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WILL INDIAN HOTELS CO'S BULL RUN CONTINUE?

From budget to luxury properties, the hospitality chain has been adding assets across the board

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A file photo of the Taj Mahal Palace, Mumbai. The heritage hotel started in 1903.

mint SHORT STORY

WHAT

Since taking over the helm at Indian Hotels in 2017, MD and CEO Puneet Chhatwal has aggressively pursued growth, adding properties and maintaining rates at high levels.

AND

It has paid off handsomely, with the top line and bottom line bouncing back from the lows of the pandemic, and over 400% returns on the IHCL stock in five years.

BUT

Not everyone is convinced—some industry insiders believe the company has expanded too quickly and too widely for its own good. They believe quality will be affected.

A quiet transformation is underway at the heart of the Tata group-owned Indian Hotels Co. Ltd (IHCL). The hospitality giant, led by managing director (MD) and chief executive officer (CEO) Puneet Chhatwal, has been on a mission to redefine the company's future.

On Tuesday, outlining his vision for India's largest hospitality group at its Capital Markets Day presentation in Mumbai, the understated Chhatwal, clad in a grey suit and blue-striped tie, said, "By 2030, revenue and hotels should double, and RoCE (return on capital employed) should go to 20%-plus."

Industry watchers have come to expect ambitious targets from IHCL given the speed at which it has been adding properties (including those in the pipeline), across segments in recent years, even getting into homestays. They expected Chhatwal to announce that the hotel count would double by 2027.

Perhaps it is a sign that IHCL is looking to do things in a more measured manner from here on. While the company's expansion strategy under Chhatwal has come in for much praise, some have raised questions over its sustainability. Over the last 120 years, the IHCL umbrella has come to be associated with the highest standards,
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they point out, and this could be the biggest casualty of the company's efforts to get a finger in every pie. In particular, they cite the falling standards at properties other than the ones it owns and manages.

"There is no doubt that he (Chhatwal) is the best CEO in the hotel business today. India needs hotels, and many of them. So, if they intend to own and operate 500 (excluding the pipeline) by 2030, a lot of these could come out of conversions," said Manav Thadani, founder-chairman of Gurugram-based hospitality consultancy Hotelivate. "The hard part comes now, because it's easy to sign hotels. Some hotel owners are also evaluating other operators because somewhere the perception of their (IHCL's) quality is not the same anymore. As they grow, they must have consistency in their quality."

A MAN IN A HURRY

Chhatwal, 60, is perceived to be a man in a hurry. Since taking over the helm at IHCL in 2017, he has aggressively targeted growth, relying on rapid business expansion and high hotel rates, despite the business environment.

After assuming the leadership role, Chhatwal first sought to take IHCL's property count from 155 (142 operational and 13 in the pipeline) in 2017 to 350 by 2025. Today, the hospitality group has 350 properties (232 in operation and 118 in the pipeline) under its various brands—the target was achieved six-odd months ahead of schedule, thanks to IHCL signing hotels at rapid pace in various locations, and creating new revenue streams.

Revenue, which had plunged from ₹4,512 crore in FY19 to ₹1,575 crore in FY21 due to covid-19 lockdowns, shot up 94% in FY22, 90% in FY23, and rose 16% in FY24 to ₹6,768.70 crore. The bottom line, which had a net profit of ₹363.7 crore in FY20, sank to a loss of ₹795.6 crore in FY21 due to the pandemic. But IHCL was back in the black by FY22, and reported a profit of ₹1,330.4 crore in FY24.

"I am surprised that nobody realized the potential of IHCL until Puneet came along. The way they are expanding across all segments is commendable. Wherever there is a niche, he finds an opportunity," said Romesh Koul, CEO of Delhi-based hospitality consultancy Naaz Hotel Consultants. Naaz works with IHCL and other hotel companies for ownership tie-ups, feasibility studies, etc.

Taj is one of the largest luxury brands in the world today. Our ambition is to make it No.1.

PUNEET CHHATWAL
MD and CEO, IHCL

IHCL's growth was helped by the fact that the hospitality sector has seen a lot of value creation since 2022. Business began looking up for hotels after the bounce-back from the pandemic; across the industry, room rates are 50-60% higher than their pre-covid levels and are not likely to go back down again anytime soon.

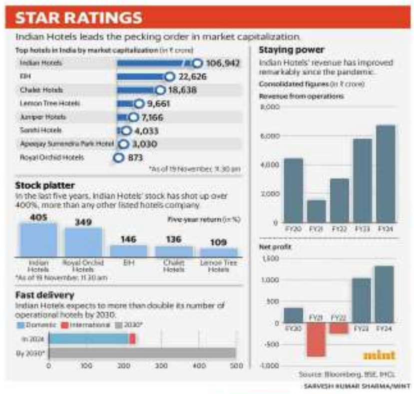
"The rates in India are about $200 a night when it comes to luxury consumption. We are the fifth-largest economy in the world, on our way to becoming the third-largest economy, so why can't we charge these rates," asked Chhatwal. "These rates are still a third of hotels in New York. We have maintained our rates, even though India and the rest of south Asia have traditionally been occupancy-driven markets where occupancy has been considered the correct metric."

According to data from hospitality consultancy Hotelivate, luxury hotel stays got pricier by as much as 70% in the last two years. Overall, hotel room rates shot up by as much as 62.7% between 2021-22 and 2023-24.

"Lenders today are going easier on hotels because of these types of results and expansion plans. The industry had gone through a very rough patch, so all this is quite positive, in one sense," said Himmat Anand, founder of boutique hotel brand Tree of Life Resorts & Hotels, which was acquired by the Ambuja Neotia group in 2023. Earlier this month, IHCL acquired a majority shareholding in the operating company of Tree of Life, Rajscape Hotels, for ₹18 crore.

IHCL's solid performance is also reflected in its stock price. In the last five years, the company's share price has surged over 400%, more than any other listed hospitality company. In comparison, the benchmark Nifty 50 has returned 97.4% in five years. Indeed, IHCL's stock has nearly doubled in value from November last year, when it was at ₹411, to ₹751.5 at the close of trading on 19 November.

The company's market cap has risen from about ₹12,000 crore in 2017 to ₹1 trillion today. In comparison, rival EIH's (Oberoi Hotels) market cap is barely a fifth of that figure, at around ₹22,625 crore; K Raheja Corp's Chalet Hotels is at about ₹18,638 crore and Lemon Tree Hotels at ₹9,661 crore. The rest of the listed hospitality companies are even more modest.



While its market cap is unmatched, IHCL's rivals have also seen serious growth in recent years when it comes to hotel rooms. As of August, Hotelivate said Marriott International had over 24,000 rooms or inventory in India while Radisson Hotels had over 12,000. IHCL had over 21,000.

BESTED BY MARRIOTT

Within India, IHCL's largest competitor is Marriott International, which had signed over 5,000 rooms in 33 hotels this year alone, as of November. In all, Marriott has 153 hotels (including the 15 it markets for ITC Hotels) and 85 in the development pipeline. Together, these properties helped the international chain gross over $1 billion or around ₹9,000 crore in India until October.

According to Hotelivate, while IHCL tops in the number of hotels run in India, Marriott International has more rooms, indicating that it has more large-scale hotels.

The key difference between Marriott and IHCL is that the former is asset-light and only manages hotels here, whereas the Tata group company owns several of the hotel assets it operates. Additionally, under the asset-light model, hotel owners pay companies a management fee to run their business.

In IHCL's case, the two Taj hotels in Delhi and the two in Mumbai, which are owned or leased by IHCL, are the driving forces of the business. Typically, hotel companies that also own assets derive 80-85% of their total revenue from assets that are owned and leased. These and other similar assets make up just 20% of the entire portfolio. The remaining revenue comes from managed hotels, which make up 80% of the portfolio, said Chhatwal. In FY24, IHCL's management fee stood at ₹470 crore.

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"We think that if you are a significant player in India, being purely asset-light will not work. Any important site for a hotel in a big city will require you to have a certain amount of revenue, a balance sheet, which is not possible in a purely asset-light model. Intention needs to be backed by investment," Chhatwal said on Tuesday, defending the strategy. "For any flagship location or brand-enhancing project, we will use our capital like Ginger near the Mumbai airport or Kochi airport, like we are doing in developing two islands of Lakshadweep," he said.

However, internationally, the company, which was earlier buying and operating its own hotels, has changed tack to managed and leased properties, much like Marriott.

A FINGER IN EVERY PIE

IHCL, which was established in 1899 by Jamsetji Tata, started out with one hotel, the Taj Mahal Palace in Bombay, in 1903. Today, it straddles the entire gamut of the hospitality business, from luxurious 5-star hotels to homestays to catering services, with some businesses overlapping.

In all, there are eight brands in the portfolio: while Taj is the luxury brand, the Vivanta chain comprises upscale hotels, and Ginger operates in the budget to mid-scale category, depending on the location. SeleQtions is a collection of city hotels and leisure resorts, while The Gateway focuses solely on the mid-scale space, and amã Stays & Trails offers boutique homestays.

"Our Taj brand has won many awards and the other brands are beginning to scale up, like those born during covid, like Qmin or amã. Taj is one of the largest luxury brands in the world today. Our ambition is to make it number one. Ginger was always a promising proposition. We have doubled the size of that too," Chhatwal said during IHCL's Capital Markets Day presentation. "Being in all segments and all markets is not a challenge, but a privilege."

Qmin is a food-delivery brand that is serviced out of its hotels. In addition, IHCL operates The Chambers (a club membership brand) and TajSATS (provides airline and other catering services).

"From a valuation perspective, it's been good for them because a lot of the new verticals have given them growth in various segments. As a strategy, you can't fault it. In the last six-seven years, they really worked on their structure and segmentation," said hospitality veteran Rattan Keswani.

REACHING TOO FAR?

While Chhatwal's leadership has been lauded, many are questioning whether IHCL can execute his grand ambitions. The company has taken giant strides since he took over, but the journey ahead could be fraught with challenges. The global hospitality market is crowded, and India's rapidly expanding luxury market has its own set of pressures.

"It's not just IHCL but the entire industry. Outbound travel is growing at 22-23% year-on-year. Indians are spending so much on overseas travel. This will, if it hasn't already, impact domestic business. Our hotel prices are not very competitive. The expansion that these companies are doing, can it be sustained," wondered Tree of Life's Anand.

The plan to expand the Taj brand internationally is one of the most ambitious elements of Chhatwal's vision, but this is easier said than done. The Middle East, Europe and other global luxury markets are already dominated by high-calibre brands. In fact, in September, rival EIH exited the UAE, where it had the Oberoi Beach Resort, Al Zorah, altogether. Today, EIH operates only a fraction of the assets that IHCL has. In all, it owns and operates 31 hotels and two cruises. Last week, EIH announced it would add another 20 hotels by 2029, down from an earlier reported target of 50 hotels by 2030.

As IHCL rapidly builds and manages new properties, questions about whether it can maintain the high standards and premium appeal of the Taj brand also lin-

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ger. The budget brand Ginger, for one, has faced service issues and Chhatwal acknowledges this.

The Mumbai Ginger in
1 Andheri East, for instance, has just a 6.3 rating on online travel agency Booking.com, where a metric below 8 is considered quite bad. The plethora of bad reviews is not surprising. When *Mint* was at the hotel, the rooms and bathrooms were dirty, and riddled with hair from the previous visitor. The bedsheets were stained and the pillows were mouldy. In stark contrast with the Taj Palace properties, the breakfast floor had the stench of a bad public bathroom. Not the sort of thing one would expect from a budget-to-mid-scale brand.

A file photo of amā Stays & Trails, Arcadia, in Coorg..

"With each of our brands we keep customer centricity at the forefront, positioning them as the most premium in the segment they operate in," said Chhatwal, when told about these issues.

The newer Gingers, he feels, are far better equipped to handle the new-age traveller, at a much higher price than originally envisaged. The one at the Mumbai airport, for example, is expected to finish the calendar year at 90% occupancy, with an average daily rate of about ₹6,500 a night, plus taxes.

For now, the spotlight remains firmly on Chhatwal and his team. The clock is ticking, and while the vision is grand, the pressure to execute is even greater. In the world of luxury hospitality, delivering on bold promises is never easy. Whether this new vision will be realized by 2030, is something everyone will be watching closely.