INDIAN HOSPITALITY INDUSTRY OVERVIEW

June 30, 2023

For internal purposes only, subject to the completion of our final report – not to be published or disclosed.

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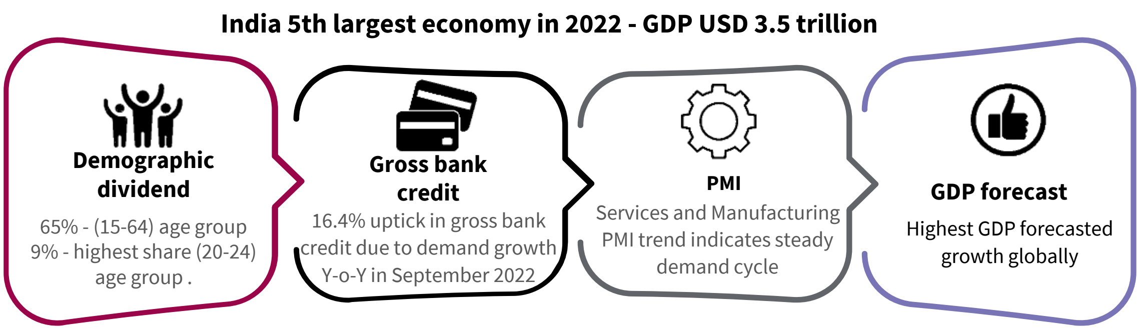
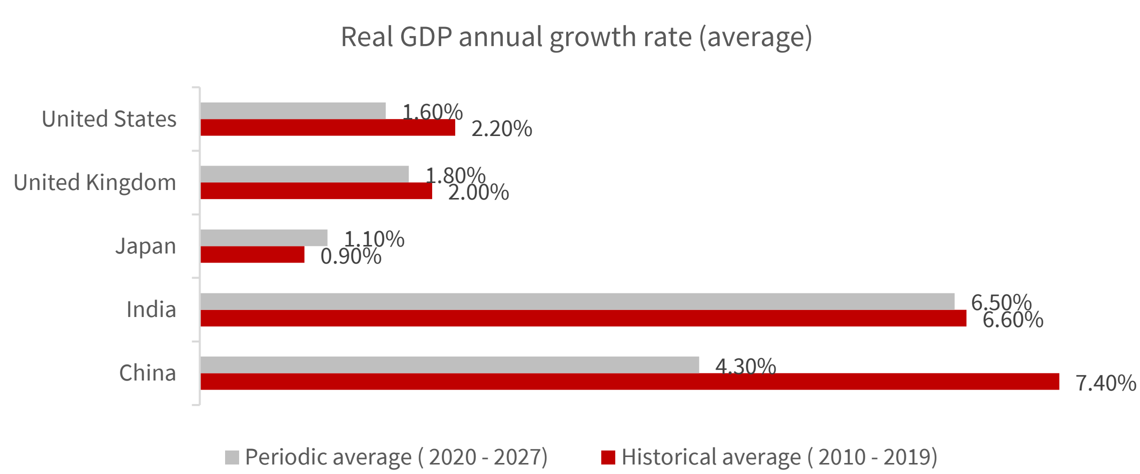
Robust Recovery and Strong growth fundamentals ahead

Table 01: India's Growth Trajectory



The Indian economy has made rapid strides to now become the fifth largest economy in the world with a GDP of USD 3.5 trillion. The economy has made a sharp recovery in the post-pandemic period with most of the leading indicators now clearly deep in the recovery upcycle. The country's demographic dividend continues to give it the requisite young working population relevant for enhancing economic output across growth industries and giving the country the edge in its technology and innovation journey. The strong domestic demand fundamentals from its large middle-class base and access to cheaper credit in recent times has also resulted in an uptick of gross bank credit which signifies increasing capital investments. Key leading indicators like the Purchasing Managers' Index for both services and manufacturing are also in the expansion phase.

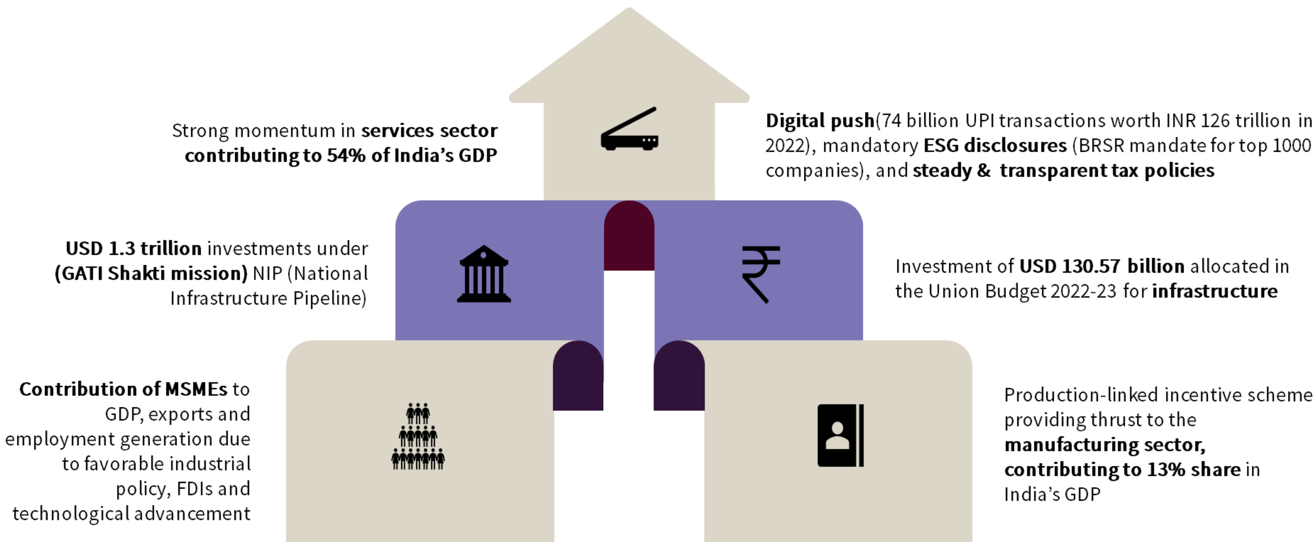
Table 2: Real GDP Annual Growth Rate (Average)



Source: International Monetary Fund

As the global economy has opened up post the COVID-19 pandemic, rising demand and supply chain disruptions have caused a rise in inflation. India has not been left untouched and saw its consumer price index levels rise and stay consistently above the RBI's target band of 4% +/- 2% through 2022, which ultimately saw a reversal in India's monetary policy towards a hike in interest rates. Some moderation toward the end of the year is likely to provide headroom for slower growth in interest rate hikes and thus support growth. The industrial production index which had picked up as well was also impacted by slowing global demand and rising costs and declined during the same time period in 2022.

Table 3: Drivers for Economic Growth

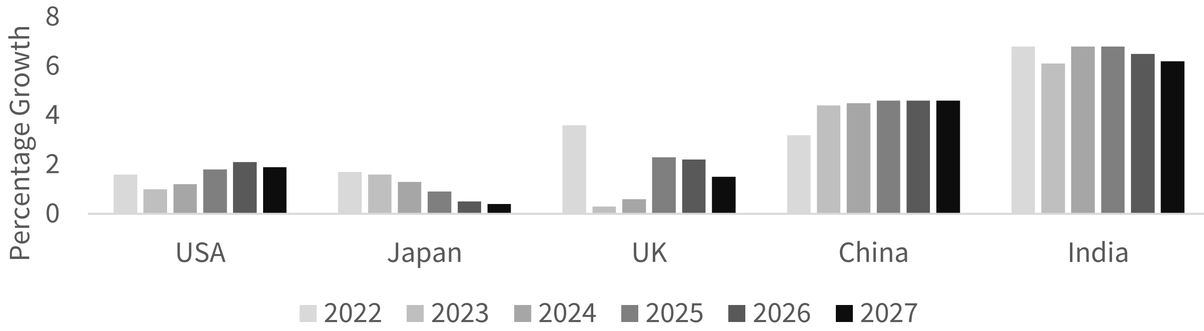


Source: RBI, India Union Budget, Economic Survey, National Payments Corporation of India (NPCI)

India has the highest GDP forecasted growth globally

Over the next decade, we expect India to follow China's growth trajectory navigated in 2007 on back of improving export competitiveness along with existing robust services export. India's central bank has retained its GDP forecasts at 7.2 percent despite the current global headwinds and inflationary pressures. While the higher oil prices and elevated inflation due to supply chain issues are likely to prolong recovery, fundamentals for the Indian economy remain strong. Key policy measures with a sustained focus on making India a manufacturing and innovation hub have now put India firmly on the path of being the fastest growing economy globally for the next 5-year period compared to other leading economies.

Table 4: GDP Growth Forecasts for Key Countries



Source: International Monetary Fund

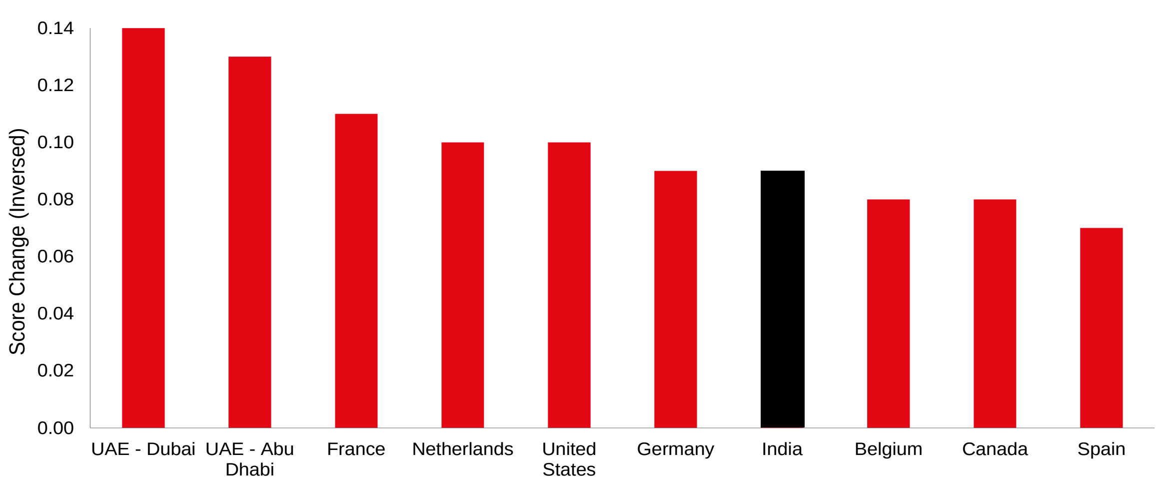
Creating multi-dimensional global trade and manufacturing – India's share in global FDI is rising

India's share in global FDI is rising due to international firms de-risking their manufacturing operations via the China-plus-one policy and changing global geo-political equations. FDI equity inflows in India during financial year 2021-22 was USD 58.8 billion. The construction sector was the recipient of the third highest FDI after computer software & hardware and services sector.

India stands at the cusp of becoming 'Transparent'

India is among the top ten most improved countries in JLL's Global Real Estate Transparency Index (GRETI**) 2022 and now stands at the cusp of entering the 'Transparent' category. In fact, the country was among the top global improvers across regions and was the most improved amongst all APAC countries for the second time in a row.

Table 5: Top transparency improvers, 2020-2022



Source: JLL Global Real Estate Transparency Report, 2022

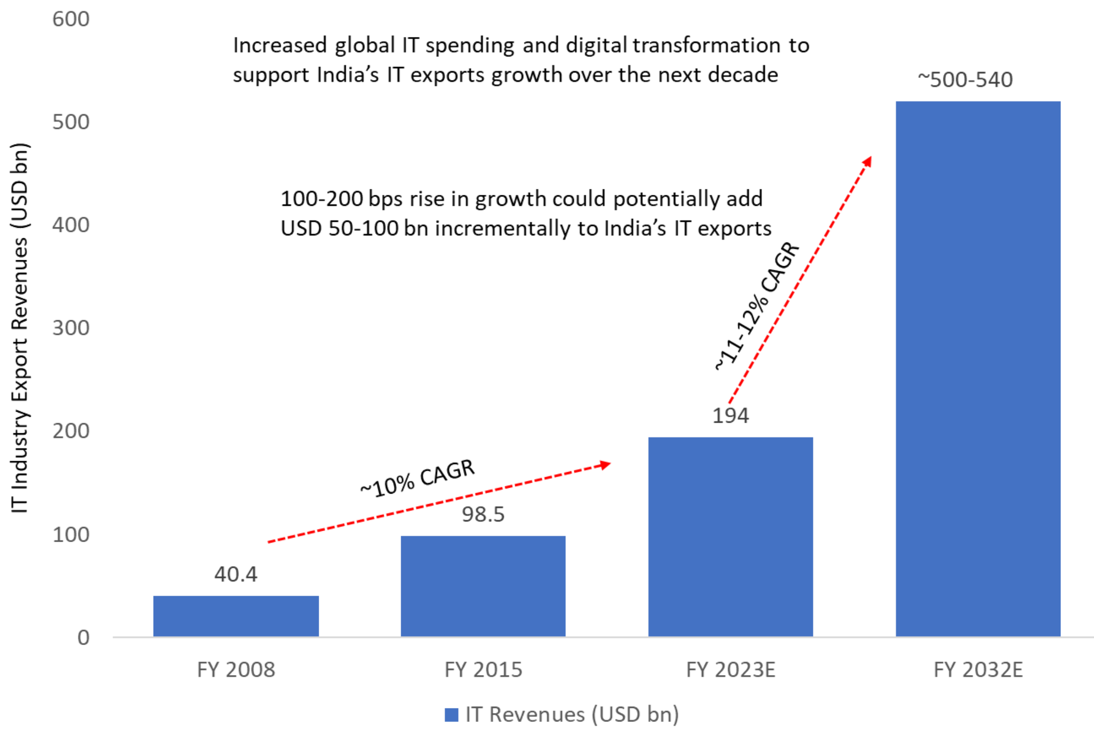
India's improvement in its composite transparency score between 2020 and 2022, was higher than some of the top ten transparent markets like UK, Australia, Canada, Ireland, Sweden, New Zealand, Belgium and Japan. Digitisation leading to improvement in data availability for transactions as well as overall market fundamentals, a developing REIT market and new sustainability regulations have been key to India's push in transparency.

** The Global Real Estate Transparency Index (GRETI), produced jointly by JLL and LaSalle Investment Management, has been charting the evolution of real estate transparency across the globe since 1999. Updated every two years, this 12th edition of GRETI is based on a comprehensive survey of the availability and quality of performance benchmarks and market data, governance structures, regulatory and legal environments, transaction processes and sustainability instruments in 156 cities across 94 countries and territories.

Robust growth in Indian IT exports by 2032 to be a big driver for job creation

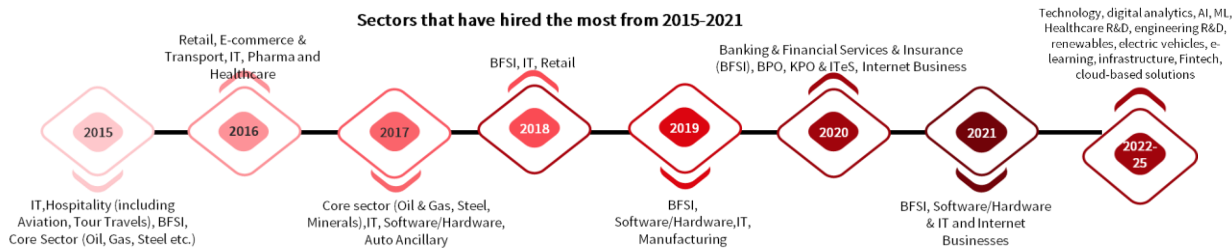
Indian IT exports are expected to keep their growth momentum intact and record robust growth over the next decade as well, on the assumptions that domestic IT giants will continue to improve their market share in the global outsourcing story and offshoring and outsourcing trends globally will remain traction oriented. India's competitive advantages in terms of its tech and digital infrastructure, relatively affordable talent pool and IT costs and overall office infrastructure will be the major enablers of India's continued growth in IT services sector.

Table 6



Source: NASSCOM & JLL Research

Table 7: Rising prosperity key to change in economic status



Source: India Skill report 2021, AICTE & UNDP

With higher job creation and opportunities in the services sector, income levels would improve over the next decade. Job creation in the manufacturing sector will also need skilled workforce, which would result in improving income levels.

Considerable improvement in literacy, schooling, and attainment of higher education and skills and vocational education in the country would create a robust, skilled workforce.

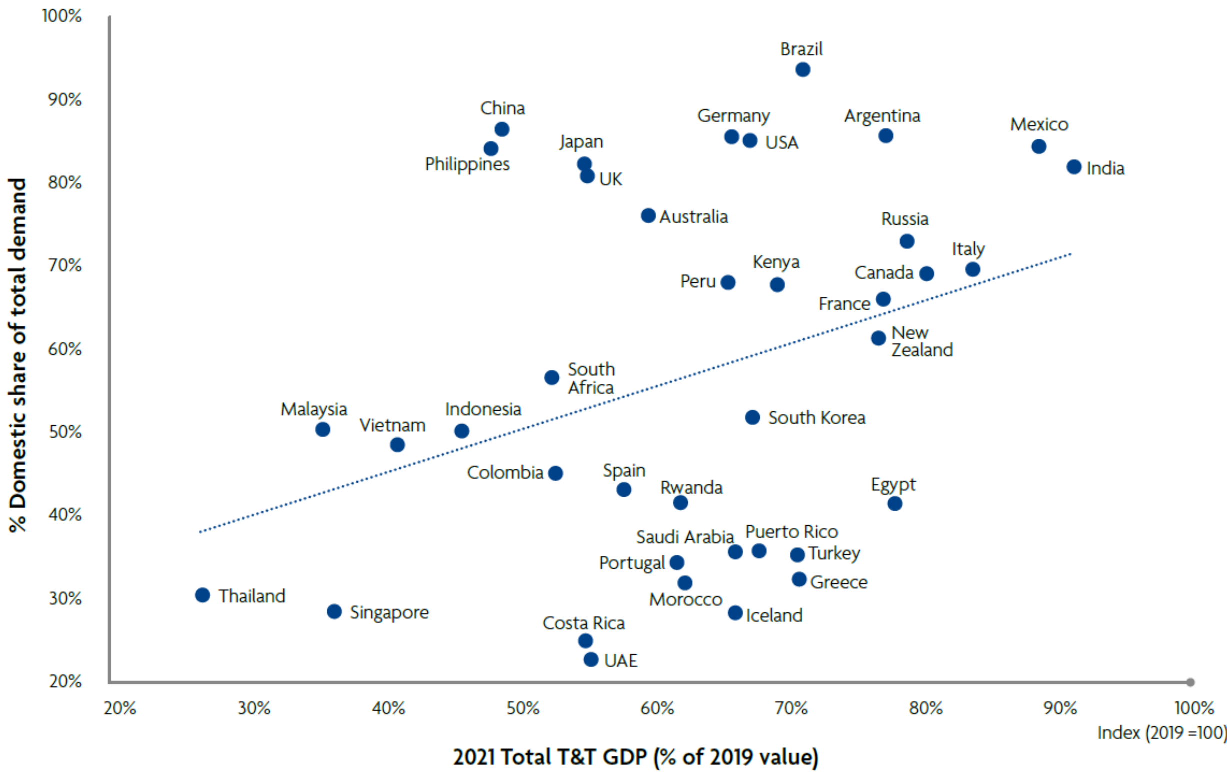
Increasing prosperity levels and an overall steady state business sentiment will have a cascading effect on all consumption related sectors including retail, hospitality, FMCG, travel and leisure giving a boost to all economic parameters.

Travel & Tourism in India

Overview

The Indian travel and tourism sector's contribution to the GDP in 2021 was valued at USD 178 billion, which accounted for 5.8% of the GDP. The total contribution was up by over 43% in comparison to the previous year and is almost 85% of the 2019 figure. Of this, almost 95% of the total travel and tourism spend can be attributed to domestic demand which was up by over 50% in comparison to the previous year and the remaining can be attributed to the international market. Travel and tourism are the third largest foreign exchange earners for India and the Indian tourism industry is anticipated to grow at an annual rate of 10.35% between 2019 and 2028, reaching a total value of USD 512 billion by 2028.

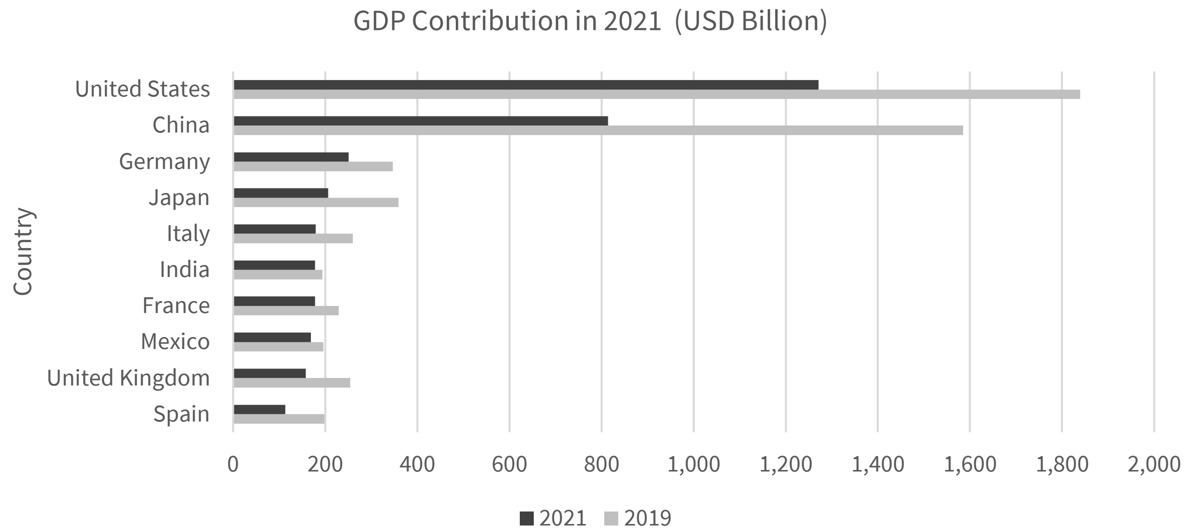
Table 8: Total Travel & Tourism GDP (2021 relative to 2019) versus the domestic share of total demand



Source: WTTC's 'Economic Impact 2022: Global Trends' Reports

As per the World Travel & Tourism Council's (WTTC) Global Economic Impact Trends 2020 report, India ranked 10th in comparison to global markets in terms of travel and tourism GDP contribution with USD 194 billion, a 5% increase in comparison to the previous year. India also ranked 1st among all countries in the world for the highest number of jobs created in the travel and tourism industry between 2014 and 2019 with a total of 6.36 million jobs.

Table 9: GDP Contribution in 2021 (USD billion)

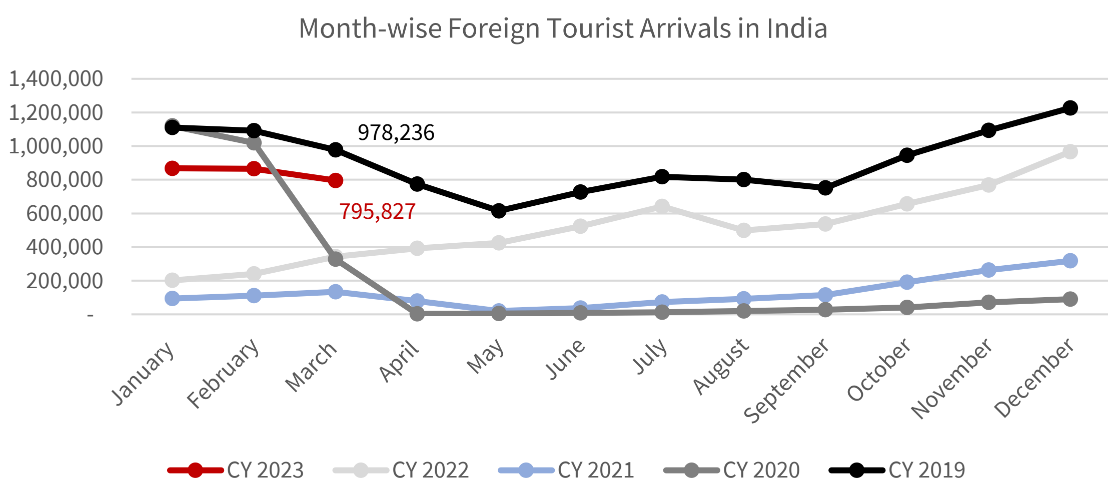


Source: WTTC's 'Global Economic Impact Trends 2020' and 'Economic Impact 2022: Global Trends' reports

In terms of domestic spend value and ranking for India, 2021 was valued at USD 151.11 billion occupying the 4th place in comparison to the top 20 global markets, as against USD 155.8 billion from 2019 occupying the 6th place for the same markets. Leisure and business travel spending in India is projected to increase by two folds by 2028 in comparison to 2019. Business travel spending for 2019 was recorded at USD 12.84 billion in 2019 and is projected to reach USD 24.2 billion by 2028.

While domestic tourism was the first to recover since Q3 CY 2022 and continues to perform well, foreign tourist arrivals show significant recovery in comparison to the last two years and are moving closer to 2019 figures.

Table 10: Month-wise Foreign Tourist Arrivals in India



Source: India Tourism Statistics 2022 & Ministry of Tourism, India

Foreign exchange earnings from tourism in India are also on the path to recovery in comparison to previous years. Month-wise foreign earnings have shown an upwards trajectory and will be further supplemented by the increasing number of FTAs in India. Fully vaccinated foreign tourists have been allowed entry in India since November 2021. In CY 2022, India reported a total of 6.19 million FTAs with a four-fold increase over the previous year. With the removal of restrictions since December 2022, we anticipate faster recovery in the international passenger arrivals into India.

As per WTTC's forecast, by 2032, India will have the 3rd largest travel and tourism contribution to the GDP, worth USD 457 billion. In the same period, the sector is also likely to generate over 126 million more jobs globally, with almost 65% concentrated in the Asia-Pacific region with 20% in India. In 2020, the Indian tourism sector accounted for 8% of the total employment in the country, which translates to almost 40 million jobs. This figure is expected to reach about 53 million by 2029.

Government initiatives

From 2020 to 2021, the Indian government introduced several programmes across various ministries to support and expedite the recovery of the domestic travel and tourism industry. The Ministry of Tourism (MoT) rolled out various proposals to strengthen ancillary tourism facilities by enabling new tourism businesses through policies, building infrastructure aimed at facilitating and encouraging tourism year-round and all-India vehicular permits, all of which have collectively had a significant impact on boosting tourism demand.

In June 2022, the MoT launched the National Strategy for Sustainable Tourism and Responsible Traveller Campaign with a view to establish India as a preferred global destination for sustainable tourism. The mission is to achieve this by increasing the economic, social and environmental benefits by building an inclusive, low-carbon and resilient tourism sector in India.

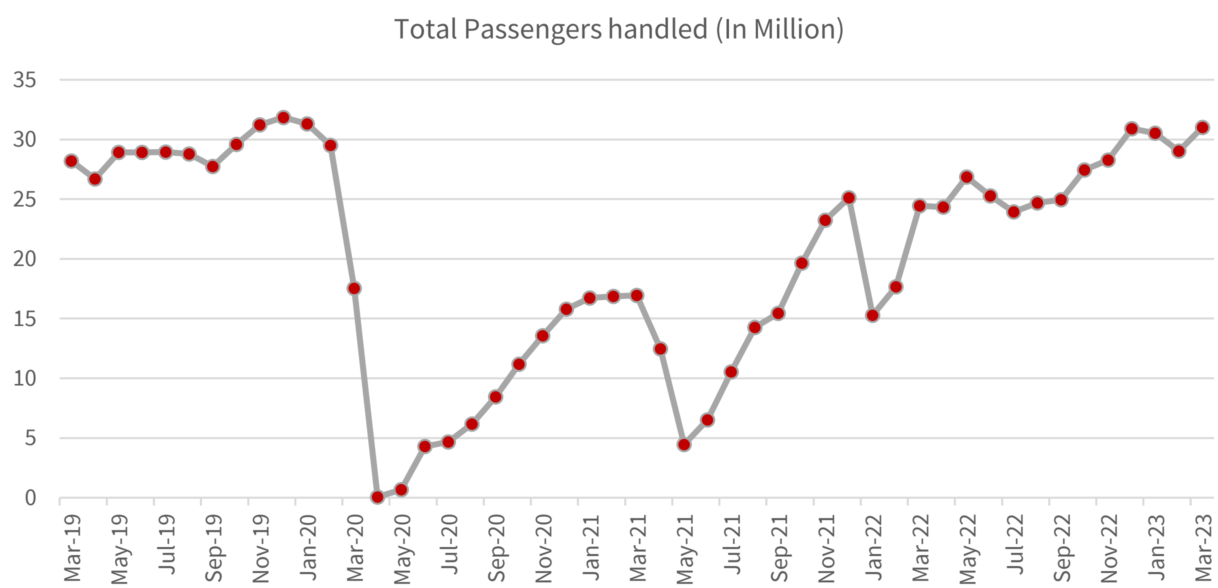
In July 2022, the Ministry of Tourism released the Draft National Tourism Policy of 2022 which focuses on the growth and development of the tourism sector in India to ensure a "world-class" experience for tourists in a sustainable manner. Through the consolidation of efforts by the local, State, and Central governments, the policy aims at attracting private sector investment while making India a year-round tourist destination. The policy will be applicable for the next 10 years and targets 25 million international tourist arrivals and 4 billion domestic tourist visits by 2030, increasing to 100 million and 15 billion respectively by 2047. The overall goal of the policy is to achieve USD 1,000 billion in tourism GDP by 2047.

Air Passenger Traffic Overview

The Indian aviation market reached its record high in 2019 and after a three-year impact on account of COVID-19 restrictions, is on the path to a full recovery after the last two years. As one of the largest aviation markets in the world as of December 2022, IATA forecasts suggest that India will have the third largest volume of air passenger traffic by 2024. With a total of over 80 operational airports and over 100 more in the pipeline, the Airports Authority of India has set aside a budget of over INR 98,000 crores for upcoming airport development to further boost air travel as of March 2023. The Government has stated its objective to promote harmonised growth of various sub-sectors of aviation such as Airlines, Airports, Cargo, Maintenance Repairs and Overhaul services (MRO), General Aviation, Aerospace Manufacturing, Skill Development, etc. There is a strong focus on making air travel more affordable to allow significant expansion of the total addressable market for aviation.

Average monthly air passenger traffic in India during FY 2020 was recorded at approximately 28.5 million. This figure dropped to 9.6 million for FY 2021 due to COVID and started recovery with 15.8 million by FY 2022. Monthly traffic data for Q4 FY 2023 has only been increasing month on month and is 58% more than the air passenger traffic recorded for Q4 FY 2022 and 79% over Q4 FY 2020.

Table 11: Total Passengers Monthly (In Million)



Source: AAI

From FY 2013 to FY 2020, the passenger load factor for the domestic aviation segment witnessed a CAGR of 2% while the available seat kilometres grew by a CAGR of 11% and the revenue passenger kilometres grew by 13%. Air passenger volume between FY 2014 and FY 2020 has more than doubled for most key cities, resulting in healthy growth rates. Key urban consumption centres in India where SAMHI has presence in, i.e., Ahmedabad, Bengaluru, Chennai, Coimbatore, Delhi, Goa, Hyderabad, Kolkata, Mumbai, Nashik, Pune and Vishakhapatnam, account for approximately 70% of the total air traffic for the country.

Table 12: Air Traffic Data Comparison

Source	FY 2020 (in Million)	FY 2023 (in Million)
India	341.1	327.3
Key Urban Consumption Centres	245.0	230.2

Source: AAI

Upcoming airports as well as planned upgradations and expansions across the following cities, especially in Pune, Bengaluru, Delhi, Noida, Hyderabad, Goa, Coimbatore, Chennai and Mumbai will only further boost the volume of passengers. Key airport projects under the national infrastructure pipeline for FY 2019-25 include:

Table 13: India Airport Expansions

Airport Name	Stage
Pune Airport Development	Development
Navi Mumbai Airport Pre-Development	Development
Bengaluru Airport Expansion	Development
Delhi Airport Expansion	Implementation
Jewar Airport Development	Development
Hyderabad Airport Expansion	Implementation
Coimbatore Airport Expansion	Conceptualization
Mopa Airport Development	Development
Chennai Airport Upgradation	Implementation

Source: JLL Research

Office Stock and Commercial Market Overview

The top seven cities in India have a total office stock of 714.9 million sq. ft. as of March 2023, which is likely to increase by 22.7% to a total of 877.3 million sq. ft. by 2025. The growth of the office market (CAGR of 7.7% between April 2023-2025) is indicative of the growth in the broader economic activity, India's continued dominance as a services-driven economy and rapid urbanization.

Also, as per JLL estimates, India holds an average 65% share of net absorption in the entire APAC region from 2019 till March 2023 and was among the handful of countries globally as well where net absorption was in the positive even during the COVID period, outlining the continued resilience and strength of its office markets.

Office Market Statistics for key Indian cities

Table 14: Key Indian Cities Office Stock Supply

City	Current Completed Stock as of March 2023 (mn sq ft)	% Share of Total Completed Stock	Upcoming Supply (Q2 2023-2025F) (mn sq ft)	% Share of Total upcoming supply	CAGR % Growth (Q2 2023-2025)
Bengaluru	194.7	27.2%	37.3	22.9%	6.6%
Hyderabad	108.8	15.2%	46.6	28.7%	13.8%
Pune	76.0	10.6%	24.2	14.9%	10.6%
Gurugram	89.5	12.5%	10.1	6.2%	3.9%
Mumbai	147.7	20.7%	24.7	15.2%	5.8%
Chennai	70.1	9.8%	15.9	9.8%	7.7%
Kolkata	28.0	3.9%	3.7	2.3%	4.6%
Total	**714.9**		**162.4**		**7.7%**

Source: JLL Research & REIS, March 2023

Hospitality Sector Overview

Hotel Industry Landscape in India

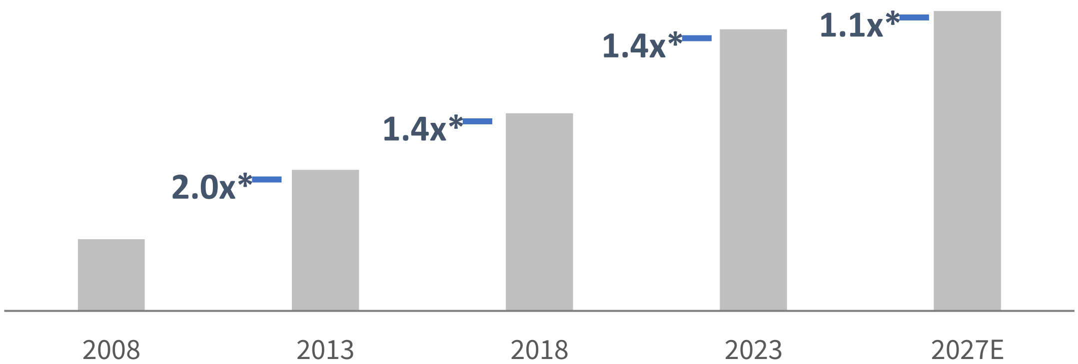
As of March 2023, India has over 360,000 keys including branded hotels, independently run hotels and aggregators. Of this, the current branded inventory market size as of March 2023 stands at ~180,000. The overall market size is still small especially relative to the size & growth of the office market. The table below indicates the branded inventory supply from 2010 onwards.

Table 15: India Hotels Branded Inventory Overview as of March 2023

Source: JLL Research

Over the last decade, the branded segment in India has recorded maximum growth in comparison to the other segments and accounts for 40% of the total inventory. Subsequent to a low base with a large supply pipeline in the market between FY 2008 to FY 2013, the hotel inventory supply in India has now transformed to a large base with a stable supply, resulting in better capacity utilisation, and facilitating higher occupancy levels. This also insulates core markets from any new supply shocks given the relative high base of existing supply. The table below indicates the growth in branded inventory from 2008.

Table 16: India Branded Hotel Supply (no. of keys)

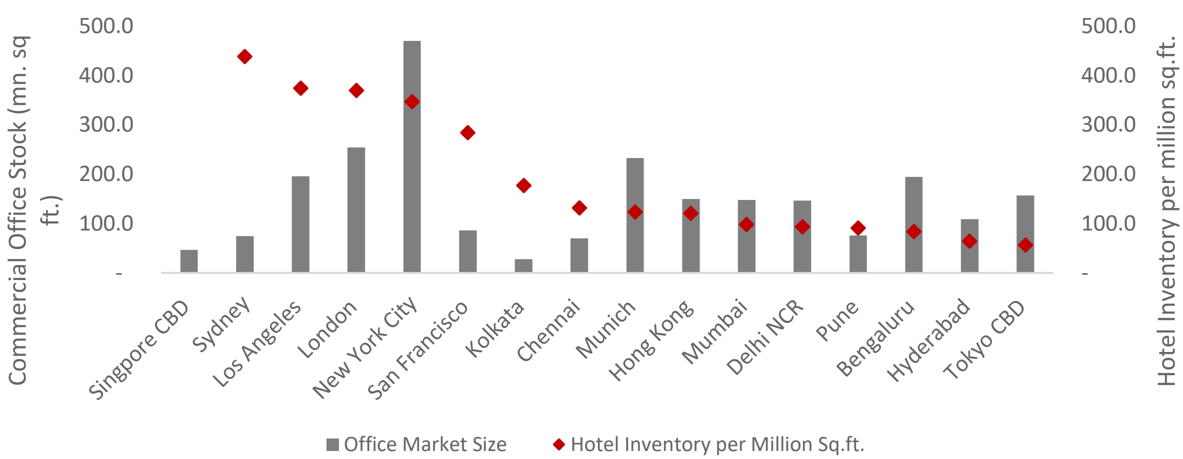


**Refers to growth multiple of previous financial year (FY) period.*

Source: JLL Research

Despite an increase in inventory over the past decade, hotel supply across key Indian cities lags office demand and market size as compared to global peers. The demand for hotel rooms is closely linked to several factors such as macroeconomic policy, economic development and the growth of commercial real estate and tourism industries. The table below highlights hotel inventory per million square feet across key commercial markets globally. As seen below, Indian hospitality sector is yet to achieve the hotel inventory vis-a-vis commercial stock ratio as seen in business districts across global mature markets thus showing material headroom for further supply absorption without impacting capacity utilization (i.e., Bengaluru at 88 rooms per million square feet of office space materially lags mature markets such as Singapore, London and New York at 447, 393 and 348 rooms per million sq. ft. respectively).

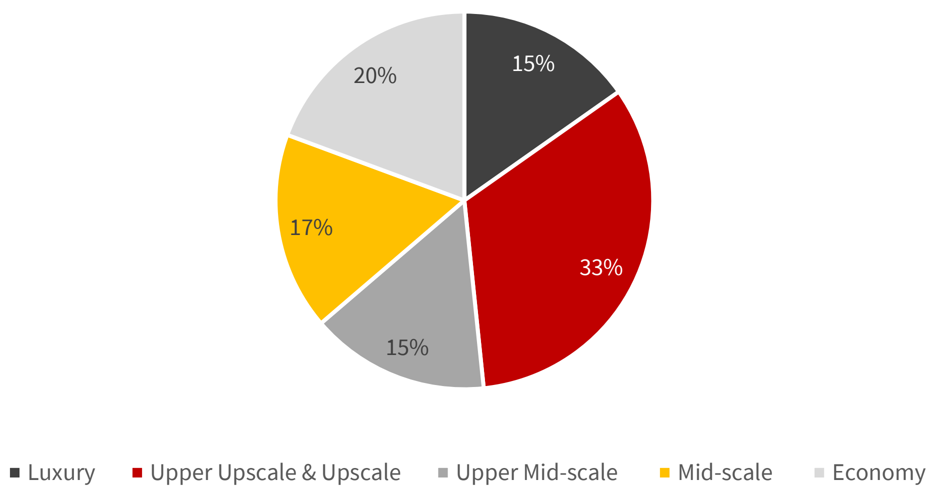
Table 17: Benchmarking Indian Cities to global counterparts in terms of office market size (million sq. ft.)



Source: JLL Research & REIS, Mach 2023

Indian cities have emerged as one of the largest office markets globally as is visible in terms of office market size in the table above, benchmarking the key Indian office markets against their global counterparts. Bengaluru, Mumbai, Delhi NCR and Hyderabad are now amongst the top 10 markets in terms of size and performance compared to key global cities. Furthermore, in terms of new absorption between 2014 and 2020, Bengaluru Delhi NCR, Mumbai and Hyderabad have highest net absorption amongst all key global cities as of March 31, 2023 as per JLL Research.

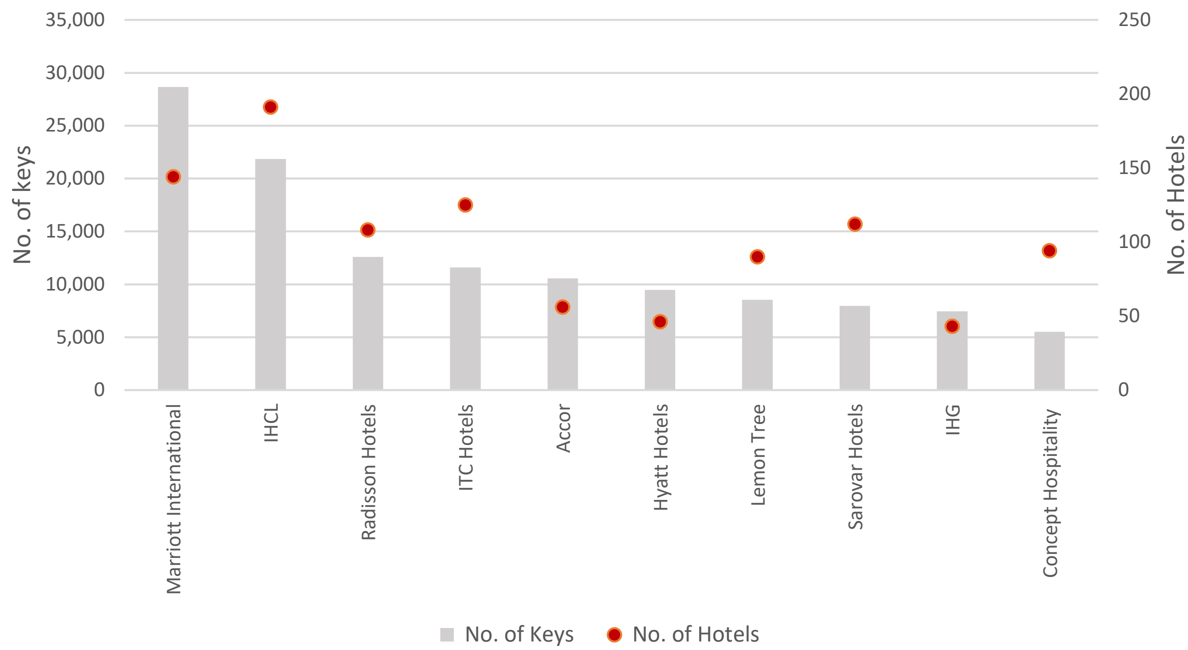
Table 18: India Branded Inventory Segmentation



Source: JLL Research

Across India, the top 10 hotel brands by operating inventory size manage over 130,000 keys which account for approximately 76% of the total branded inventory in India, as of March 31, 2023. Of this, Marriott International operates the largest volume of branded inventory in the country with over 28,600 keys accounting for approximately 22% of the total branded inventory followed by IHCL with over 21,800 keys accounting for almost 16% of the total branded inventory, as of 31st March 2023.

Table 19: Top Brands by Operating Inventory



Source: JLL Research

The top 12 hotel owning entities in India by inventory size own over 18,000 keys which account for approximately 10% of the total branded inventory in India, as of March 31, 2023. The top 4 companies with 22,799 keys are "owner operators" i.e., they only own hotels which are branded by their brand (and in addition manage hotels for other owners on management contract/ franchise). Amongst owners who own hotels operated under multiple brands, SAMHI Hotels operates the largest volume of diversified branded inventory at different price-points and with established brands catering to a broad set of demand. Their presence spreads across more than 12 high-density, key urban consumption centres in India, all of which collectively account for approximately 70% of the country's air passenger traffic and approximately 90% of the office space in India as of March 31, 2023. SAMHI Hotels is a prominent branded hotel ownership and asset management platform in India, with the third largest inventory of operational keys (owned and leased) in India as of March 31, 2023. Their hotels are strategically located in high-density micro-markets, which generally have high barriers-to-entry due to land acquisition complexities, long development time frames, and fragmented ownership structures.

As of March 31, 2023, the portfolio currently comprises 3,839 keys of which almost 43% is operated by Marriott International. SAMHI Hotels is also the largest owner of Fairfield by Marriott and Holiday Inn Express operating inventory in India, as of March 31, 2023.

This inventory will be supplemented by 962 keys from the ACIC Portfolio under SAMHI's share purchase agreement with Asiya Capital and its affiliates (the ACIC portfolio), making SAMHI the largest single owner of Marriott hotels in India with over 43% share of the Fairfield by Marriott brand and over 30% share of the Four Points by Sheraton brand, as of March 31, 2023

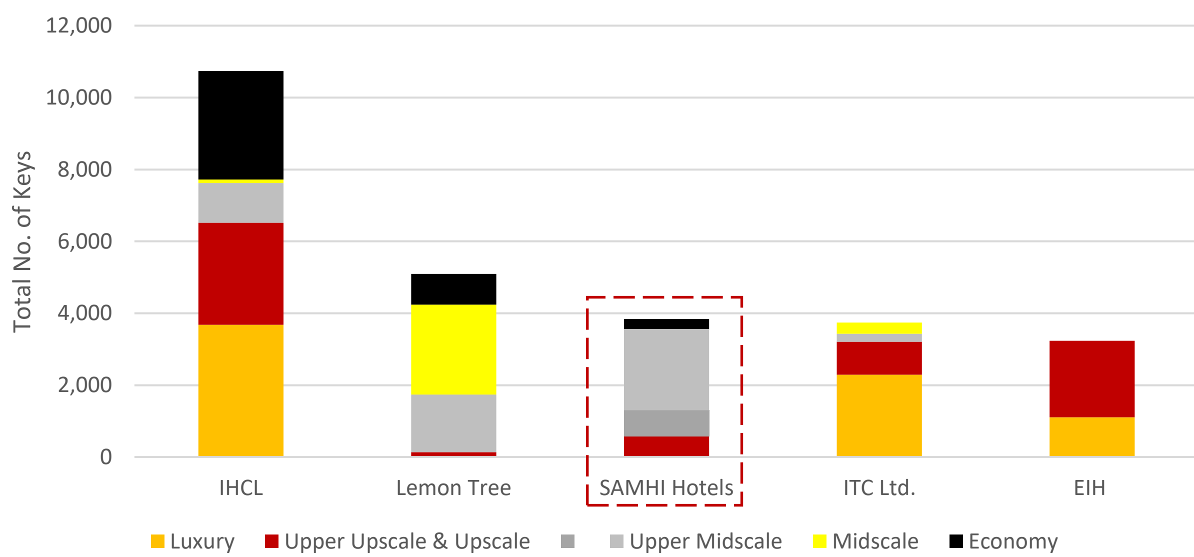
Table 20: Inventory Distribution of Mid-Scale Hotels under Marriott International & IHG

Brand Name	As of March 31, 2023			
	SAMHI Hotels	ACIC Portfolio	Total Hotels in India	SAMHI Share
Fairfield by Marriott	7	3	23	43.48%
Four Points by Sheraton	1	3	13	30.77%

Brand Name	As of March 31, 2023		
	SAMHI Hotels	Total Hotels in India	SAMHI Share
Holiday Inn Express	10	14	71.43%

Source: JLL Research

Table 21: Inventory Classification for Owner-Operators vis-à-vis SAMHI Hotels

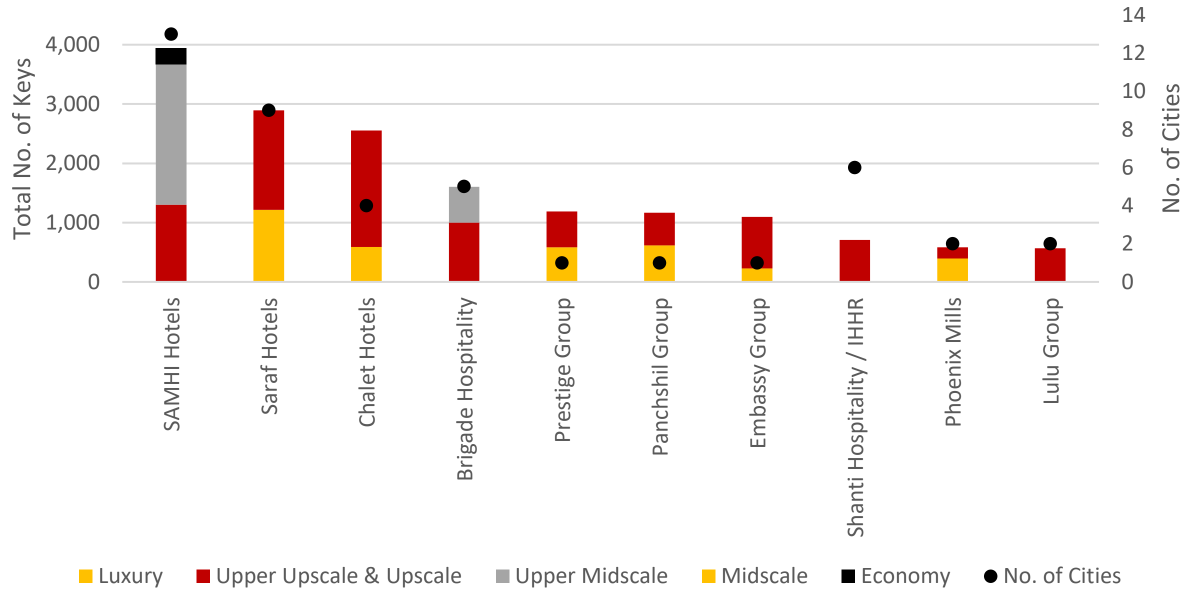


Source: JLL Research

The graph above (Table 23) indicates the operating inventory owned by entities such as the Indian Hotel Company (IHCL), Lemon Tree Hotels Limited, ITC Ltd. and East India Hotel Ltd., as of March 31, 2023, which are owner operators and operate this inventory only under their brands. The graph below (Table 24) indicates the inventory owned by top hotel owners in India in terms of room count, who operate their inventory under various brands, as of March 31, 2023. When compared to both categories, SAMHI

Hotels is the third largest hotel owning entity in India in terms of total number of owned / leased keys, as of March 31, 2023.

Table 22: Inventory Classification by Ownership



Source: JLL Research

While traditionally, hotel owning companies in India grew predominantly via greenfield developments, SAMHI Hotels acquired a large number of hotels to rapidly scale up their operations, becoming one of the fastest growing hotels owning entities in India by number of keys added per year to their portfolio in comparison to listed hospitality companies in India, as of March 31, 2023. They have strategically invested in hotels which are well connected to key transport facilities and have well established social and residential infrastructure.

Within 13 years of its inception, SAMHI Hotels became India's third largest hotel owner by number of keys and has added approximately 369 keys to its portfolio per year as of 31st March 2023 (inclusive of the ACIC Portfolio Acquisition), making them India's fastest growing hotel owning entity by number of keys added per year in the last decade, as of 31st March 2023.

As of FY2023, most listed Indian hotel companies derive their revenue primarily from leased and owned hotels vis-à-vis income from management contracts and franchises.

SAMHI's Upper Upscale and Upscale hotels, which contributed to 47.35% of their total income from assets for the Financial Year 2023, are supported by markets with high density demand in cities such as Bengaluru, Hyderabad, Ahmedabad and Pune. These cities are expected to demonstrate strong growth in airline passenger traffic and premium office space absorption, which is expected to benefit the overall demand base for SAMHI's hotels. Their dominant position among the Upper Mid-scale and Mid-scale brands in India also offer significant growth opportunities due to their relevant price positioning and limited dependence on international travellers.

Table 23: Revenue distribution of listed Indian hotel owning companies for FY2023

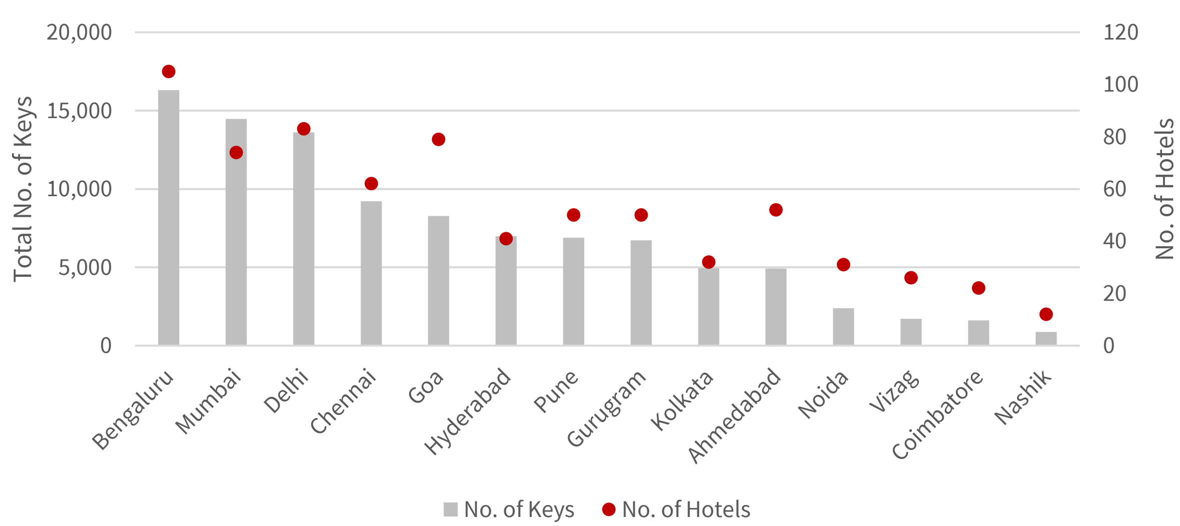
Company Name	Country of Incorporation	Total Income (in Million)	Ownership Income Share (% of Total Revenue)
The Indian Hotels Company Limited	India	INR 37,042	89.5%
Lemon Tree Hotels Limited	India	INR 8,790	88.2%
Chalet Hotels Limited	India	INR 11,284	100.0%
SAMHI Hotels Limited	India	INR 7,614	100.0%
The ACIC Portfolio	India	INR 2,029	100.0%

Source: JLL Research

Inventory Distribution

Major metros and urban consumption centres account for over 1,60,000 keys as of March 2023. Of this, over 98,000 keys fall under the branded category. As of March 31, 2023, Bengaluru currently has the highest number of hotel and branded operating inventory (16,000+), followed by Mumbai (14,400+) and then Delhi (13,500+). It may be noted that the size of the hotel market has broadly followed the size of the commercial office market across key Indian cities. The table below shows the number of hotels and total inventory supply by city, as of March 31, 2023.

Table 24: City-wise Inventory & No. of Hotels

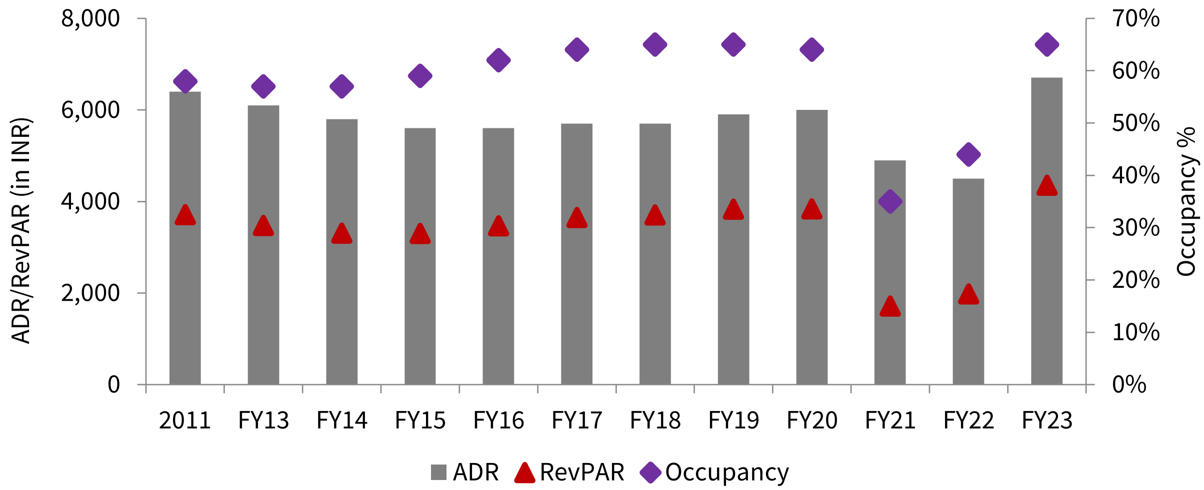


Source: JLL Primary Research

Industry Performance Overview

2011 witnessed the highest percentage growth in inventory influx over the last decade, resulting in stabilising occupancy levels for the next few years to come. From FY 2015 to FY 2019, occupancy and RevPAR levels continued to grow steadily as supply stabilised and demand continued to grow across major metropolitan cities and key leisure markets. The table below demonstrates the overall India performance from 2011 onwards.

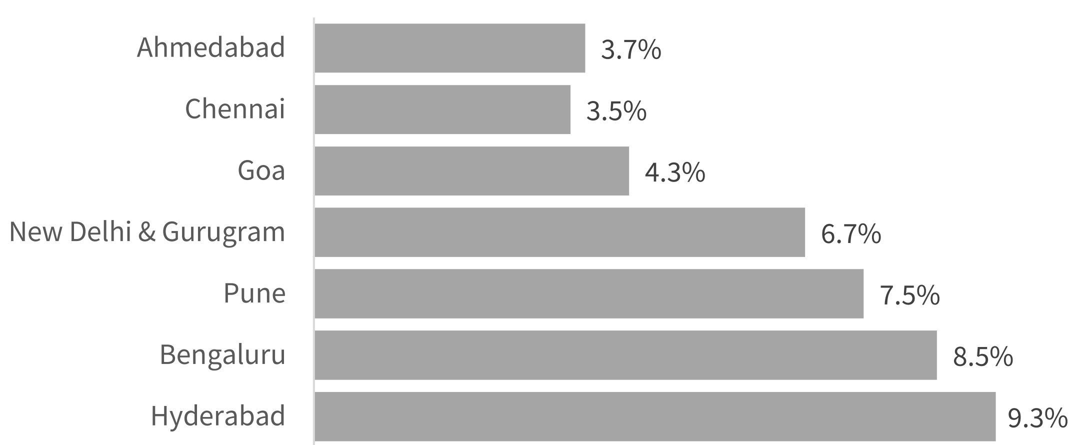
Table 25: India Country-wide Performance



Source: JLL Primary Research

The hotel sector witnessed a strong demand in H2 FY 2023 as compared to H1. However, the seasonality was observed more in the leisure hotel segment as compared to the hotels located in business locations.

Table 26: RevPAR Growth between 2016 & 2020 in key Indian cities



Source: JLL Primary Research

The industry was severely interrupted by COVID-19 in FY2021 and FY2022. With a majority of the population fully vaccinated and the complete opening up of all travel by H1 FY 2023, performance of hotels across India started to improve & recover. RevPAR across segments in India has shown a strong recovery as of FY2023 with most cities outperforming 2019 levels. Given a well-established supply base, low new supply across key markets and continued demand growth, further improvement in average room rates is expected in the hospitality industry in India

Pre and Post Covid Business Overview

Occupancy levels for the overall branded hotel segment in India are gradually inching towards pre-covid levels. While several key markets have surpassed all previous performance, the India average occupancy as of March 2023 is back to 2019 figures.

With the opening up of all travel, H1 FY 2023 saw the return of corporate travel, company off-sites and overall business travel as well. Large scale MICE events made a comeback in 2022 with Q4 2022 witnessing the highest number of events since the onset of the pandemic. Leisure travel continues to enjoy year-round domestic demand and witnessed a quick recovery in Q3 FY 2021.

The wide acceptance of digital connectivity and remote employment has resulted in an increased length of stay across select markets, diminishing the business impact of traditional market seasonality on hotels. Through the course of the pandemic, hotel companies have also streamlined expenses to achieve leaner staffing ratios and rationalised cost structures with a stronger focus on profitability.

On the whole, the pandemic has not only triggered a definite shift in guest preferences and consumer patterns but has also established consolidations as the key theme for the expansion of the branded industry. With a renewed focus on repositioning, rebranding, mergers and joint ventures, hotel companies, developers and other opportunistic investors are taking a more cautious approach thus inching towards a more financially and environmentally sustainable industry.

Development Cost

Hotels are capital heavy investments with a long gestation period as compared to other real estate asset classes. The hotel construction costs for greenfield assets are heavily dependent upon a hotel's positioning, inventory size, location, and complexity of services. The development costs can also vary by land cost, facilities mix, overall built-up area, and debt/ interest ratios.

While good demand conditions prevail, rising material costs and supply chain issues have become a cause of concern for realtors and stakeholders. Key building materials like steel, cement, and labor charges are facing inflationary pressures. As a result, hotel development costs have seen an increase as compared to pre-pandemic costs.

The average period of construction of a hotel varies from 3 to 5 years depending upon the positioning of the hotel. A budget hotel takes 3 years to construct whereas a luxury hotel on average takes 4 to 5 years to construct and become operational.

Table 27: Cost Per Key Summary as Per Hotel Positioning

Positioning	Industry Development Cost / Key (INR)	SAMHI (INR)
Luxury	25.0 - 30.0 million	N.A.
Upper Upscale & Upscale	12.0 - 18.0 million	11.96 million
Upper Mid-scale	7.0 – 9.0 million	5.73 million
Mid-scale	5.0 - 7.0 million	2.36 million

Source: JLL Research

Given the recent trend of conversions and repositioning of existing assets, the key strategies typically encompass the acquisition and turning around of hotels by (a) post acquisition premium positioning by upgrading product and service configuration; (b) operating arbitrage using asset management tools and economies of scale; (c) financial discipline and (d) partnering with the most appropriate hotel operator for the most accretive brand. This approach has allowed companies such as SAMHI Hotels to build a capital effective model for aggregating their portfolio which has a low cost per key relative to a sample of 20 hotels spread across the Mid-scale to Upper Upscale and Upscale segments which were completed between 2017 and 2022.

Table 28: Indian Hotel Segmentation

Existing Segmentation: Branded and independent hotel supply is segmented across 5 key segments – Luxury, Upper-Upscale & Upscale, Upper Mid-scale, Midscale and Economy. Certain terms, which are used for classifying and categorizing hotels, are listed below:

Hotel Segments	Description	Star Rating
Luxury	Typically refers to the topmost tier of hotels. In India, these would generally be classified as five-star deluxe hotels.	5 Star Rating
Upper-Upscale & Upscale	These are hotels which are more moderately positioned and priced than luxury hotels. This category would have multiple dining and recreational facilities with large public areas. In India, these would generally be classified as five-star hotels.	5 Star Rating
Upper Mid-scale	These hotels are full-service hotels, typically with lesser public areas and facilities with relatively smaller room sizes in comparison to upper upscale and upscale hotels. In India, these would generally be classified as four-star hotels.	4 Star Rating
Midscale	These are usually three-to-four-star hotels with distinctly moderate room sizes and pricing. Hotels in the category may have select services and facilities.	3-4 Star Rating

Economy / Budget	These are typically two-star hotels providing functional accommodations and limited services, while being focused on price consciousness.	1-3 Star Rating

Source: JLL Research

Manpower

The hospitality industry is currently adapting to the new world order where the transformation of culture, people, technology, and organizational processes are amalgamating and progressing rapidly. The revamping of the workforce is real, and the leadership is changing forms. Well-defined new-age values and shared beliefs will ultimately augment profitability and shall replace archaic management structures.

Our research indicates that internal alignments and collaborations with key stakeholders will play a critical role in achieving greater heights in business. The pandemic has forced all industries to innovate and re-imagine all the existing processes which are likely to last beyond the era of social distancing. From simpler check-in experiences to more efficient energy management systems, most of these changes will stay with us and break the chain of traditional service and operational standards.

The last two years have given industry leaders enough time to re-evaluate the long-established standards of human capital management and has helped them move towards leaner and more efficient staffing models. Broader, more-interesting jobs will lead to stronger employee engagement and possibly even higher wages and leaner staffing structures.

Table 29: Staffing Ratios Comparison – Industry Vis-A-Vis SAMHI Hotels

	Upper Upscale and Upscale	Upper Mid-scale	Mid-scale
Industry Average	1.1 - 1.3	0.60 - 0.80	0.40 – 0.60
SAMHI Portfolio	1.00	0.65	0.33

Source: JLL Research

SAMHI's lean manpower ratios across segments has been achieved due to their investment in technology to manage hotels, space efficiencies and shared services centres which has enabled them to achieve higher profitability and one of the lowest staffing ratios amongst peers, as of March 31, 2023, by controlling staffing costs and overheads.

"Hotels across all market positionings are evidently keeping busy and are intensively trying to improve their overall business margins. However, attrition continues to be a sore point, more so in the post-covid era. While the industry witnessed massive job cuts during the pandemic, now with markets fully opened and new hotel projects revived, the gap between demand vs supply of talent, continues to widen.

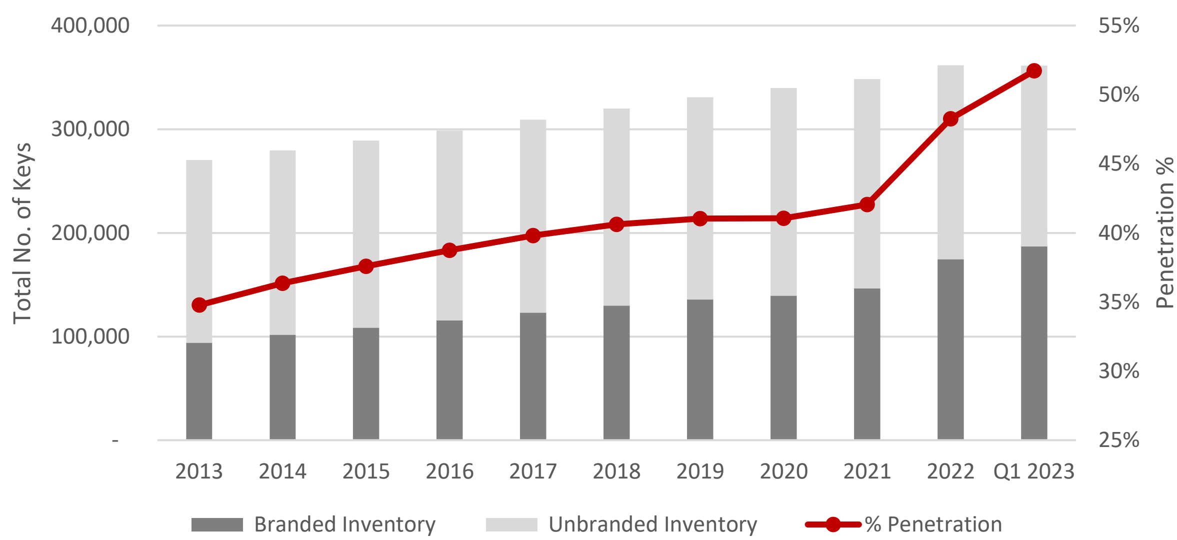
As per research, the average annual employee attrition in India across the branded hotel segment is approximately 36% for the calendar year 2022. Although for the industry, employee attrition at the executive level is at approximately 20% however at the staff/rank and file level it is reported to be at approximately 42% for the calendar year 2022."

Source – The People Network

Brand Penetration in India

The Indian hotel industry is largely unorganized and has one of the lowest brand penetration rates in comparison to other key markets in the Asia-Pacific region. However, brand penetration in India has been on an upward trajectory since CY 2013 and has steadily increased year on year, despite the pandemic. As of March 2023, brand penetration in India stands at 52% which is the highest in the last decade and yet is lower than other comparable markets in the region.

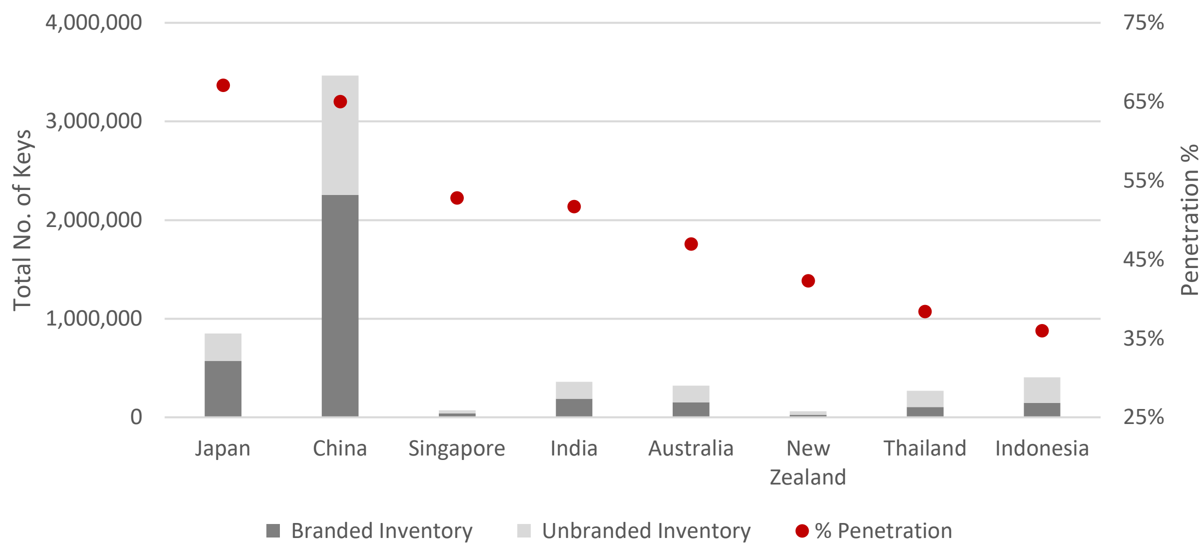
Table 30: Year-On-Year Growth for Brand Penetration in India



Source: JLL Research

In the Asia-Pacific region, China accounts for 60% of the total inventory with over 2.2 million keys in the branded segment followed by Japan with approximately 15% of the total key count and over 570,000 keys in the branded segment, as of March 31, 2023. India ranks third in terms of the absolute number of keys in the branded segment across comparable markets listed in the graph below and comprises about 5% of the total inventory for the same section as of March 31, 2023.

Table 31: Brand Penetration Comparison of India Versus Key APAC Markets



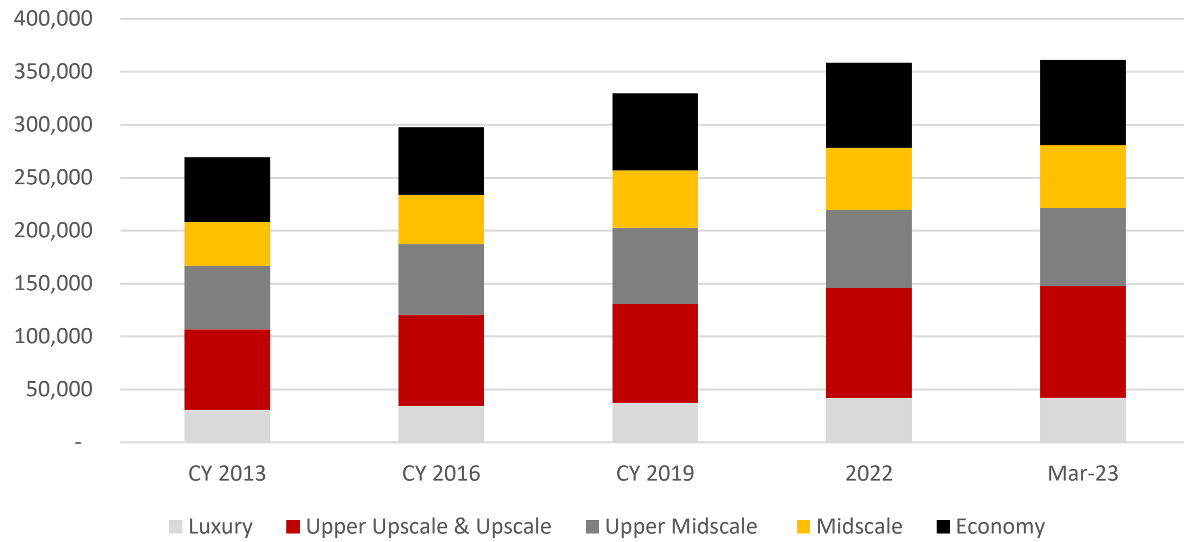
Source: JLL Research

India's low share of organized keys and brand penetration makes a case for the need of institutional ownership in the hotel sector. The fragmented nature of the industry will continue to offer consolidation opportunities which the Indian hotel market is currently witnessing. The recent past has witnessed a large number of conversions of independent inventory into the branded segment either via change in ownership or rebranding through management contracts and / or franchises.

Investment Outlook

The hotel inventory growth rate in India has been increasing at a diminishing rate in comparison to previous years. With the significant rationalising of new developments, mature as well as upcoming markets are witnessing a slower growth in the pipeline than before. By virtue of high barriers to entry and a long gestation period, key cities and metro markets will see limited development activity, most likely in emerging parts of the city.

Table 32: Historical Inventory Growth in India



Source: JLL Research

The inventory growth graph across 3-year intervals demonstrates a wide pool of quality inventory which has been established over the last decade in India.

Approximately 48% of the total hotel inventory in India lies in the unbranded segment as of March 31, 2023. In terms of key count, this accounts for nearly 174,000 keys as of March 31, 2023, in the ecosystem which are primarily owner operated with locally trained staff and are distributed via limited digital and offline sources. The ebb and flow of the pandemic over the last few years has caused a significant shift in consumer choices across segments and has also resulted in hotel companies recalibrating their business decisions with a renewed focus on flexibility and continuity.

Since the onset of the pandemic, for reasons of safety and consistency, guest sentiments have echoed stronger faith in well-established, branded hotel chains. Equipped with larger distribution systems, better-negotiating capabilities, and established operating networks, hotel chains have also succeeded in capturing a larger domestic audience during the same period. Several global and Indian hotel operators have also launched sub-brands with the clear focus of acquiring quality, erstwhile independently operating inventory within key destinations towards swiftly building a robust pipeline.

This trend marks a shift in the nature of hotel investments and capital allocation in India, indicating a stronger preference in the acquisition of well performing, operational hotel assets across key destinations, rather than greenfield and brownfield developments. This trend in expansion strategy by hotel brands presents a mutually beneficial opportunity for owners and operators to establish a stronger foothold in the branded hotel market, while expanding the pool of quality inventory and formalising a quantum of the sector.

This change in approach towards expansion also results in the efficient use of capital and presents a more sustainable development of pipeline with the upgradation of existing facilities to cater to an already existing demand base. While newer markets require the exploration and sometimes the creation of a robust demand base, the pan-India development pipeline currently shows a clear correlation between upcoming hotel supply vis-à-vis the upcoming commercial facilities and tourism and infrastructure developments.

Hospitality Sector Outlook

The Indian hospitality industry is a direct beneficiary of economic growth in India. Rapid urbanization, expansion of office market, increasing domestic travel, low set-up costs as compared to other developed and developing economies, initiatives from the Government of India and the availability of an established talent pool provide strong demand for the sector in the foreseeable future. On the back of this surge in domestic consumption and underlying GDP growth, the Indian hotel industry is seeing strong capacity utilization in recent quarters (and in quarters proceeding COVID-19 impact in Financial Year 2020) driven primarily by the buoyant domestic demand across all segments of hotels. With sharp increase in capacity utilization combined with negligible supply growth, hotels are seeing significant ability to yield the demand for branded hotels by re-pricing their hotels on a continuous basis to drive superior ADR growth from current levels. While material contribution from international travellers is yet to materialize, hotels in India are yet witnessing a sharp upward re-rating in performance levels driven by domestic demand and a more diversified set of customers from a diverse range of industries.

In today's context particularly, the growth and outlook for the office sector can provide some clues to the pace of performance that hotel markets can hope to see moving forward. Key office markets in India displayed resilience with higher leasing activity recorded for Q1 2023 than in corresponding period during the last 2 years. India's gross leasing activity across the top seven cities was recorded at 12.8 million sq.ft, better than the quarterly run rate of 2022. It was higher by 23.3% y-o-y and in fact the highest in terms of leasing activity among the same periods in 2021 and 2022.

Moreover, India's G20 presidency comes as a mammoth boost to the hospitality sector as it presents an opportunity to establish India as a global MICE destination while generating significant room night demand and higher room rates, especially across key metro markets and urban consumption centres. We anticipate significant demand to come from the 200+ meetings and conferences that are likely to happen in FY 2024. In light of the same, the government is also undertaking necessary initiatives to streamline visa and immigration processes to further boost inbound travel.

Given this environment, investors and operators are optimistic about the overall hospitality market potential for the near future on the back of a structural up-cycle that is projected in the years to come, driven by strong demand and stable supply, growth in discretionary spending, and rise in travel and tourism. Apart from this, the Indian hospitality market also offers low set-up costs as compared to other developed and developing economies, improving government support, and the availability of an established talent pool. With anticipated demand likely to outpace current supply and should the current travel momentum continue into the new financial year, H1 2024 is likely to witness growth in room rates while hotel occupancy levels stabilize at pre-covid levels.

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