The Indian Hospitality Industry:

A Comprehensive Guide to Managing COVID-19

HOTELIVATE
ELEVATION THROUGH INNOVATION

Foreword

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Three or so months ago, who would have imagined the situation that we all find ourselves in — personally, professionally and as a society? The truth of the matter is that we really don't know how long the pandemic will last, how long restrictions / lockdowns will be in place, or how much worse this could get for our industry. We also cannot ascertain the final net impact on the local, regional and global economy, or the depth and duration of the downturn. In this uncertain and subdued scenario, the only sources of comic relief have been certain suggestions, inadvertent or otherwise, made during the US President's daily briefings, and WhatsApp spoofs or jokes circulating among us, as we find ourselves WFH.

The hotel business, as we know it, will change. Many of you would remember hotel brands calling themselves 'people friendly' or, for that matter, suggesting they liken themselves to community living by creating socializing spaces in the hotel lobby. Well, 'people friendly' will take on a new definition now, with safety and hygiene the topmost priority for hotel guests. The one thing the guest is certain to ask going forward is "How safe am I going to be with you - to stay, to eat or even to enter your premises? Those who address this question to their customer's satisfaction will survive. Just like 26/11 transformed security in India at hotels, we believe the Executive Housekeeper in hotels will emerge as the most critical person in times to come.

"The Indian Hospitality Industry: A Comprehensive Guide to Managing Covid-19" is actually a collection of articles by consulting experts who understand the hotel business extremely well. These may be read individually or as a whole and suggest practical solutions for the coming times, when things begin to re-open and the New Normal comes into effect, for the hospitality industry in South Asia. Joining Hotelivate's partners in this exercise were two ex-MDs with whom I have had the privilege to work: *Siddharth Thaker*, Managing Partner, Prognosis and *Kaushik Vardharajan*, Industry Expert. Collectively, this senior leadership of authors has 100-plus years of hospitality consulting experience in the India and has worked with at least 50% of all branded hotels that currently operate in India, in terms of room count. We are also thankful to Economic Law Practice (ELP) for providing us with legal insights on things to come.

To my partners and colleagues – Natwar Nagar, Achin Khanna, Saurabh Gupta, Megha Tuli, Anupama Jaiswal, Juie Mobar, Shailee Sharma, Neha Katyal and Deepika Thadani, a big thank you for your thoughts and contributions. Hotelivate also acknowledges the many hotels, restaurants, kitchen staff and volunteers who have gone all out to provide support, by running kitchens and distributing food to our fellow citizens in need, and for working alongside our health warriors in taking care of guests and patients when required, in hotels where the governments have been quarantining them.

Thank you once again and happy reading!

Manav Thadani

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01 Broad Strokes – Where are We Today As An Industry?

Manav Thadani, Founder Chairman, Hotelivate

It is perhaps a moot point to state that the COVID–19 crisis can't be compared with any other catastrophe in the modern world' history. This is indeed unprecedented, and we have never had world economies come to a grinding halt due to lock downs all over the globe. This is why these situations are called **Black Swan** events - something which is extremely rare and doesn't happen in the usual course of events. In our opinion, the world is heading towards a **New Normal** and the **entire hospitality industry is at a Pivot point**. The solutions for post COVID-19 will be different from those in the past. Business models and value propositions will also change. So, it may be important not to simply follow what worked during SARS, 9-11, 26-11 or the financial crisis of 2008. When observed from a broader lens, it's not just hotels that are hit hard. Airlines, Railways, Cruise Liners, Travel & Tour Operators and a wide network of service providers to the overall travel & tourism industry find themselves in the same boat. While various segments of basic economic life are currently closed, they too will have their New Normal. However, it is easy to fathom that amongst the worst hit will be travel and tourism. **This collection of articles focuses on what Hotelivate understands best, which is Hotels**.

While the situation today remains extremely fluid and with 60%-65% of the branded supply potentially closed, this is the time to develop a game plan for surviving and coming through to the post-COVID-19 era. There is a strong view out there that the bitter pill (lockdowns) is more harmful than the actual disease itself. Unfortunately, for now we will have to wait this out. Even when we do come back, the hotels will take time to return to any level of normalcy. The economic impact and cost of this lockdown is uncalculatable at this stage and no one can possibly accurately project this out. Also, the impact is going to be across industries and will be more in some than others. This will lead to change in **consumer behaviour in the short term or even permanently**. That will in turn manifest in many ways in hospitality; people will be reluctant to go out in large groups, they may not go to bars, say 'and' before in room dining may be the next in thing. Buffets could become a big no-no. And a saving grace could be hotels finally giving up that free breakfast they used to serve.

We believe that approximately 25% of the total workforce across different industries could be without jobs for a period of 12 – 18 months, or more. The remaining 75%, if they have jobs, will have much less a lower disposable income, as many will face salary cuts. This means fewer people eating out or traveling as their pockets becomes smaller. Restaurants supported by smaller entrepreneurs will likely be the worst affected. Hotels, which can offer better social distancing, stand to advantage in attracting customers for both their restaurants and rooms. However, it will not be easy for hotels to sell their rooms; and MICE, especially social events such as weddings, may remain on hold in the short to medium term. A significant opportunity, however, is that Indian outbound travel is three times more than foreign inbound travel. One hopes that at least in the short term those Indians who can afford to travel may choose destinations within India and avail of Indian hospitality.

Some businesses will get shut permanently, small & medium size **entrepreneurs across various business lines will be particularly badly hurt under COVID-19**, and let's not forget that this group forms the backbone to many customer bases for hospitality in the region. This, therefore, may lead to unemployment and these groups of people have been a very critical segment for us in hospitality. An economic stimulus package from the government that both protects the financial viability of companies and supports people out of jobs will be necessary to ensure domestic consumption so that spending recovers quickly and that companies are around to take advantage of the recovery.


The Leela Palace Chennai

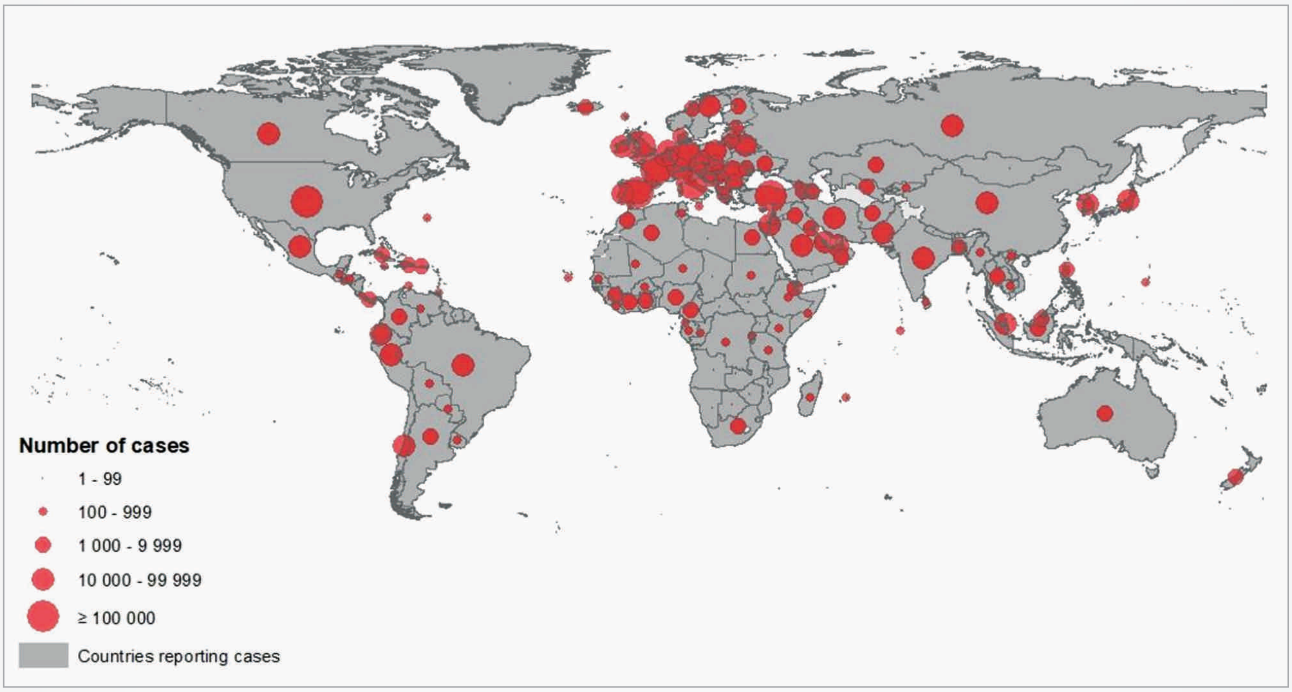
02 How is India faring compared to the rest of the World?

Kaushik Vardharajan, Industry Expert

As we write this paper, COVID-19 has spread to almost every country on the planet, with over 2.9 million cases reported and over 207,000 deaths as on the 27th of April 2020. The map below shows the extent of the pandemic and really drives home the magnitude of the crisis affecting all of us today.

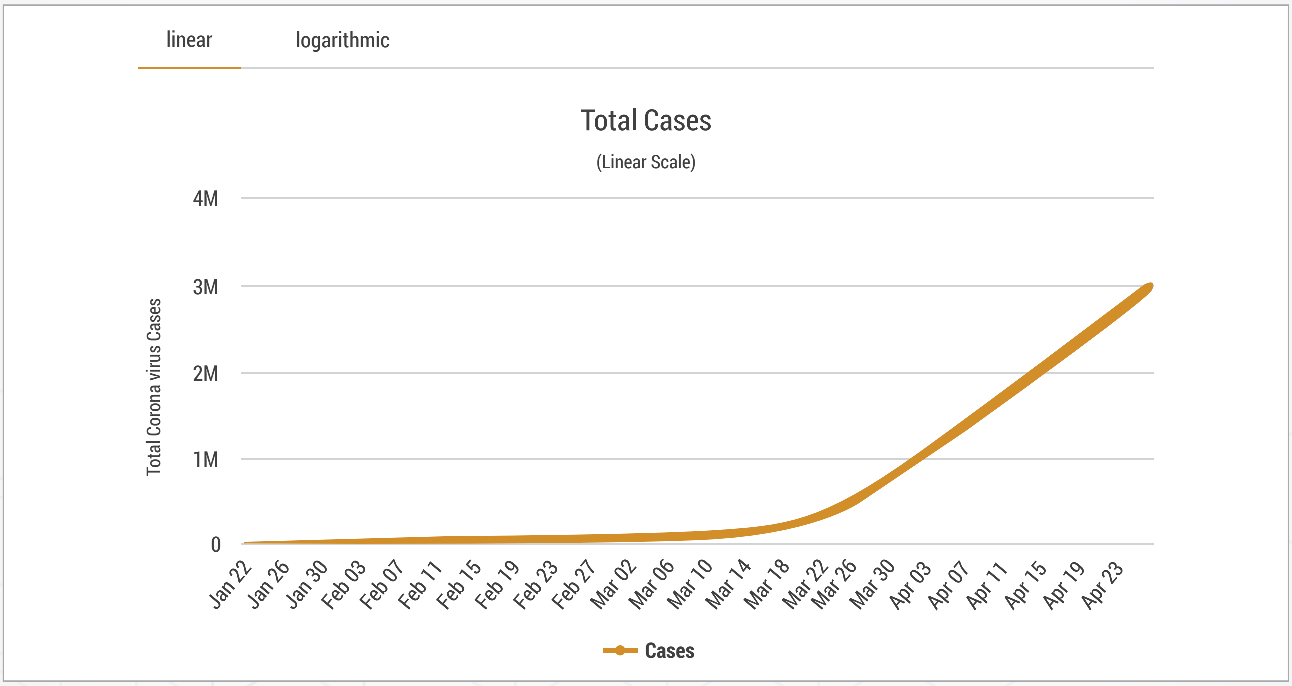
As countries around the globe struggled to deal with the pandemic and took urgent steps to control its spread, one key decision taken by many was to put travel restrictions in place that immediately impacted the travel and tourism industry. The following map from STR, while slightly dated

Figure 1: Global Extent of the COVID-19 Pandemic by Geography



The following graph shows how rapidly the pandemic spread over the last few weeks.

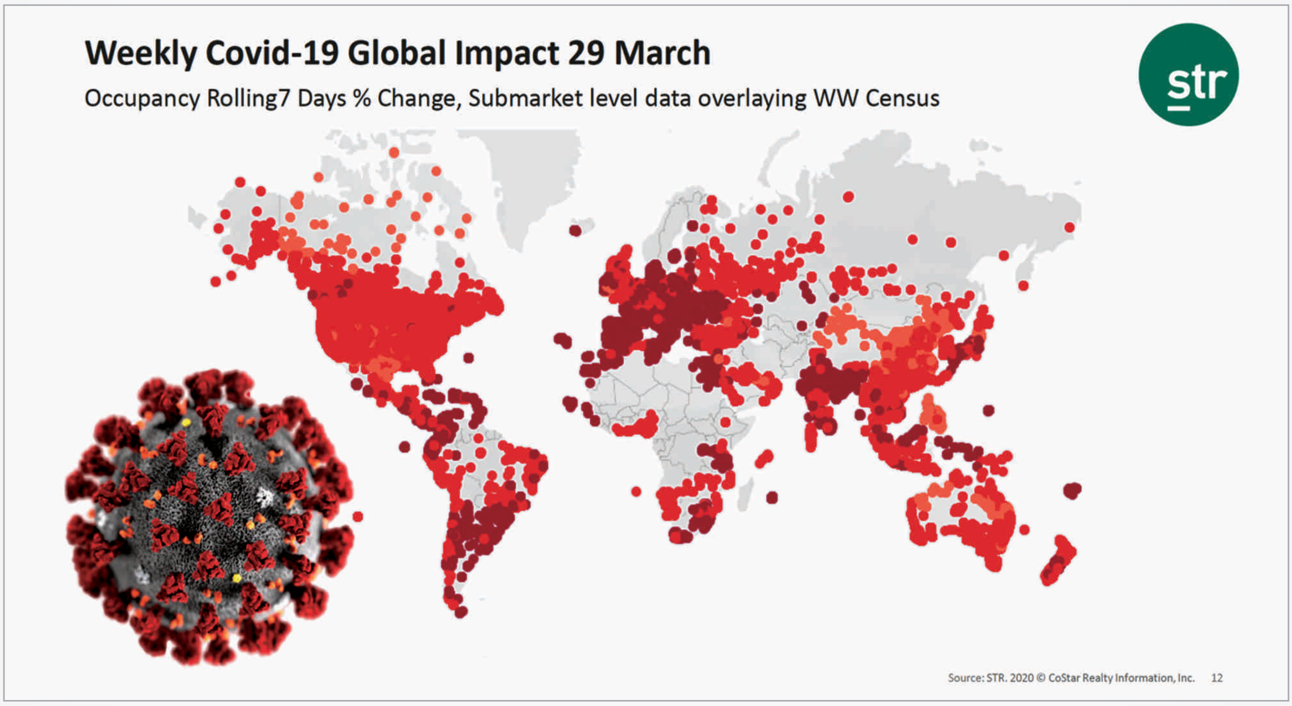
Figure 2: Total Coronavirus Cases over Time



shows the impact of these restrictions on hotel occupancy levels in markets across the world. The current data picture would almost certainly be more grim.

While each market has its own specific characteristics that influence demand, supply and pricing, it is certainly helpful to understand how hotels have been impacted by and reacted to the crisis in countries that were first affected by the pandemic, so we can learn from them and incorporate those learnings in our plans to survive the crisis.

Figure 3: Weekly COVID-19 Global Impact | 29 March



The following are some of the trends being observed in the hospitality industry at the current time:

- With almost all countries experiencing some sort of mandated travel restrictions, those fighting the pandemic are generally exhibiting similar levels of depressed occupancy and RevPARs.

- Research from STR indicates that RevPAR for the first quarter of 2020 has declined 75-95% in most markets as compared to the same period in 2019.

- Economy, midscale and extended-stay hotels have witnessed a relatively lower drop in RevPARs while luxury properties saw RevPARs decline the most.

- Hotels located just outside the downtown core of large cities and those in close proximity to hospitals have achieved higher occupancy levels than hotels in downtown or highway locations.

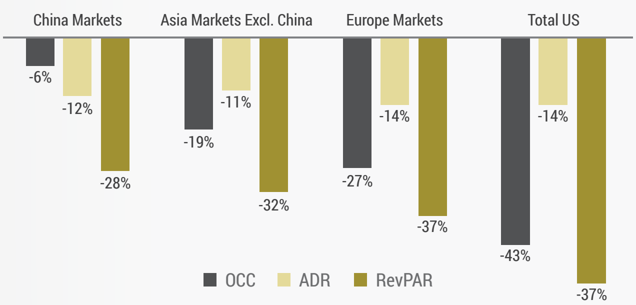
- Hotels and resorts in fly-to destinations such as Hawaii, Maldives or Bali have seen the greatest impact on performance, with occupancy levels hovering in the single digits. Given the uncertainties around air travel and the discretionary nature of leisure demand, we expect fly-to destinations will be slower to recover than drive-to destinations.

- Markets and countries that have a significant base of domestic demand such as China, India, and Indonesia will start recovering first. For the same reason, we suspect demand within the EU will return more slowly as the pandemic plays out on a different scale and timeline in each country and each one takes its own decisions on reopening borders to others.

- On the supply side, we are increasingly seeing hotel projects that are in the initial planning stages being delayed or shelved at this time. We believe a number of them will not be revived given the uncertainties around the pandemic and stress in the capital markets in many countries. Projects that are already under construction will see slower execution due to unavailability of construction labour and the developer's desire to conserve cash in these uncertain times. Such a decline in new supply will help existing hotels recover faster once demand returns. We do see challenges in the US though, which is recording the largest supply pipeline in the last two decades, according to STR.

The following table shows forecasts for year-end 2020

Figure 4: 2020 Forecasts | Occupancy, ADR and RevPAR



occupancy, average rate, and RevPAR for the key global regions, per STR and Tourism Economics.

The China Situation

In these extraordinarily difficult times for the industry, surprisingly, there is some good news coming from China, which was the first to be severely impacted by COVID-19. With China having potentially flattened the curve of the virus spread, several markets across the country are reporting strong percentages of increases in demand in the last 3-4 weeks, especially in the smaller cities, with occupancy levels increasing from the 10-20% range to as much as 40-50%.

If demand continues to grow in a sustained manner, the recovery would turn out to be much faster and much stronger than what has been expected and is a sign of resilience and hope for the hotel industry everywhere. We expect the growing demand to benefit domestic markets first, and as international travel restrictions ease, popular destinations within the region such as Thailand, Singapore, and Japan should benefit next as Chinese tourists start traveling internationally again.

The India Situation

While the Indian government officially announced a nationwide lockdown on March 24th, demand had already started to decline in the preceding weeks and hotels began witnessing large numbers of cancellations, especially with big group events. The travel restrictions that came into place from the 24th effectively brought the hospitality industry to a standstill, with most hotels in India operating at sub-20% occupancy levels since then. While many hotels have closed, some still remain open, operating with skeletal staff and limited inventory, catering to local demand that mainly comes from medical personnel or quarantined passengers. Hotel owners and operators will continue to perform cost-benefit analyses to decide when it might be better to close their enterprises and we believe we will see more hotels closing as the crisis continues.

With the lockdown restrictions being partially eased from April 20th mainly to enable manufacturing and agriculture to start back again and the second lockdown period expected to end in the first week of May, we expect demand will start to recover in smaller markets and manufacturing towns first. Similar to other markets globally, economy and mid-scale hotels should recover first, followed by higher priced hotels. We expect leisure demand to return to resorts located within driving distance of major urban centers first before fly-to destinations.

When the world has faced other crises in the past that impacted the travel and hospitality industry, the recovery of individual markets was primarily driven by a resurgence in domestic travel and demand. We are fortunate that over 80% of our demand is generated by domestic travelers and we should therefore be able to start on the path of recovery faster as a result.

Hyatt Centric Goa

03 Potential Scenarios to Exit COVID-19

Achin Khanna, Managing Partner, Hotelivate and
Shailee Sharma, Senior Associate, Hotelivate

Humans have evolved over thousands of years to become social beings; however, the COVID-19 pandemic appears to have another agenda. From a world of hugs and handshakes, ours has become one of gloves and masks. People are afraid of other people; human contact is being avoided and social distancing is the new norm.

The travel and hotel industries are primarily based on human interaction between not just the 'host' and the 'hosted' but also amongst the patrons themselves and fear of people is not good for business. Travel itself is slated to become a time-consuming and inconvenient process post the crisis when elaborate health and travel history checks as well as distancing measures are put into place. These measures, however, will need to be emulated by hotels in order to reassure travellers of their safety. Therefore, in the coming 12-18 months, the extent of recovery from the ongoing lockdown does not look swift.


JW Marriott Hotel New Delhi Aerocity

What makes the situation more complex is the lifting of travel bans in different places across the globe at different times. Hotels will have to deploy brainpower and manpower across geographies to respond to lifting travel bans and reopen their inventories in a phased manner along with putting adequate safety measures in place.

We are of the opinion that a V-shaped or U-shaped recovery, as seen after the financial crisis a decade ago, will not be the case this time around. Post the lockdown, when domestic and possibly some international travel is feasible again, movements will occur causing a small uptick for the industries. However, in the absence of a vaccine for the disease, this is likely to cause a resurgence in COVID-19 cases which will eventually lead to a second decline. Many entities are feverishly working to be able to successfully develop the vaccine and only when it is widely available to masses both globally and in India, will a sustainable recovery be possible. Hence, we anticipate a W-shaped recovery curve for the Hospitality and Aviation industries.

Recovery for the Indian Hospitality industry is dependent on factors such as spread of COVID-19 in the country, extent of the ongoing lockdown and subsequent zoning exercise, lifting of travel bans in India as well as internationally, availability of the vaccine and possible relapse of the virus in typical feeder markets. The advent of recovery, in some form, in the coming 3-4 months is the best-case scenario for the industry at the moment. In the worst-case scenario, this recovery may take close to 2-3 years.

Hotelivate forecasts the road to recovery and erosion of overall profitability for 2020 in each of the scenarios for the branded and unbranded hotel sectors. Typically, occupancies and ADRs witnessed by the branded and unbranded segments are:

Figure 5: Average Nationwide Occupancy and ADR | Branded and Unbranded Supply

Supply	Inventory	Peak ADR	Off-Peak ADR	Annual ADR
Branded Supply	1,40,000	9,000	4,500	6,000
Unbranded Supply	26,60,000	2,000	1,500	1,667

- **Best-Case Scenario** - Assuming that the ongoing lockdown ends in the beginning of May, and occupancies begin improving post June 2020, the branded hotel segment is looking at a ~21% decline in occupancy and ~14% decline in annual ADR. This means an erosion of revenue by ~32% which amounts to ~US$1.59 billion. For the unbranded sector, a similar dip in occupancy by ~20% is expected with a smaller decline of ~11% in ADR. However, given the sheer size of the sector, erosion in revenue of ~25% amounts to ~US$4.69 billion. In all, the hotel industry,


Taj Theog Resort & Spa, Shimla

both sectors combined, stands to lose ~US$6.28 billion in the best-case scenario.

- **Mid-Case Scenario** - In case of a slower recovery by September 2020, annual occupancy is expected to erode by ~38% with a ~33% erosion in ADR for the branded sector. This implies a decline of ~53% in revenue (~US$2.64 billion). Following similar timelines, the unbranded sector is slated to witness a larger dip of ~42% in average occupancy with a ~25% decline in ADR leading to a ~44% erosion of revenue (~US$8.18 billion). Total loss of revenue for the industry in this scenario amounts to ~US$10.82 billion.

- **Worse-Case Scenario** - In the event that market recovery takes longer than the calendar year, branded supply may face an erosion of ~58% occupancy and ~82% ADR leading to a massive decline of ~US$3.57 billion in revenue (~72%). On the other hand, the unbranded sector faces a ~73% decline in occupancy and ~43% decline in ADR, adding another ~US$11.19 billion to revenue losses, bringing the total revenue loss to ~US$14.76 billion.

While China now grapples with a second surge in asymptomatic cases of COVID-19, STR data tracked during their initial recovery period in late February and March showed that occupancies trending in single digits and early teens recovered to between 30% and 35% in the span of a month after hotels in various provinces reopened. As expected, economy to mid-market hotels performed better than upscale to luxury hotels and initial demand was seen from domestic corporate and leisure travellers as well as arbitrary demand from international travellers stuck during the quarantine period and looking to head back to their home countries.

Although recovery of the industry's performance to 2019 projected levels globally will only occur over an extended period of time, and will depend largely on when this process begins for each country, India may well expect to see similar trends to those seen in China in terms of occupancy and demand segments. Once the lockdown ends and hotels are able to reopen, Indian hotels should consider targeting the domestic leisure segment in the medium term.

*All estimations are for calendar year 2020
*All financial data is expressed in US$ and the exchange rate used is US$1 = ₹74

Grand Hyatt Goa

04 Who Moved My Cheese? Disruptions that will Redefine Hospitality in a Post-pandemic World

Siddharth Thaker, Managing Partner, Prognosis Global Consulting

Humankind is going through a new and unprecedented experience with the rapidly spreading COVID-19 pandemic. There is little doubt that the pandemic will have a lasting impact on accepted societal norms. It forces us to ask some important questions regarding the disruptions that will redefine hospitality in a post-pandemic world. Will the change only be limited to implementing basic health, hygiene and safety standards at hotels? Will social distancing norms be the new normal and alter the very core of hotel operations? How will service delivery processes need to be amended? Will major transformations in guest psychology nudge hotels towards a future dominated by process automation aided by tectonic technological advancements?

It is certain that going forward, rapid innovations in technology and low-touch service delivery protocols will completely transform traditional hotel operating models. In many ways, automation will also enable hotels to return to their roots as a 'customer-first' industry. Instead of a multitude of people performing rote behind-the-scenes tasks, well trained staff will act as 'Care Ambassadors' maximizing customer experiences. The future of guest service delivery will break traditional barriers. Hotels will pivot around servicing the customer's primal need for 'Health, Safety and Hygiene security'.

Once businesses resume, during the phase of normalization, hotels are likely to witness the emergence of a newer customer, whose daily behaviour and thinking will differ from what it was before the COVID-19 outbreak. The hospitality, travel and tourism industry will have to adapt to these sweeping changes in customer behaviour and buying patterns. In this article we present four service and four technological innovations/disruptions that are likely to redefine hospitality.

Personalized Delivery of Low-touch Services

Hotels guests of the future will insist on 'safe' delivery of all standard services within a hotel. The successful delivery of 'low-touch experiences' will be a key driver of patronage. Hotels will have to redefine service delivery protocols for the tricky-yet-necessary task of delivering service while maintaining safe distance and minimizing physical touch points. Hotels will need to continue to invest in building and delivering on these evolved needs to ensure patronage from the evolved future traveler.

Shift towards Curated Minimalism

In a post pandemic world, needs such as 'curated', 'minimal', and 'trustworthy' will dominate future travel itineraries and hotels will have to satisfy these highly emotional customer needs in addition to fulfilling the promise of 'Health safety and Hygiene security'. True luxury will be in maintaining safe distance and in slowing down. Increasingly, less will mean more for the discerning traveler. The future of service is all about customizing and personalizing – gone are the days of mindless stereotyping of service delivery through untrained casual staff.

Patronage of Niche Travel Experiences

Globally, there is likely to be a major shift towards exploring new holiday ideas and the discovery of new destinations in niche markets, as travelers are expected to avoid overcrowded holiday spots. Concerns of 'overtourism' have been dismissed for many years in favour of economic benefits. Now, the travel and tourism industry will be under pressure to acknowledge overtourism's negative impacts. Hotels, on the other hand, will have to re-imagine, re-invent and re-define, on an ongoing basis, to provide a unique but immensely satisfying experience while adhering to social distancing norms. They will have to relentlessly pursue and remarkably uncommon personal experiences and present them to their curious customers.

It's All About People! Not just Processes

Successful hotels will be where highly trained staff can offer guests bespoke experiences: meals in distinctive, private settings within the hotel; inviting guests to eat in whichever location, at whatever time they feel hungry; and tailoring special experiences and adventures like never done before.

Digital Access Controls Systems (DACS) & Guest Room Automation

Going 'keyless' through digital access control systems will redefine Check-ins at hotels and restaurants. Through DACS guests will be able to pick the room or restaurant table of his/her choice based on availability and get straight to the room/table upon arrival with minimal or no interactions with staff or physical surface contact at high density public areas. In-room Automation will be integrated with voice technology (Eg: Amazon's Echo & Alexa and Google Home) to reduce the need for in-person interactions. Increased usage of DACS technology will allow hotels of the future to do away with staid lobbies with static reception desks and free-up staff to engage in contact-less service delivery that will be strictly need based.

Artificial Intelligence, Neural Networks & Machine Learning

In a post COVID-19 world, the use of Artificial Intelligence, Neural Networks and Machine Learning will completely transform the ability of hotels to deliver personalised services. Service delivery of the future will be a function of targeted delivery programs based on guest data using predictive analytics. In Hotels, the usage of neural networks will assist in identifying complex patterns in consumer behaviour through statistical analysis. The role of Artificial Intelligence, Neural Networks and Machine Learning will encompass the entire guest life cycle. Further, travel management which is subject to constant changes in weather, epidemic outbreaks and geopolitical risks will be aided by increased use of AI. Hotels will be better equipped to analyse and accurately predict the probability of a certain outcome based on data analytics and present solutions to proactively mitigate travel risks and improve the overall travel management experience for their guests.

Digital Display Systems

The future of restaurant dining will be dominated by increased usage of interactive smart tables that allows guests to custom select their food and wine preferences and also change their table-top food presentations, pay their bills and much more. Digital Display technology will also take centre stage at Meeting and Conferences venues. RFID badges, registration through QR codes, augmented and virtual reality-based product displays, simultaneous multi-lingual virtual transmissions of events will be the new standard at most MICE events.

Robotics & Automated Processes

Robotics will play an increasingly important role in the hospitality industry, primarily because of its ability to carry out traditional people-intensive functions much quicker, more consistently and without the need for in-person interactions. In hotels of the future, Robotics will automate standardized food production assembly lines and significantly reduce dependency on physical contact. Robotics will also be deployed at restaurants to efficiently manage the wine cellars and enhance wine pairing functions. A Guest's preference for food, grape type and region, vintage etc. can be analyzed to recommend the most appropriate wines. Increased use of robotics and process automation will also significantly improve stores management and supply chain functions and potentially save significant costs, eliminate human error and deliver superior efficiencies.


Katamama Suites, Seminyak, Bali

In Conclusion

As hotels continue to evolve and adjust to the new normal, they require just as much emphasis on people as on systems and processes. While the adoption of low-touch service protocols and usage of future technologies will continue to grow, the very roots of hospitality are embedded in the idea of creating immediate and personal engagement that can enhance guest experiences and drive loyalty. This is unlikely to change. Personalized customer service delivery will always continue to remain at the core of the hospitality sector and guests will always find solace in the human smile and warm 'touch' of services. While technology can drive efficiencies and deliver reduced costs through back of the house automation, energy management and power conservation, guest services and interactions should be left to trained employees, who do it in the best way! Let us remember what Pericles, the influential Greek statesman, orator and general of Athens during its golden age, said in 5th Century BCE "It's not our task to predict the future, but to be well-prepared for it."

05 Talent Management, Engagement and Compensation

Anupama Jaiswal, Director, Hotelivate and
Natwar Nagar, Managing Partner, Hotelivate

Today, as the world has come to a standstill, everything has changed.

The only thing, however, that hasn't altered is the need to create an environment that **offers hope, trust and transparency.** It has become even more pertinent for us to have open discussions with our employees regarding the business realities, share any upcoming plans and encourage collaborative partnership.

To brace this new reality, it is imperative for organisations and leaders to adapt and change their leadership styles to suit the need of the hour. We foresee organisations going through two critical phases:

- Phase I, which will focus on **building a survival strategy**, for ensuring regular and sufficient cash flows. This phase is likely to witness a Cross-functional Task-Force Team coming together to create just-in-time strategies and provide rapid response to cater to the needs of the market. This phase is also likely to witness the partial dissolvement of standard operating procedures for most functions. We believe most organisations are currently managing this phase.

- Phase II, which will emphasise on building for the future. The industry will have to learn to nurture long term bonds with its affiliates. Common nomenclatures such as market leader, shareholder value and profits will need to change to "Market for all and Survival for all". This **phase will transform the role of a CEO or a Senior leader to be more like that of a Chief Relationship Manager**, whose primary responsibility will be to analyse and foster collaborative relationships with external and internal stake holders.

It may be worthwhile to mention that **traditional structures of hierarchy will be eliminated**, and a new way of life will govern us in the form of clear communication and a flexible approach to work. In the current context, we also think it imperative for companies to take a more cautious approach for business continuity. With this in mind, we would like to draw your attention to the findings of the 2019 India Hotel Manpower Study©, which had surveyed 204 hotels over 68 Indian cities across several domestic and international hotel chains.

Our research indicated that the Room-to-Manpower ratio increases directly with hotel market positioning. As is evident from the findings, **Luxury hotels**, which are synonymous with offering a personalised experience and delivering signature products and services, have the highest Room-to-Manpower ratio **(1:2.27)**, while **Budget/Economy hotels** record the least number of employees per available room **(0.82)**. Figure 6 represents the Room-to-Manpower ratio per available room across all hotel market positioning.

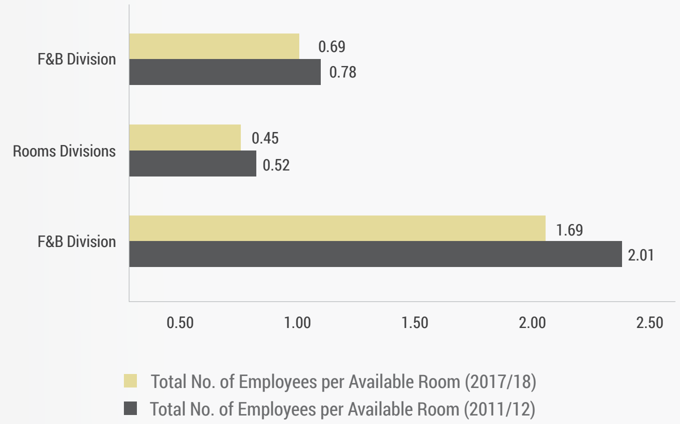
Figure 6: Employees Per Available Room (Jan-Dec 2018): Hotel Market Positioning

Country	Luxury	Upper Upscale	Upscale	Upper Mid Market/ Mid Market	Budget/Economy
Total No. of Respondents	42	29	47	78	8
Total No. of Rooms	8,241	7,301	9,541	9,072	900
Total No. of Employees per Available Room (Including Labour and job Contracts)	2.27	1.83	1.53	1.32	0.82
Total No. of Employees per Available Room (Excluding Labour and job Contracts)	1.61	1.41	1.19	1.04	0.58

Source: Hotelivate Research

Our survey findings also indicate that, over the years, there has been a significant shift in the Room-to-Manpower ratios being maintained by hotels across various market positionings. Figure 7 provides manpower ratios (at an All-India level) across the Rooms and F&B Divisions, and for the hotel as a whole across all departments, for 2011/12 and 2018/19.

Figure 7: Employees per Available Room across Rooms, F&B and for All India: (2011/12 and 2018)



Source: Industry Sources and Hotelivate Research

The **evident shift** can be attributed to continued focus by hotels on **effective manpower planning**, higher **emphasis on having a multi-skilled taskforce**, and also becoming more efficient with the use **of technology**.

Now, given the need of the hour wherein each business will prioritise cash flow management, cost control and a focus on business continuity, there are bound to be **measures put in place to force-fit a new edifice to Room-to-Manpower ratios**.

This edifice is likely to become the new normal in the field of Human Resource management. In a scenario where we do not experience a resurgence of Covid-19, we believe the industry will see business from June onwards, at the earliest. We forecast occupancy rates at 35-40% in the first few months, rising to 50-60% towards the end of the year, which typically coincides with India's peak travel season. Therefore, it is time to **redefine our hotel market positionings keeping manpower optimization in mind.**

Figure 8: Proposed Manpower Ratios Per Available Room Across Luxury and Non-Luxury (2020/21)

Country	Luxury	Non - Luxury
Total No. of Respondents	71	133
Total No. of Rooms	15,542	19,514
Proposed Room-to-Manpower Ratio per Available Room (Including Labour and Job Contracts)*	1.64	0.76
Proposed Room-to-Manpower Ratio per Available Room (Excluding Labour and Job Contracts)*	1.10	0.58

Source: Hotelivate Research and Estimates

For the purpose of illustrating an alternative method of manpower utilization, we propose to combine the existing five-categories of hotel market positionings into **two segments:**

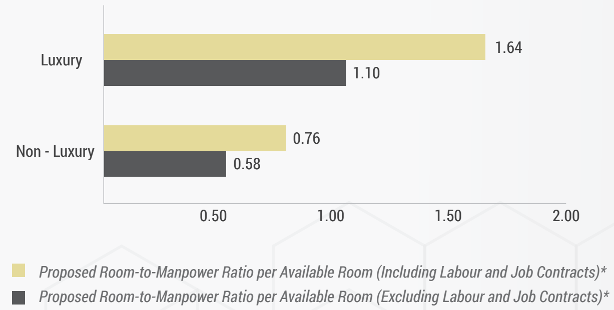
a) **Luxury** to include all hotels **classified as Luxury and Upper Upscale.**
b) **Non-Luxury** to include all hotels classified as Upscale, Upper **Midmarket/Midmarket, Budget/Economy.**

In India, Luxury hotel rooms (corresponding to hotels in mainly leisure locations and Palace hotels), are priced at US$250 and above and represent a small share of the total hotel market. Upper Upscale hotels are similar in that they are large-scale format hotels with reasonable guest offerings, and are priced at US$100-150 per room night. Given the nature and size of business in both these categories, and their focus on guest comfort and indulgence, the **Luxury segment** (which also includes Upper Upscale hotels for the purpose of this study), **requires more manpower than the Non-Luxury** segment. Understandably, Luxury and Upper Upscale hotels may not be well placed to introduce drastic measures in manpower utilisation; however, it is well within their boundaries to review and rework the structure in order to make it sustainable in the given circumstances.

Given below is Hotelivate's proposal of the New Normal for Room-to-Manpower Ratio. For the **Luxury segment**, we propose a **Room-to-Manpower Ratio per available room including Labour and Job Contracts of 1:1.64**, whereas for the **Non-Luxury** segment the proposed ratio is **1:0.76**.

These ratios are highlighted in Figure 8, below. Figure 9 provides a graphical representation of the same.

Figure 9: Proposed Manpower Ratios per Available Room (2020/21)



**These estimates have been derived based on the survey findings of 2019 India Hotel Manpower Study©*

In order to achieve the above proposed Room-to-Manpower Ratios, Hotelivate has the following recommendations:

- **Rotation of Employees** – Safeguarding the interest of employees will continue to be at the epicentre. An effective measure which can be put in place is the **fortnightly rotation of employees for coming into work**. In an ideal world, this may not be the norm. However extraordinary times need extraordinary measures to be put in place. A step in this direction will not only protect the employment of the individual, but also assist in better management of payroll costs.

- **Introduction of Department Head roles at the Cluster level** – With the drastic change in the economic environment, it will become imperative for hotel companies to respond faster in the face of financial pressure and skewed business dynamics. A key initiative in this direction will be towards offering a greater flexibility in workforce management, thus leading to the **introduction of Cluster Department Head (CDH) roles**. We foresee department head positions at the property level, being replaced by Cluster roles. Hotel Companies need to look at introducing CDH roles across key departments like Food & Beverage, Front Office, Housekeeping and Engineering. While this transition will ensure effective manpower utilization, it will also help in lowering the payroll cost at the property level.

- **Fading away of roles, especially at the function head level** – With the introduction of CDH roles, positions at the **function head level will see a gradual fade away**. Tenured employees with 15+ years of experience serving in the same position for more than 5 years are likely to be impacted the most. Additionally, to maintain social distancing, many age-old traditions, like the popular 'Aarti-Tikka-Garland' at the time of guest check-in to create that additional warmth and welcome, may bite the dust. Having a multi-skilled staff with the ability to multi-task will gain utmost importance.

- **Rationalisation of Compensation** – The ongoing pandemic has deepened the need to immediately address cashflow and working capital related problems. It has now become even more critical to manage these aspects, and to come up with measures that support long term sustenance. Once the hospitality industry crawls its way back to normalcy, we anticipate that **pay cuts (which have been in the range of 20-50% for General Managers and Executive Committee members, and even higher for roles at the corporate level) are likely to remain the same for the next 6 months of the current financial year**. Furthermore, the industry is also likely to witness **salary cuts across other levels** in the hierarchy.

  We at Hotelivate, believe this to be a good time to **review, rework and reduce any enlarged gaps in pay scale between different grades**. An example can be that of a hotel's General Manager, when compared to the next in line role at the property level. A similar exercise for positions based at the regional level will also assist in rationalising salaries across all levels.

- **Uberisation of Key Services** – Through Hotelivate's publication of the 2018 India Hotel Manpower Study©, we had nudged our industry leaders and stakeholders to deliberate upon the idea of **"Uberisation" or, in simple terms, outsourcing of key services**. Now is the time to take serious cognizance of this concept and implement actionable steps in this direction.

  Uberisation of key services is likely to become the new normal for hotel companies. Key operational areas like Food & Beverage, Marketing & PR and Revenue management will be outsourced to consulting companies with specialisation in these areas. **Hiring of experienced resources at high salary points will cease to exist**. This, is turn, will lead towards a leaner payroll structure whilst ensuring uncompromising operational excellence. Hotelivate's Revenue Management team works on a similar outsourcing model and manages revenue distribution for multiple hotel companies across the region.

- **Flexible Staffing Model at the Management Level** – We believe that current business dynamics will lead to flexible staffing at the management level, allowing a more productive use of trained and skilled individuals that are well prepared to respond to cyclical business needs. Although contractual hiring and ad hoc casual hiring are common ways of adding resources to support transient and seasonal demand, the **Flexible Staffing Model at the Management level will be an efficient and cost-effective trend** that will impact hotels across leisure and resort destinations.

06

The New Normal and Changes Required

a. Hotel Product Adaptations and Impact on Operations in the post-COVID-19 Era

Manav Thadani, Founder Chairman, Hotelivate and
Shailee Sharma, Senior Associate, Hotelivate

In our 25 years of hospitality consulting, we had never thought we would see a period quite so transformative for hotels. The next few years will witness a much greater push in terms of how hotels operate: owner–operator relationships could well be re-defined, as could management-employee relationships. Moreover, the consumer behaviour of travellers and the hotel product itself will be studied closely to determine what's relevant and what's not.

This article focuses on the hotel product: most importantly, on Rooms, F&B and Public Area adaptations that would need to take place from a product perspective. Travellers are going to look for a unique and special reason to travel to a country, city or hotel. Unless the hotels (and guest houses) out there do more than cater to a basic set of travel needs – in other words, create a genuinely compelling and differentiated offering – they will be in big trouble.

Branded hotels have been playing with brand standards to meet their own requirements of segmenting hotel products, to avoid area-of-protection clauses in hotel management contracts and to be able to have multiple hotel products in the same market. Too many brands within each hotel company that have been created, mainly to keep growing and not because of any serious customer needs. This will either start getting rationalised by the brands themselves or they will be forced to do so by owners. Brand standards should be based on the returns owners make, what customers need and most importantly what they are ready to pay for.

Frankly, most travellers and, in particular business travellers, are looking for a clean room, efficient WIFI and a comfortable bed and shower. Notwithstanding, marketing executives utilise a lot of fluff and jargon to differentiate their hotel product. Brands instead need to shift their emphasis to maintaining strong safety and hygiene standards: if hotels can be built cheaper because they can become simpler to use, then that would be the way to go for brands. Here's a look at certain things that should change and help bring about standardisation.

Room Size Matters

We believe there could potentially be a big shift in focus from **room sizes and amenities** to **safety and health**. The past few years have seen owners complain that it's become too expensive to build hotels. Large room sizes have become the easiest way for large multi-branded hotel companies to ask for differentiation: for a given brand, rooms in the US may be 32-34 sq metres, but be of a different size in Europe. In Asia, brand development teams have insisted on a size which in most cases is 15-20% larger. And we have seen this again and again. The unsuspecting owner therefore ends up spending more on a per-square-foot basis. Unfortunately, for many owners, this expenditure is also about being able to satisfy their ego. I think going forward we will need to be smarter and focus on investments that are productive and meet a new set of needs.

We believe that if a Upscale hotel was earlier built with a gross area of 900–1100 per sq ft or a **mid-scale hotel** was built at 800-900 per sq ft then the general rule should be as to how we can reduce this by 10% to 15% at the very least for all new builds. If we truly expect that the number of permanent employees will go down by, say, 20% in times to come, then we need smaller locker rooms administration areas, smaller staff cafeteria etc. With sustainable development a key subject in today's world, the time for conservation has come and every inch of the developed space needs to be re-engineered. Room design and fit outs may become much simpler and more standardised. Ideally, the brand will provide four ready options and the owner gets complete designs and plans for the one he/she picks. Instead of larger, we believe rooms will need to become simpler with less 'stuff', making them easier to clean and allowing fewer objects that guests can touch. Expect the same in the bathrooms. Finally, we think some of the minimum room inventory requirements may go away and the focus will instead be on the most appropriate inventory for that location and market.

F&B Adaptations

Perhaps the time has come for full-service hotels in urban locations to examine their F&B offerings. With the aim of reducing cost it may be important to restrict F&B outlets to one or two. Freestanding restaurants have already taken a march over many hotel restaurants and this may be a good time to evaluate the restaurant product. The use of technology will grow and so will the guest's ability to order / pay by using QR codes (see our article 'Who Moved My Cheese? – Disruptions That Will Redefine Hospitality in a post Pandemic World'). Menus may well be displayed in large display units or the old-fashioned blackboard; for now, buffets will certainly find their way out and therefore smaller menus may come back in fashion. Coffee shops will need to have potentially larger areas and may spill outdoors or into the corridors for now, as it may not be physically possible to maintain social distancing otherwise. How about instead of an open kitchen we have a visible dish washer?

Other Adaptations

Banquet sizes may need to be reviewed as it may become difficult to provide buffets for weddings and social distancing guidelines may get defined by state authorities. However, on the other hand back of the house areas could actually reduce as people combine job roles and there are fewer employees. Certain functions will get combined to bring payroll under control, as highlighted in our article Talent Management, Engagement and Compensation. Further, the need to be sustainable may result in engineering areas becoming more compact, as new plant and machinery is generally smaller, more efficient and sustainable.

In terms of hotel operations, some adaptations required at department level will be as follows:

- **Hygiene and Safety:** Security departments will have to continue thermal scanning for guests and staff at all points of entry into hotels. A sustainable method will need to be devised to sanitise guest luggage coming in. Front Office team members will need to ensure adequate social distancing between guests at all times and procuring details of travel histories and possible symptoms may continue in the immediate to medium term.
In the longer term, the Housekeeping department will become a key player in ensuring that stringent room checks are carried out in an effort to ensure maximum levels of hygiene being maintained throughout the hotels. Sanitisers will not only become available throughout the hotels but will also form an essential part of the housekeeping caddy. The Hygiene and Quality Control department will become essential to ensuring safe receiving of raw materials, as well as quality checks of staff, food products and surfaces. Food related hygiene and sanitation has been covered in detail in the section titled Food and Beverage: The Way Forward. Brands may consider introducing a position for the Chief Health/ Hygiene Officer who would be responsible for creating guidelines for hygiene and sanitation practices at a corporate level and monitoring these at unit level.

- **Reforecasting Exercise:** In the immediate term, hotels will need to undertake an extensive re-budgeting exercise for the financial year with crucial inputs from the Finance, Sales and Marketing and Revenue departments. The Finance department will have to give insights into the government relief packages available to them as well as legal requirements to be fulfilled by the hotels. Sales and Marketing departments will need to identify different markets to attract business from and consortium marketing is expected to gain momentum. We highlight the need for Sales teams to accept the fact that simply lowering rates would not attract more guests (refer to our article: Road to Recovery Through Revenue Management). Weekend demand in city hotels may need to be turbo-induced using attractive pricing. Additionally, departmental costs will have to be relooked at and stringent cost control measures will need to be put in place.

- **Digital Marketing:** As consumers in general become more tech-savvy in lockdown periods, digital marketing will gain popularity now more than ever before. Marketing Communication Managers will need to focus their energy on connecting with existing and potential guests across various digital platforms, re-iterating for guests the initiatives taken by their brands and individual units during the COVID-19 crisis to ensure guest comfort and guest and employee safety.

- **Contact-less Services:** Contact-less services that are yet to gain popularity in Indian hospitality may well become the trend in the post COVID-19 era, such as:
  - Self-check-in kiosks
  - Online check-in and check-out
  - Electronic minibars
  - Digital Key technology

- **Public Areas:** Public areas, especially swimming pools and fitness centres, will have to be closely monitored by trained staff. Guests will have to undergo thermal scanning and number of guests using the facility at any given point of time will have to be controlled. Spa and Fitness Centre memberships for non-resident guests may lose popularity in the medium to long term. Equipment at the fitness centres and business centres will need to be sanitised after every use.

06 The New Normal and Changes Required

b. Food and Beverage: The Way Forward

Shailee Sharma, Senior Associate, Hotelivate

The world of food and beverage is an ever-changing one, where stand-alone restaurants fight brutal competition to survive. While some of these restaurants succumb to the rivalry, hotel restaurants have perfected the art of staying constant. Of course, hotels have ensured that their food and beverage concepts were updated and trendy, innovative and hygienic, yet the very existence of these restaurants is threatened today.

With travel bans limiting movement of both international and domestic guests, as well lockdowns restricting local guests from using hotel facilities, hotels have already realised the extent to which their food and beverage operations stand to be affected in the post COVID-19 era. Even when the virus is brought under control, the fear of travel and crowded spaces will continue to affect people and their behaviour. Social distancing is expected to become the new normal and this will have multi-fold effects on the food and beverage departments of hotels.

The primary concern for these restaurants will be low footfall which will in-turn necessitate stringent cost-control measures, worst-affected by which will be the luxury and upper-upscale/ upscale hotels as they may feel the need to go 'frill-free'. Some adjustments that food and beverage departments can take to ride the storm and adapt to the world post COVID-19 are as follows:

- **Focus on Hygiene and Sanitation:** In the case of hotels where the Hygiene and Quality Control department is either non-existent or merged with Kitchen Stewarding, a shift will be required to a full-fledged Hygiene and Quality Control department that has the capability to conduct frequent food and other hygiene-related checks. Even in hotels that have this department, there may be a need to increase staffing and monetary budgets in order to accommodate the need for increased testing of staff (especially food handlers), incoming raw material and finished/stored food products. Sanitisers and wipes will have to be made available throughout all outlets and back of the house areas and staff will have to wear masks and gloves in order to ensure the highest level of hygiene. Food safety and hygiene ratings/ certifications will need to be made visible in order to assure guests of the hygiene levels maintained and ISO certification, which is currently considered as 'good to have' may become the norm going forward. Compliance with the clauses under the licenses issued by the FSSAI (Food Safety and Standards Authority of India) will become essential and all food-handlers will need thorough training in hygiene and sanitation.

- **Cost Control Measures:** In times of reduced income, one way for hotels to ensure an acceptable bottom-line is to employ the deepening strategy and control costs. Food and beverage costs are estimated to be in the range of 28% to 35% and bringing the cost down by even 3% to 5% could have a significant bearing on profitability. Inventory control for the food and beverage department in terms of par stock of dry foods, raw materials and stationery and other packaging items will need to be relooked at. As forecasting footfall accurately will continue to remain a challenge in the immediate to medium-term, the tendency to overstock items must be avoided and traditionally maintained par stocks may be reduced in order to cut cost and avoid spoilage. Another area of focus for restaurants should be their menus. Undertaking a detailed menu engineering exercise to identify class A, B and C menu items based on popularity will help restaurants narrow-down on frequently selling dishes thereby giving them insights into how menus may be restructured in a cost-efficient manner. Food and beverage departments of hotels may also consider using the lockdown period and slower periods immediately after to multi-skill their service staff thereby creating an opportunity for their own staff to float between outlets and even support the banquet team, eliminating/ reducing the need for casual staff during events. This serves the dual purpose of controlling cost and controlling the number of unchecked individuals entering the hotel and coming in contact with guests. Lastly, hotel brands with multiple properties in a vicinity can consider reducing redundancies in managerial positions by creating a cluster-level position to oversee food and beverage operations at these properties thus saving on payroll cost at each of the individual properties.

- **Food and Beverage Outlets:** In the immediate to medium term, complying with social distancing norms, hotel restaurants may need to increase the area per cover thereby decreasing the total number of covers in the outlet. While this may appear counter-productive, it must be reiterated here that footfall will be low enabling area per cover to be comfortably increased. There will be a shift away from buffets at the multi-cuisine restaurant and a la carte or table de hote menus will gain popularity. Also, the demand for in-room dining is expected to substantially increase as guests will prefer to dine in the safety of their own rooms and away from other guests, and hence the balance staff from the outlets can be re-assigned to assist stressed in-room dining operations.

The decrease in popularity of buffets will create an opportunity for hotel brands to permanently discontinue complimentary buffet breakfasts offered as a norm as this has been an expensive pain point for most brands but was an expectation for most guests. Also, owing to the overall reduction in demand for food and beverage outlets, hotels may consider shutting down a specialty restaurant in the immediate to medium term whilst continuing to focus on one large-format outlet. This will not only save cost for the department as a whole but also allow the hotel to utilise the staff from that outlet elsewhere.

Another area that hotel restaurants can capitalise on is the expected drop in demand for standalone restaurants in the post COVID-19 era. As standalone restaurants are usually smaller in area than hotel restaurants and have higher footfalls, people may be more inclined to enjoy an evening out at a hotel instead. Hotels have also traditionally been perceived as better in quality and cleanliness. To take advantage of the new opportunities before it, hotels will need to be more competitive in concept and pricing.

During the ongoing nationwide lockdown, many hotels have diversified to offer limited home-delivery menus, in order to stay afloat. This trend can continue in the post COVID-19 era in an effort to optimise food and beverage revenues. However, one must take into account that delivery is neither a competency nor a scalable feature for hotels and therefore, they will need to be open to tying up with food delivery aggregators such as ZOMATO and Swiggy.

The current crisis is increasingly reintroducing to the world the need for wholesome and healthy food, and food and beverage outlets will need to revise their menus to cater to this trend. Food promotions are also expected to gain popularity again as hotels strive to attract more guests to their outlets.

- **Banqueting:** As corporates grapple with a slowing down economy and try to make up for lost productivity during the lockdown period, meeting budgets are bound to be reduced thereby reducing demand for corporate MICE at hotels. Banqueting, on average, makes up for ~35% - 40% of the total food and beverage revenue, however, this number may go up to as much as 60% - 70% in the case of MICE-centric hotels. For convention centres and MICE-centric hotels, this means a certain dip in banquet revenues. Hotels with banquet facilities will have to shift their focus and depend heavily on social events for the coming 12-18 months as well as consider a reduction in their banquet staff allocation. Reforecasting of Food and Beverage budgets, especially banquet budgets, is the need of the hour.

Novotel Hyderabad Convention Centre

06 The New Normal and Changes Required

c. Road to Recovery Through Revenue Management

Megha Tuli, Co-Founder and Managing Partner, Hotelivate

The COVID-19 crisis has brought the Travel & Tourism sector to a gruelling halt. The resulting global lockdown has pushed hotels to deal with unprecedented changes in demand and capacity and forced many properties to remain temporarily closed for business; a first in our lifetime. The recovery is unlikely to resemble anything we've seen previously and hotels that can adopt flexible and innovative revenue management tactics will emerge on top. Travel demand will continue to be low and extremely volatile for the coming months and booking patterns will be drastically different from pre-COVID-19 times. As such, hotels will be in the novel position of starting to build demand from scratch once they reopen.

JW Marriott Jaipur Resort & Spa

Here are some key points to consider as you put together a recovery plan:

Don't Operate from a Place of "Distress"

Fear is normal at a time of crisis, but it cannot be the guiding factor in your decision making. In good times, pricing errors can be pardoned but, in a downturn, an ill-advised pricing strategy can eat up profitability and abolish a brand. A distinctive knee-jerk reaction is offering broad-based discounting without any consideration of the long-term harm this can cause. Keep in mind that discounting is not a strategy: it can take months to recover from deep discounts as you compromise the positioning and pricing authority of the hotel indefinitely. Having said that, limited discounting can play a significant part in your recovery strategy if deployed intelligently and with care.

Adjust Price & Product Architecture

Maintain your public or retail pricing but focus on creating bundled rate offerings that demonstrate a strong value proposition for customers. Bundled pricing strategies work well in times of recession as they allow you to disguise the room rate. Therefore, adopting a promotional strategy built on bundling over a simple pricing approach will be crucial in attracting early demand. As such, sophistication in product and package design is vital to open new markets and new sources of customers (i.e. targeting locals, bleisure, couples, religious packages, architectural/history packages). Remember that every hotel within your competitive set will be fighting for business and thus it's important to devise packages that are unique to your hotel and difficult for your competitors to duplicate.

Domestic demand will return first and marketing to domestic travellers will, therefore, be an important first step for any hotel. As people will still be hesitant to fly, marketing to the local feeder market via packages like "Staycations" or "Locals Book Now, Pay Later" will help tackle initial occupancy issues. Ensure that such packages are lucrative for the consumer with inclusions such as hotel credits, 24 hrs check-in /check-out time, tickets for local activities/excursions, etc. Since overall demand will continue to be low for some time, it will be important to maximise revenue from every booking rather than purely adopting an occupancy-led strategy. The focus should be on upselling experiences for the demand that has already been captured. Upselling F&B, spa and other revenue sources will be essential along with upselling higher room categories.

Highlight Safety Measures

Hotels have already reworked health and safety procedures as many opened their doors either as quarantine facilities or accommodation facilities for Corona warriors like medical professionals that are leading the fight against this pandemic. It will be important to extend and highlight these protocols to become the 'new normal' once hotels reopen for business as concerns around health and safety will be front and centre for any guest. Additionally, hotels will have to question how they can minimise high contact areas for customers; social distancing during the breakfast rush, no-contact check-in procedures and information on room sanitisation records are some that come to mind.

New Reference Points for Forecasting

Demand patterns, booking traction, and pace trends have all been reset and will now have new reference points. Revenue Management software have not been built to deal with this extent of adversity and may provide recommendations that are far from reality. Therefore, demand forecasting will have to be done from the ground up with a short-term focus. Previously deployed methods of a straight line, moving average or linear regression forecasting will be redundant until there is enough data available. As such, a trial and error approach will be in practice at least for the first few weeks and months till new reference points are established.

Improve Decision Making Efficiency

Now more than ever, Revenue Management will be at the centrefold of all recovery discussions. Multiple decisions will have to be taken and the quality of those decisions will determine how well you survive this crisis. A real-time assessment of data and latest trends must flow through to decision-makers in the organization seamlessly and Revenue Managers should, therefore, design processes and reports that capture early signs of demand and facilitate quick and effective decision making.

In these post COVID-19 times, many hotels are looking for measures to reduce manpower and other fixed costs permanently. We believe such cuts will also be prevalent for revenue managers. As such, there has always been a massive disconnect in the expectations of senior leadership and the deliverables of a revenue manager. The shortage of qualified revenue professionals, coupled with cost-saving measures and an imminent need of high precision RM execution, will lead to more hotels using outsourced / remote revenue management firms, like Hotelivate, in the coming months. Our dedicated team of senior RM resources have demonstrated their ability to improve financial results for the portfolio of assets under Hotelivate's management.

Hyatt Place, Gurugram

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d. Redefining Operator and Owner Relationships

Juie Mobar, Director Special Projects, Hotelivate and
Manav Thadani, Founder Chairman Hotelivate

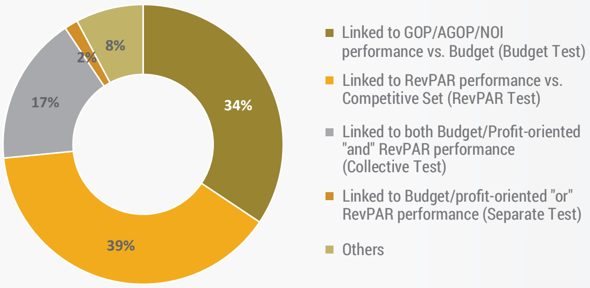
Nearly all hotel management agreements define a Force Majeure Event (aka an Extraordinary Event), which may occur either alone or in combination during the life of the contract that is beyond the reasonable control (a "catch-all" phrase commonly used) of the Owner or the Operator. If either party is delayed or prevented, in whole or in part, in complying with any term of the agreement due to a force majeure event, the party is generally excused from such obligations or conditions for a period of time equivalent to the delay caused by such an event. However, the affected party needs to make reasonable efforts to mitigate the consequences of the force majeure event, and often, such excuse of performance excludes, without limitation, obligations of a monetary nature, procuring and maintaining insurance, and/or exercising rights under the agreement. Indisputably, when a force majeure event occurs, the burden of risk is greater on the Owner who typically employs the hotel's team, needs to meet debt service, and is liable for all costs of doing business, while relying on the Operator to generate sufficient cash flows to meet those requirements.

COVID-19 largely qualifies as a force majeure event facing the industry at this point. Its unprecedented nature has taken all stakeholders by surprise, requiring us to relook the various facets of the hospitality business. Among these, hotel management agreements, defining Owner and Operator relationships, are under scrutiny to ensure that interests of both parties are better protected, going forward. Below, we have highlighted select terms and clauses that need specific attention based on the learnings from this crisis.

- **Force Majeure Clause Itself:** Contracts differ in defining such events and the treatment of consequences of such events. The Operator is specifically excused for budget deviations, performance test failure, and operating in conformity with brand standards. At times, even the territorial restrictions are not extended on account of a force majeure event. On the other hand, the Owner is required to make all payments (including fees owed to the Operator) and meet project development milestones (with minimal exceptions). There is a possibility that going forward, "pandemics", "epidemics" or similar words may be more widely used in the detailed description of such events in management contracts, but more importantly, the excuse of performance as well as the termination rights granted (if any) need to be more balanced between the Owner and the Operator. Legal review of this clause is more important than ever before, especially when used as defence by either party, ensuring that neither unduly suffers the consequences of such events.

- **Operator Performance Test:** A single-pronged Budget or RevPAR test is the most popular type of performance test in South Asia. A collective test requires the Operator to fail "both" the Budget and RevPAR tests to give rise to the Owner's right to terminate the contract, whereas a separate test requires the Operator to fail "either". Moving forward, Owners should not accept a collective test at all. Also, for a budget test, one must increasingly look at actual NOI instead of actual GOP vs the budgeted figure. Given the high operating leverage of hotels (ratio of fixed costs to variable costs), it is necessary to account for the fixed charges a hotel incurs when testing the operator's abilities to manage a hotel efficiently – an aspect that has been highlighted by the ongoing crisis.

Figure 10: Type of Operator Performance Test | South Asia



Source: 2020 Hotel Management Contract Survey | South Asia by Hotelivate

Another thing to consider is that while it is fair to shield the Operator from a test failure on account of a force majeure event in case of a budget test, for a RevPAR test it can be argued that since the hotel is being compared to a carefully chosen competitive set in the local market, performing at par with it should be the minimum requirement (all hotels being similarly impacted).

- **Shorter Term:** The average length of the initial term in South Asia is 20.7 years and for the renewal term it is 8.2 years. For upscale-luxury hotels, the initial term can be as long as 30 to 40 years, averaging around 25 years. Events like COVID-19 make us realize that the industry dynamics cannot be predicted so long out, and thus, the hesitation of Owners to be locked in with a brand for such lengthy periods is justifiable. This needs to be addressed going forward, possibly with shorter initial terms and multiple renewal terms on mutual consent of both parties and subject to renegotiation.

- **Provision for an Owner's Priority:** Presently, less than 10% of the South Asian management contracts provide an owner's priority return. Here, the incentive fee payable to the Operator is subordinated to the owner's priority amount and expressed as a percentage of the available cash flow (broadly defined as the amount by which cash flow exceeds owner's priority). In such instances, the fee ranges between 10%-30% of the available cash flow. Seen as a tool for attributing a more proportionate amount of business risk to the Operator, this incentive fee structure can be extremely rewarding in the good years, while in times like this, the Owner is not obligated to pay the incentive fee unless sufficient cash flows are generated. We believe a greater number of contracts should start incorporating this provision as a learning from this crisis.Figure 2: Centralized Services Fee/Charges and Costs – Broad Indicative Ranges | South Asia

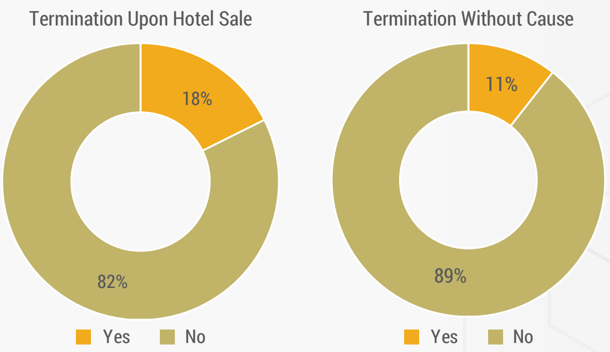
- **Centralized Services:** Group-wide services provided by the Operator tend to cost anywhere between 7.5%-12.5% of Gross Revenue. While most Operators do not share a complete list of all services and their corresponding fees/costs, this needs to be more transparent and equitably allocated between the system's hotels. Particularly, there needs to a provision to tackle times like this, when the property is unable to directly benefit from these services (either because the hotel has ceased operations or is doing very low volume of business).

- **Indemnification:** Under an indemnity clause, the indemnified party is legally exempted from any loss or damages that may arise from claim(s) against it. In hotel management agreements, this risk-shifting clause usually favours the Operator, where the Owner indemnifies and keeps indemnified the Operator against all loss or damages arising out of or in any way related to the hotel or performance of the Operator of its duties under the agreement, unless it can be proven that the liability was caused by the Operator's wilful misconduct or gross negligence. The scope of this clause needs special attention specially to prepare for events like COVID-19, when guests or employees could become ill at the hotel and seek damages, the hotel could miss deadlines to pay vendors or honour other credit agreements etc.

- **Condemnation/Taking/Eminent Domain:** With governments expropriating private property for public use, such as hotels to house medical professionals or as quarantine facilities during the pandemic, this clause has become expressly significant. At present, the majority of the contracts permit the Operator to unilaterally terminate the agreement if the hotel or a substantial portion of it is condemned, taken or expropriated for an indefinite period of time. The Owner typically does not have any termination rights under this clause. Furthermore, if the Owner receives compensation from the government, it is obligated to pay the Operator a fair and reasonable share of the amount. Going forth, this clause needs to be modified such that the Owner is accorded the same termination rights as the Operator.

- **Termination Rights of the Owner:** Currently, only 18% of the hotel management contracts in South Asia allow the Owner to terminate the agreement upon hotel sale, and just 11% accord "at will" termination rights to the Owner. Extraordinary events like COVID-19 that cause significant disruption of business, depletion (or wipe out) of revenues and ultimately, hotel closures, may necessitate hotel Owners to put their properties up for sale. Under such circumstances, being encumbered with a lengthy management contract reduces the buyer universe significantly as well as the sale price. Hence, there is an incentive for Owners to negotiate unilateral termination rights, though it will attract a termination fee payable to the Operator. The key aspect to keep in mind is that the sales premium an Owner expects by selling a hotel unencumbered with a management contract should be higher than the termination fee.

Figure 11: Owner's Termination Rights | South Asia



Source: 2020 Hotel Management Contract Survey | South Asia by Hotelivate

While the management contract terms that need a relook as we recover from the crisis could far exceed the ones mentioned above, this can serve as a starting point. As negotiations take place and contracts are re-evaluated, many nuances may surface based on individual experiences of the Owners. Also, the manner in which the parties deal with the crisis, and the trust they have in each other coming out of it, will be a major factor in shaping contracts in the years to come.

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The New Normal and Changes Required

ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

e. Coronavirus: Legal Perspective on the Impact on the Hospitality Industry

Aakanksha Joshi, Partner, Economic Laws Practice and
Sujjain Talwar, Partner, Economic Laws Practice

The hospitality industry across the world has been severely impacted by the proliferation of novel coronavirus **("Covid-19")**, a disease termed as a pandemic by the World Health Organization. Covid-19 is unprecedented in that it is very easily transmissible and has by reason of international travel affected such a large number of countries as has never been seen before. Given social-distancing norms, followed by lockdown and business suspension orders consequent to COVID-19, the hospitality industry has been severely impacted. In India, since March 25, 2020, all hospitality services were suspended with the exception of establishments accommodating tourists and persons stranded due to lockdown, medical and emergency staff, air and sea crew or establishments being used or earmarked for quarantine facilities. While no relief measures have yet been announced by the Government to aid the ailing industry, certain Government directions have a direct impact on the hospitality industry. The impact of the business suspensions, falling demand and Government advisories need to be seen through the lens of the rights and obligations of hotel owners and their contractual arrangements. In this paper, we seek to cover certain headline issues resulting from the manifestation of COVID-19.

Force Majeure, Act of God and Impact on Hotel Contracts

The key issue under most hotel contracts (be those with operators or vendors) is examining whether such contracts provides for a force majeure provision and whether COVID-19 is covered under such provision. Relief under force majeure provisions is only available if the relevant event is encompassed within the definitions and subject to the conditions as specified in contract. COVID-19 could be covered under the head of 'epidemic'. The lockdown or business suspension orders, on the other hand, would fall under government actions. Whilst most hotel management agreements with international operators cover epidemics and pandemics specifically, several other contracts only refer to Acts of God. Traditionally, courts in India have held an Act of God signifies the operation of natural forces free from human intervention, such as lightening, storm etc. It is arguable whether COVID-19 would be considered as an act of God. Government restrictions are usually covered under a separate head under force majeure. However, Government restrictions have followed the advent of COVID-19. Hence the time of commencement of force majeure poses an important question, since reliefs are only for the period of its subsistence.

Usually, in the case of management agreements **(HMAs)**, the operator seeks to invoke force majeure, as its ability to operate a hotel in accordance with its self-imposed brand standards is impacted. Further, force majeure usually excuses the operator from its performance test. However, after the construction phase, it would be difficult to argue that the owner's obligations are affected in any manner.

There needs to be a causal link between the force majeure event and the obligations claimed to require suspension. Without such link, most contracts would not provide relief. Payment obligations are the hardest to seek relief for as the measure is not commercial hardship but impossibility of performance.

Mitigating Measures

Most contracts require a party claiming relief of a force majeure to mitigate the impact of a force majeure. In the absence of such provision, there is no duty to mitigate. However, even in such absence, where the parties are subject to certain performance standards or standards of care, an obligation to mitigate could be imputed. HMAs have standards of operations varying from obligations to act as prudent operators, aiming to achieve long-term profitability and in certain cases, to also act as an agent of the operator. In our view, pursuant to any of the aforesaid standards, an operator would have an implied duty to mitigate the impact of COVID-19 to the extent reasonably practicable. Purely commercial contracts, such as vendor arrangements, would typically not include such duties.

We have observed that many operators are re-visiting their business models and devising proposals which may help counter the impact to whatever extent feasible. Owner may seek further details relating to these and other mitigatory measures taken by operators and benchmark it against measures taken by similar operators, keeping in mind the fact pattern applicable to them.

Employment Issues

An unfortunate fallout of COVID-19 is the shrinking of the economy leading to job and wage losses. Central and

State Governments have issued various advisories and orders directing employers to continue retaining employees despite closure of business and pay wages as if they were at work during the lockdown. This has a significant impact on businesses without revenues, many of which are now pushed to the brink of closures and insolvency.

There may be legal grounds for challenging such orders on the basis that the State Government orders are termed as advisories and are not binding, that the Central Government order shifts the economic burden to private parties (which is not clearly contemplated in the Disaster Management Act, 2005 **(DMA)**), and that there is no clarity in the manner of application of such laws. However, non-compliance of these orders issued under the DMA would expose businesses to penalties and in case of companies, those in charge, i.e. managers and directors would be at direct risk. Therefore, compliance, although burdensome, is recommended. It is pertinent to note these orders and advisories cover the period during lockdown, and at this stage there is no direction for post the lock-down period. Employers may look to contractual renegotiations or statutory procedures for lay-offs and retrenchments post lockdown, depending on manner of resumption of business.

A distinction may be made between line staff and those that have more supervisory or managerial roles, as the advisories and orders seem to suggest that they apply more to workers and not employees. Employees would continue to be bound by their employment contracts, and some may negotiate furloughs, deferrals or pay-cuts requiring agreement with the employees.

There is, at this stage, no easy answer to questions arising out of the application of these orders. Businesses may want to weigh their commercial considerations as against public and media perception as well as social and political pressures.

Requisition of Premises

A common occurrence in India and world over is the requisition of hotels by government agencies for creating isolation or quarantine facilities or housing government staff, especially healthcare workers. The orders seem to be issued under the DMA, whereby the District Authority (as established for each State district under the DMA) can identify buildings and places which could, in the event of any threatening disaster situation or disaster, be used as relief centres or camps. Authorities also may, if they believe that any premises are required for rescue operations, issue an order requisitioning such premises for the limited duration of such requirement. Compensation would be payable to the owner. Some orders specify room rates that are payable by the Government, which may not be commensurate with the costs involved.

Additionally, various States have also implemented COVID Regulations under their powers in the Epidemic Diseases Act, 1897. under which they inter alia can designate any private building as a quarantine facility as a containment measure to prevent the spread of the disease in a defined geographic area. There are some technical issues relating to the enforceability of such orders. However, resisting them in the current scenario may not be possible.

These orders typically require certain manpower and services to remain available to the authorities. Recoupment of the costs would depend on the compensation payable by the authorities. Recourse in case of any shortfall seems unlikely.

Tax Implications

While the hospitality sector may fight this downturn by reducing their variable and overhead expenses until their revival, they would still need to continue incurring substantial fixed operating expenses (including payment of wages) which may be a challenge given the lack of revenue. Regardless of this, the sector continues to contribute in the fight against COVID-19 by offering their property for being used as quarantine facilities, serving meals, etc. Accordingly, it is the need of the hour that the Government recognizes the contribution of this sector and introduces appropriate subsidies/ exemptions perhaps to lower the fixed operating costs during the slowdown. Consumption based relief may not be of significance at this stage as there is no consumption. Some of these measures may be in the form of subsidy in license fee paid to the Government, including but not limited to liquor license, discount on electricity and water bills, interest free/ low interest working capital loans, deferral of property taxes, etc.

Hotels may also try to ensure minimal tax outgo on payments received by hotels for future bookings to preserve cash flows while at the same time being compliant with the law. The following may be borne in mind as regards the Goods and Services tax **(GST)** implications on cancellations:

a. For advance payments received in relation to bookings prior to the lockdown and for which GST has been paid in March, the following two scenarios may emerge:

i. The guests may request for cancellation of bookings made for stays during the lockdown period and would want the hotels to either refund the advance received or allow them to shift their existing booking to a later date. In such a case, as the Hotel would have already paid GST on the advance, the shifting of the date of stay would not impact the GST treatment by the hotels. However, if the hotels decide to refund the advance amount, they may opt to file for a refund of the GST discharged in respect of such advances. Alternatively, hotels may explore the option to adjust this amount against their output liability accrued in the month of March.

ii. For cancellation of bookings falling after the lockdown period, hotels could consider not refunding the advance received or shifting the booking to a later date. In such a case, the advance received would be forfeited and tax may already have been paid on that. As GST would have already been paid on such amount, forfeiture of such amount could be construed as tolerating an act which is a supply exigible to GST at the rate of 18%. In some cases, hotels would have discharged the GST on the advance payment at the rate of 12% i.e. the rate applicable to supply of accommodation service with tariff under INR 7,500. This would result in additional GST liability of 6% (18%-12%) on the hotels.

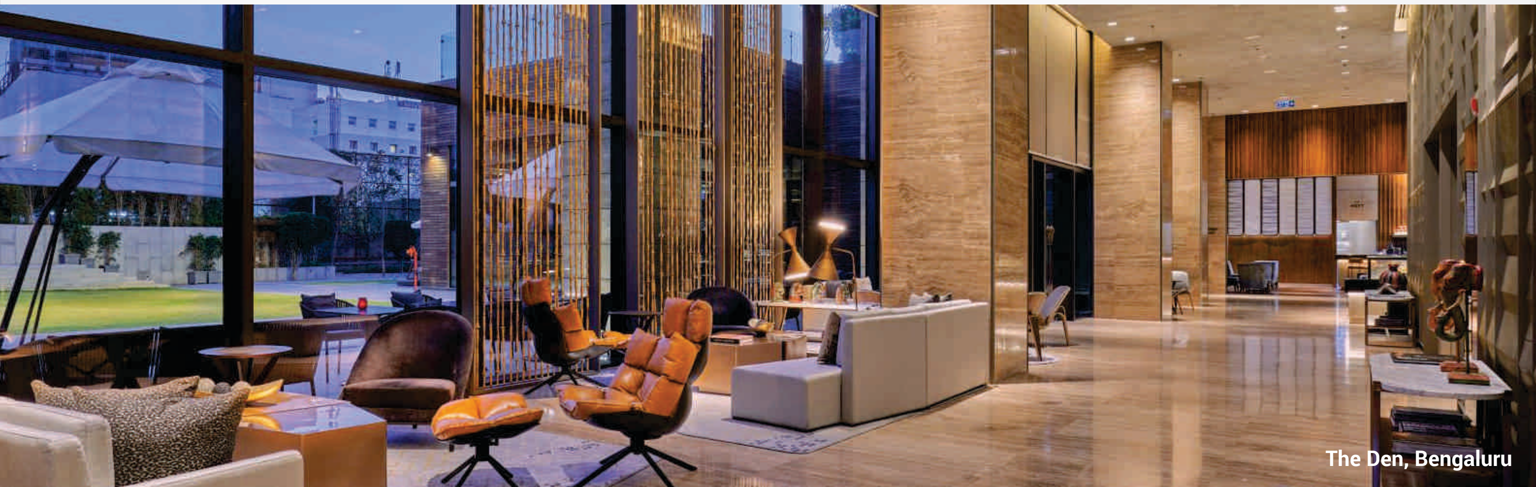
- While the due date of furnishing Form GSTR-3B for the months of February, March and April 2020 have not been extended, a relaxation has been provided in respect of the rate of interest leviable on delayed payment of tax for the said period. Taxpayers will be required to pay interest at a rate of 9% p.a. (and not 18% p.a.) which is payable post expiry of 15 days from the due date, on delayed payment of tax for the months of February, March and April, 2020. However, hotels may typically land up filing the GSTR-3B of the month of March, 2020 only by May 5, 2020.

- Accordingly, the hotels may have received bookings in March, which have not yet been disclosed as an advance in the GST returns. In such cases, if the advance received by them is refunded, no GST implications would arise. However, if such amount is forfeited by the hotels, hotels may consider structuring such forfeiture amount in a manner to mitigate the eligibility of such amount to GST depending upon the treatment of the booking amount and the underlying documents created by the hotel. Only if the amount forfeited by the hotels is attributed to an underlying supply, would such amount be exigible to GST.

As for compensation, if any, payable to vendors on account of cancelation of orders, the same may be structured in an efficient manner such that the amount to be paid does not tantamount to supply and no GST is payable. Care should be taken that vendors do not book the amount forfeited by them in relation to specific underlying supply, in which case the transaction would typically not be treated as tolerating an act and no GST would be payable to the vendors. Even if the vendor decided to book the forfeited amount as tolerating an act and charged and collected GST at the rate of 18%, hotels should ensure that such vendors provide appropriate documents to equip the hotels to treat such expense to be in furtherance of their business and accordingly avail input tax credit of the GST paid.

Lending Covenants

Owners should carefully monitor their loan agreements. Even though payment defaults are unlikely (on account of the Government mandated moratorium), there is a strong possibility that the other covenants will have been breached (e.g. those relating to REVPAR and other performance related covenants). This could, post lifting of the moratorium, give a handle to lenders to accelerate the loan repayment. Coupled with a pledge, these instruments and strategies can be very well used by potential acquirers of hotels. If loans are assigned with all of this in mind, they become attractive assets for those looking to "loan to own".



The Den, Bengaluru

07 How Will Hotels Turn Profitable Again?

Saurabh Gupta, Managing Partner, Hotelivate

In times of crisis, it's wonderful what the imagination will do. – Ruskin Bond

The onset of COVID-19 is the mega crisis of our lifetime. For the hospitality sector, it is an Armageddon event threatening to wipe out the good, the bad and the ugly without any distinction. Arne Sorenson of Marriott described the impact of the pandemic to be more severe than the 9/11 attacks and the 2008 financial crisis combined. It may be argued that hospitality sector, often criticised for its high fixed costs and low ROCE was anyways overdue for a major course correction. Perhaps, COVID-19 has only exacerbated the already festering problem which needs a deeper solution with exponential results. This crisis is bound to push all hotel owners, management companies, franchisors and operating teams to go back to the drawing board.

The sector may see a protracted recovery cycle of 12-18 months, during which time the revenues may contract to 30-50% of 2019 levels. This would lead to operating costs consuming most of the truncated revenues leaving little else for debt servicing, essential repairs and so on. Payroll cost in hotels typically ranges between 20-25% of the ideal revenue which would increase to 40-50% of turnover, if revenue is reduced to half its original level. World over, hotels have resorted to aggressive furloughing (wherever supported by state programs) or salary reduction for managerial staff to mitigate the impact. But hotels are still haemorrhaging – they need much more than a Band-Aid and they need it fast. Hotelivate Asset Management believes that fundamentally hotels must utilise their human capital with far greater efficiency levels. Questions have to be asked, rules have to be rewritten and mindsets have to change.

Here are some ideas, thoughts and questions with an aim to utilise the human capital in hospitality more productively. The questions here point towards the art of possibilities and do not purport to be all-encompassing solutions:

- Reduction of layers in the hierarchy
    - Can hotels operate with a flatter structure – GM, line managers, rank and file?
    - Can we set processes that allow teams to perform independently and without inspectors?
- Eliminating duplication of responsibilities
    - Are job roles clearly defined? Or do responsibilities overlap and are concealed in indistinct job titles?
    - How are the responsibilities of Director of F&B different from that of the F&B Manager? Isn't a director the manager of the managers?
- Compensation mechanism needs to tilt towards variable pay
    - Can hotels continue to afford to pay high fixed salaries to General Managers and HODs?
    - Why not structure the compensation of key management personnel to mimic the fee structure of hotel operators and bring out the entrepreneurial spirit in them? A lower fixed salary but with a high incentive salary based on performance? Incentives could be 2x or 3x of the fixed salary with no upper limit.
- Temping is critical to fix the issue of fixed costs
    - Can industry leaders along with relevant ministries and colleges enable an environment for temping where college students could self-support their expenses while working part-time in hotels and restaurants?
- Experienced hoteliers could offer their expertise as freelancers
    - Can hotels not work with top professionals on short-term assignment basis or on fixed term contracts?
    - Why should a smaller hotel not be able to afford the services of top hospitality talent other than by offering an endless employment agreement?
- Region-level (cluster) senior management for Engineering, Procurement, IT, Revenue Management, General Management.
    - Better paid hoteliers are routinely placed in high revenue earning hotels to maintain payroll to turnover balance. But their vital operational experience may be required to turn around a smaller or newer hotel which may not be able to afford them. Why don't chain hotels accrue benefits from cross-subsidizing talent at a regional level?
    - Can regional sales offices set-ups not be emulated for other functions like regional engineering, HR, IT, procurement offices?
- Technology for repetitive and mundane jobs
    - In near future, could robots play a big role in functions like housekeeping, security, patisserie,

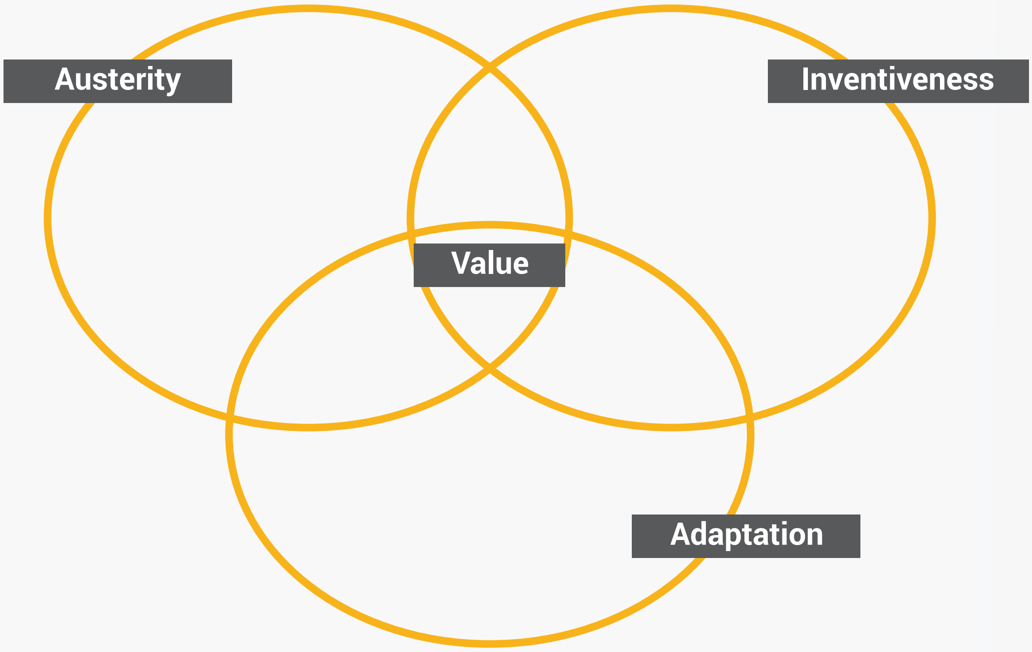
room service, reservations?

- o Should hotels adopt digital training modules which may be a blend of standard and purpose-built training?
- Restaurants are a specialised human-intensive function – needs specialists
  - o Can hotels tie-up with the best chef-entrepreneurs in the business by way of a mutually beneficial revenue sharing business model?
  - o What can be emulated from the business model of successful independent F&B outlets?
- Outsourcing procures superlative expertise on a variable expense basis
  - o If functions like revenue management, accounting can be outsourced for higher efficiency, then why is the adoption still rather limited?
- Cross functional utilisation of teams must move from utopian to utilitarian levels
  - o Is mental conditioning of teams the first step towards widespread adoption of this age-old idea?
  - o Do hotels have the right resources for cross functional training?

At Hotelivate, we have the advantage of having a view from 30,000 feet; with our ears to the ground. We believe the industry needs to push the boundaries of its own thought process and derive deep and lasting value by working on a confluence of austerity, inventiveness and adaptation.

Leaders in the hospitality sector have a duty upon them. The duty to bring about a change in the way hotels are staffed and operated all over the world. Each region may have its own nuances and commercial compulsions which may not allow for a 'one size fits all' solution. But every hotel unit must critically look inwards and must transform into a leaner and fitter avatar. The survival strategy for this crisis may well become the winning formula in post-COVID-19 life. At the end of it all, we may be thanking this crisis for bringing about the much-needed renaissance to the modus-operandi of the lodging industry.

Figure 12: Deriving Value through Austerity, Inventiveness and Adaptation



Grand Hyatt Goa

08 M&A in a Period of Uncertainty

Saurabh Gupta, Managing Partner, Hotelivate

The month of March 2020 unleashed the full impact of COVID-19 on the hospitality sector. Business had already started drying up at the start of the month but came to a grinding halt with the essential lockdown. It was almost like seeing an ascending vehicle, on a dream run (of 11 wonderful months), ultimately fall off a steep cliff.

Working Capital Challenges - Hotels almost function like a continuous-process industry like a steel plant or an oil refinery. They run 24X7X365 and never really shut down, even for maintenance. In doing so, they incur high fixed costs in the form of payroll, energy charges, licenses and maintenance. Going forward, by May 3, most hotels across the country would have witnessed 40 days of nil or negligible revenues due to suspended (and not shut down) operations but with 70%-80% of their costs intact. Furthermore, even in an optimistic scenario, business is expected to largely normalize only after 12-18 months due to the fear psychosis around travel. This brings to the forefront huge working capital inadequacy that hotels are grappling with. Most hotels have already taken extensive measures to minimize operating costs for the forthcoming months. However, fiscal needs of this magnitude cannot be overcome by austerity measures.

Hotelivate Recommendation – The sector needs access to fresh credit lines for its medium-term needs; a large part of which is spent in giving salaries to millions of workers. Existing lending institutions must provide for an additional working capital financing of 12-18 months. This could be appended to the existing term loan (back-ended). This solution could also include hotels with less-than-ideal credit history by using additional collateral from the owners. Working Capital Challenges - Hotels almost function like a continuous-process industry like a steel plant or an oil refinery. They run 24X7X365 and never really shut down, even for maintenance. In doing so, they incur high fixed costs in the form of payroll, energy charges, licenses and maintenance. Going forward, by May 3, most hotels across the country would have witnessed 40 days of nil or negligible revenues due to suspended (and not shut down) operations but with 70%-80% of their costs intact. Furthermore, even in an optimistic scenario, business is expected to largely normalize only after 12-18 months due to the fear psychosis around travel. This brings to the forefront huge working capital inadequacy that hotels are grappling with. Most hotels have already taken extensive measures to minimize operating costs for the forthcoming months. However, fiscal needs of this magnitude cannot be overcome by austerity measures.

Debt Distress – An estimated INR50,000 crores worth of outstanding loans are attached to hotel real estate. The Reserve Bank of India took a step in the right direction by announcing a 3-month moratorium on all debt payments. However, a longer-term hospitality sector-oriented debt capital solution is urgently required. Hotels run a plausible risk of protracted operating losses, making it virtually impossible for them to discharge their financial obligations. In the absence of fiscal engineering, almost all levered hotel projects run the risk of being classified as Non-Performing Assets (NPA) by the lending institution. RBI needs to step in with some decisive measures to prevent this massive implosion which can have a catastrophic impact on the Indian tourism industry & lodging market.

Hotelivate Recommendation – The sector needs a moratorium from all principle and interest payments for atleast 18 months via a notification by RBI. This will allow hotels to avoid a credit de-rating and help the lender operate with a lower capital (for provisioning) for a non-NPA account. Hotelivate also suggests that the tenure for all operating hotel's term loans be extended by 5 years with accelerated prepayment clause. Banks and lending institutions must be sympathetic towards the special needs of hospitality, which along with airlines, is the worst hit sector. Hotel businesses with good credit history could also be allowed special loan re-structuring terms to tide over this systemic issue. Such meritorious businesses with special relief packages may, in turn, be instructed to guarantee a no-retrenchment policy. Debt Distress – An estimated INR50,000 crores worth of outstanding loans are attached to hotel real estate. The Reserve Bank of India took a step in the right direction by announcing a 3-month moratorium on all debt payments. However, a longer-term hospitality sector-oriented debt capital solution is urgently required. Hotels run a plausible risk of protracted operating losses, making it virtually impossible for them to discharge their financial obligations. In the absence of fiscal engineering, almost all levered hotel projects run the risk of being classified as Non-Performing Assets (NPA) by the lending institution. RBI needs to step in with some decisive measures to prevent this massive implosion which can have a catastrophic impact on the Indian tourism industry & lodging market.

Sale of assets – Deep demand shocks are expected to present an acute liquidity crisis over the next 6-12 months. While companies with stronger balance sheets or no leverage may be able to weather the storm, many run the risk of going belly-up and of a hostile take-over by lending institutions. Most hotels need a loan re-structuring plan or a significant equity infusion by the parent company. Failure to find valuable funds would make it inevitable for some hotels to change hands.

Market Outlook & Trends:

- **Cash flow quandary will not ease out in a hurry.** Hotels typically operate with 2-3 months of cash in hand to cover operating expenses. Most hotels would have exhausted their working capital by July 2020. This will also coincide with the expiration of the free-moratorium period for operating assets. Most hotel businesses are woefully unprepared to manage this double whammy and are truly expecting policy-level relief from the government at the time of writing of this paper.

- **Selling pressure will only increase with time.** Acute stress expected in short term (2 quarters) and medium term (3-8 quarters) for hotel owning entities. We believe many hotel owners would be unable to bear the pressure of a mounting debt scenario beyond two quarters. Such owners would need to explore options for part/ complete stake sale. Larger enterprises, especially conglomerates, may have a greater tolerance for cash-flow mismatches. Single asset owners will have lesser options to exercise.

- **Buyers will be rare and selective.** Over the next 12 months, fresh debt capital for hotels is expected to remain sluggish and highly merit-driven. Hotel transactions will be largely funded by equity capital, further limiting the buyer universe. Most private investors/ UHNIs looking into hotel deals are expected to withhold buying decisions due to a contraction in their own source of wealth. Conversely, long term institutional investors with strong balance sheets will intensify deal-making activity but would seek a judicious use of their dry powder to acquire hotel assets at discounted values. Deals that pass high standards of deal execution and due diligence are likely to get consummated with buyers refusing to go along with the 'iffy' ones.

- **Quality may trump quantity again.** While the presumption is to acquire hotels at seriously distressed valuations, battle-scarred investors prefer assets that come with an upside via active asset management. Valuations dependent on trailing 12 months EBITDA (and now forward 12 months EBITDA too) may not always be indicative of the inherent value in the asset. Deep investors would prefer to acquire high quality, high potential assets over cheaper but low-potential assets. Quantum of potential is superior to depth in discount.

- **Terminal capitalisation rates to move northwards.** Valuation struggles intensify during Black Swan events like COVID-19. Given the impending weak sectorial outlook, buyers in current times would want to factor in higher perceived risk, higher cost of capital and therefore seek higher capitalisation rates. During downturns, it becomes exceedingly difficult for buyers to assess fair value and premium for the target. Cognitive biases are often seen to cloud vision and judgement. Making two sides of the deal table see each other's point of view was never easy; external event like COVID-19 will make it arduous.

- **Sometimes it helps to arrive late.** Under-construction hotels have the advantage of being able to time their entry in consonance with favourable tailwinds in the market. We expect hotel developers may choose to delay projects significantly; this may be preferred over opening in a choppy market and unsupportive macro-conditions. Having said that, additional or fresh equity or debt capital for unfinished projects may not be readily available.

Mergers & Acquisitions may take a backseat. Over the last few years, strategic investors for hospitality focused companies have been emerging from within the sector like Louvre hotel's acquisition of Sarovar Hotels and Keys portfolio by Lemon Tree Hotels. With a rapidly deteriorating fiscal condition of hotel companies, strategic investors are likely to hibernate. Any distress M&A activity will need to draw in funds from financial investors like private equity; who may be focused on other real estate assets like warehousing, data centres or in digital/ technology led investments.

In closing…2019 was a landmark year for hotel transactions in India. Buoyed by the exceptional operating performance of hotels since 2016, a total of 13 deals with a valuation of INR5,900 crores consummated last year; the highest ever in its history! The year 2020 also took off to a great start with the completion of 8 deals valuing INR1,400 crores within the first 2 months. **Hotelivate Investment Advisory was exclusive advisor to three successful transactions in 2019**.

We expect Q4-2020 to see intensification in deal pipeline because of this negative external event. The ratio of transactions involving rescue deals, restructurings, and distressed sellers will likely increase. It is imperative for hotel owners to conduct a careful assessment of their 12-months cashflow situation and have a plan for the worst-case scenario. Owners of 'borderline' hotels may have to reconcile with the sale of the assets and cut their losses. Sadly, not having a plan is not an option anymore.

09 Government Initiatives: In India and Abroad

Shailee Sharma, Senior Associate, Hotelivate

As economies come to a grinding halt the world over, employers scramble to cut costs and stay afloat. A large cost for most service providers today is salaries and employee benefits while for many industrial/ manufacturing-centric organisations major costs include taxes, debt repayments and license fees. For people below the poverty line, the cost of goods itself is a challenge. For many others, it is the availability of food and essential commodities that proves to be challenging. As stock markets slide and GDPs plummet, people and industries alike look to their governments to bail them out.

Four Seasons Hotel Bengaluru

The Government of India has been applauded by several world leaders for taking stringent measures to contain the spread of the COVID-19 outbreak in the country at an early stage. They had also announced the first relief package of `1.7 lakh crore between April and June 2020, mainly targeted at economically weaker sections of society, and include the following actions:

- For 20.40 crore women covered under the Jan Dhan Yojana, three instalments of ₹500 each will be directly transferred to their accounts over the three-month period.
- For 2.8 crore senior citizens, widows and the disabled, two instalments of ₹500 each will be directly transferred to their Jan Dhan accounts.
- 8 crore farmers have received or will soon receive ₹2000 each in cash hand-outs.
- 22.12 lakh frontline medical workers will be included under the New India Assurance Company Ltd's ₹50 lakh cover per person over a period of 90 days (starting March 2020) in case of death during the pandemic.
- 3.5 crore construction workers are being handed-out cash amounting to a total of ₹3,071 crore.
- Free gas cylinders have been promised to all beneficiaries of the PM Ujjwala Yojana.
- 80 crore households below the poverty line will be provided with 5 kg wheat/rice and 1 kg pulses per month under the PM Garib Kalyan Ann Yojana.
- 79 lakh individuals and 3.8 lakh establishments stand to benefit from the announcement pertaining to government taking on payments of 12% EPF as employer and employee shares each where monthly wages amount to less than ₹15,000.
- Advance PF withdrawals of up to 75% have been allowed by the government during this period and 2.1 lakh members have already availed this benefit.

While the Government of India works on a Financial Relief Package for the revival of industries and services in the country, there is already talk of what it will include. Some believe that the package will not be released all at once, rather, 'booster doses' will be made available for various sectors in a phased manner. A major concern for the government at the moment is that cash crunch faced particularly by medium and small-scale enterprises (SMEs) will translate into insolvency issues. Some proposals that may find their way into the second relief package include:

- 3-month moratorium on working capital loans may well be extended to a 6-month period. Cheaper lending and softer loan servicing may also be worked out.
- Payroll support for employees of SMEs will take the burden off the organisations while offering some respite to the employees currently facing retrenchment or even loss of jobs.
- Some fixed expenses for such enterprises may be borne by the government e.g. fixed electricity cost.
- Reduction in GST rates to lower slabs for the service sector including airlines, hotels and restaurants that cannot recover losses incurred during the lockdown period. This will lead to a reduction in overall prices of services thereby creating demand and allowing the service providers to find their feet again.

Eleven committees set up by the Prime Minister's Office to submit proposals for repairing the economy post the lockdown include not only the aforementioned points but also make suggestions regarding ease of doing business, cash flow support for organisations, and working capital loans to companies at low interest rates that are guaranteed by the government in case of failure to repay on the company's parts.

Hotelivate, along with key stakeholders in the hospitality industry, has proposed relief measures for the industry such as:

- Monetary support to casual/ contracted staff in the hotel, aviation and cruise line industries as people face severe pay-cuts and lay-offs
- Working capital loans at reduce interest rates in order to continue paying employee salaries
- Offering a moratorium or a deferment of debt payments to hotel owners over a six to nine-month period
- Deferment of renewal of licenses that do not pose immediate health, hygiene or safety related operating risk to establishments by six months as well as the possibility of smooth renewal at no incremental cost in this fiscal year
- Deferment in filing and submission of GST on the monthly portal for a longer period of time post June 2020
- Introduction of Leave Travel Allowance (LTA) post the lockdown period to create domestic demand that will help jump-start the Indian aviation and hotel industries

Internationally, many governments have extended benefits to the hospitality and tourism sectors, as below:

- **Singapore** – for the current year, the Government of Singapore has announced 100% property tax rebates for hotels, serviced apartments, food and beverage outlets, etc. It has also promised to pay salaries up to 75% based on sector
- **Malaysia** – the Malaysian government has gone a step further and offered deferment of tax debts for 6 months, exemption of hotels from Service Tax, investment of US$6 million to promote tourism in the country and discount vouchers for airlines and hotels
- **Indonesia** – along similar lines, Indonesia has also exempt hotels and restaurants in 10 tourist destinations from paying taxes for a period of 6 months. Additionally, it has also announced financial incentives for airlines, travel agencies and tourism marketing amounting to US$13 million
- **United Kingdom** – other than offering salary benefits up to 80% for all hospitality employees, the UK government is also offering sickness benefits to self-employed people. It has waived off all VAT payments until the end of the year and are also offering grants of between £10,000 and £25,000 to small hospitality businesses
- **Italy** – one of the worst-hit countries in the ongoing pandemic, Italy has frozen lay-offs for 2 months and also extended unemployment insurance for its workers.

The Westin Sohna Resort & Spa

Annexures

- Pivoting the Hospitality Industry in Response to COVID 19, Manav Thadani, Founder Chairman, Hotelivate
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