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Mid-sized hotel chains on an aggressive expansion drive

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Established mid-sized hotel chains have embarked on an aggressive plan to sign up unbranded, standalone hotels at a rapid pace. This comes because of a major turnaround in the segment's performance across the country, in terms of occupancy and average daily rates.

An estimated 15,000 rooms
1 are expected to be added in the mid-sized hotel segment this financial year, according to Noesis Capital & Advisors.

With the owners of standalone hotels having struggled during the pandemic, a large part of the expansion is being driven by conversion.

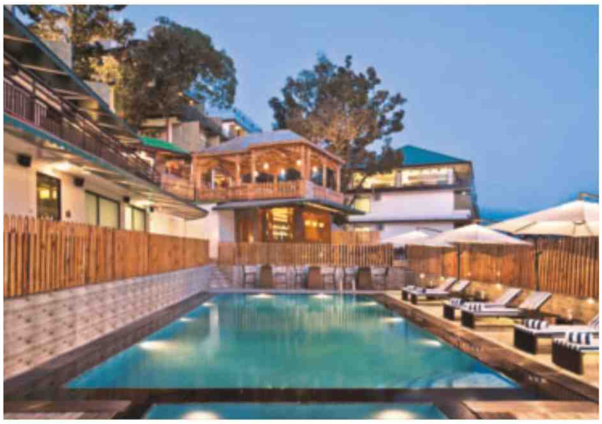
Non-branded, standalone hotels are choosing to become a part of an established hotel chain as the latter helps them in better distribution and improved service quality.

Branded mid-sized hotels are better positioned to benefit from the robust uptick in business, said Nandivardhan Jain, chief executive officer (CEO) of Noesis Capital & Advisors.

"During the last two quarters, we have concluded transactions for 28 hotels in the mid-segment space, and in the coming quarters, we will do it for 30 more hotels," said Jain.

Close to 70 per cent of the transactions are conversions, he pointed out.

Take ITC Hotel Group's Fortune, for instance. The mid-sized hotel brand will be signing up one new hotel every month for the next seven months of the current financial year. Each of the hotels will have 75-80 rooms. "Over the last 20 years, this will be the highest number of hotels we are opening in a single year," Samir MC, managing director (MD), Fortune Hotels, told *Business Standard*. The addition will increase Fortune's portfolio size to 50.



ITC Hotel Group's Fortune will be signing up one new hotel every month for the next seven months of the current financial year

Currently, Fortune has 40 hotels across 34 cities. Half of this expansion, which will take Fortune to new leisure and business locations, will be through conversion.

Fortune's average room rate (ARR) is 20 per cent more than the pre-pandemic years. "This year is very positive for the industry in general. The recovery has been much faster than forecast," he said.

Mid-sized hotels have an advantage of better penetration in the tier-2 and tier-3 markets. These have come into sharper focus because of better road and rail connectivity in the post-pandemic year, said JB Singh, president and CEO at InterGlobe Hotels (a joint venture with Accor Asia Pacific) that owns and operates the Ibis chain of hotels.

"Our ARRs have been 20 per cent plus compared to pre-Covid levels," said Singh, attributing the growth to the government's focus on driving the Indian economy and a strong latent demand.

"While I am not saying this kind of high-paced growth will continue, the momentum is likely to be strong," he said.

Ibis will be adding 350-400 rooms through new hotels — one each at Hebbal in Bengaluru and Thane in Mumbai.

Unlike most other hotels that have a management contract model, Ibis builds and manages the properties ground up.

Lemon Tree Hotels, another prominent brand in the mid-sized segment, will be adding close to 374 keys by the end of this financial year. This would be across its brands in Dharamshala, Mussoorie and Gurugram, to name a few, according to the company's investor presentation.

Similarly, at Indian Hotel Company (IHCL), the hospitality chain's "lean luxe brand" Ginger has been leading the expansion and will do so in the years to come.

Of a portfolio of over 300 hotels that IHCL plans to have by 2025-26, Ginger will contribute 125 hotels, according to the company's investor presentation. Presently, Ginger has 85 hotels across the country.

Even during the pandemic — when the business had slowed significantly —hospitality firms didn't cease signing up new hotels.

The all-encompassing recovery, in terms of average daily rates and occupancies, seen in the last one year has only emboldened the expansion plans.

Take Lemon, for instance. In the quarter ended June, the company — it owns Redfox, Keys, Lemon Tree and Aurika brand of hotels — saw its ARR touch ₹4,822. This is the highest since it went public and 20 per cent higher than the same quarter in the pre-Covid years.

Fortune's Samir also said that on an average, the brand's ARR is 20 per cent more than the pre-pandemic years. "This year is very positive for the industry in general. The recovery has been much faster than forecast," he said.