



Horwath HTL™

Hotel, Tourism and Leisure

Hotel Sentiment Survey 2020 (Impact of COVID-19)

**April 2020
India**

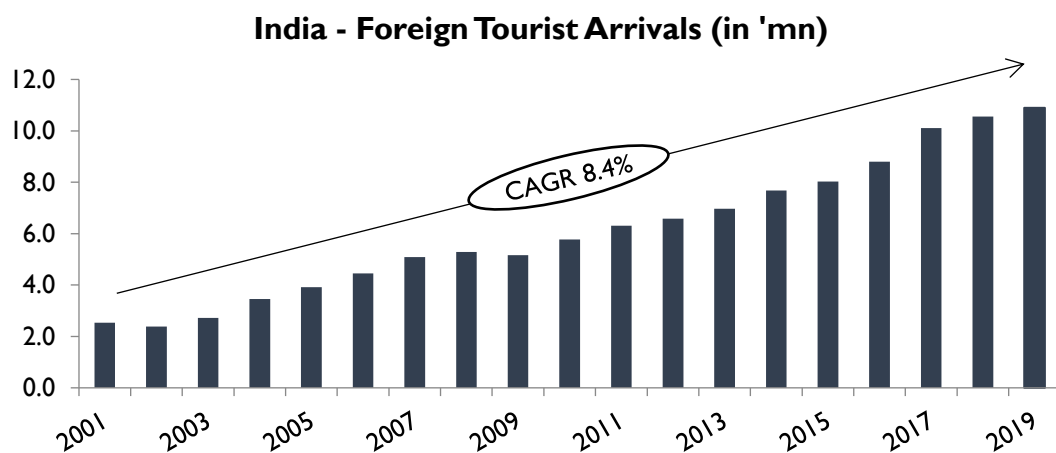
INTRODUCTION

As we entered the national lockdown last week, the effect of the global pandemic on India's hotel sector became even more severe. We were already struggling with limitations arising from increasing visa restrictions from 10 March 2020, and the cancellation of all international flights from 20 March. Some cities went into lock-down mode from 21 March. Undoubtedly, these steps have been essential to control the virus spread and give the nation a chance of a less severe impact and less arduous recovery.

The impact on the hotel sector, and the entire travel sector, has been massive. Closed hotels means idle staff, direct impact on revenues, earnings and cash flows, debt service challenges, and stalled projects. The hotel sector creates a huge multiplier benefit through indirect employment – that reverses sharply when hotels are shut and there is no purchase of goods or services, when there is no sale to be made. The most difficult aspect is the unknown and the fear of the unknown – not any of us know for certain when this will cease and how long and deep this will hurt us.

Horwath HTL therefore conducted a sentiment survey among the industry to understand the depth of the crisis, the mitigating measures applied to limit the fallout and the areas requiring supportive measures. This assessment is provided herein.

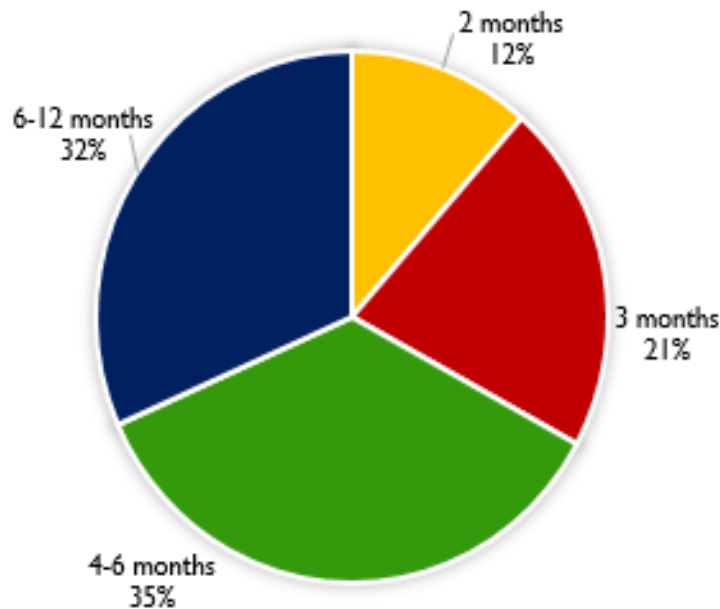
INDIA HISTORICAL INTERNATIONAL VISITOR ARRIVALS



Source: Ministry of Tourism, India

Foreign Tourist Arrivals are an important element for the nation's economy and hotel sector; the pace of growth has slackened in the last two years. Numbers will decline substantially through 2020 as cross border travel will remain (and must remain) severely monitored over the next quarter, and maybe longer.

Question: Based on the current situation, for how long do you assess the influence of COVID-19 outbreak to continue on the hotel's operating performance?

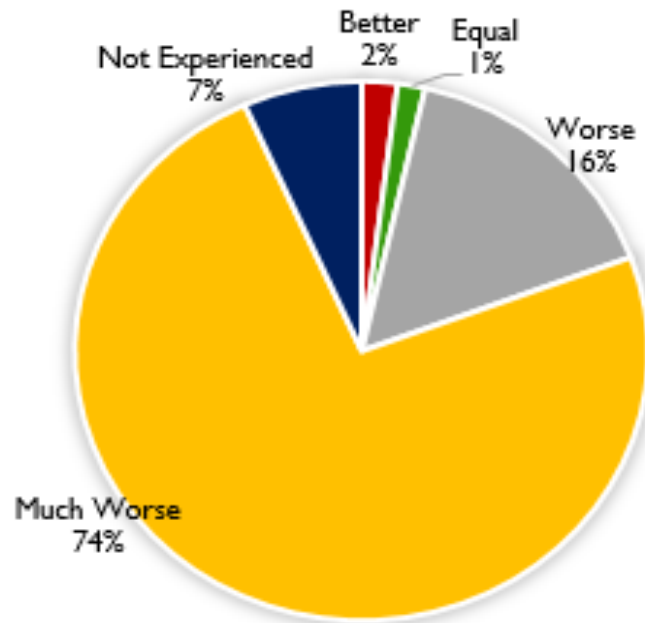


Source: Horwath HTL

It is heartening to see that at least a third of the respondents expect the influence to last only for a quarter; what is equally worrisome is that another one-third see the impact lasting through 2020 and possibly into Q1 of 2021.

We will soon enter a traditionally slower business period, in Q2 2020 and more so in Q3 2020. That may have influenced the thinking of 35% respondents who see the impact being over a 4-6 months period.

Question: How do you assess the influence of COVID-19 outbreak on hotel market performance, compared to other unforeseen situations e.g. SARS 2003, Global Financial Crisis 2008, Mumbai Terror Attacks 2008?



Source: Horwath HTL

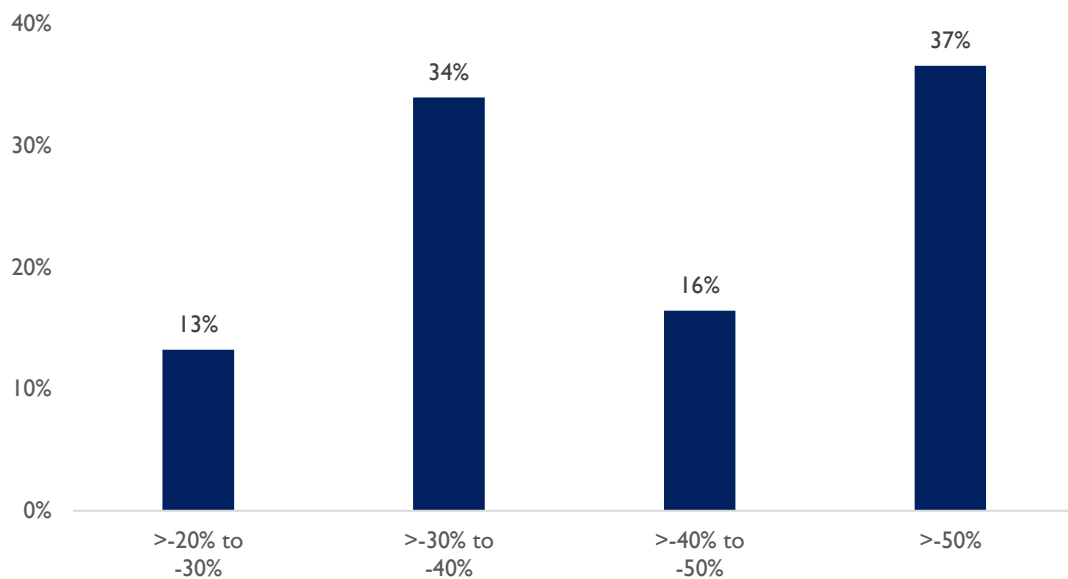
74% of the respondents think the impact will be much worse than the previous unforeseen situations (SARS, global financial crisis of 2008, and Mumbai terror attacks – partly because we didn't suffer much from SARS 2003 and it was at a time when the hotel sector in India was still quite soft); a similar survey by Horwath HTL in Singapore had 55% of respondents reflecting the 'much worse' sentiment. 7% respondents have said they have not experienced this before.

The current crisis is significantly more severe due to sheer global sweep – G20 nations are impacted in unprecedented, and wholly unexpected ways.

Interestingly, 2% of respondents see the influence as being Better – clearly something to learn here.

PERFORMANCE EXPECTATIONS

Question: Considering the influence of COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in Occupancy in H1-20 (Jan-Jun) vs H1-19?

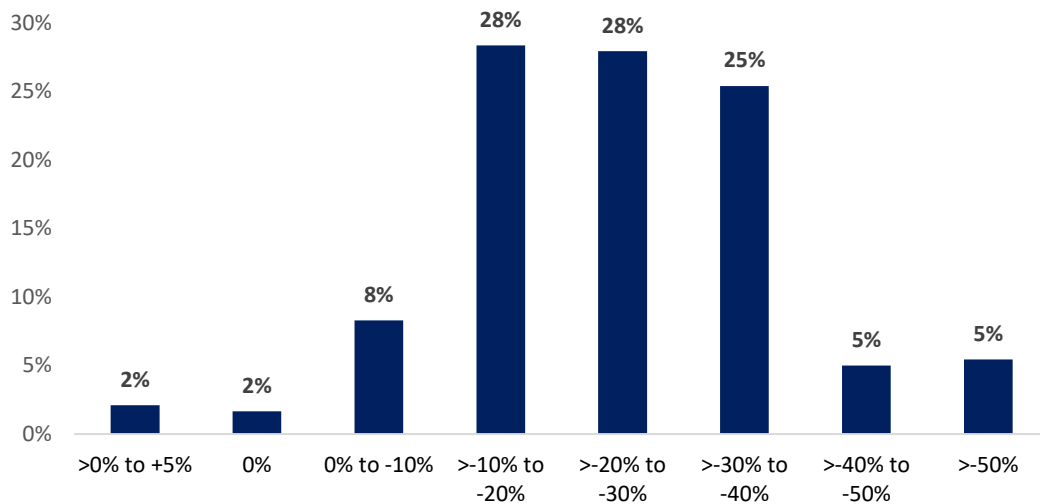


Source: Horwath HTL

87% believe that the occupancy impact for H1-20 will be greater than 30% decline, compared to H1-19; 37% respondents see the impact as being over 50%.

Most hotels had a buoyant Jan and Feb 20, though the impact on travel from China, Far East, Singapore and Hong Kong had started filtering through in Feb 20. A wash-out in March is never good; but then March 2019 also ended slowly after elections were called. We believe that the material assessment of impact being over 50% is tied to uncertainty over the timing and pace of removal of lockdown – and the likely hesitation of people to travel. Hopefully, a 3 week lockdown (and longer for some who voluntarily adopted WFH from the week of 16 March) will encourage people to seek a change of place, to the benefit of hotels and resorts (in driving distance) – even staycations, maybe.

Question: Considering the influence of COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in ADR in H1-20 (Jan-Jun) vs H1-19?



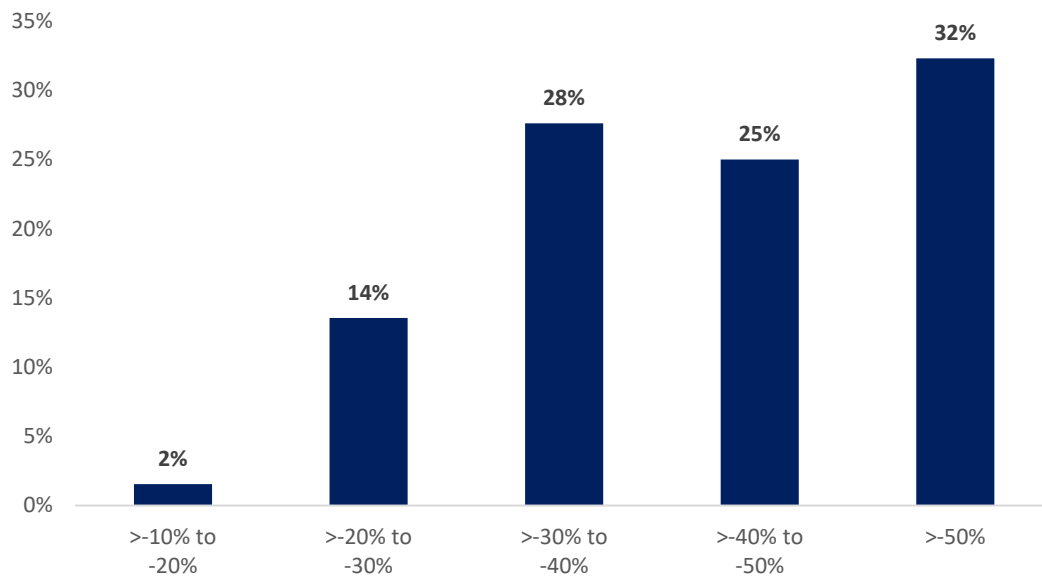
Source: Horwath HTL

56% respondents expect ADR decline of between 10% to 30%; 25% expect ADR decline to extend to 40%. 8% believe the impact will be rather limited, while another 10% believe that the impact will be very severe, wiping out more than 40% of ADR.

There is no clear trend on rate impact between hotels at different operating segments; if anything, some resorts are expecting a more severe impact.

It would seem that the hotels are expecting occupancy to be hit irrespective of rates offered; in other words, heavily discounted rates may not spur occupancy. This seems generally reasonable although case by case variations would likely occur as businesses seek to house critical employees at hotels closer to place of work.

Question: Considering the influence of COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in Total Revenue in H1-20 (Jan-Jun) vs H1-19?



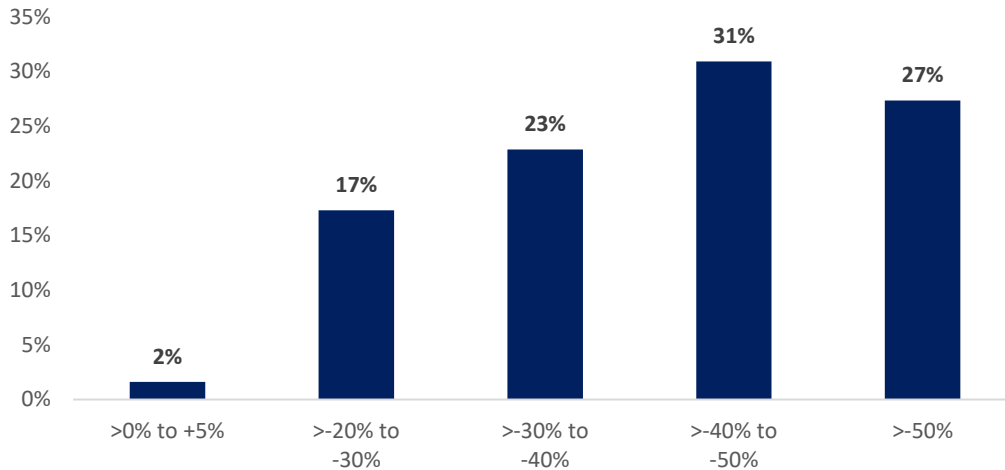
Source: Horwath HTL

32% respondents foresee over 50% decline in Total Revenue; this grows to 57% for Total Revenue drop exceeding 40% and it further grows to 85% respondents expecting Total Revenue to drop by over 30%.

The weighted average drop in Total Revenue, among these three categories alone, is placed at about 37%.

That will pretty much wipe up any GOP, and likely cause Gross Operating Loss.

Question: Considering the influence of COVID-19 outbreak, for your hotel, what is your expectation for percentage growth/decline in Total F&B Revenue in H1-20 (Jan-Jun) vs H1-19?



Source: Horwath HTL

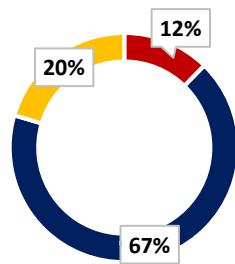
Restaurants closed, Banqueting closed; no crowds allowed, no 'Big-fat weddings' in the upcoming wedding season – the expectation of F&B Revenue drop is to be expected. Even when hotels re-open, restaurants will need to handle crowds with care adhering to norms such that there is no crowding.

ROAD TO RECOVERY

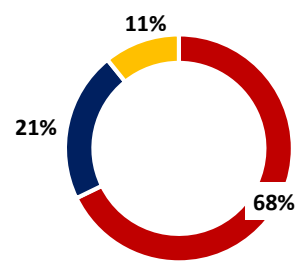
Question: How are each of the major demand segments expected to recover, once the COVID-19 outbreak is over?

■ Unlikely to recover ■ At same levels as pre COVID-19 ■ Better Than pre COVID-19

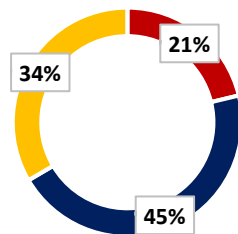
Domestic Business Travel



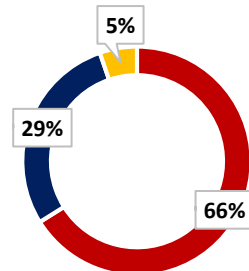
Foreign Business Travel



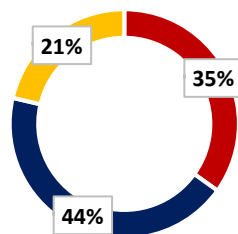
Domestic Leisure Travel



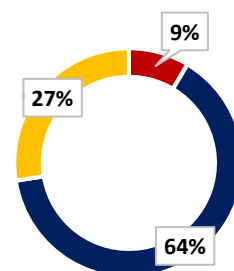
Foreign Leisure Travel



MICE Conference



MICE Weddings



Source: Horwath HTL

India is fortunate to have a large **domestic travel** base – for business and leisure. And domestic leisure travel will expand (as a segment) in 2020, with foreign destinations being shut down. If IPL 2020 is held, some host hotels will clearly benefit from the direct demand it creates from team stays.

Two-thirds of respondents don't expect **foreign leisure** to revive in 2020; this is a realistic expectation due to the health travails in Europe and USA, and the economic impact these will have on demand generator markets.

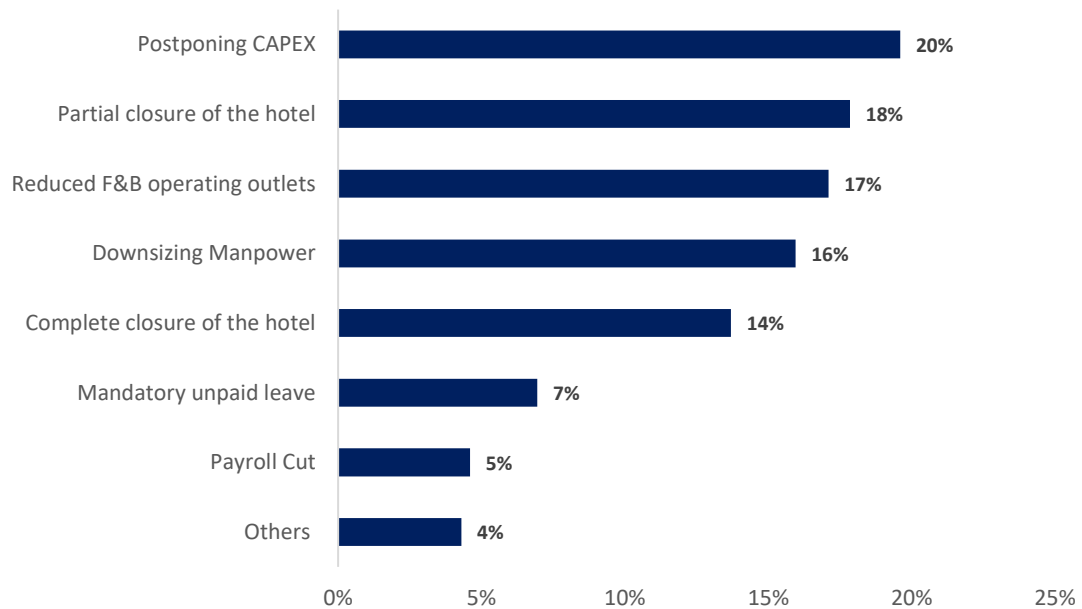
With travel agents and tour operators having taken massive hits in Europe and several other markets, we will even need to devise alternative sales and marketing mechanisms for the future in order to attract sustained business.

68% of respondents do not expect **foreign business travel** to recover to pre-COVID levels in 2020; this sentiment is presently rational, given the depth of crisis in Europe and USA. A lot will depend upon opening up of travel from Japan, Korea, Taiwan, HK and Singapore.

The **MICE** segment reflects reasonably strong revival confidence, with 44% of the respondents expecting same level of business, and 21% even expecting a growth; but large international events will be off the charts for most of the year (IHIF and MIPIM have been postponed to 2021) - so that does support 35% of respondents expecting a slower business level for MICE.

There is a huge positivity about **Weddings**, possibly acting to uplift the mood with celebration. A lot of this revival will depend upon the pace with which large group events are permitted; if the May wedding season is lost then things may be harder. Expectations may also be dampened by the fact that inbound travel – NRI weddings, foreign guests and the like will possibly be restricted through at least end June.

Question: What cost control measures has your property implemented?



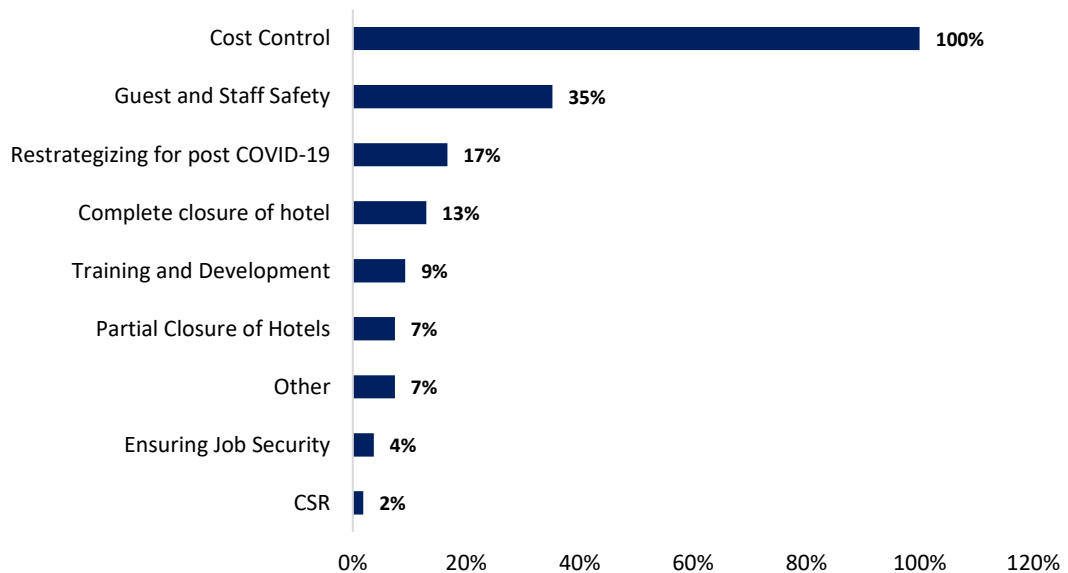
Source: Horwath HTL

Postponing Capex, and partial closures (of the hotel or of multiple F&B outlets) stand out as the main action steps – these are expected and sensible.

Number 4 on the priority list was manpower downsizing – an unfortunate occurrence, but reluctantly inevitable under certain circumstances. Payroll cuts are yet limited – however, if the shutdown were to prolong, this element will gain rapid momentum.

We have to expect a significant change in the supply pipeline – projects being shelved by distressed owners, or with delayed implementation. This should auger well for operating hotels in the medium term. It is also unfortunately likely that some hotels will not re-open.

Question: How do you see the hotels tackling the COVID-19 situation within the immediate term?

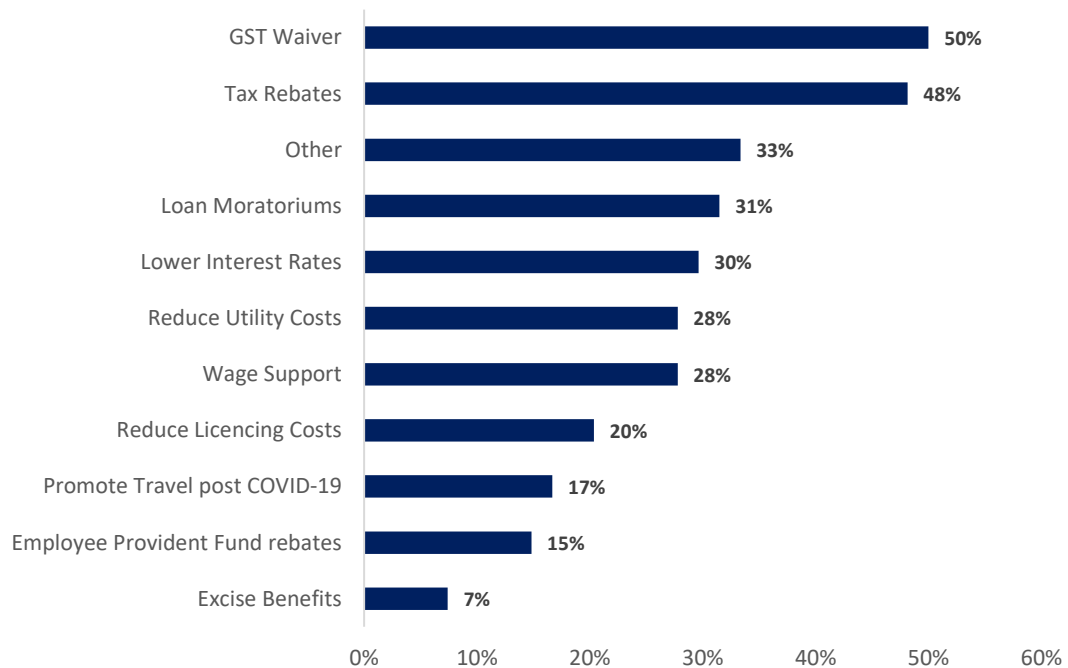


Source: Horwath HTL

These are excellent responses – cost control is the first and inevitable element that kicks into every business. Several states have adjusted their power tariffs and billing basis, and that is a big positive. The insistence on paying full wages, and no retrenchment, is also a noble approach – but has not been backed by any financial support from the government; not even the deferment of GST dues. The low priority accorded by the industry to the objective of Ensuring Job Security should be a pointer to the government, for the need to provide relief and support – job security cannot be achieved through executive fiat.

Strong importance attached to Guest and Staff Safety is also very commendable – this aspect has come ahead of business issues, of cash flow issues.

Question: What do you expect government to provide/help for your industry during this situation?



Source: Horwath HTL

Some countries have given subsidies to the hotel sector; some have permitted large lay-offs adding to unemployment. A relief package is yet awaited in India.

Representations have been made; the case presented with the potential impact – but the outcome is not known.

Taxes, debt and wage support are the top three elements identified as the items that need to be addressed. These have the highest impact on cash flows and divert resources from business survival / regeneration measures. Business closures are not in the national interest but will become inevitable as business is stagnant or slow during or after the shutdown.

Debt defaults are an ownership issue – yes, to a point. But if handled without planning these will become a problem of the banking sector as well, particularly when several hotels are in default. Even a business-like approach by the government would suggest the need for deferments, waivers, reductions and restructuring of debt arrangements – for business and valuations to recoup and regenerate, for assets to sustain.

CLOSING STATEMENT

While the fact of pain from this crisis is a certainty, so too is the fact that there will be a recovery. The industry has provided its outlook, and as business leaders and hotel managers expectation of gradual recovery is a realistic and sensible approach – we think and hope that the pace of recovery may be somewhat quicker (at least in some pockets) and at least to the levels where operating cash break-even (before debt service) is achieved. That can help safeguard employment, if the sword of debt service is temporarily lifted.

On the other hand, several hotels will find it hard to survive the shutdown and even a three month slow period – this will inevitably lead to job losses and defaults. The sentiment can be turned into positivity by timely and effective support from the government and RBI; that would auger well for the long term health of the sector and wealth of the nation.



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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.

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