

A massive oversupply of hotel rooms weigh heavy on India's hospitality firms. >> **6A**

HOSPITALITY

Indian hotels struggle with glut of rooms

OVERSUPPLY COULD LAST FOR THREE YEARS OR MORE

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A SUPPLY glut in India's hotel market is preventing an industry revival in the country after average revenue per room fell to a three-year low, according to Accor, Europe's largest hotel operator.

A key performance gauge, calculated by multiplying a hotel's average daily room rate by its occupancy, dropped to the least since at least 2010 in the quarter through June, according to data provided by Cushman & Wakefield.

In contrast, that metric has risen in the developed markets of Europe and the US, said Michael Issenberg, Accor's chairman for Asia-Pacific.

"The next couple of years will be pretty challenging in India as there has been a fair amount of supply," and more hotels are being built over the next two years, Issenberg said in an interview in Singapore.

ITC, Asia's second-biggest cigarette maker by market value, Indian Hotels Co, the owner of the Taj chain, are among operators pressing ahead with their expansion plans, undeterred by the worst economic slowdown in a decade. The number of rooms in India's top eight cities is set to increase 19 per cent this year from 73,000, according to Cushman's estimates.

Revenue per room fell 9.4 per cent to 3,143 rupees (Bt1,550) in the second quarter from the previous three months, data from the property broker showed. The decline is primarily due to the slow recovery in demand and the pace of addition to rooms, Akshay Kulkarni, regional director for hospitality at Cushman said.

"The short-term outlook for the industry is a bit challenging with economic and political issues in the backdrop of a slow global economy," Kulkarni said.

"Additionally, travel in the corporate segment seems to be wary as companies are focused on saving costs."

Supply outstripped demand by 41 per cent as of 2012, and the estimate for 2016 is 39 per cent, data from Cushman showed.

Shares of Indian Hotels, controlled by Tata Sons and EIH, the owner of the Oberoi brand of hotels, have halved in the past three years.

Indian Hotels reported its first annual loss since at least 1997 in the year ended March 31 as sales growth slowed to the least in three years.

"I don't see any scope for room-rate increases over the next couple of years," said Sumant Kumar, an analyst with Elara Securities (India) in Mumbai.

"There's an oversupply in this space and demand is not picking up as corporate side expenditure is muted given the economic scenario."

India's US\$1.8 trillion (Bt55 trillion) economy expanded 5 per cent last fiscal year, the slowest pace since 2003, as companies and businesses

curtailed travel budgets.

Average occupancy rates at hotels in eight Indian cities fell to 55.3 per cent in the quarter ended June from 60.6 per cent in 2010, data from Cushman showed.

Slowing economic growth has not discouraged the operators from betting on India's potential.

Accor, which has started a three-year reorganisation plan that includes increasing its focus on emerging markets, is betting on India's middle class, which is forecast to add the equivalent of more than the entire population of Germany in less than a decade.

Between 2010 and 2021, India's emerging middle class – who earn as much as \$5,550 a year – will swell by 100 million to 570 million, PricewaterhouseCoopers estimated.

Paris-based Accor, which has 23 per cent of its hotels in Asia, considers India as one of its three strongest growing markets over the longer term after China and Indonesia, Issenberg said.

AVERAGE OCCUPANCY AT HOTELS IN 8 INDIAN CITIES FELL TO 55.3% IN THE QUARTER ENDED JUNE FROM 60.6% IN 2010.

More than half the hotels it will build will be in Asia, he said.

"Hotels are a consumer item, it's a discretionary spend," Issenberg said.

As the middle class continues to grow in Asia, travel will continue to

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grow and grow faster than GDP."

Nakul Anand, chief executive of ITC's hospitality business, said in July that the operator is developing at least 18 projects.

Indian Hotels opened two new hotels since April, adding 175 rooms, according to an August 12 company presentation.

It plans to add 1,575 rooms by March 2014 and an additional 1,553 in the next fiscal year, it said at the time.

India has 200,000 rooms versus 5 million in the US, which has a smaller population, and 3 million in China, according to Indian Hotels managing director Raymond Bickson.

Accor has over 455,985 rooms at more than 3,555 hotels in 92 countries, according to its website.

Its brands include Sofitel, Pullman, MGallery, Grand Mercure, the Novotel, and Ibis.

With 22 hotels in India, including properties in the cities of Mumbai and New Delhi, it plans to add 30 more over the next three years, and will focus on building hotels in the economy and mid-scale segment in India, Issenberg said.

First-half profit at the Paris-based company fell 6.6 per cent, spurring a revamp plan that includes reducing debt, cutting costs and selling some properties, besides the focus on emerging markets.

"We are confident that the demand will continue to grow in Asia," Issenberg said. "In the medium to long term scenario, Asia is still the place to be."

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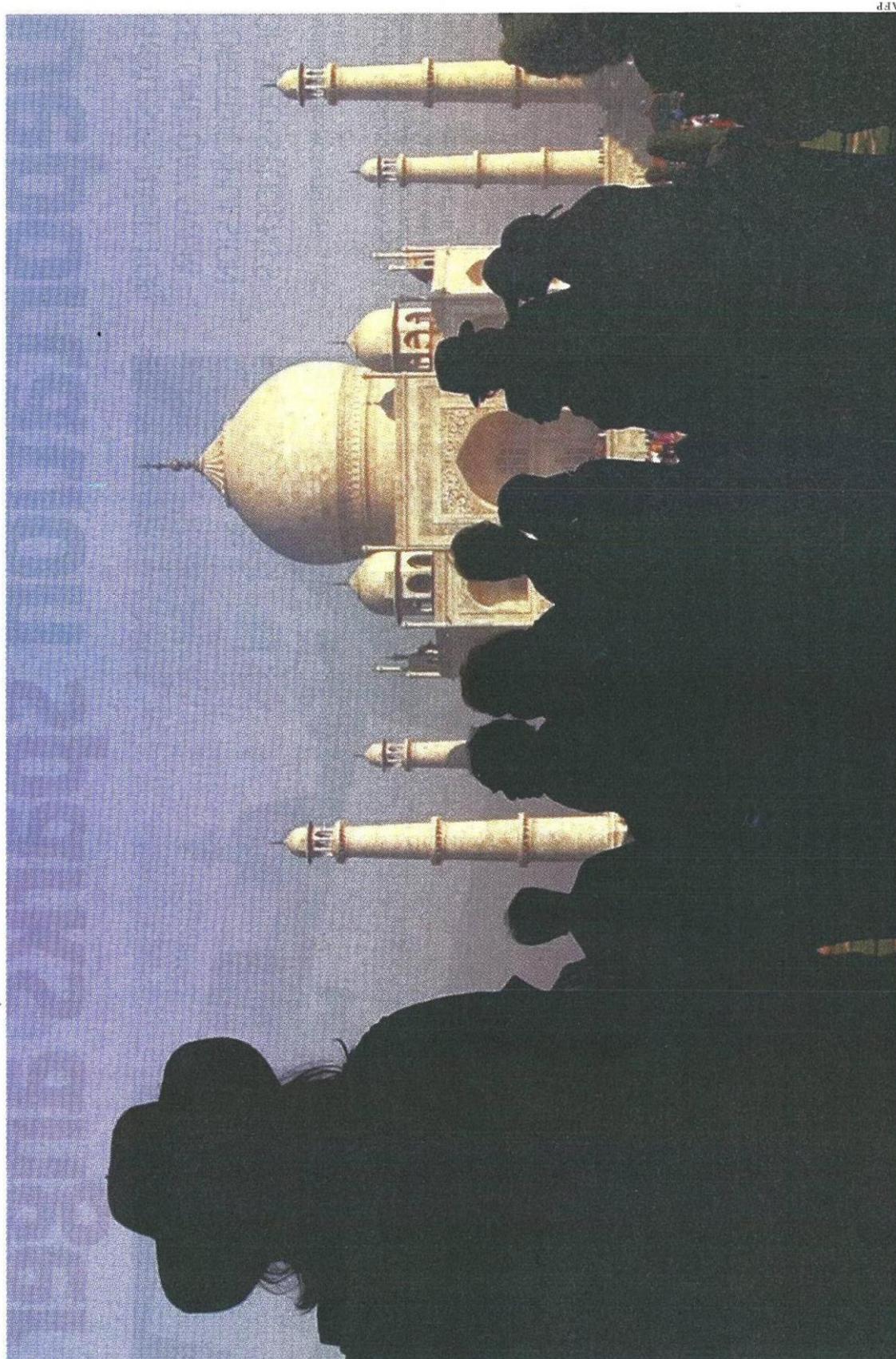
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Tourists look at the Taj Mahal in Agra, India's best known attraction.