned, comprising hotels of IHCL, ITC, Leela and EIH, generating profits (and not just fees) for the chains.

7.2.3 Market Performance

- Two percentage points Occupancy growth since FY20, to 70% for FY24 and through YTD Sep-24, is more than counter-balanced by 46% ADR growth between FY20 and FY24 with FY24 ADR at Rs. 9.9k⁶².
- Occupancy for YTD Sep-24 at 70% was higher than YTD Sep-23 by 4.4 points, with 5% RevPAR growth.⁶³
- For the luxury segment there was a significant growth in ADR and RevPAR in FY24 over FY20. ADR increased by 59% from Rs.10k in FY20 to Rs.16k in FY24 and RevPAR by 72% from Rs.7k in FY20 to Rs.12k in FY24. There was a marginal decline of 0.6% in RevPAR in YTD Sep-24 (Rs.10k) as compared to YTD Sep-23⁶⁴, because of a lower ADR which is common for the summer months.
- For Upper Upscale and Upscale segment, ADR and RevPAR increased by 39% and 54% respectively for FY24 over FY20. For YTD Sep-24 RevPAR increased by 9.4% over YTD Sep-23.⁶⁵
- The Delhi market is expected to be in a positive mode with improved inbound travel and continued domestic travel adding demand, while the supply pipeline is only 1.5k rooms through FY29. These should benefit occupancy and ADRs.
- The DMRC led Convention Centre on Dwarka Expressway and upgraded Pragati Maidan will create significant demand basis for MICE growth in the city. City hotels will continue to benefit from weddings and MICE demand.
- Quality and high repute F&B outlets, with varied experiential offerings, will continue to gain traction.

Chart 36- New Delhi Market Performance



Source: CoStar

⁶² CoStar

⁶³ CoStar

⁶⁴ CoStar

⁶⁵ CoStar

7.3 Gurugram Hotel Market

7.3.1 Key Features

Certain key aspects of Gurugram (formerly Gurgaon) are provided in Table 22

Table 22 - Gurugram Key Aspects

Aspect	Remarks			
Key Features	Major commercial and service sector hub; important constituent of NCR			
Area	City	333 sq km	Gurugram District	1.3k sq km
Population	City	1 mn	Urban Agglomeration	1.5 mn
Haryana GSDP - FY23	9.8 trillion INR			
Air Traffic (Pax)	Served by Delhi International Airport			
Chain Affiliated Hotel Rooms	YTD Sep-24 - 6.6k; expected supply for FY29 – 9.4k			
Office Space as of 30 Sep 24	89 msf			

Gurugram is a key business city in Haryana, is part of the National Capital Region (NCR), with a seamless border to New Delhi.

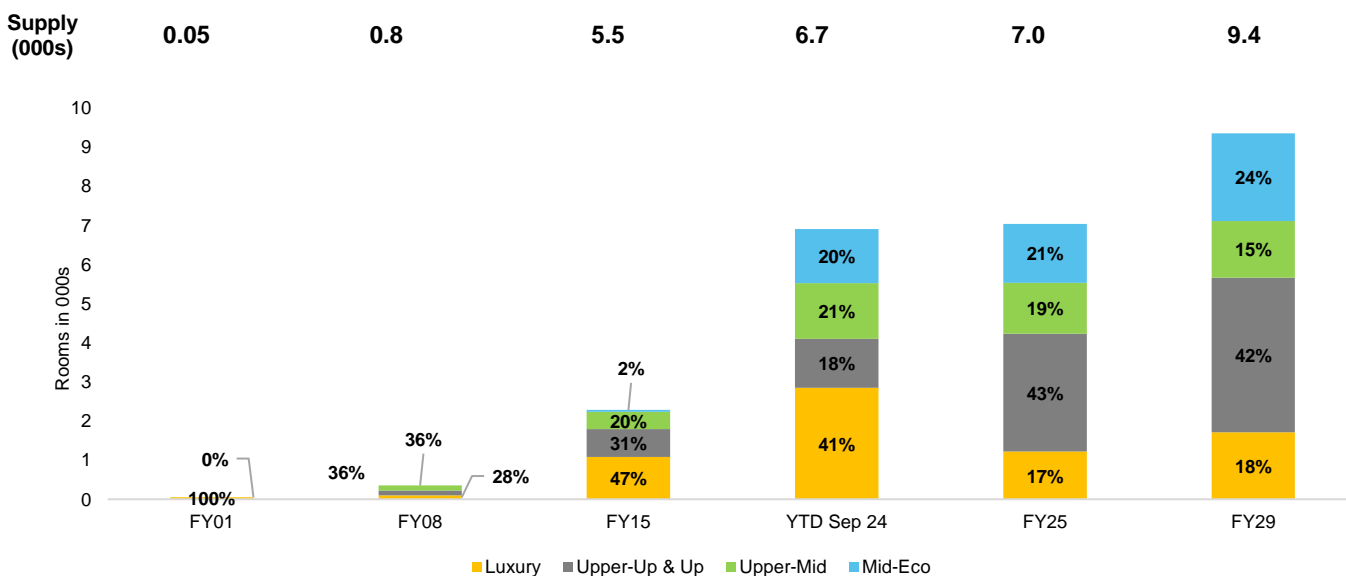
Gurugram is an important business hub, with diverse business interests – BFSI, IT and ITeS, manufacturing, corporate activity, professional services, healthcare, education, retail and entertainment and, real estate.

7.3.2 Hotel Inventory

Gurugram has 6.6k rooms as of YTD Sep-24, including 4.7k rooms opened between end of FY08 and end of FY15. Supply growth has been limited since FY15.

Upper tier hotels had 63% inventory share in FY15, 60% share as of YTD Sep-24 and estimated at 60% at FY29. Within the upper-tier, share of luxury hotels is expected to increase to 18% in FY29 from 13% in FY15. Gurugram hotels are largely business hotels; however, ITC’s ITC Grand Bharat is built on 16 acres land parcel that is within a 300 acre complex. The complex also has a 27 hole signature Jack Nicklaus designed golf course over 200 acres, the only golf course in India that is a part of the Asian Tour Destinations Network.

Chart 37 - Gurugram Chain affiliated Inventory – Overall and Segmental

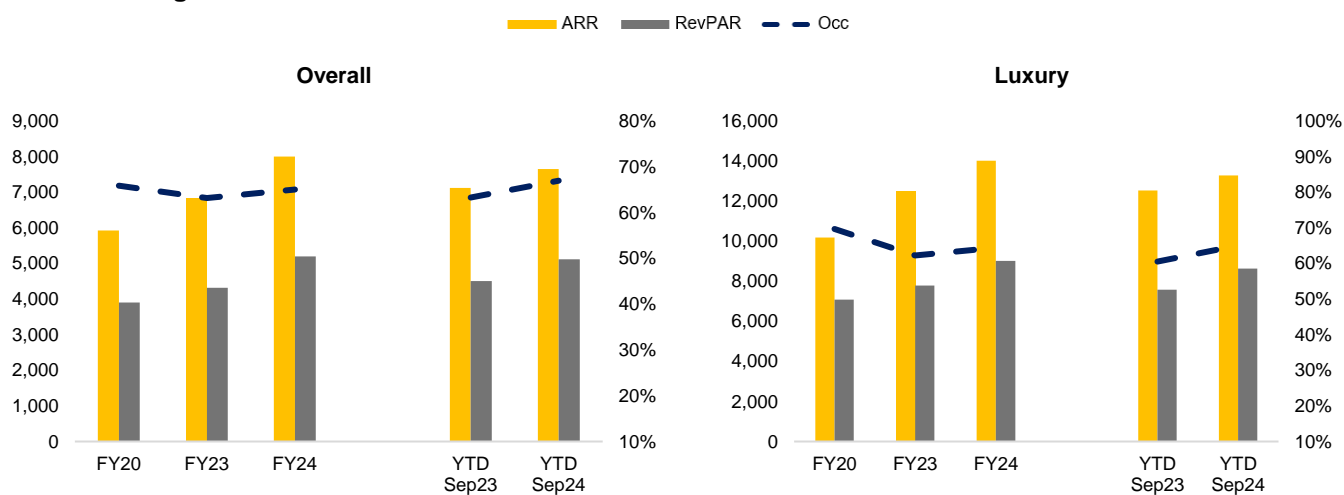


Source: Horwath HTL

7.3.3 Market Performance

- FY24 occupancy for the market at 65% was just 0.8 pts below FY20 occupancy. ADR for the market at Rs.8k in FY24 was 35% higher than the pre-Covid ADR of Rs.6k.⁶⁶
- For YTD Sep-24 occupancy was 67%, about 4 points higher than YTD Sep-23, while ADR at Rs.7.6k was about 7% higher than YTD Sep-23. This has resulted in RevPAR growth of 14%.⁶⁷ Gurugram is among the few markets that has increased both occupancy and rates in YTD Sep-24.
- FY24 Luxury segment ADR at Rs. 14k was 38% higher than FY20. Luxury segment occupancy was 64% in FY24, materially below 70% in FY20⁶⁸, with no major increase in supply for this segment. On the other hand, 65% occupancy for YTD Sep-24 is almost 5 points higher and ADR at Rs. 13k is 6% higher than YTD Sep-23.⁶⁹
- Growth in the commercial office space, completion of Mumbai – Delhi Expressway and inauguration of Dwarka Expressway will give an impetus to the manufacturing and services sector and will also lead to growth in demand.

Chart 38 - Gurgaon Market Performance



Source: CoStar

⁶⁶ CoStar

⁶⁷ CoStar

⁶⁸ CoStar

⁶⁹ CoStar

7.4 Bengaluru Hotel Market

7.4.1 Key Features

Certain key aspects of Bengaluru are provided in Table 23

Table 23 – Bengaluru Key Aspects

Aspect	Remarks			
Key Features	Capital of Karnataka; IT and technology capital of India			
Area	City	709 sq km	Urban Agglomeration	2.2k sq km
Population	City	8.4 mn	Urban Agglomeration	9.6 mn
Bengaluru GDDP - FY23	8.6 trillion INR			
Air Traffic	FY20 – 32 mn; FY24 – 38 mn; YTD Oct-24 – 24 mn; CAGR 3.8%			
Chain Affiliated Hotel Rooms	FY20 – 14.5k; FY24 – 18k; YTD Sep24 – 18.1k; CAGR 5%			
Office Space as of 30 Sep 24	197 msf; among the largest in Asian cities			

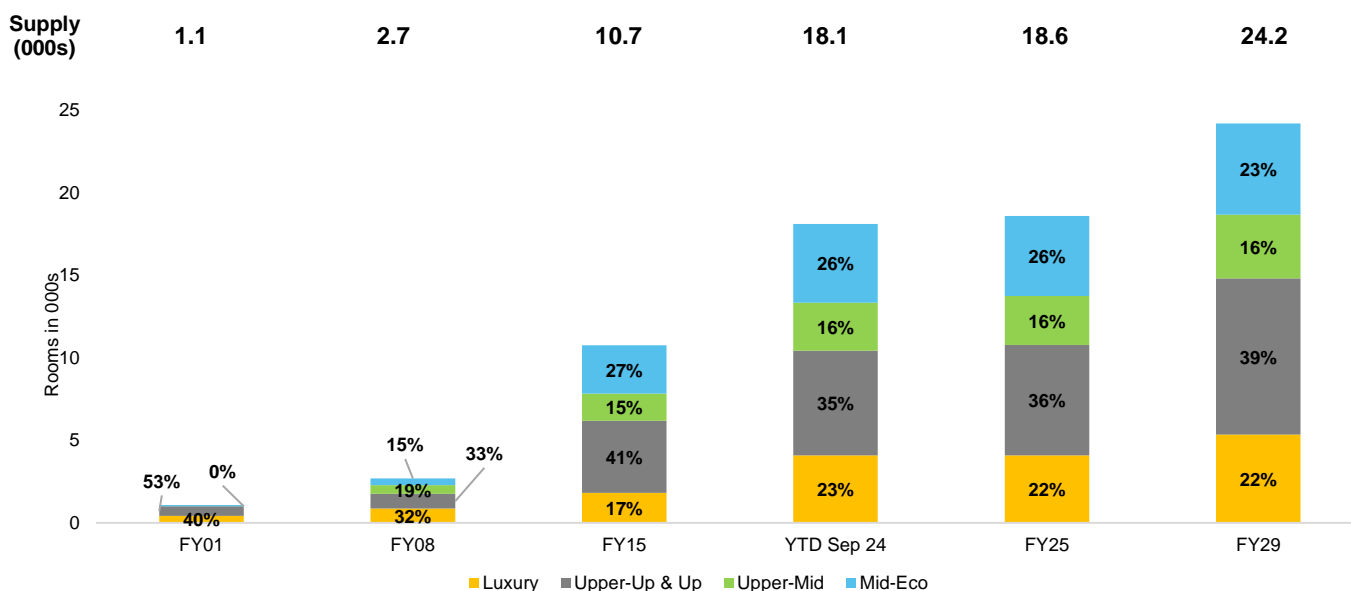
Bengaluru is the third largest urban agglomeration in India by size and referred to as the ‘Silicon Valley’ of India because of presence of strong IT and technology setup. It contributes 36% to state GDP and the per capita income at Rs. 621k is significantly higher than the national average. It has third busiest airport in India. Key sectors in Bengaluru include IT & ITeS, biosciences, pharma, manufacturing, electronics, aviation and aerospace, professional services, education, healthcare and retail.

Global Startup Ecosystem Index report issued by Israel based StartupBlink places Bengaluru as the strongest startup ecosystem in India and eighth globally. It is the largest hub of semiconductor design companies, outside the Bay Area in California. The city is also emerging as a hub for aerospace and defence activities. The presence of Global Capability Centres (GCCs) is growing in Bengaluru.

7.4.2 Hotel Inventory

On city-wide basis, Bengaluru has the largest hotel room inventory in India (18.1k rooms). Hotel inventory in Bengaluru grew at 12.6% CAGR between FY08 and FY24, and materially up to 2016. Inventory growth between FY16 to FY24 slowed to 5.1% CAGR. Bengaluru has balanced inventory across segments. As at YTD Sep-24, upper tier segments had 58% supply share; the share is likely to grow to 61% at the end of FY29.

Chart 39 - Bengaluru Chain affiliated Inventory – Overall and Segmental



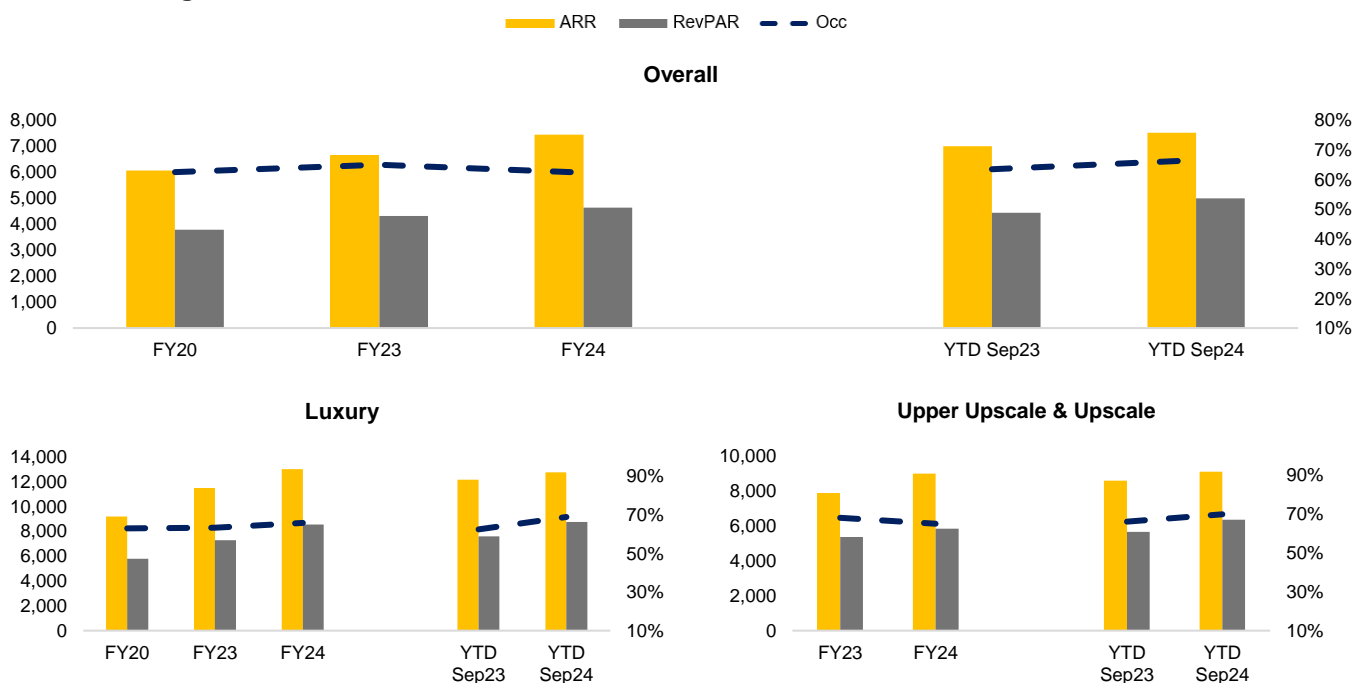
Source: Horwath HTL

Among the top five chains in terms of rooms inventory in the luxury segment, IHCL, Marriott and Leela together have 61% supply share while ITC and Hilton have 13% and 7% supply share respectively. 41% of luxury rooms inventory is chain-owned with ITC having 32% share of the chain-owned inventory.

7.4.3 Market Performance

- For Bengaluru, recovery post COVID was more gradual than several other Key Markets but has continued to gain momentum as the IT sector returns to office-based working and with growing activity in the aerospace sector as global companies are setting up R&D and manufacturing bases in the Aerospace SEZ near Bengaluru airport.
- Airport passenger numbers have surpassed pre-COVID levels, having achieved 38 mn passengers in FY24.
- Continued return to office by the IT sector, and related increase in inbound travel will enable further demand accretion which will be beneficial to hotel occupancy and ADRs.
- While Bengaluru was slow to recover post COVID due to wider scale WFH, the reversal of WFH is expected to materially propel demand and related ADR growth. ADR for FY24 was 23% higher than FY20 ADR.⁷⁰
- YTD Sep-24 ADR was at Rs. 7.5k (7% higher than YTD Sep-23), while occupancy also increased from 63% to 66%. For the luxury segment, RevPAR increased by 16% in YTD Sep-24 over YTD Sep-23.⁷¹
- For Upper Upscale - Upscale segment, ADR increased in FY24 by 23% and RevPAR by 27% over FY20; YTD Sep-24 RevPAR increased by 12% over YTD Sep-23.⁷²
- Bengaluru demographics, with a growing workforce size and younger profile workforce, point to larger F&B spends at hotels with the requisite appeal.

Chart 40 – Bengaluru Market Performance



Source: CoStar

⁷⁰ CoStar
⁷¹ CoStar
⁷² CoStar

7.5 Chennai Hotel Market

7.5.1 Key Features

Certain key aspects of Chennai are provided in Table 24

Table 24 – Chennai Key Aspects

Aspect	Remarks			
Key Features	Capital of Tamil Nadu; an important business city in South India			
Area	City	426 sq km	Urban Agglomeration	1.2k sq km
Population	City	6.7 mn	Urban Agglomeration	8.9 mn
Chennai GDDP - FY23	2.9 trillion INR			
Air Traffic	FY20 – 22 mn; FY24 – 21 mn; YTD Sep24 – 13 mn; CAGR 12%			
Chain Affiliated Hotel Rooms	FY20 – 10k; FY24 – 9.7k; YTD Sep24 – 9.6k			
Office Space as of 30 Sep 24	68 msf			

Chennai has an international airport, an important port, and extensive road and rail connectivity to South India; these enable Chennai to serve as a key gateway to the region and as a rail head for passenger and cargo movement.

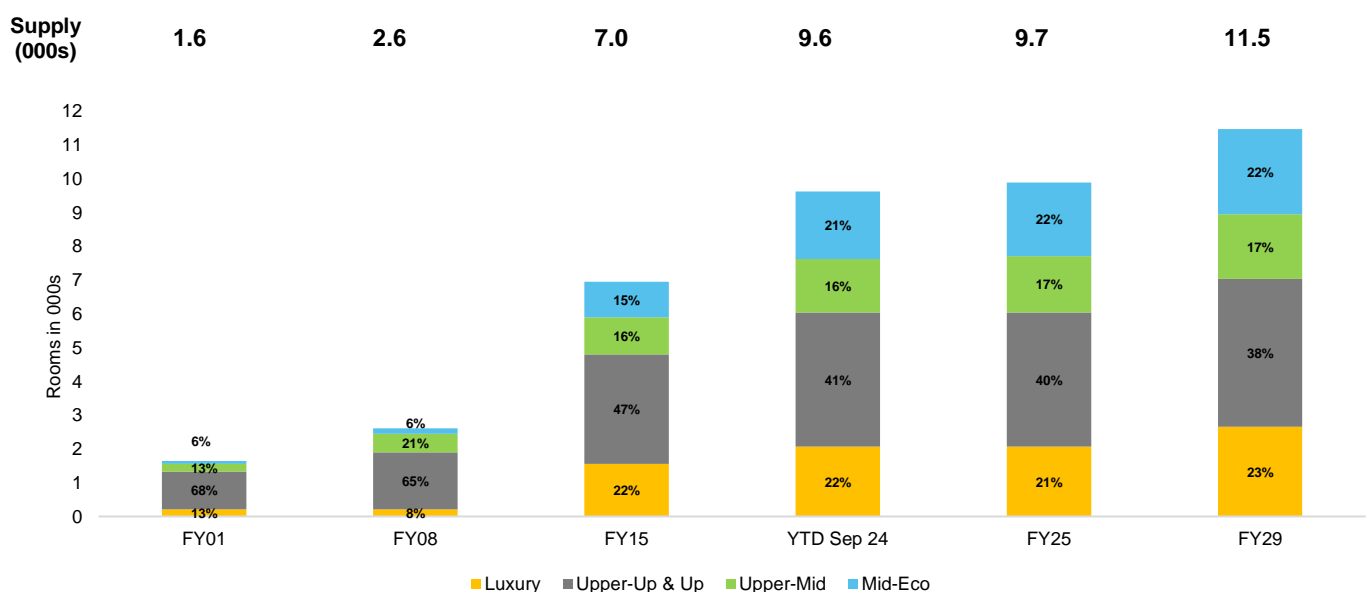
Chennai and its suburbs have multi-pronged economic activities, including manufacturing, IT and ITes, BFSI and other services, port operations etc. OMR was specifically enhanced to develop strong operating base for IT and ITes.

7.5.2 Hotel Inventory

Chennai has total chain affiliated inventory of 9.6k rooms as at YTD Sep-24. Addition of 4.3k rooms between FY08 and FY15 led to pressure on rates, performance and subpar return on investments. As a result, no major projects were planned after FY17, causing a supply slowdown from FY20.

Supply is reasonably balanced, with 22% share for the luxury segment, 41%, 16% and 21% share for the upper upscale & upscale, upper midscale, and midscale-economy segments respectively.

Chart 41 - Chennai Chain affiliated Inventory – Overall and Segmental



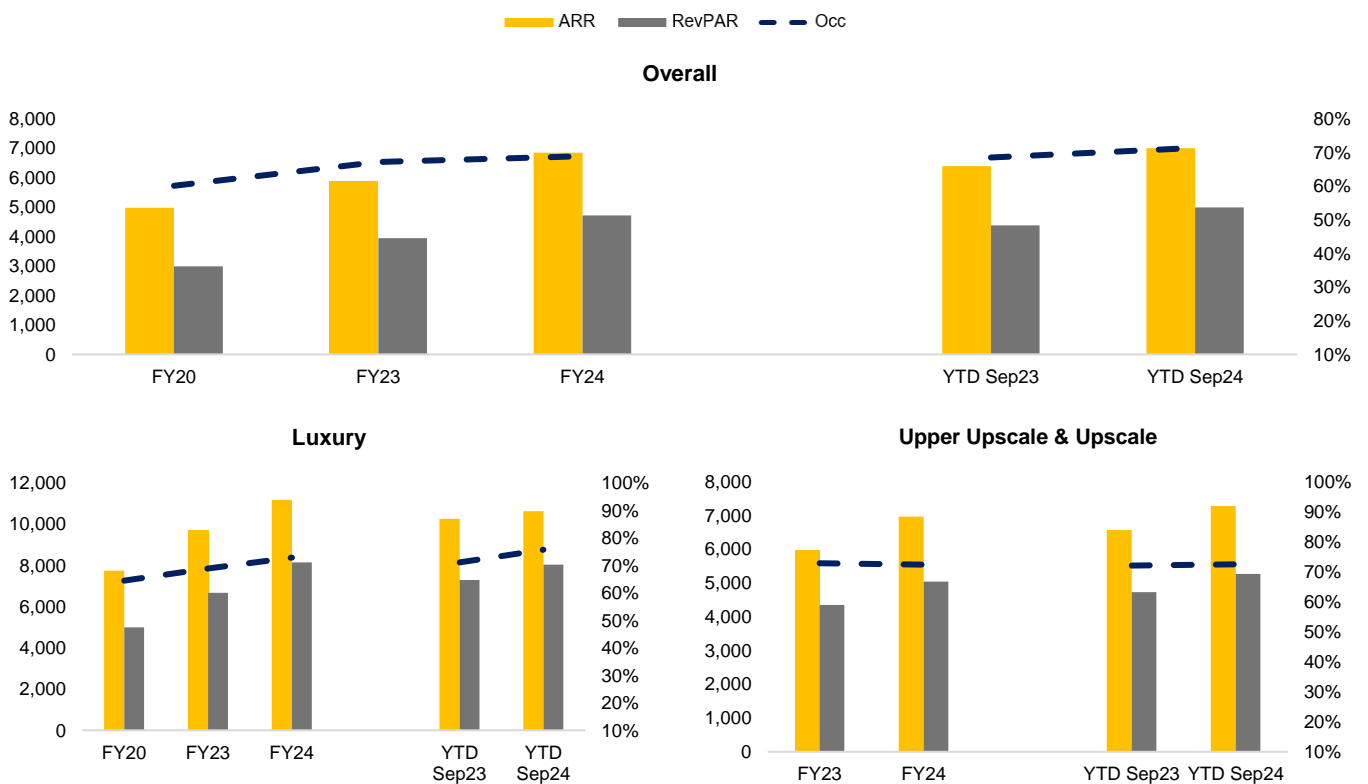
Source: Horwath HTL

Chain owned rooms inventory is 35% of total supply, with IHCL and ITC at 32% and 20% of chain owned supply. These two chains have 44% and 36% of luxury segment supply. ITC Grand Chola is the largest luxury hotel in Chennai and one of only 3 hotels in India with 600 and more rooms.

7.5.3 Market Performance

- Chennai has bounced back strongly in FY24, with 69% occupancy and Rs.6.8k ADR⁷³ reflecting its best city-wide performance since FY09.
- The positive results were materially enabled by performance of the Luxury and Upper Upscale - Upscale segments with ADR at Rs.11k and Rs 7k respectively for FY24.⁷⁴
- City performance for YTD Sep-24 reflects continued positivity, with occupancy (above 75%) and 4% ADR gain over YTD Sep-23.⁷⁵
- For Upper Upscale and Upscale segment ADR increase in FY24 by 35% and RevPAR by 53% over FY20. For YTD Sep-24 RevPAR increased by 11.5% over YTD Sep-23.⁷⁶
- Demand comprises business travel, MICE, weddings and crew, business travel includes long-stay demand. IT and ITES automobile, health and pharma sectors, BFSI, retail and corporate activity are the main demand drivers. Luxury hotels benefit from lavish weddings demand originating from within Chennai and from regional towns and markets around Chennai.
- In March 2023 a new integrated airport terminal was developed increasing airport capacity from 23 MPPA to 30 MPPA. Phase 2 of the new terminal T2 is expected to be built in 2 years, for international and domestic operations, increasing capacity to 35 MPPA.
- The supply pipeline comprises 1.8k rooms by FY29, comprising 32% in luxury, 22% in upper-upscale & upscale, and 19% and 28% in upper midscale and midscale-economy segments respectively.

Chart 42 - Chennai Market Performance



Source: CoStar

⁷³ CoStar

⁷⁴ CoStar

⁷⁵ CoStar

⁷⁶ CoStar

7.6 Hyderabad Hotel Market

7.6.1 Key Features

Certain key aspects of Hyderabad are provided in Table 25

Table 25 – Hyderabad Key Aspects

Aspect	Remarks			
Key Features	Capital of Telangana			
Area	City	217 sq km	Urban Agglomeration	650 sq km
Population	City	3.9 mn	Urban Agglomeration	6.7 mn
Hyderabad GDDP - FY23	2.3 trillion INR			
Air Traffic	FY20 – 22 mn; FY24 – 25 mn; YTD Oct24 – 16 mn; CAGR 3.7%			
Chain Affiliated Hotel Rooms	FY20 – 7.7k; FY24 – 7.9k; YTD Sep24 – 7.8k ; CAGR 0.3%			
Office Space as of 30 Sep 24	110 msf			

Hyderabad is the capital of Telangana State. It was the capital of the larger state of Andhra Pradesh (“AP”) before its partition in 2014 and was also the temporary capital of reorganised Andhra Pradesh until May 2024.

In the last about 25 years, the city has established itself as a major hub for the IT and ITeS sector drawing substantial international investment and recognition. The city has also drawn a wide mix of corporate business, advanced tech manufacturing, pharmaceuticals and healthcare, and other manufacturing. Hyderabad was the first city in India with an international convention centre, developed in 2007.

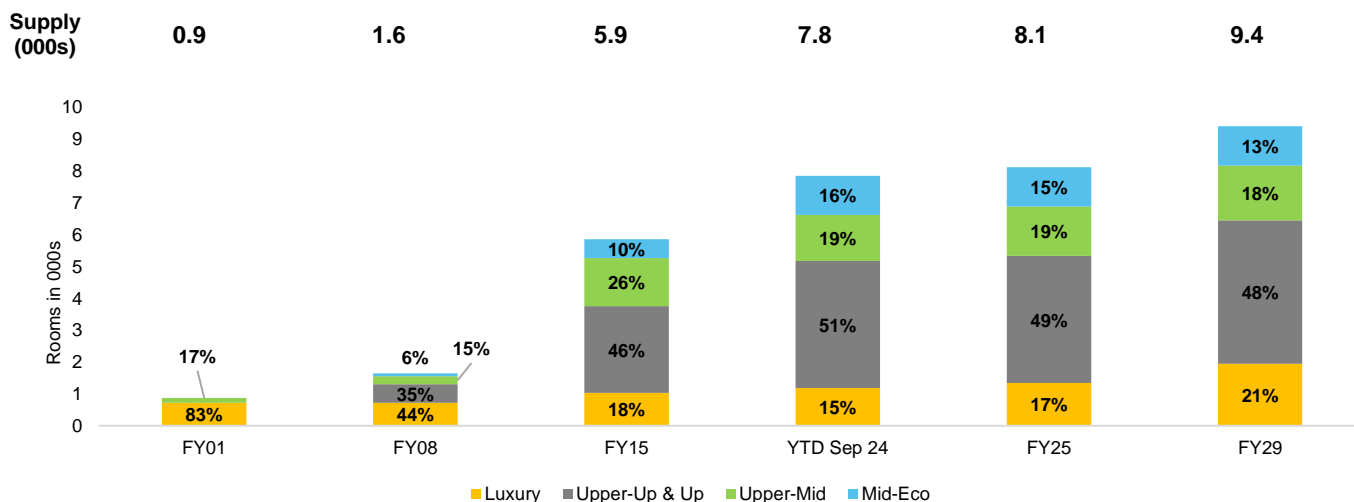
Rapid infrastructure development has facilitated economic growth and attracted professionals from across the country, enabling continual expansion of the city. The expanding privately developed and operated international airport has added capacity and is serving as a transit hub for regional travel.

7.6.2 Hotel Inventory

Of current supply, 4.3k rooms were added between FY08 and FY15 and 2k rooms between FY15 and YTD Sep-24. Supply is dominated by the upper upscale-upscale segment. The share of luxury supply is only 15% and is smaller than other metro cities. 66% supply share for upper-tier segment is expected to increase to 70% by FY29.

Of the luxury segment supply, IHCL and ITC have 40% and 39%, share respectively- the entire inventory of IHCL and ITC is chain owned.

Chart 43 - Hyderabad Chain affiliated Inventory – Overall and Segmental

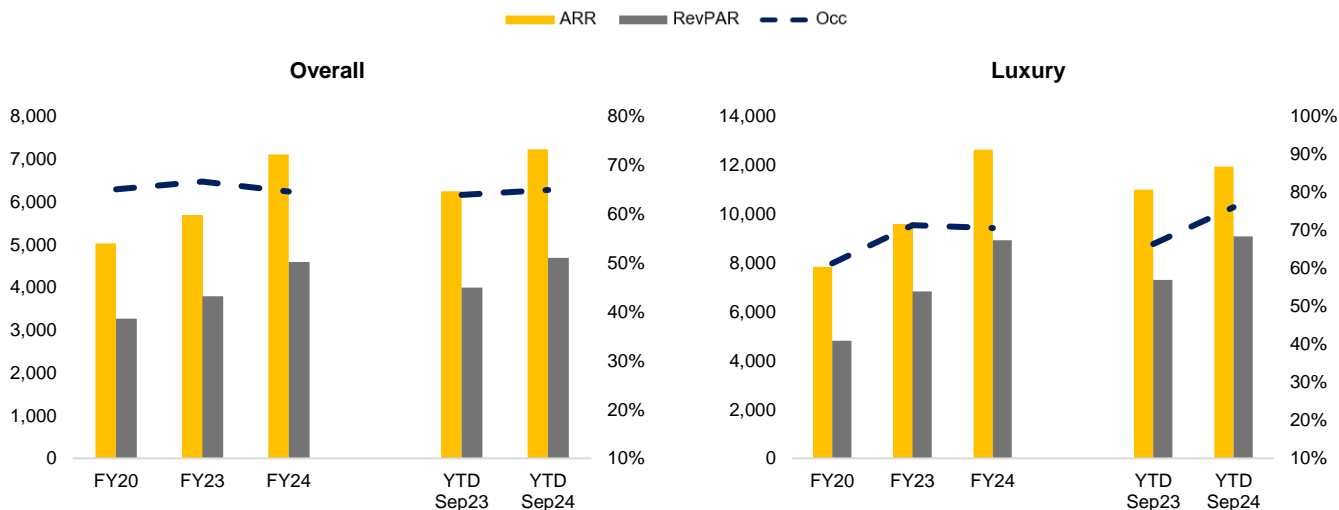


Source: Horwath HTL

7.6.3 Market Performance

- The city has seen a resurgence of business since 2014, once the statehood matter was resolved. Hyderabad has doubled its commercial real estate from 57 msf to 110 msf between 2018 and H1-2024.
- Demand is materially IT and ITeS focussed, with hi-tech manufacturing starting to gain fraction. Demand is also supported by large retail spaces and the growth of F&B and entertainment spaces to support a growing working population with younger demographics and substantial spend power.
- The city benefits from the Hyderabad International Convention Centre, the privately developed and expanding airport and the excellent road infrastructure.

Chart 44 - Hyderabad Market Performance



Source: CoStar

- 65% Occupancy for FY24 combined with strong ADR increase to enable 40% RevPAR growth for FY24 over FY20. The market ADR for FY24 was Rs.7.1k, while the luxury segment occupancy and ADR were 71% and Rs. 12.6k⁷⁷, being much stronger than the market.
- RevPAR for FY24 increased by a steep 86% over FY20 RevPAR.⁷⁸
- On market-wide basis, YTD Sep-24 occupancy stands at 65% with ADR at 7.2k. ADR has shown strong increment (+16%) in YTD Sep-24 compared to YTD Sep-23, while occupancy remained steady. Luxury segment occupancy increased significantly from 66% for YTD Sep-23 to 76% for YTD Sep-24; ADR increased by 8% for YTD Sep-24 and RevPAR by 24%.⁷⁹

⁷⁷ CoStar
⁷⁸ CoStar
⁷⁹ CoStar

7.7 Kolkata Hotel Market

7.7.1 Key Features

We have provided certain key aspects of Kolkata in Table 26

Table 26 – Kolkata Key Aspects

Aspect	Remarks			
Key Features	Capital of West Bengal, gateway to eastern and north-eastern India			
Area	City	185 sq km	Urban Agglomeration	1.9k sq km
Population	City	4.5 mn	Urban Agglomeration	14 mn
West Bengal GSDP - FY23	15.3 trillion INR			
Air Traffic	FY20 - 22 mn; FY24 20 mn; YTD Oct-24 12 mn			
Chain Affiliated Hotel Rooms	YTD Sep-24 - 5k; expected supply for FY29 – 6.8k			
Office Space as of 30 Sep 24	28 msf			

Kolkata is the capital city of West Bengal. Kolkata Metropolitan Area (KMA) or Greater Kolkata is the largest urban agglomeration in eastern India and the third most populous metropolitan area in India, after Delhi and Mumbai.

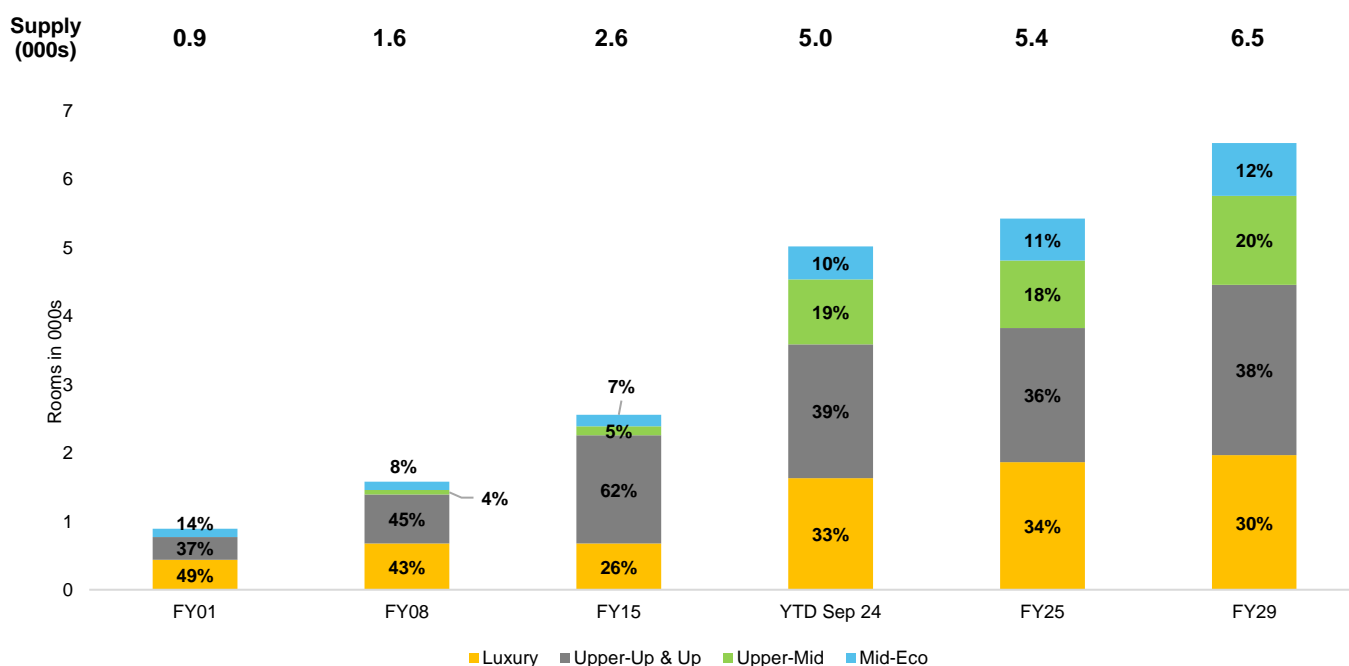
KMA accounts for the majority of organised industries and employment in West Bengal. Kolkata has major financial, commercial, educational, health, research and other organisations that cater to the requirements of KMA, the wider state and eastern regions of the country.

7.7.2 Hotel Inventory

Chain-affiliated supply for Kolkata was 5k rooms as of 30 September 2024. Supply nearly doubled between FY15 and YTD Sep-24. About 900 keys were added in FY20. Pipeline supply for the city upto FY29 is only 1.9k rooms.

ITC has 42% share of luxury hotel rooms in the city, including ITC Royal Bengal which has the largest inventory in Kolkata – the entire ITC inventory is chain-owned.

Chart 45 - Kolkata Chain affiliated Inventory – Overall and Segmental



Source: Horwath HTL

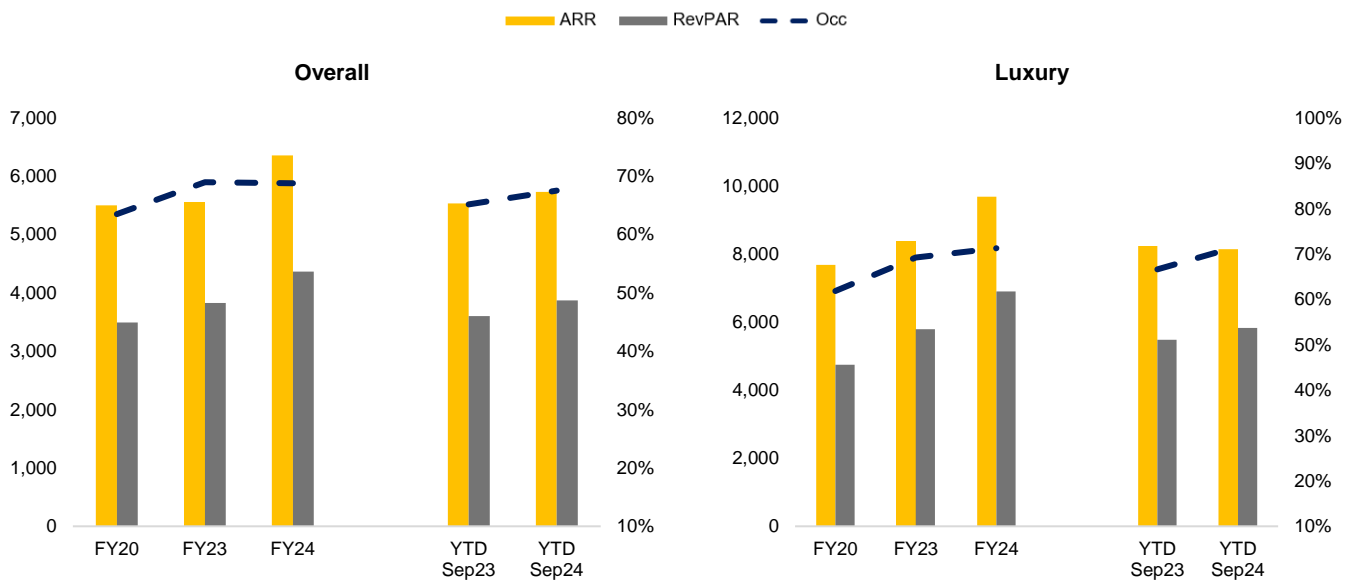
7.7.3 Market Performance

The city has limited strength of corporate demand; it thrives on MICE and weddings demand and, demand from sports related events. Greater business travel demand would be very beneficial. Hotels with sizeable weddings and MICE facilities and reputation have an advantage.

City wide occupancy has been largely range bound, in the mid to high 60's with ADR between Rs. 5.5k and Rs. 6.3k for the last 5years.⁸⁰

Strong demand potential from business travel, corporate MICE and residential weddings is a positive for upper-tier hotels. The multiple demand segments across manufacturing and services, and with operations and hotels in different micro markets, provides greater demand stability and growth prospects.

Chart 46 - Kolkata Market Performance



Source: CoStar

⁸⁰ CoStar

7.8 Ahmedabad Hotel Market

7.8.1 Key Features

We have provided certain key aspects of Ahmedabad in Table 27

Table 27 – Ahmedabad Key Aspects

Aspect	Remarks			
Key Features	Largest city in Gujarat in proximity to the state capital Gandhinagar			
Area	City	466 sq km	Urban Agglomeration	1.9k sq km
Population	City	7.2 mn	Urban Agglomeration	9 mn
Air Traffic	FY20 – 11 mn; FY24 – 12 mn; YTD Sep24 – 7 mn; CAGR 0.9%			
Chain Affiliated Hotel Rooms	FY20 – 3.7k; FY24 – 5.6k; YTD Sep24 – 5.8k; CAGR 10.3%			
Office Space as of 30 Sep 24	27 msf			

Ahmedabad is an important commercial city and largest city of Gujarat. Ahmedabad was the capital of Gujarat state till the development of Gandhinagar in the early 1970's, specifically as the seat of the state government. Both cities are seamlessly connected, served by a single airport and share common hospitality, commercial and retail infrastructure. The city has a mixed base of economic generators including manufacturing units of pharmaceuticals, SME engineering and automotives sector, a robust real estate sector and a developing energy sector.

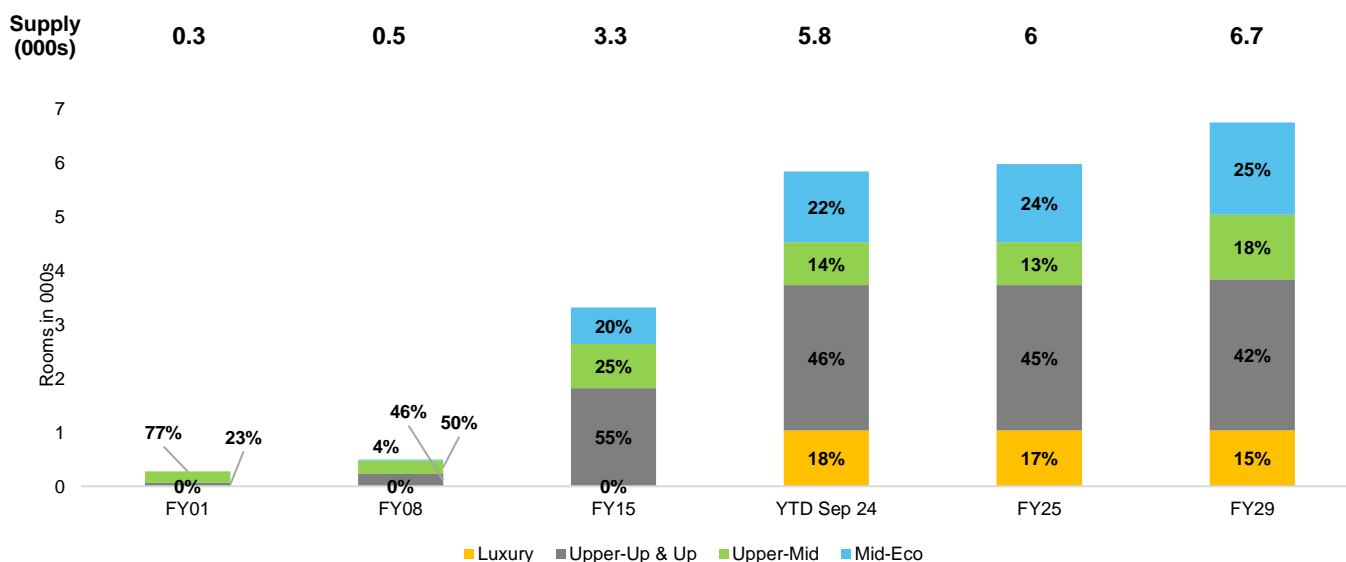
7.8.2 Hotel Inventory

Ahmedabad has 5.8k chain-affiliated hotel rooms as of 30 September 2024, with 32% of the inventory opening between FY13 and FY15 and 42% of the inventory opening FY20 onwards. For several years, supply was concentrated around Kalupur and Ashram Road. As the city spread westwards towards S.G. Highway and S.P. Ring Road, newer hotels have opened on and near SG Highway including two luxury hotels.

The city mainly had mid-segment hotels till FY08. The share of upper tier hotels has grown from FY08, and the first luxury hotel in the city opened only in FY21. The share of upper midscale and midscale-economy hotels will reduce from 77% in FY01 to 43% by FY29.

Of the luxury segment supply, IHCL, Leela and ITC have 41%, 31%, and 28% share respectively. Only the ITC hotel is chain owned.

Chart 47 - Ahmedabad Chain affiliated Inventory – Overall and Segmental

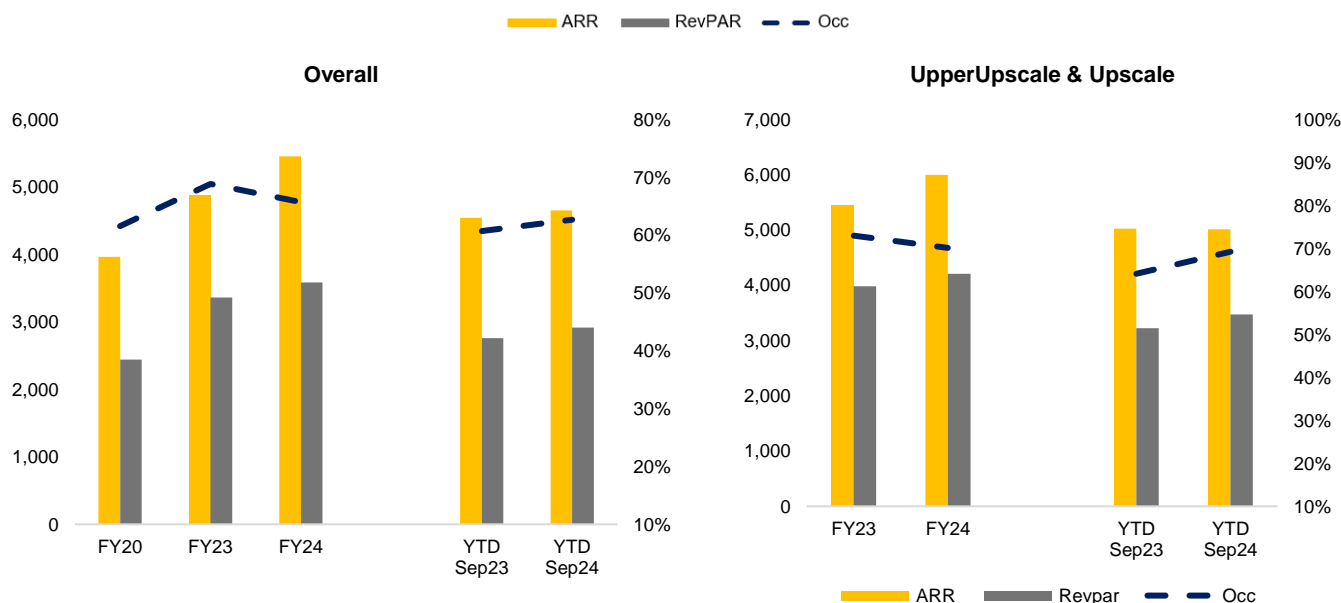


Source: Horwath HTL

7.8.3 Market Performance

- The city achieved 66% occupancy in FY24. Occupancy was higher than FY20 but lower than FY23 by 3 points.⁸¹ Rooms demand per day has increased from 2.2k rooms in FY20 to 3.7k rooms in FY23 but declined marginally to 3.5k rooms in FY24. ADR for FY24 at Rs.5.4k was higher than FY20 ADR by 38%.⁸²
- Performance growth continues with 63% occupancy for YTD Sep-24 at ADR of Rs.4.6k.⁸³ The performance is higher than FY20 and YTD Sep-23. Slowdown in the first half of FY24 due to elections and summer heat is among the main reason for this decline.
- FY24 was benefitted by events such as world cup matches hosted in Oct-23 and, Vibrant Gujarat Global Summit hosted in Jan-24, contributing to increasing occupancy for hotel sector.
- Ahmedabad hotels are in an overall positive phase, as the state and the areas on the city's outskirts draw industrial investment and with continued push to grow the International Finance Centre at GIFT City near Gandhinagar. GIFT City, Ahmedabad (Gujarat) is one of India's pioneering global financial hubs. Metro rail link between Narendra Modi Stadium, Mahatma Mandir and GIFT City will benefit GIFT city operations.
- Expansion of the city's airport, completion of the bullet train project and other intra-state road developments will support greater MICE activity and some casual leisure/retail related travel. Weddings demand is expected to remain strong, benefitting guest rooms demand and F&B demand.
- GIFT city has taken steps to ease liquor restrictions within its jurisdiction, allowing alcohol consumption in specific areas like high-end hotels and business districts, with a view to generate favourability for this global financial business hub.
- The central and state governments are taking significant initiatives for industrial and economic growth of Gujarat state. The city itself is expected to see the growth of manufacturing activities on its outskirts, commercial and residential zones, and sports related infrastructure with the aim of bidding for the Olympics for CY2036.

Chart 48 - Ahmedabad Market Performance



Source: CoStar

Note: CoStar does not have Luxury segment data for Ahmedabad and hence Upper Upscale and Upscale data is provided for reference.

⁸¹ CoStar
⁸² CoStar
⁸³ CoStar

7.9 Goa Hotel Market

7.9.1 Key Features

We have provided certain key aspects of Goa in Table 28

Table 28 – Goa Key Aspects

Aspect	Remarks
Key Features	Located on the western coast Goa is the most popular beach destination in India
State Area	3.7k sq km
State Population	1.6 mn
Goa GSDP – FY24	INR 1 trillion
Air Traffic	FY20 – 8 mn; FY24 – 11 mn; YTD Sep24 – 6 mn; CAGR 7.8%
Chain Affiliated Hotel Rooms	FY20 – 7.2k; FY24 – 9.3k; YTD Sep24 – 9.5 mn; CAGR 6.6%

Goa is one of the most prominent leisure destinations in India and India’s prime beach destination.

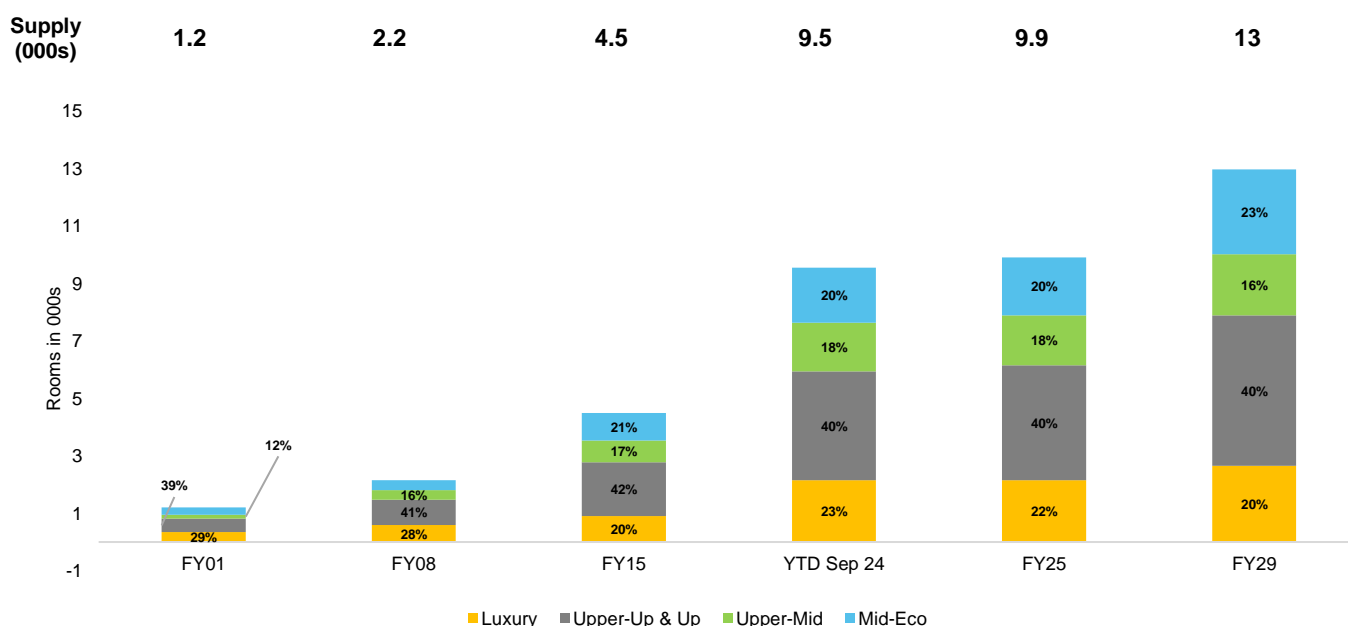
Tourism has always been a significant component of the State economy. Gaining significantly in the post Covid period (including in the recovery phase of each Covid wave), travel to Goa has been driven by strong domestic demand across multiple price segments. It is one of the few states in India that permits casinos.

7.9.2 Hotel Inventory

As of 30 September 2024, Goa had 9.5k chain affiliated rooms, including 2.4k rooms added since FY20. Supply growth is materially led by Upper Upscale & Upscale Segments and Mid-Segment hotels. Given the crowded Goa markets, the luxury and Upper Upscale hotels offer a much-valued experience.

In the luxury segment, IHCL, Marriott, Hyatt and ITC have 42%, 22%, 21% and 13% share respectively. Chain ownership in this segment is primarily between IHCL (425 rooms) and ITC (246 rooms). Importantly, only 49% of luxury resorts have a beach-front, while other resorts are developed in-land. The ITC resort has a large beachfront area.

Chart 49 - Goa Chain affiliated Inventory – Overall and Segmental



Source: Horwath HTL

7.9.3 Market Performance

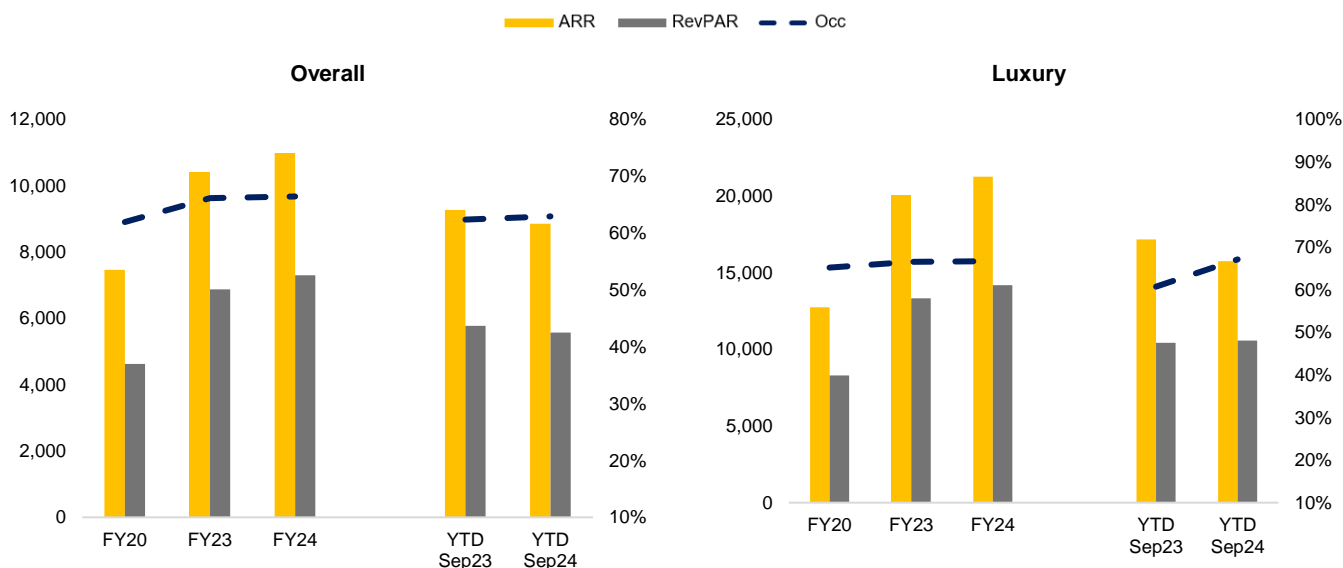
Goa was one of the best performing markets in India during Covid-19. Comparing FY24 with FY20 – (a) luxury segment ADR increased 67% to Rs. 21k; (b) market-wide ADR increased 47% and (c) Market-wide occupancies increased from 62% in FY20 to about 66% in FY23 and FY24.⁸⁴

Goa gained positively in the recovery period from the pandemic as the international borders did not open up fully, and the domestic market (including materially the domestic upper tier and luxury market) was travelling within the country.

In 2024, there has been a market correction which was inevitable as other destinations offered travel incentives and with short-term travel fatigue to Goa.

Market-wide occupancy for YTD Sep-24 at 63% was marginally higher than for YTD Sep-23, however, ADR for YTD Sep-24 declined by about 4.5% over the previous year. Occupancy for the luxury segment increased by 6 percentage points, while ADR declined by 8%⁸⁵ (lower ADRs in H1 are a typical occurrence for Goa). Increased MICE and group businesses reflects in the revenue outcome for hotels and resorts.

Chart 50 - Goa Market Performance



Source: CoStar

⁸⁴ CoStar

⁸⁵ CoStar

7.10 Jaipur Hotel Market

7.10.1 Key Features

We have provided certain key aspects of Jaipur in Table 29

Table 29 – Jaipur Key Aspects

Aspect	Remarks			
Key Features	Capital of Rajasthan; popularly referred as ‘Pink City’ of India			
Area	City	467 sq km	Urban Agglomeration	484.5 sq km
Population	City	4.3 mn	Urban Agglomeration	4.3 mn
Air Traffic	FY20 - 5 mn; FY24 5.2 mn; (CAGR 2.1%); YTD Oct-24 3.2 mn			
Chain Affiliated Hotel Rooms	YTD Sep-24: 7.6k; expected supply for FY29: 11.8k			

Jaipur is part of the ‘Golden Triangle’ along with Agra and Delhi and its tourism is focussed around its rich heritage and culture, its forts and palaces, its cuisines and shopping options. The city attracts significant inbound and domestic tourists, and has developed into a preferred location for destination weddings.

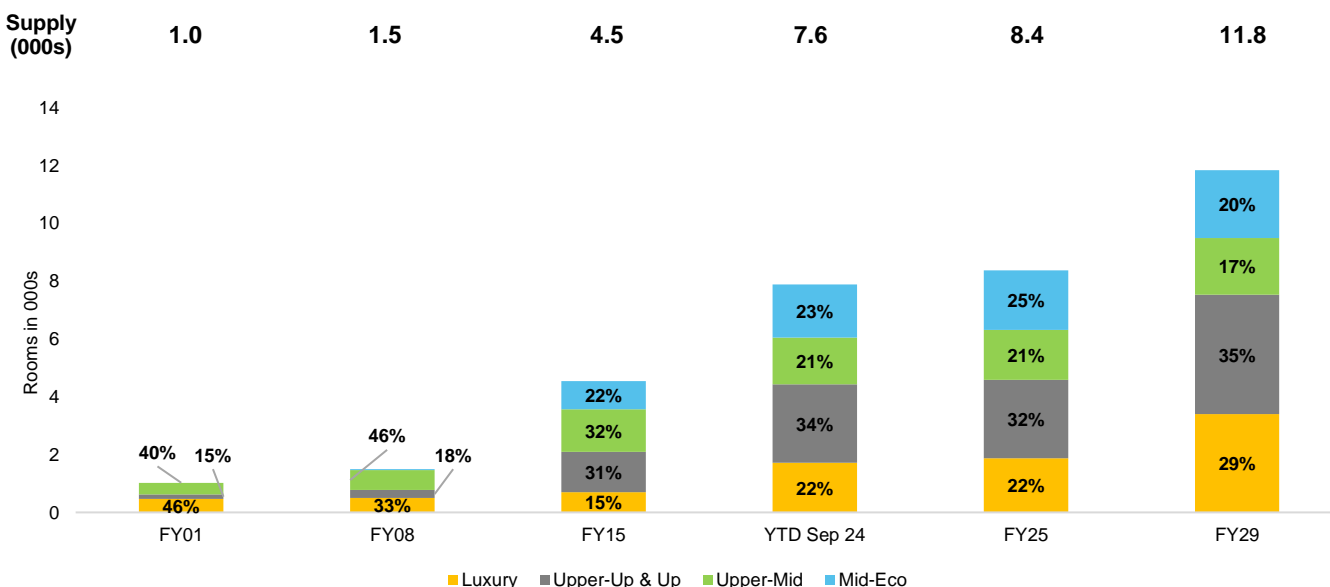
Jaipur is also a business city, drawing travel for gems and jewellery, several SME industrial units, interaction with government and regional BFSI institutions and limited IT sector presence. A convention centre has been opened in mid-2023.

7.10.2 Hotel Inventory

Jaipur has chain-affiliated inventory of 7.9k rooms as of YTD Sep-24, with 3k rooms added between FY08 and FY14 and another 3.8k rooms between FY15 and YTD Sep-24.

Initially, hotels were concentrated in the city centre area; these have now spread to the airport area and towards Kukas (Delhi – Jaipur highway). IHCL and ITC with 30% and 16% share of luxury supply respectively, have hotels in the city centre and in Kukas. The city has seen supply increase across all segments, including materially in the upper midscale and midscale-economy segments. Luxury segment supply increased by 148% between FY15 and YTD Sep-24; another 97% increase is indicated by FY29 though we believe that some of this supply is unlikely to occur in the announced time frame.

Chart 51 - Jaipur Chain affiliated Inventory – Overall and Segmental

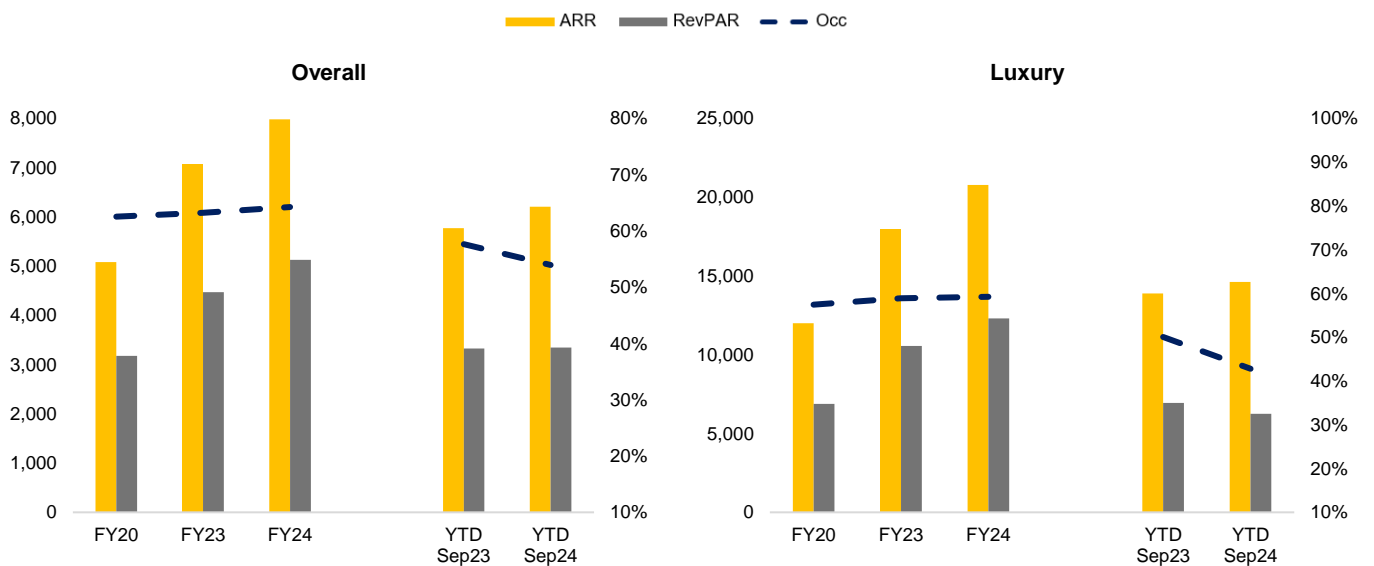


Source: Horwath HTL

7.10.3 Market Performance

- Jaipur has been a price sensitive market other than at the level of Luxury hotels. Market-wide ADR levels are markedly lower than for the luxury segment.⁸⁶
- FY24 market-wide occupancy and ADR was 64% and Rs. 8k respectively, with the ADR reflecting 57% growth over FY20. In comparison, Luxury segment ADR of Rs.21k in FY24, was 73% higher than FY20, with occupancy rising from 57% to 59%.⁸⁷
- 54% market occupancy for YTD Sep-24 is about 4 percentage points lower than for YTD Sep-23, although ADR grew by 7% for these periods. Rs 14.6k ADR for luxury segment for YTD Sep-24 was 5% higher than YTD Sep-23, while Occupancy declined from 50% to 43%.⁸⁸
- However, demand has grown from 7.2k rooms per day in FY20 to 7.6k rooms per day for FY23 and 8.3k rooms per day for FY24.⁸⁹
- Jaipur has a sizeable pipeline of 3.9k rooms through FY29. Of the total pipeline, about 42% is in the luxury segment and 36% in the Upper Up-Upscale segments. We believe that some of this supply is unlikely to occur in the announced time frame.

Chart 52 - Jaipur Market Performance



Source: CoStar

⁸⁶ CoStar

⁸⁷ CoStar

⁸⁸ CoStar

⁸⁹ CoStar

7.11 Other Markets

7.11.1 Agra

- Agra is located in Uttar Pradesh in North India on the banks of Yamuna River. The renowned monument Taj Mahal a UNESCO World Heritage site is in Agra. This makes Agra a popular tourist destination for inbound and domestic visitors. Agra forms a part of the 'Golden Triangle' tourist circuit.
- Agra has good road and rail connectivity to various important cities in North India. It also has limited air connectivity. The flights from this airport has only been enhanced since late 2023, with direct flights to Mumbai, Bengaluru and Hyderabad. There are plans to start flights to Jaipur and Prayagraj. Passenger movement increased from 100k in FY20 to 183k in FY24.
- Total chain affiliated supply for Agra was 2.9k rooms as YTD Sep-24. Luxury segment comprises 19%, Upper and Upscale segments is at 41%, Upper Midscale at 25% and Midscale-Economy is at 15%. Supply pipeline through FY29 is only 1.2k rooms, including 304 rooms in the luxury segment. Of the current luxury segment supply, IHCL, ITC and EIH have 42%, 41% and 18% share respectively, with the ITC having a more resort aspect than the 2 hotels of IHCL.
- For FY24, the city achieved 69% occupancy + 12 points over FY20. ADR increased by 41% in FY24 to Rs. 7.9k as compared to Rs. 5.6k in FY20. These have combined to generate 70% RevPAR growth. For YTD Sep-24 occupancy was 60% and ADR was Rs. 5.8k.⁹⁰
- Agra will continue to be a prominent and important tourist destination. The city is also becoming an attractive destination for weddings and MICE. It can be expected to benefit from the Jewar airport located 10 kms from the city.

7.11.2 Amritsar

- Amritsar is one of the largest cities in Punjab and an important place and centre of Sikhism. It has the Golden Temple (Sri Harmandir Sahib) that is regarded as the most sacred places of worship for the Sikhs. Besides religious significance, Amritsar is also historically important particularly with the freedom movement of India and attracts leisure visitors.
- Amritsar is well connected to Punjab and North India through rail, road and air. Total Passenger movement at its international airport increased from 2.5 mn in FY20 to 3.5 mn in FY24.
- Total chain affiliated supply for Amritsar was 2.5k rooms as of YTD Sep-24. Luxury segment comprises 7%, Upper and Upscale segments is at 38%, Upper Midscale segment is 21% and Midscale-Economy segment is at 34%. Of the upper upscale and upscale segments supply, Marriott, ITC and Radisson Hotel Group have 28%, 27% and 21% share respectively.
- Supply pipeline through FY29 is 2.2k rooms and supply is expected to nearly double in the next 5 years.
- For FY24, the city achieved 62% occupancy reflecting positive growth from 59% occupancy for FY20. ADR increased by 25% in FY24 to Rs. 5k, as compared to Rs. 4k in FY20. For YTD Sep-24 occupancy was 54% and ADR was Rs. 4.4k.⁹¹
- With the improvement in tourism infrastructure and enhanced air connectivity leisure travel will continue to form a major part of demand for the hotels. MICE and weddings related demand is also likely to grow. Amritsar has substantial pipeline over the next four years. However, several of these are greenfield projects and therefore the actual completion may be beyond four years.

⁹⁰ CoStar

⁹¹ CoStar

7.11.3 Bhubaneshwar

- Bhubaneshwar is the capital of Odisha and is the administrative, economic, and educational hub of the state. It also becomes a focal point for travel to Puri and Konark. Key economic drivers for the city include iron & steel, textile, manufacturing, mining, IT, state administration, education, tourism, and sports.
- Bhubaneshwar is an international airport and is a major airport serving the entire state. Total passenger movement increased from 4.6 mn in FY20 to 5.5 mn in FY24. International passenger movement is limited and currently ranges between 100k and 150k; an airport expansion is proposed with a view to enhance international connectivity
- Total chain affiliated supply for Bhubaneshwar is limited, at only 1.1k rooms as at YTD Sep-24. The city does not have any luxury hotel. Upper upscale and upscale segments comprise 54% of rooms inventory while upper midscale and midscale-economy hotels have 46% supply share. Supply pipeline through FY29 is only around 800 rooms. Of the total supply, IHCL, ITC and Mayfair have 32%, 16% and 10% share respectively. The existing and upcoming inventory is modest for a significant city; this should work to the benefit of existing hotels.
- The city being a state capital and a regional economic zone will grow. Expansion in various sectors such as IT, healthcare and education along with continued growth in manufacturing and commercial space will lead to overall city development.

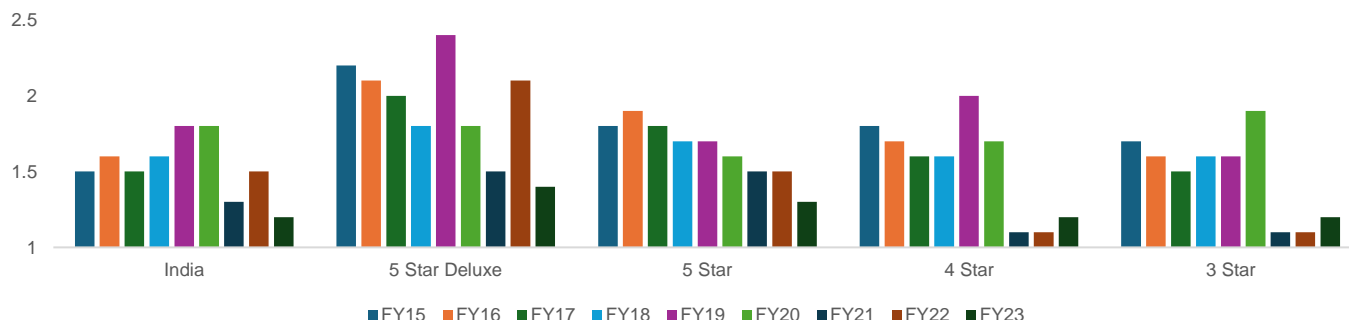
7.11.4 Coimbatore

- Coimbatore is a major commercial, industrial and educational hub in Tamil Nadu. It is located close to the Western Ghats and provides connectivity to north-eastern cities of Kerala. It is among the largest textile manufacturing centres in India. Other industries include automotive component, pump manufacturing and engineering. It is also emerging as a new IT hub.
- Coimbatore has an international airport, though operations are materially domestic flights. Total passenger movement increased from 2.6 mn in FY20 to 2.9 mn in FY24. The airport is planned to be expanded.
- Total chain affiliated supply for Coimbatore was 1.5k rooms as YTD Sep-24. Supply is equally spread between the upper upscale and upscale and the upper midscale and midscale segments. The city does not have any economy hotels. Supply pipeline through FY29 is negligible.
- Occupancy for FY24 was 70% and increased to 72% for YTD Sep-24. ADR increased by 9% from Rs. 4.7k in FY24 to Rs. 5.1k for YTD Sep-24.⁹²

8 Operating Performance Parameters

Manpower to Rooms Ratio

Chart 53 – Manpower to Rooms Ratio – Star Category Wise – FY15 to FY23



Source: FHRAI Reports; FY24 is not available

⁹² CoStar

Payroll cost is among the large operating costs for hotels and has a material impact on operating margins. During and post Covid-19, hotels across segments have rationalised their staffing relative in response to reduced staff availability and higher payroll costs in order to improve margins. The data above reflects only participating hotels in the surveys for various years.

Current trends among hotel companies are for luxury business hotels to be at or below 2.0 and for three and four-star hotels to be between 0.8 to 1.2.

Operating Performance Comparison

Table 30 below provides a summary of operating performance for FY2022-24 of listed companies that are (a) hotel assets owning and hotel management company and (b) with material share of luxury segment hotel rooms in their portfolio.

Table 30 – Operating Performance - Select Listed Hotel Companies (Rs. Mn)

		Rs. In Mn.		
Company#		IHCL	ITC	EIH
FY22	Revenue from Operations	30,562	13,199	9,853
	Other Income	1,552	239	587
	Total Revenue	32,114	13,438	10,440
	EBITDA	5,599	954	574
	EBITDA % to Total Revenue	17%	7%	5%
FY23	Revenue from Operations	58,099	26,291	20,188
	Other Income	1,389	244	776
	Total Revenue	59,488	26,536	20,964
	EBITDA	19,435	8,323	6,750
	EBITDA % to Total Revenue	33%	31%	32%
FY24	Revenue from Operations	67,688	30,339	25,113
	Other Income	1,829	349	1,147
	Total Revenue	69,517	30,688	26,260
	EBITDA	23,401	10,391	10,416
	EBITDA % to Total Revenue	34%	34%	40%
Apr-Sep 24	Revenue from Operations	33,764	14,713	11,155
	Other Income	1,101	174	670
	Total Revenue	34,865	14,887	11,825
	EBITDA	10,610	4,305	3,764
	EBITDA % to Total Revenue	30%	29%	32%

Source: Listed Company annual reports / quarterly reports

Consolidated numbers unless otherwise stated; EBITDA includes Other income

9 Cost of Development per key

Project costs have risen since the pandemic, requiring larger investment in hotel development. Increased costs for new projects provide competitive advantage of existing hotels which carry lower historical costs. Project costs vary from hotel to hotel due to several factors including size of hotel, F&B spaces - number and type (cuisine) of restaurants, restaurant standards and appeal, banquet spaces and facilities, other public areas, number of basements (including based on regulatory requirement for parking), brand specific needs, site specific development challenges and financing plans and patterns.

Broadly, current development costs (excluding land cost) are emerging at:

- Luxury: Rs. 16 to Rs 30 mn per key
- Upper Upscale: Rs. 11.5 to Rs 14 mn per key
- Upscale: Rs. 8 mn to Rs 11 mn per key
- Upper Midscale: Rs. 6 mn to Rs. 7.5 mn
- Midscale: Rs. 4.5 mn to Rs. 5.5 mn

10 Barriers to Entry

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

- a. **Land:** Availability of land at suitable locations for hotels, high 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 provide 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.

Several of these barriers, particularly Land, Bank Financing and Availability of Equity Capital have greater implication for Lux-UpperUp hotels and hotels with large inventory and function spaces.

11 Potential risk factors to the hospitality industry

1. Reputation Risk

The reputation of a hotel is critical to its success. Such reputation is built by the product quality, location and appeal, range and quality of food & beverage offerings, quality of function spaces and the branding of the hotel. Service is critical to building a strong reputation. Reputation damage could occur if health and safety norms are not adequately complied with and implemented.

2. Demand risk

The discretionary nature of hotel demand can impact demand volumes, profile and pricing due to factors such as economic slowdown; new competitive supply or loss of product quality. Seasonality aspects could also have a material impact on demand, particularly if any challenges occur during high season periods for a destination.

Overall demand is more discretionary for leisure, weddings and MICE purposes, while for business driven destinations a certain element of business travel is often inevitable; pricing and demand interplay can negatively impact revenues during an economic or travel slowdown.

3. Competition Risk

Arises from newer and more contemporary hotels setup in a market and from alternate accommodation. Material new supply created in a market or micro market within a concentrated timespan, can impact occupancy and pricing unless there is ready latent demand to absorb the new supply. Good quality new hotels at different price points could also channel away demand at higher priced hotels which are benefitting from pricing strength due to lack of adequate supply. On the other hand, depending on circumstances in a market additional supply could also create better visibility and greater critical mass to the benefit of various hotels.

4. Economic Risk

Business conditions for hotels can be impacted by the overall economic situation in the country/ city or in key source markets. A slow, stagnant or declining economy creates demand and pricing pressure, including on demand for restaurants, functions etc. A growing economy with positive sentiment helps to lift demand, pricing and spends. Economic risks can in turn impact foreign currency reserves and create foreign currency risks which, in turn, can impact earnings and availability of foreign exchange debt funding for hotel projects. Temporary currency restrictions can have potential impact on foreign currency available to fund imports of goods and services for hotel operations.

5. Health and Security Risk

Health and or security factors affecting a destination, destination country, or key source markets can negatively impact demand. This was seen during the Covid pandemic or in certain Asian markets during the SAARS epidemic, or when terror attacks occurred in Mumbai and New York in 2008 and 2001 respectively. Recovery from health and security concerns depends on the cause but generally remains robust if the destination market is a key market.

6. Source Market Concentration Risk

Source market economic issues can impact demand and revenues in a destination particularly if there is substantial demand concentration and reliance upon a particular source market which is suffering an economic downturn. Substantial demand concentration or reliance upon specific source markets can impact demand and revenues, if one or more of such source market suffers from demand risks on account of economic, health or security issues.

7. Digital Security and Data Privacy Risk

Substantial use of the digital medium for sales and marketing, and the collection, use and storage of guest personal data creates the risk of data breach which could affect operating systems and operations, as well as compliance with data privacy laws and regulations. In turn, this can expose hotel companies, including managed hotels, to liability under international and domestic laws and regulations e.g. GDPR Regulations and the Digital Personal Data Protection Act, 2023 (regulations yet to be notified). Further, hotel companies that do not have a robust digital platform can suffer competitive disadvantage.

8. Human Resources Risk

The hotel sector is materially subject to Human Resources (HR) risk as regards availability of a sufficiently large pool of managers and employees with relevant skills and experience to meet staffing needs of a rapidly growing industry, higher competitive costs for personnel, and high attrition levels due to demand for trained hotel staff across various service sectors. While staffing pattern have been modified as an outcome of the Covid pandemic, the HR risk is expected to remain significant.

9. Operating Margin Risk

Operating margins can come under pressure due to decline in revenue (quantum and or rate based) and increase in costs. Cost increases are not always immediately controllable, particularly fixed cost elements towards various utilities, payroll costs with increases amidst competition, increasing input costs towards F&B and other supplies. Sales costs can vary depending upon sales channels used and the strength of operator's sales channels through its loyalty programs and digital or other systems. Greater ability of a hotel to reduce its fixed cost would prove beneficial in managing operating margins.

10. Compliance Risk

Substantially increased compliance requirements results in greater risk of compliance failure and in added compliance costs which have effect on operating margins. Variances in compliance needs across different states in India add to the risks levels and to compliance cost.

11. Third Party Risk

The changing business ecosystem with increased outsourcing of various functions and sharper procurement timelines create newer third-party risk for hotels and asset portfolios. Third party risk can also arise from outdoor catering events and from greater use of contract employees.

12. Development and Growth Risk

Growth of hotel supply can be impacted by various developmental risks including availability of suitable land with clear titles, entitlements and affordable costs; need for multiple approvals without defined time commitments from authorities, project delays due to regulatory requirements, funding delays including availability and cost of foreign currency funding and inability to meet escalated project cost due to the aforesaid factors. Projects also get delayed, and sometimes abandoned, due to economic disruptions, insufficient funding, and resultant cost escalations. These can cause hotel projects to be delayed or downsized (with or without reduction in scale during project implementation), or carrying inadequate initial quality due to lack of funding.

13. Debt Service Risk

Debt stress can arise due to development and implementation challenges for hotels, or from overly leveraged hotels or lack of demand growth or penetration to the extent anticipated thereby causing inadequate funds availability for debt service. Debt service obligations can pile up quite rapidly if allowed to persist, impacting the hotel asset and service quality, performance and competitiveness.

14. Asset Impairment Risk

Lack of suitable care in the upkeep, renovation and upgrade of individual hotel assets from time to time can impact the hotel's competitive positioning and capability and thereby impact its earnings. As a cyclical consequence, this can further reduce funds availability for reinvestment in improving the asset and to overcome asset quality impairment.

15. Climate Change Risk

Climate change factors can have material bearing on hotels in terms of changing business seasons, impact of global warming, increased operating costs due to need for additional air-conditioning and or lack of water, reduced demand due to high temperatures flooding and landslides (these can even restrict access) and higher cost of operation to comply with sustainability needs and expectations which may be regulatory and / or competitive in nature.



Horwath HTL

Hotel, Tourism and Leisure

Industry Report – Sri Lanka Hotel Sector

Prepared for:
ITC Hotels Ltd.

11 January 2025

Mr. Anil Chadha
Managing Director,
ITC Hotels Limited
37, Jawaharlal Nehru Road,
Kolkata – 700 071

Dear Mr. Chadha,

We were retained by ITC Hotels Limited (“Company”) to prepare an industry report comprising (a) an overview of the Sri Lankan hospitality industry, and (b) perspectives on the future outlook for the industry in general, with more specific focus on Colombo where the Company owns a hotel. Accordingly, this report concentrates on Luxury Segment in Sri Lanka and particularly Colombo. We understand that the Company intends to use data from this industry report in connection with the Information Memorandum (“IM”) to be filed by it with the Securities and Exchange Board of India (SEBI) and stock exchanges in connection with the proposed listing of its equity shares (issued pursuant to the Demerger Scheme) on the stock exchanges.

We have issued a report titled Industry Report – Sri Lanka Hotel Sector (“Industry Report”) on 11 January 2025. This Report covers the following key aspects:

- Overview of several key factors that impact the demand for, and performance of the hotel sector - factors such as tourist arrivals, seasonality, access infrastructure, key demand drivers, visa policies, government initiatives and challenges
- Broad overview of the impact arising from Covid 19 pandemic, and the recovery therefrom
- Brief analysis of hotel supply in Sri Lanka and Colombo
- Overview and Outlook for Colombo Hotel Market

Hotel inventory and other data points used for this Report are as on 30 September 2024. Information on pipeline inventory and other data have been updated based on information available to us upto 15 November 2024; we have not updated this for any events occurring after that date notwithstanding that in some cases the Report may contain a comment on an event after that date. Further, we have no obligation to update the information and our comments for changes and events that occur after the aforesaid date.

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 comprehensible



Hotel, Tourism and Leisure

– however, it is possible that additional data may cause a reader to reach a different conclusion.

As is typical of such reports, 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 as may be required.

Thank you and with regards,

Yours truly,

For Crowe Horwath HTL Consultants Pvt. Ltd.

A handwritten signature in blue ink, appearing to read "V.P. Thacker".

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 ITC Hotels Ltd. (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”.

HORWATH HTL CREDENTIALS

Horwath HTL India is a member of Crowe Global. Crowe Global is among the top ten accounting and consulting networks 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 150 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.

Abbreviation	Full Form
ADR	Average Daily Rate
BIA	Bandaranaike International Airport
BPO	Business Process Outsourcing
CAGR	Compound Annual Growth Rate
COVID	Coronavirus Disease
CSE	Colombo Stock Exchange
CY	Calendar Year
FTA	Foreign Tourist Arrivals
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
HR	Human Resources
IMF	International Monetary Fund
IT	Information Technology
ITC	ITC Hotels Limited
ITeS	Information Technology Enabled Services
k	Thousand
LKR	Sri Lankan Rupee
MICE	Meetings, Incentives, Conferences and Exhibitions
MRJA	Mattala Rajapaksa International Airport
SAARS	Severe Acute Respiratory Syndrome
SLTDA	Sri Lanka Tourism Development Authority
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USD	United States Dollar
US\$	United States Dollar
WTTC	World Travel & Tourism Council
YTD	Year to Date

1 Key Market Characteristics

1.1 Relevance of Tourism

Tourism is a key economic contributor to the Sri Lankan economy, generally considered as the third largest sector in Sri Lanka. Tourism earnings contributed over 4% of GDP between CY2016 and CY2019. Being materially dependent upon leisure travel which is discretionary in nature, the tourism sector suffered setbacks from CY2020 due to Covid pandemic restrictions, and the subsequent economic crisis which even impacted airline operations to the country. While the GDP contribution from tourism earnings declined to less than 1% for CY2020 and CY2021, this has recovered to 2.5% for CY2023 and is estimated at around 3.4% for CY2024. On a larger basis, the aggregate GDP contribution from the tourism sector as a whole was USD 7.4 billion for CY2023 (7.8% of National GDP).

1.2 Hotel Supply

Hotel supply in Sri Lanka can be mainly categorised as supply in Colombo and supply in leisure markets (including cities such as Kandy and Nuwara Eliya). As of December 2023, total rooms inventory at Classified Tourist Hotels aggregated 16,686 rooms. Of this, 5,640 rooms were in Colombo and the balance 11,046 rooms were in other markets, principally being leisure markets. As at end CY 2023 Colombo had 2,199 hotel rooms in hotels with 5-star classification and an independent hotel of 292 rooms classified as a luxury hotel under STR segments. ITC Ratnadipa, owned by ITC Hotels Limited (“ITC”), commenced operations in April 2024 and is operational with 250 rooms as of YTD Sep24. Accordingly, Colombo city has an inventory of 2,741 5-star / luxury rooms as at YTD Sep24. Additional supply by way of guesthouses and alternate accommodation is not considered relevant for this report.

1.3 Foreign Visitors

Given the nature of Sri Lanka and its economy, the principal usage of upper tier hotels and resorts is by foreign tourists. Usage of upper tier hotels and resorts by domestic travellers is nominal. Being materially dependent on foreign tourists, the country has pursued efforts towards attracting demand from various international and regional markets. Foreign Tourists Arrival (FTA) increased from 1.53 mn for CY2014 to 2.33 mn for CY 2018. CY2023 has achieved material recovery from the Covid pandemic and the subsequent travel disruption due to economic issues, with FTA of 1.49 mn. CY24 has already achieved 41% y-o-y growth for YTD November 2024 with FTA aggregating 1.81 mn.

1.4 Demand Composition

Travel demand into Sri Lanka reflects different characteristics depending upon the purpose of travel. Leisure visitors predominate the total arrivals and typically have longer stay duration than business visitors. MICE demand has had moderate extensions of stay duration over and above the specific dates of MICE events.

Colombo hotels materially draw business travel demand and MICE demand. The city also gets leisure demand typically for a 1–2-night stay to explore the capital city and / or during transit. Revival of the casino operations in Colombo will provide a fillip to leisure stays at hotels in Colombo.

As a capital city, Colombo naturally depends upon business travel demand as a key element, for the city’s hotels. This segment has been relatively slower than the leisure segment in the aftermath of the Covid pandemic and subsequent economic crisis. On the other hand, increased leisure driven FTA combined with greater economic stability and a booming stock market are positive pointers towards developing positive economic policies and attracting inbound business interests and thereby inbound business travellers.

Increased foreign travel confidence to Sri Lanka itself creates a positive environment for international business travellers. Together with a buoyant stock market, and the need for international business attraction, the positive sentiment will help drive stronger government policies towards attracting international investments and business travel which will materially enhance the operating environment for Colombo’s hotels.

The aggregate rooms inventory of 6.1k rooms in Colombo, as at YTD Sep24 includes 2.9k rooms at hotels that are older than 10 years. The luxury segment is evolving with two chain-affiliated hotels opening in the last 6 years - Shangri La (500 rooms) and ITC Ratnadipa (250 rooms operational and pipeline of 102 rooms). The segment also includes the much older Galle Face hotel (156 rooms) and Taj Samudra (300 rooms).

2 Sri Lanka Overview

2.1 Geographical characteristics of Sri Lanka

Sri Lanka, historically known as Ceylon, is an island nation located off the south eastern coast of India separated by the Palk Strait and the Gulf of Mannar. Popularly referred as the Pearl of Indian Ocean, it also comprises of over 100 small islands and coral reefs around the mainland of Sri Lanka, varying in size from the largest Mannar Island to the smallest Sinigama and Werallaiya islands. The country has a rich economic history shaped by its geographical location in the Indian Ocean, serving as a hub for trade and cultural exchange; its economy has evolved through several phases, from a colonial plantation-based system to a mixed economy that balances agriculture, manufacturing, and services. Sri Lanka is also known for its diverse landscapes, including beautiful coastal plains, sandy beaches, rugged terrain, steep slopes and high peaks, and is home to eight UNESCO World Heritage sites.

2.2 Demographics and Population

As of 2023, Sri Lanka has a population of 22.9 mn¹. Colombo, the largest city, spans 37 sq km while Colombo District is spread across 700 sq km. Colombo has a population of 2.4 mn². According to census 2012, 70% of the population are Buddhists, 12.6% Hindus, and 9.7% and 6.7% are Muslims and Christians respectively. Sinhalese and Sri Lankan Tamils constitute 86% of Sri Lanka's population. The overall literacy rate of the country for age 10 and above is 96%, which is higher than the global literacy rate. Sinhala, Tamil and English are widely spoken languages.

2.3 Country GDP and Per Capita GDP

Sri Lanka's GDP growth rates and per capita income have been erratic over the past decade. GDP growth rate increased steadily till CY2017. It started declining post CY2018 with much deeper economic challenges due to Easter Sunday Bombing in CY2019 and Covid-19 CY2020. GDP growth was in positive territory in CY2021, but again started declining from Q1-22 because of forex reserves crisis.

Following six quarters of economic contraction, the Sri Lankan economy began to grow from Q3-23, closing CY2023 Nominal GDP at US\$84.4 billion³ (LKR 27.6 trillion) which is at 95% of CY2018 level. Real GDP growth rates for Q1-24, Q2-24 and Q3-24 were 5.3%, 4.7% and 5.5% respectively. World Bank estimates Real GDP growth for CY2024 and CY2025 at 4.4% and 3.5% respectively reflecting more stability from the previous uncertainties, and the potential for improved economic performance in coming years.

Faster-than-expected macroeconomic stabilization has improved the short-term growth outlook to 4.4%⁴ in 2024. This contrasts positively than the initial projection of 2.2%⁵ growth for 2024. Continued implementation of structural reforms will, however, be key to raising the medium to long-term growth potential.

GDP per capita also increased steadily till CY2017 and then started declining from CY2018. In CY2023, GDP Per Capita increased by 10.6% to US\$ 3,830 against US\$ 3,464 (CY2022), signalling a modest recovery in living standards and economic health. The GDP per capita compares favourably with India which reported Nominal GDP per capita of US\$ 2,366 and US\$ 2,497 for FY23 and FY24⁶.

¹ WHO Global

² www.lankastatistics.com

³ World Bank

⁴ World Bank

⁵ World Bank

⁶ World Economic Outlook, October 2024, International Monetary Fund

Chart 1: Sri Lanka GDP in Billion US\$ (2014-2023)

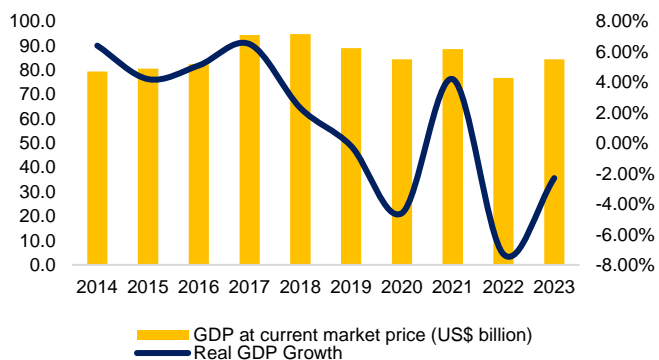


Chart 2: Sri Lanka Per Capita GDP in US\$ (2014-2023)

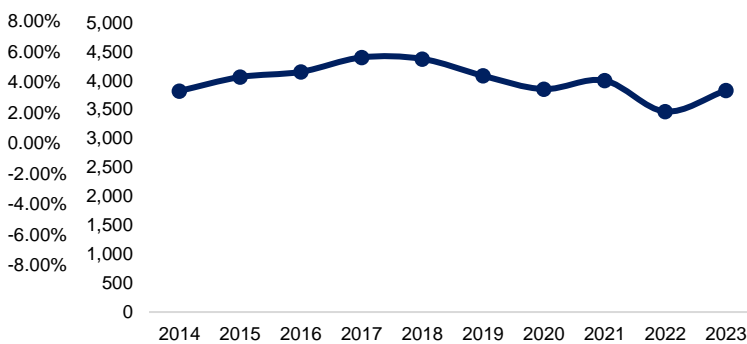


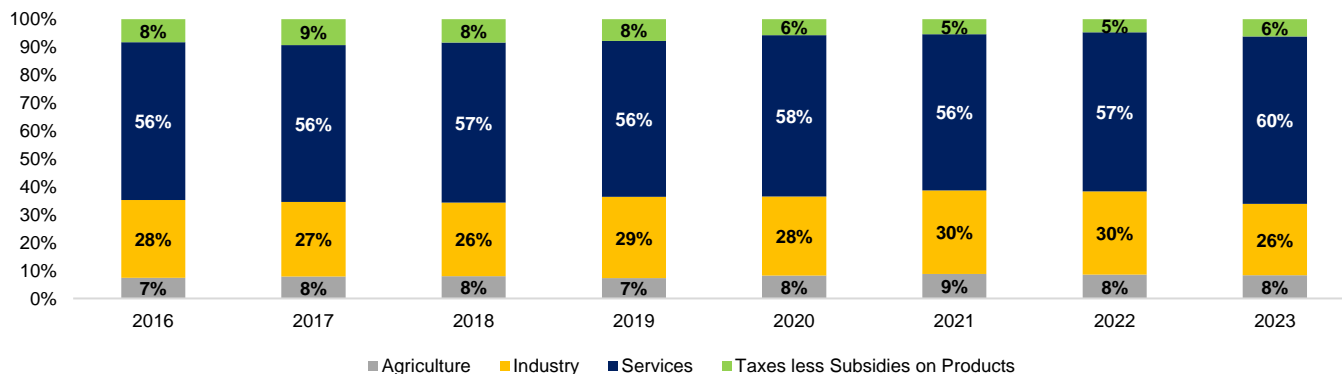
Chart 3: Sri Lanka Real GDP Growth (Q1 2021 to Q3 2024)



Source (Charts 1 to 3): Department of Census and Statistics, Central Bank of Sri Lanka

2.4 Sectoral Composition of GDP

Chart 4: Sri Lanka GDP Sectoral Composition (2016-2023)



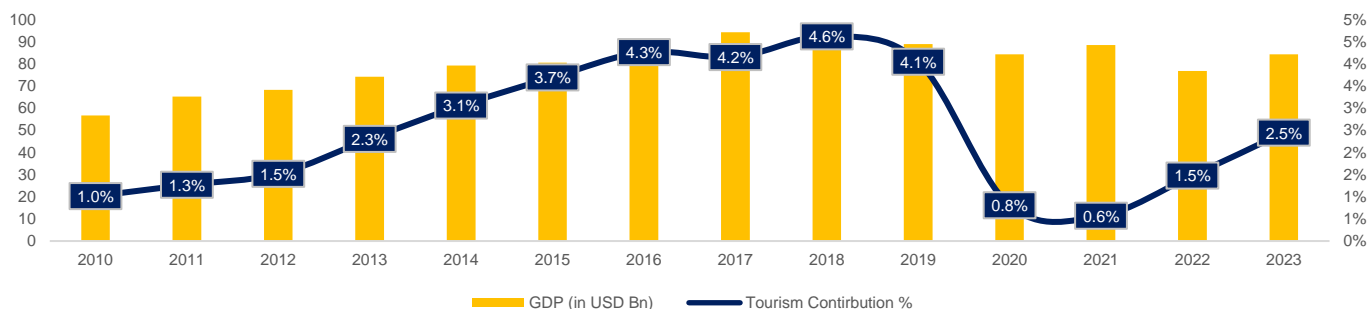
Source: Department of Census and Statistics, Central Bank of Sri Lanka

Services: The services sector is the largest contributor to Sri Lanka's GDP accounting for a significant portion of the country's employment. Key sub-sectors within services include tourism, financial services, information technology (IT), and telecommunications. In 2023, the service sector contribution expanded by 4 pts compared to 2022, mainly due to favourable growth in financial services, insurance and reinsurance services; transportation and related services; and accommodation, food, and beverage service activities.

Industry: Sri Lanka has a growing industrial sector, which includes manufacturing, construction, and textiles. Garment manufacturing and export-oriented industries play a key role in the country's economy, contributing to employment and export earnings. In 2023, the industry sector contribution shrunk by 3% from 2022, mainly attributed to limited mining and construction activities.

Agriculture: Agriculture remains an important sector, employing a significant portion of the population, particularly in rural areas. Key agricultural products include tea, rubber, coconuts, spices, and rice.

Chart 5: Tourism Earnings - Contribution to GDP



Source: Department of Census and Statistics Central Bank of Sri Lanka; Central Bank of Sri Lanka

Earnings from tourism are increasing since CY2021, although it has not fully recovered to pre-covid levels. Tourism earnings have increased significantly in January to September 2024 to US\$ 2.3 mn which is 61% higher than the previous year, and also the highest since Covid-19 pandemic. Sri Lanka has projected to earn US\$ 3 bn from tourism earnings in 2024.

Per WTTC Research Report international visitor spending in Sri Lanka was US\$ 2.9 billion in CY2023, estimated at US\$ 4.3 billion in CY2024 and projected to increase to US\$ 9.2 billion by 2034 at 7.9% CAGR between 2024 and 2034.

2.5 Inflation

In the last decade, Inflation has fluctuated, generally between 5% and 7%. Covid and national government issues led to spiralling inflation in 2022 and 2023. Pressure eased as the IMF approved a US\$ 3 billion bailout in March-23, after which headline inflation has remained in the low single digits throughout 2024, contributing to greater stability and a nascent recovery with a positive outlook for the coming years.

Chart 6: Consumer Price Index (Base Year – 2016)

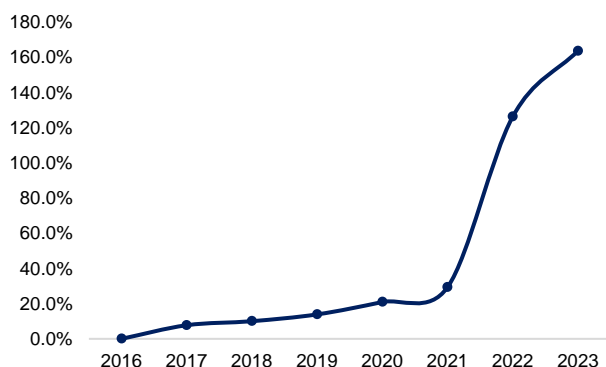
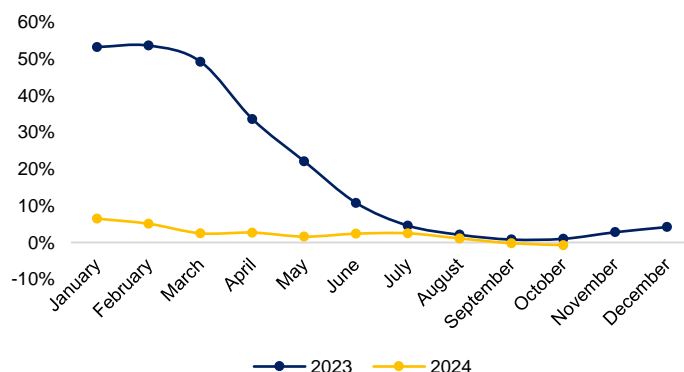


Chart 7: Monthly Consumer Price Index (Base Year - 2021)



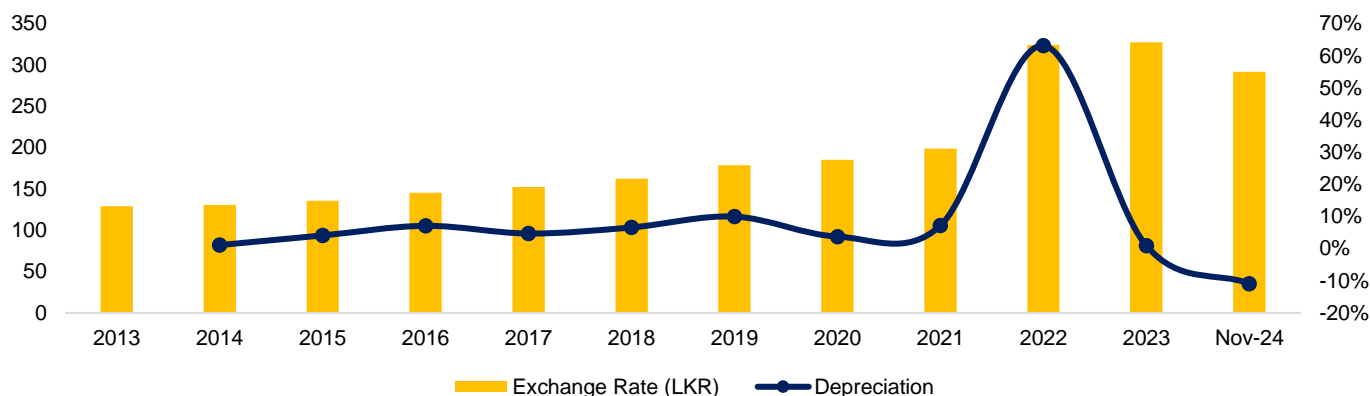
Source (Charts 6 & 7): Department of Census and Statistics, Central Bank of Sri Lanka

2.6 Currency

The Sri Lankan Rupee depreciated against US Dollar, at 10% CAGR over CY2013-23. The currency was stable between CY2013-18, but then began to depreciate amid economic crisis and political instability. Sri Lanka has taken measures to stabilize the currency by internationally negotiating for debt restructuring and by availing Extended Fund Facility from IMF in Mar-23. As a result, the Sri Lankan Rupee started stabilizing from mid-2023. As of Nov-24 Sri Lankan Rupees has appreciated against the US\$ by about 11%, relative to the annual average exchange rate for CY2023.

Currency depreciation to some extent has helped tourism as it made Sri Lanka a cheaper option for international tourists.

Chart 8: Sri Lankan Rupee vs USD



Source: Central Bank of Sri Lanka

2.7 Foreign Exchange Reserves

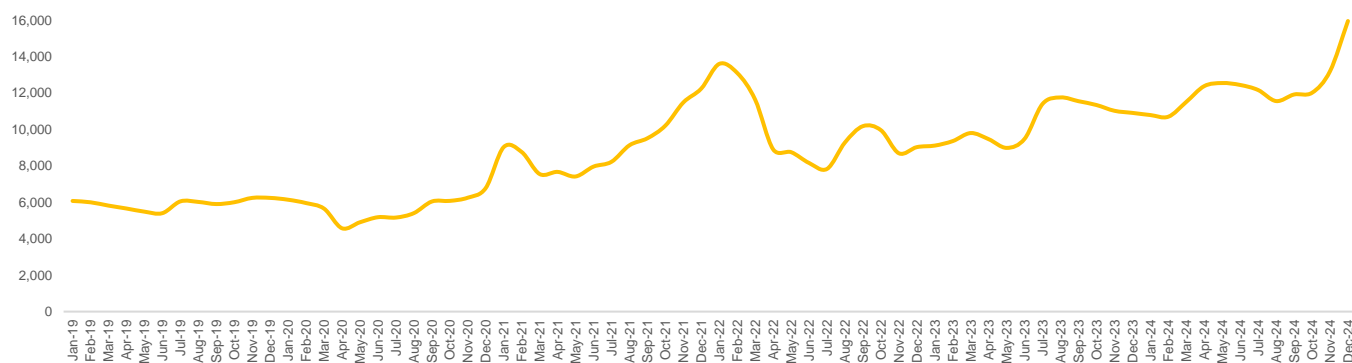
Gross foreign exchange reserves of US\$ 7-9 billion before CY2019 began to decline from 2018 due to economic conditions and external factors. Reserves further declined due to the Covid-19 pandemic’s impact on tourism, trade, and remittances. The reserves dropped to US\$ 3.1 billion in CY2021 and to a critical level of US\$ 1.9 billion in CY2022. With international aid, reserves slightly recovered in mid-CY2023 and closed CY2023 at US\$ 4.4 billion. Recovery of tourism receipts, remittances and increased inflows from development partners led to higher foreign exchange reserves of US\$ 6.5 billion at the end of Oct-24.

Earnings from tourism increased to US\$ 2.1 bn in 2023 as against US\$ 1.1 bn in 2022 recording a growth of 82% over 2022. In YTD Nov 2024 the earnings grew by 56% over the same period last year, increasing from US\$ 1.8 bn in YTD Nov 2023 to US\$ 2.8 bn in YTD Nov 24. For reference, tourism earnings were US\$ 4.4 bn in 2018 and US\$ 3.6 bn in 2019 pre COVID and before the economic crisis – this reflects the potential of the sector and the importance of this sector (with related policy support) for the overall economy of the country. Forex earnings from tourism are gradually increasing, reflecting stability and recovery in the market.

2.8 Colombo Stock Exchange

The positive revival of Sri Lanka’s economy has led to a boom in the country’s stock exchange with indices at all-time high. This is reflected in Chart 9 below.

Chart 9- ASPI Index – January 2019 to December 2024



Source: Colombo Stock Exchange; Investing.com

The strongly positive sentiment on the stock exchange is expected to aid economic policies and increased international investment into Sri Lanka’s economy.

3 Sri Lanka Tourism

3.1 Key attractions: Tourism is a major industry in Sri Lanka and has traditionally been the third-largest source of foreign exchange earnings for the country. Major attractions include UNESCO World Heritage sites such as Sigiriya, the ancient city of Anuradhapura, and the Temple of the Tooth in Kandy; wildlife reserves, led by Yala National Park with safaris featuring elephants, leopards, and various bird species. Nuwara Eliya in the mountains is surrounded by tea plantations. Different parts of the island’s coastline is popular for beaches and swimming, surfing and other activities. The country’s hospitality, distinctive cuisine, and adventure activities such as surfing and hiking make it a popular destination for international travellers.

3.2 According to WTTC Economic Impact 2023, (a) tourism sector as a whole contributed US\$ 7.4 bn (7.8%) to the national GDP in CY2023; (b) The sector is estimated to contribute US\$ 9.5 bn (9.4%) to the national GDP for CY2024; (c) the sectors GDP is projected at US\$ 18 bn for CY2034 (11.7% of then national GDP). (d) The industry provides significant direct and indirect employment, with 0.86 million jobs (10.6% of total employment) in CY2023. This is projected to increase to 1.5 million jobs (17.8% of total employment) by CY2034.

As the financial and judicial capital, many major Sri Lankan companies, such as Aitken Spence, Ceylinco Corporation, Stassen Group, John Keels Holdings, and international businesses invested in Sri Lanka have their head offices in Colombo. The Fort serves as Colombo's financial district and has the World Trade Centre (a twin-tower commercial complex with 39 floors and over 750k sft of prime office space), Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, Lanka IOC, Pearson, and Huawei. Port City Colombo (PCC) is a multi-service Special Economic Zone (SEZ) spread over 269 hectares with companies from various sectors, including IT, finance, shipping, logistics, tourism, healthcare, real estate, and professional services.

3.3 In 2023, 72% of Foreign Tourist Arrivals (FTAs) visited Sri Lanka for leisure, holidays, or to visit friends and relatives, while 10% came for business and MICE (Meetings, Incentives, Conferences, and Exhibitions), and the remaining for other purposes.

Chart 10: Foreign Tourists Arrivals (FTA) in 000’s

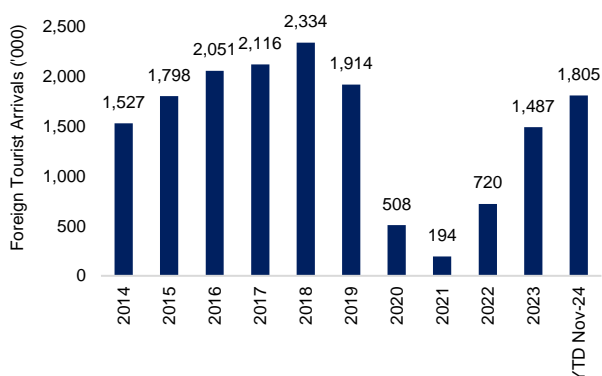
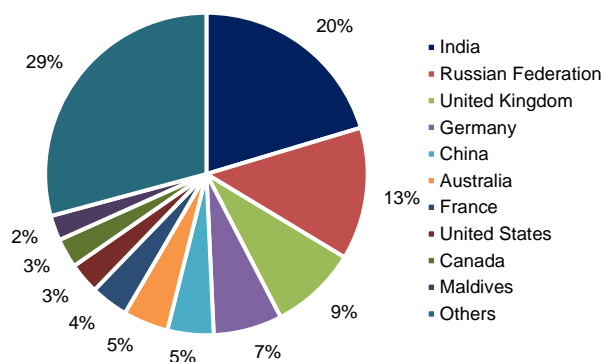


Chart 11: Tourist Arrivals- By Country (CY23)



Source: SLTDA

Comments

- In CY2023, FTA of 1.5 mn was double the arrivals in CY2022; the average length of stay was 8.4 days.
- India is the highest single contributor of tourist arrivals since CY2014 (between 16% to 20% of annual), followed by Russia (around 13% of tourists since CY2022 and +44% since CY2019).
- In CY2023, Europe accounted for 51% of total tourist arrivals reflecting the island's ability to draw long haul demand. FTA share for Asia-Pacific, America 6%, Middle East and Africa was 40%, 6% 2% and 1%, respectively.
- FTA for YTD Nov 2024 was 1.81 mn, increasing by 41% from 1.28 mn for YTD Nov-23.

3.4 According to the Sri Lanka Tourism Development Authority (SLTDA), the tourism sector employed 430k persons at end CY2023 (+11% over CY2022). Direct employment in the tourism sector as at end CY2023 increased to an all-time high of 205k employees (+7.3% over CY2022). Hotels and restaurants played a crucial role in this expansion, accounting for 81% of direct employment.

3.5 Tourism Sector – Future Government Strategies

Tourism is a strategically important industry for Sri Lanka, being the third largest export earner for the country, creating direct and indirect employment, and offering opportunities for foreign direct investments. To stimulate rapid recovery of tourist demand, Government has specified five strategic objectives under Sri Lanka Strategic Plan for Tourism 2022-2025

- Target foreign exchange earnings of US\$5 billion from tourism by CY2025
- Increase daily tourist in-country spend to US\$185- US\$ 225, from a baseline spend of US\$181 in CY 2019 and US\$158 in CY2020
- Adopt and modernise the delivery of training by re-skilling / upskilling the tourism workforce to reach 10,000 trainees per year, with the aim to train at least 30% female trainees by CY2025.
- Increase the share of tourist room nights spent in previously under-served areas from 6% to 15% by CY2025.
- All new tourist products should comply with environmental regulations by CY2024, and schemes to enhance the performance of existing assets should be implemented by CY2025.

Free Visa Program: Starting October 1, 2024, Sri Lanka introduced a free 30-day tourist visa to visitors from China, India, Indonesia, Japan, Malaysia, Russia and Thailand to boost tourism. This may be extended to other countries.

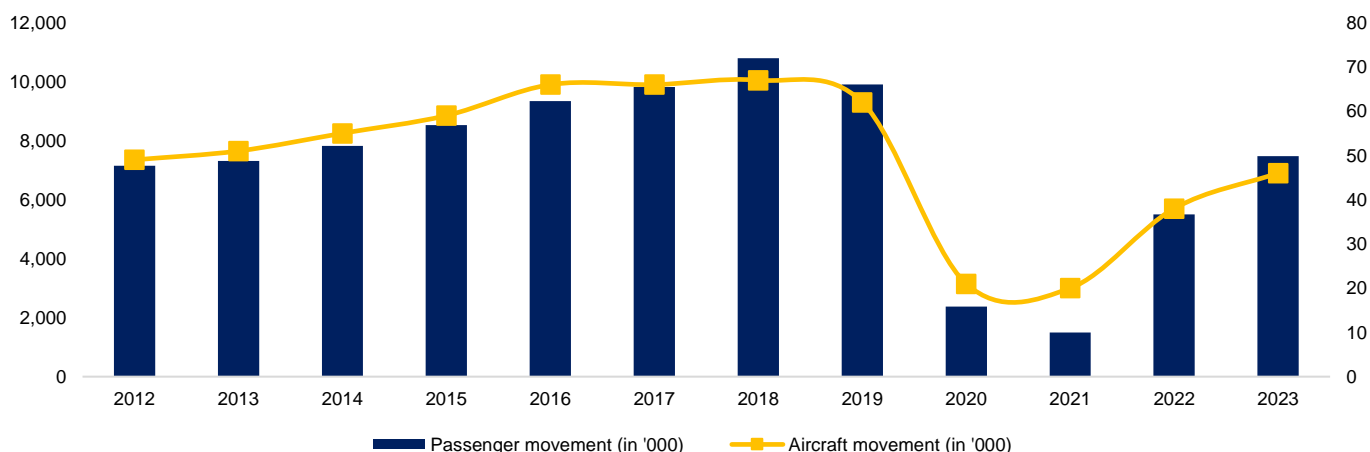
3.6 Air Connectivity and Infrastructure

Sri Lanka has four airports, including three international airports. The main international airport is the Bandaranaike International Airport (BIA) situated 33 km north of Colombo city centre. Mattala Rajapaksa International Airport in Hambantota in southern Sri Lanka and Jaffna International Airport (JAF) in Palaly in northern Sri Lanka are the other two international airports but serve limited air traffic.

BIA has capacity of handling 11.5 million passengers annually. A new terminal is being added to this airport with capacity to handed additional 9 million passengers annually. The terminal is expected to be completed in 2025. BIA serves direct flights to 60 destinations across 27 countries.

Total Passenger and aircraft movement from the Sri Lankan airports is provided in the chart below

Chart 12: Sri Lankan Airports- Passenger and Aircraft Movement



Source: Civil aviation Authority, Sri Lanka

4 Colombo Overview

Colombo, is the largest city by population and commercial capital of Sri Lanka, located on the island country's west coast, just south of the Kelani River. As an essential port in ancient maritime trading routes that linked the East and the West, Colombo has experienced the influence of various colonial powers, such as the Portuguese, the Dutch, and the British Empire. These influences can be seen in Colombo's architecture, culture, and urban landscape where colonial styles intermingle with local traditions. Following Sri Lanka's independence in 1948, Colombo emerged as the country's commercial and administrative centre.

Colombo city is spread over 37 sq km; Colombo District has an area of 685 sq km. Colombo is one of the world's largest artificial harbours making the city a key hub for Sri Lanka's foreign trade. As the economic centre of Sri Lanka, Colombo contributes significantly to the nation's GDP. The city has a diverse economy encompassing:

- a. Trade and Commerce
 - Colombo Port, among the busiest in South Asia, plays a vital role in international shipping and logistics.
 - Colombo serves as a hub for Sri Lanka's apparel and textile industry
 - Colombo serves as a centre facilitating global tea auctions for Sri Lanka which is one of the world's largest tea exporters.
- b. Finance: The city has the Colombo Stock Exchange (CSE) and major banks and financial institutions.
- c. Tourism: Colombo attracts tourists with its cultural landmarks, beaches, and modern amenities, serving as the gateway to Sri Lanka. This also enables attraction of regional and international MICE visitation.
- d. IT and Business Process Outsourcing (BPO): The IT sector, particularly in software development and outsourcing, is emerging rapidly with a growing tech ecosystem supported by accelerators, coworking spaces, and government initiatives.
- e. Other Industries: The city is the base for other industries such as real estate, chemicals, textiles, glass, cement, leather goods, furniture, and jewellery.

In terms of infrastructure, Colombo has undergone a significant transformation to enhance urban living and support its role as a regional economic centre. The city is further investing in infrastructure through a combination of public and private sector investment, to enhance the city's liveability, economic potential, and appeal as a global destination for trade and tourism. Some key infrastructural projects are summarised below:

- Expansion of Bandaranaike International Airport, aimed at increasing its passenger handling capacity to over 20 million annually, through the addition of a second terminal and upgraded facilities
- The ongoing Colombo Port City project as a centrepiece of urban and commercial development, creating a 269-hectare financial and business hub with luxury residences, offices, a world-class marina, and entertainment zones, positioning Colombo as a regional competitor to global cities like Dubai and Singapore. Colombo Port City is expected to be fully developed by 2040, encompassing approximately 6.3 mn sqm of built-up space, including housing for 273k residents.
- A prominent development in the city's leisure and entertainment landscape is the opening of City of Dreams Sri Lanka. The first phase features the opening of 687-room luxury hotel Cinnamon Life at City of Dreams in October 2024. The second phase, scheduled for completion by mid-2025, will include a casino, a shopping mall, entertainment areas, and the ultra-luxury 113 rooms Nuwa hotel.
- Additionally, other mixed-use developments such as Altair Colombo and Havelock City are reshaping the city's skyline with luxury apartments, retail malls, and office spaces. ITC offers hotel managed luxury serviced residences which is a unique product for the market.

These projects, along with smart city initiatives, sustainable urban planning and growing commercial and economic activity will make a Colombo a dynamic metropolis.

5 Colombo Demand Overview and Characteristics

The key demand drivers for hotels are:

Business Travel – Business travel is the main demand segment for Colombo hotels. It contributes to between 45% and 50% of the total demand. Travel is typically high during the winter months and it is mainly on weekdays. Business travel slows during vacation and holiday periods. Projects related demand, for the Port City and other potential developments, would create an element of long-stay demand that would seek serviced apartments, where available.

MICE – Demand from MICE segment accounts for about 10% to 15% of the overall demand. MICE demand comprises corporate, government, institution and association events (conventions, conferences, retreats, incentives, promotions, training programs, customer-facing events, staff events etc). Colombo has two convention and exhibition centres aggregating 140k sft. A convention centre under development in Port City will likely be the largest facility for Colombo, expected to be ready in mid to late 2030s decade. Newer luxury hotels have sizeable function spaces to support conferences and events that are often drawn to Colombo and Sri Lanka. Availability of such facilities enables hosting diverse events in the city. Sri Lanka also attracts some sports related events and travel which will attract stay demand at upper tier hotels for the travelling teams and support staff; the city also benefits from fans-based demand for sports events.

Leisure Travel – Colombo is the primary source of entry into Sri Lanka for international travellers. Therefore, it becomes an important transit base for visitors to the country, even for persons primarily headed to the beaches and other attractions. The city's inherent attractions, including its heritage, cuisine and casinos, will serve to support a longer stay particularly as high quality international hotels are increasingly available.

Weddings and Social Demand – This segment comprises destination weddings and other social / celebratory events, as well as substantial use of hotels for weddings and social events for locally sourced events. Sri Lanka is an attractive and more economic destination for weddings, particularly for the Indian market – thus Sri Lanka is increasingly marketing itself as a weddings destination. ITC relationships with wedding planners in India will benefit ITC Ratnadipa to capture this demand.

Diplomatic Travel – Colombo serves stay and events related demand from international diplomatic visitors, including Government leaders and representatives of other countries, often accompanied by trade delegations, and diplomats.

Airline Crew – Crew demand in Colombo is currently limited, as most flights are by regional airlines and are operated as turnaround flights. Limited crew demand would prefer staying at Negombo, closer to the airport. Besides, crew demand gets curtailed by minimum room rate requirement in Colombo that makes the hotels more expensive for crew.

6 Colombo Supply Overview

6.1 Colombo Hotel Inventory

6.1.1 Hotels Registered with SLTDA

The analysis of hotel supply principally deals with accommodation facilities that are registered as “classified tourist hotels” with Sri Lanka Tourism Development Authority.

This report generally does not cover accommodation facilities not registered as bungalows, camping sites, boutique hotels, heritage bungalows etc or unregistered hotels except to the extent that some unregistered hotels may have participated in collection of any reported data.

6.1.2 Chain-Affiliated Hotels

These are hotels that are either (i) owned and operated by hotel chains, (ii) operated by hotel chains on behalf of other owners or (iii) operated under franchise from hotel chains. For this purpose, all recognised international chains operating in Sri Lanka and domestic hotel chains that are generally considered as operating under common branding have been included.

6.2 Segment Classification

6.2.1 The hotels are segmented into the Luxury, Upper Upscale and Upscale Segment, and Midscale-Economy Segment. The hotels also offer additional facilities such as restaurants, bars, and function facilities for meetings and events, varying for each hotel. Each segment includes entry-level hotels in that segment besides hotels that are more fully of segment standards. These industry terms used for classifying, categorising and segmenting hotels are explained below.

- **Luxury Segment** typically comprise top end hotels with brand standards, facilities, spaces and standards that are associated with expectations of luxury seeking clientele; in India, these are generally classified as deluxe and luxury hotels. Several brands classify themselves as luxury hotel brands, based on certain criteria (e.g. room size) without having the service standards and consistent guest profile typically associated with true luxury hotels.
- **Upper Upscale & Upscale Segment** (Upper Ups & Ups) comprises first-class hotels and hotels that are moderately positioned and priced compared to first class hotels. These hotels are generally classified as 5 star or 4 star hotels. These hotels offer superior standards, amenities and services though not at a level that affords the exclusivity associated with luxury hotels.
- **Midscale-Economy Segment** - 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 upper upscale & upscale segment. It also includes hotels providing functional accommodation and limited services, being focussed on price consciousness. These would generally be classified as 3 star or 2-star hotels.

In this Report reference to Upper Tier Segments will mean Luxury and Upper Upscale & Upscale Segments.

In respect of hotels / resorts not participating in CoStar reporting, classification is made as follows:

- If the management company / brand represents a hotel chain that is otherwise classified by CoStar, such classification has been used.
- In other cases, classification is made based on review of general pricing offered by these resorts and the general price range expected to be applicable to the various hotel segments.

6.3 Focus Segments and Markets

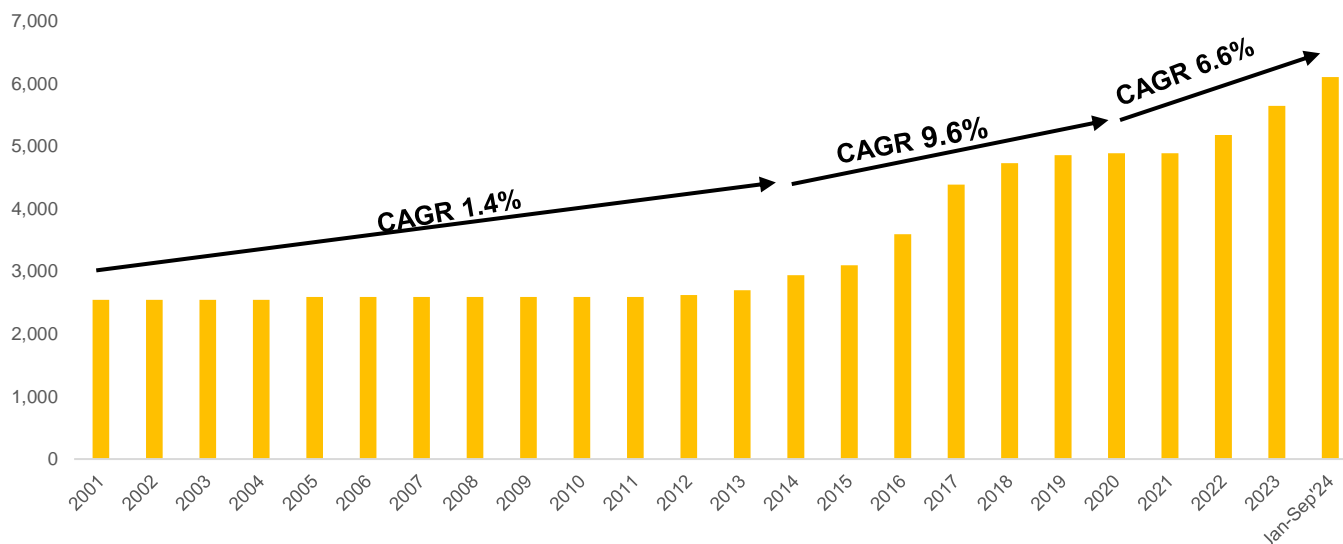
6.3.1 This report focuses on the luxury segments for Colombo, in which ITC owns and operates a 352 room hotel. The hotel opened in April 2024 and 250 rooms have become operational by September 2024. The remaining 102 rooms are expected to be operational in Q4-FY25.

6.3.2 In this report, Compound Annual Growth Rate (CAGR) between a financial year (start year) and another financial year (end year) is calculated from 31 March of the start year to 31 March of the end year, unless a different set of dates is indicated for any specific item.

6.4 Colombo - Overall Supply

As at end YTD-Sep24, Colombo had 6.1k hotel rooms registered with SLTDA. Inventory has grown at 6% CAGR since 2010. Chart 10 below reflects overall supply in Colombo.

Chart 13: Colombo Hotel Rooms Supply



Source: Horwath HTL

Only 553 rooms were added between CY2001 and CY2015. Supply creation picked up after civil unrest ended in 2009. 1.8k rooms were added in five years from CY2016 to CY2020, at 9.6% CAGR. Further 1.2k rooms have been added between CY2021 and YTD Sep-24.

Cinnamon Life (687 room) and Amari (169 room) opened in Q4-CY2024.

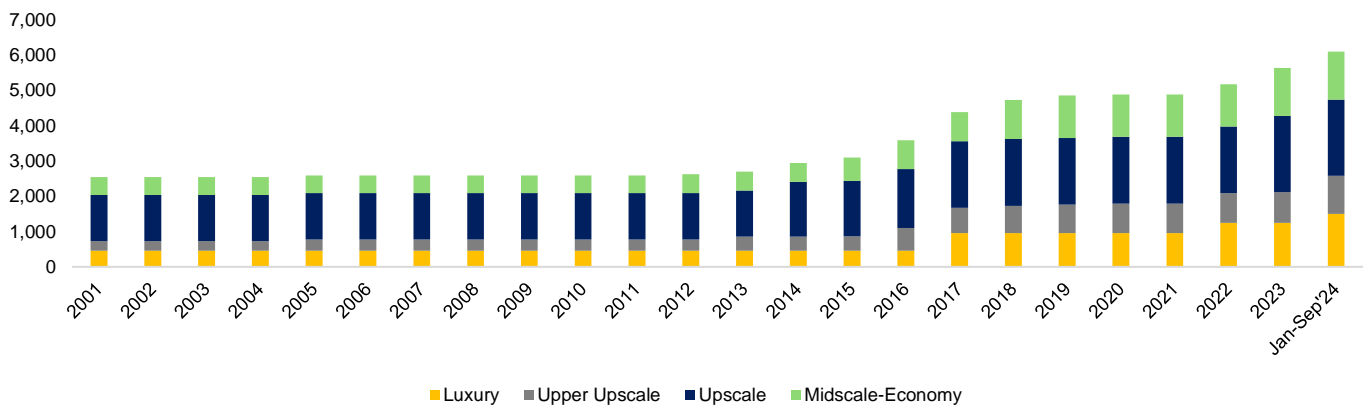
Of the overall supply 60% of supply is chain-affiliated and 40% is independent. In the luxury segment 70% is chain-affiliated and 30% is independent.

Pipeline for Colombo upper tier hotels includes 113-room hotel in the Cinnamon Life complex and 102 rooms at ITC Ratnadipa. The long-standing Grand Hyatt project remains uncertain of implementation even in the long-term.

6.5 Colombo – Supply Segmentation

In this section we have provided segmental supply for Colombo. Chart 11 below reflects overall supply in Colombo.

Chart 14: Colombo Hotel Rooms Supply



Source: Horwath HTL

Supply composition has evolved materially since 2001. In 2001, upscale segment had nearly 50% supply share; luxury and upper upscale hotels together comprised 29% - most of those hotels are old and not truly competitive with the new modern hotels

The segmental composition was almost similar till 2015. After 2015, the segmental supply has evolved with Upscale hotels having one-third share as of YTD Sep-24. Segmental share of luxury and upper upscale hotels has increased to 43%.

Evolution of supply share by segments is provided in the table below

Table 1: Colombo hotels- Supply Share by Segment

Category	FY10	FY15	FY20	YTD Sep24	CAGR FY10- 15	CAGR FY15- 20	CAGR FY20- YTD Sep24	CAGR FY15- YTD Sep24
Luxury	0.5	0.5	1.0	1.5	-	16.0%	13.7%	15.0%
Upper Upscale & Upscale	1.6	2.0	2.7	3.2	3.9%	6.7%	5.0%	6.0%
Midscale-Economy	0.5	0.7	1.2	1.4	5.7%	12.7%	3.7%	8.9%
Total	2.6	3.1	4.9	6.1	3.6%	9.6%	6.6%	8.3%
% of Total								
Luxury	17.6%	14.7%	19.6%	24.5%				
Upper Upscale & Upscale	63.0%	63.9%	55.9%	53.1%				
Midscale-Economy	19.4%	21.4%	24.6%	22.4%				

Source: Horwath HTL

Luxury segment share has increased from 17.6% in FY10 to 24.5% for YTD Sep-24. Of the existing luxury segment supply Shangri-La, IHCL and ITC have 33%, 20% and 17% share respectively.

7 Colombo Performance Analysis

7.1 Performance Analysis

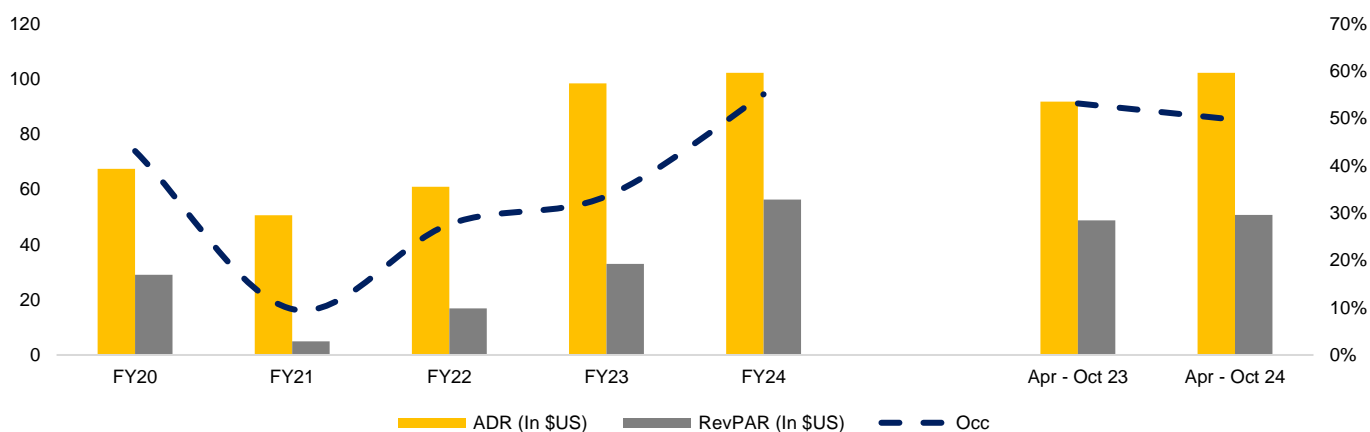
In this section we provide an analysis of the performance of hotels for Colombo Market. Data is presented for the full market (comprising hotels across all positionings). Data availability varies based on extent of participation by hotels.

Chart 15 shows performance of Colombo Market hotels participating with CoStar.

Occupancy for FY24 was at 55% with ADR at US\$ 102.⁷ Demand has increased at 8.8% CAGR between FY20 and FY24.

Occupancy for YTD-Oct-24 was at 50% at ADR of US\$ 102. While occupancy was about 3 points lower than YTD Oct-23, demand was higher by 100 rooms per day and market-wide ADR increase by US\$ 10 resulting in 4% RevPAR growth.⁸

Chart 15: Colombo Performance

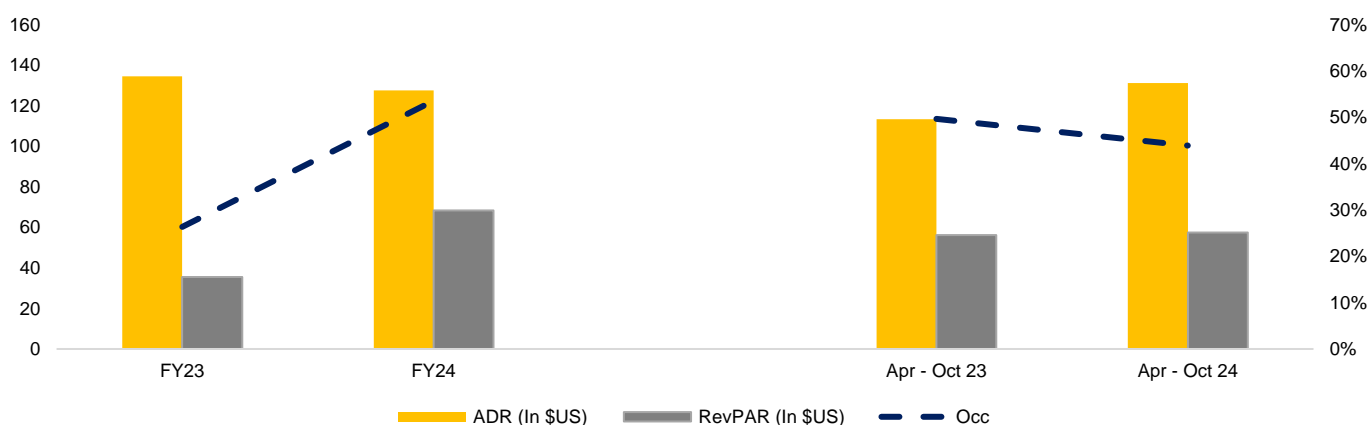


Source: CoStar

Chart 16 shows performance of Colombo Luxury Segment hotels participating with CoStar.

Occupancy for FY24 was at 54% with ADR at US\$ 127 about 24% higher than Colombo market ADR.⁹

Chart 16: Colombo Luxury Segment Performance



Source: CoStar

⁷ CoStar

⁸ CoStar

⁹ CoStar

FY24 compares very favourably with FY23, with over 90% RevPAR growth. Occupancy for FY24 was more than twice that for FY23.¹⁰

While the Occupancy statistic for Apr-Oct 2024 reflects a decline to 44% (compared to the same period for 2023), demand has actually grown by 10.6%, adding about 73 rooms per day. New luxury supply has also enabled ADR to increase from US\$ 113 to US\$ 131.¹¹ The statistical decline of Occupancy is a function of new supply creation.

8 Potential risk factors to the hospitality industry

1. Reputation Risk

The reputation of a hotel is critical to its success. Such reputation is built by the product quality, location and appeal, range and quality of food & beverage offerings, quality of function spaces and the branding of the hotel. Service is critical to building a strong reputation. Reputation damage could occur if health and safety norms are not adequately complied with and implemented.

2. Demand Risk

The discretionary nature of hotel demand can impact demand volumes, profile and pricing due to factors such as economic slowdown; new competitive supply or loss of product quality. Seasonality aspects could also have a material impact on demand, particularly if any challenges occur during high season periods for a destination.

Demand is also impacted by business conditions and economic policies, particularly for city hotels that are materially dependent upon business travellers.

3. Competition Risk

Material new supply created in a market or micro market within a concentrated timespan, can impact occupancy and pricing unless there is ready latent demand to absorb the new supply. On the other hand, development of a new demand driver such as a casino, or serviced apartments in a market with projects related demand could create better visibility for the sector. This is particularly relevant while a market is recovering from an economic downturn.

4. Economic Risk

Business conditions for hotels can be impacted by the overall economic situation in the country/ city or in key source markets. A slow, stagnant or declining economy creates demand and pricing pressure, while a growing economy with positive sentiment helps to lift demand, pricing and spends. Economic risks would also arise from foreign currency reserves and create foreign currency risks; on the other hand, a foreign exchange earning sector such as tourism will be encouraged and incentivised to do more business in the face of a foreign currency reserves crisis. Potential challenges are substantial due to the fiscal and external vulnerabilities, along with significant risks stemming from prolonged or insufficient debt restructuring, policy instability, and the medium-term impacts of the economic crisis in Sri Lanka.

5. Health and Security Risk

Health and or security factors affecting a destination, destination country, or key source markets can negatively impact demand. This was seen during the Covid pandemic or in certain Asian markets during the SAARS epidemic, or when terror attacks occurred in Mumbai and New York in 2008 and 2001 respectively. Recovery from health and security concerns depends on the cause but generally remains robust if the destination market is a key market.

6. Source Market Concentration Risk

Source market economic issues can impact demand and revenues in a destination particularly if there is substantial demand concentration and reliance upon a particular source market which is suffering an economic downturn. Substantial demand concentration or reliance upon specific source markets can impact demand and revenues, if one or more of such source market suffers from demand risks on account of economic, health or security issues.

¹⁰ CoStar

¹¹ CoStar

7. Digital Security and Data Privacy Risk

Substantial use of the digital medium for sales and marketing, and the collection, use and storage of guest personal data creates the risk of data breach which could affect operating systems and operations, as well as compliance with data privacy laws and regulations. In turn, this can expose hotel companies, including managed hotels, to liability under international and domestic laws and regulations. Further, hotel companies that do not have a robust digital platform can suffer competitive disadvantage.

8. Human Resources Risk

The hotel sector is materially subject to Human Resources (HR) risk as regards availability of a sufficiently large pool of managers and employees with relevant skills and experience to meet staffing needs of a rapidly growing industry, higher competitive costs for personnel, and high attrition levels due to demand for trained hotel staff across various service sectors.

9. Operating Margin Risk

Operating margins can come under pressure due to decline in revenue (quantum and or rate based) and increase in costs. Cost increases are not always immediately controllable, particularly fixed cost elements towards various utilities, payroll costs with increases amidst competition, increasing input costs towards F&B and other supplies. Sales costs can vary depending upon sales channels used and the strength of operator's sales channels through its loyalty programs and digital or other systems. Greater ability of a hotel to reduce its fixed cost would prove beneficial in managing operating margins.

10. Compliance Risk

Substantially increased compliance requirements results in greater risk of compliance failure and in added compliance costs which have effect on operating margins. Variances in compliance needs across different states in India add to the risks levels and to compliance cost.

11. Third Party Risk

The changing business ecosystem with increased outsourcing of various functions and sharper procurement timelines create newer third-party risk for hotels and asset portfolios.

12. Debt Service Risk

Debt stress can arise due to development and implementation challenges for hotels, or from overly leveraged hotels or lack of demand growth or penetration to the extent anticipated thereby causing inadequate funds availability for debt service. Debt service obligations can pile up quite rapidly if allowed to persist, impacting the hotel asset and service quality, performance and competitiveness.

13. Asset Impairment Risk

Lack of suitable care in the upkeep, renovation and upgrade of individual hotel assets from time to time can impact the hotel's competitive positioning and capability and thereby impact its earnings. As a cyclical consequence, this can further reduce funds availability for reinvestment in improving the asset and to overcome asset quality impairment.

14. Climate Change Risk

Climate change factors can have material bearing on hotels in terms of changing business seasons, impact of global warming, increased operating costs due to need for additional air-conditioning and or lack of water, reduced demand due to high temperatures flooding and landslides (these can even restrict access) and higher cost of operation to comply with sustainability needs and expectations which may be regulatory and / or competitive in nature.