

## **Impact of Boutique Hotels in The Indian Hospitality Industry Concerning Acquisitions, Revenue and Occupancy: Case Study of Sunday Hotels Pre and Post-Covid Pandemic**

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### **ABSTRACT**

*Research has indicated different results for the various assets that were considered. All of them were under the same management and operator but only one of them surpassed Pre-Covid revenues. The other two could not do so for reasons other than management. An attempt has been made to point out the areas which could be addressed such that the other two assets increase their revenue and visibility.*

**Keywords:** Occupancy, ADRs, CAGR, Acquisitions, MICE, Leisure, Hospitality Industry, Competitive Benchmarking, Service Quality, Travel, Covid Pandemic, Revenue.

**Research Question:** The paper will analyze the extent to which tourism has impacted the Indian economy pre and post-Covid pandemic. How far does this sector affect occupancy, revenues, costs and profits of boutique hotels in the economy? Does a change in ownership lead to higher revenues? Understanding of the franchise model vis-a-vis ownership model? These and other such questions will be attempted in the course of this paper.

### **Introduction**

The rise of boutique hotels marks a significant shift in the upper-midscale hospitality segment. Boutique hotels focus on personalisation, striking designs and sustainability; redefining luxury experience for the new age travellers. According to a report by HVS ANAROCK, the boutique hotel segment has witnessed a growth rate of over 50% in the past three years alone. This surge can be attributed to the changing preferences of travellers who seek non-conventional experiences. A recent survey conducted by a leading Online Travel Platform (Booking.com), revealed that approximately 50% of the respondents prioritised sustainable travel compared to previous years.

As sustainability becomes an increasingly important consideration for travellers, boutique hotels have been at the forefront of adopting sustainable practices in their operations. By doing so, boutique hotels not only reduce their environmental impact but also appeal to conscious travellers seeking environmentally responsible travel. Boutique hotels stand as a beam of magnificence, offering personalised alternatives for luxury stays.

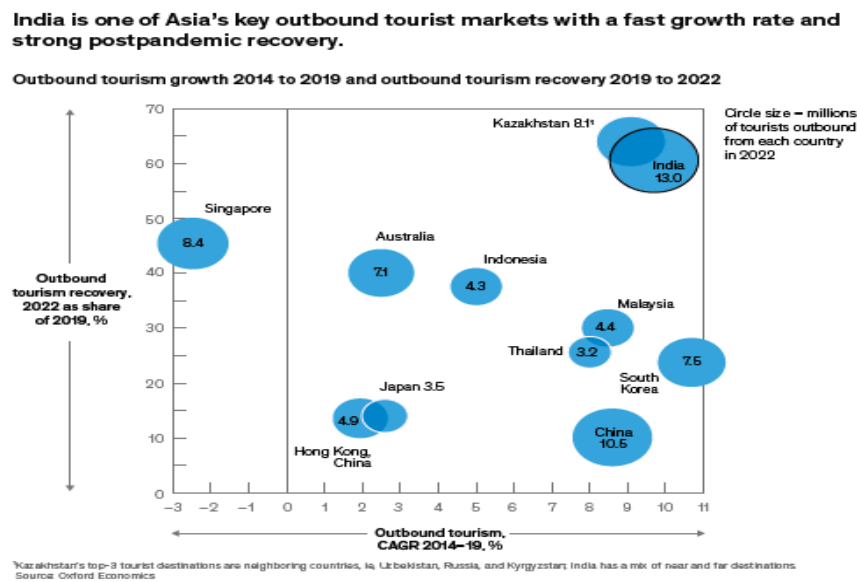
The hospitality industry is experiencing a phenomenal demand, especially as we move further away from the pandemic's peak. This spike is not just a momentary phenomenon; it's a long-term trend set to shape the next two decades. Particularly in leisure travel, the appeal is stronger than ever, highlighting not just a reflex but the beginning of the "Golden Age" for this industry.

One major factor for the trend is a change in demographics. Younger generations are becoming economically active, contributing to the ongoing demand. Additionally, the pandemic led to an increase in remote work, giving people more freedom to travel.

Surprisingly, the pandemic created more high-net-worth individuals than ever before. These people seek luxury experiences, which positions the upper midscale market for continued growth. This trend is compelling the hospitality industry to adapt and expand to travellers for unique and luxurious experiences.

This lasting trend makes the hospitality sector an increasingly attractive asset class for investors. As can be seen in the figure below-

Figure 1



Prior to the COVID-19 pandemic, India's outbound tourist market was among the fastest-growing markets in Asia. India has already recovered 61 per cent of its pre-pandemic market, with 13 million outbound tourists in 2022. The above chart represents a much quicker recovery than most Asian countries. The case study of 'Sunday Hotels' represents a true example of

- changing ownership
- moving from the franchise to the ownership model
- Performance comparison pre and post-Covid pandemic

### **Methodology**

Data was collected from IDS (Internet Distribution System) Next software. This is Asia's largest hospitality software solution. It has been in existence for over 35 years and encompasses 220+ hotel chains, 300,000+ rooms, 25,000+ point of sales (POS) outlets, and 300+ leisure centres spanning 50 countries.

In 2024, IDS Next became the leading provider of smart hotel software across Southeast Asia, the Middle East, Africa and Oceania. It is used for contactless check-ins, front office management, guest requests and housekeeping management to payroll, finance, inventory management and procurement. This software automates and streamlines front and back office hotel operations covering all departments.

The primary data for the analysis was collected from IDS Next software and was then tabulated in MS Excel and further displayed as a stacked bar chart using Tableau (a business intelligence and analytics software used for data visualisation and interpretation).

### **Ownership Pattern and History of the Portfolio in Study**

OYO ('On Your Own') was founded by Ritesh Agarwal and has become a household name in the hospitality industry. It is a network of franchised hotels, rooms, and living spaces that aim to provide quality and affordable accommodation to travellers across the globe. It started in 2013 when the company partnered with small hotels and guest houses in India, offering-

- Technology solutions
- Branding
- Operational Support

In return, these properties would adopt the standards laid down by 'OYO' and offer consistent services to guests. Their main focus is on-

- Quality control
- Standardization
- Affordability

**Figure 2**



SoftBank started investing in OYO in 2015, two years after it was founded. The fund has invested ~2 billion to date. In 2018, OYO Hotels and Homes started investing in its own real estate business, contrary to its initial business model. The company has been buying real estate properties and setting up hotels through acquisitions.

It is in this context that, Japanese technology investor SoftBank who has a ~46% stake in OYO (a subsidiary of Oravel), established a joint venture (JV) to launch a premium hotel chain in India. In this venture, both partners share a 49.9% stake (livemint.com, 22 September 2023).

One of the reasons why OYO started owning hotels was the anger and dissatisfaction amongst hotel partners who alleged that there were hidden charges and lack of transparency. The audit authorities also found irregular TDS audits. From 2018, the company has reported net losses. There were questions about the haste in adding hotels to its platform at the expense of service quality. Another reason could be that they had multiple verticals which did include owning properties. All this was brought under one umbrella because they were overpromising and under-delivering. It is under this umbrella that the 'Sunday' brand was launched.

## **Analysis**

**Jaipur (Hotel 1-90 keys operational hotel; Super area: ~100,000 sq. ft.)** – Before acquisition by SoftBank, the asset was owned by Multitude Infrastructures Pvt Ltd. –a subsidiary of Emaar MGF.

**Figure 3: Sunday, Jaipur Façade**



Source: Google Images

Acquisition Cost-462 MINR, Capex-67 MINR, Total Cost-529 MINR

## **Jaipur Market Overview**

Jaipur is the capital and largest city of the Indian state of Rajasthan. As of 2011, the city had a population of 31 lakhs, making it the tenth most populous city in the country. Jaipur is also known as the Pink City, due to the dominant colour scheme of its buildings, and is renowned for its coloured gems. It is often referred to as the Paris of India and is the first planned city in the country. Jaipur is also a popular tourist destination and forms a part of the west Golden Triangle tourist circuit along with Delhi and Agra. In 2019, the UNESCO World Heritage Committee inscribed Jaipur as the "Pink City of India" among its World Heritage Sites. The city is also home to the UNESCO World Heritage Sites Amer Fort and Jantar Mantar.

## **Demand Drivers**

Room night demand in this micro market is largely driven by corporate travellers and is strongly supported by leisure demand.

**MICE (Meetings, Incentives, Conferences and Exhibitions) & Corporate**

Jaipur has established itself as a MICE destination in the recent few years. While it has always been a popular destination for weddings, more recently the city has emerged as an important destination for corporate events as well which includes events like offsite, incentive meets, launch events, etc., the same has contributed to the room night demand in the city. The city also hosts several key events, some of the well-known events hosted in Jaipur include the Jaipur Literature Festival, Stonemart-an international exhibition of dimensional stones. Apart from this, small exhibitions and conferences are held regularly in the city.

**Leisure**

Jaipur has witnessed a surge in domestic tourism in recent years, which has been brought about by increased connectivity across the country, growing middle-income families with higher disposable income, as well as greater hospitality and tourism offerings in the region. City hotels and resorts around Jaipur have benefited from an increase in weekend getaway demand from Delhi. The city also forms a part of the Golden Triangle (Delhi-Agra-Jaipur) tourist circuit and is a popular destination with international as well as domestic tourists. Jaipur being one of the main entry points for international tourists into the state, also enjoys a reasonable amount of transient leisure demand.

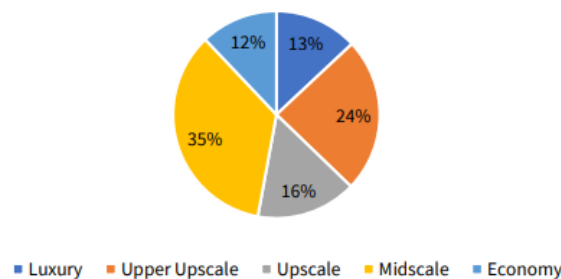
**Supply**

**Existing Supply**

Currently, there are 67 branded hotels comprising 7,350 keys in Jaipur.

**Figure 4**

Jaipur Hotel Market Segmentation – Existing Supply



Source: Own Source

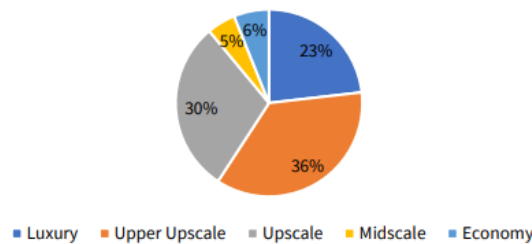
The chart above highlights the city’s room inventory distribution across key categories as of March 2024. As seen in the chart, the majority inventory of 35% lies in the midscale category, followed by 24% in the upper upscale segment.

**Upcoming Supply**

Currently, there are 22 upcoming hotels in Jaipur comprising 3,170 keys indicated in the figure below-

**Figure 5**

Jaipur Hotel Market Segmentation  
Active Pipeline – By Room Count

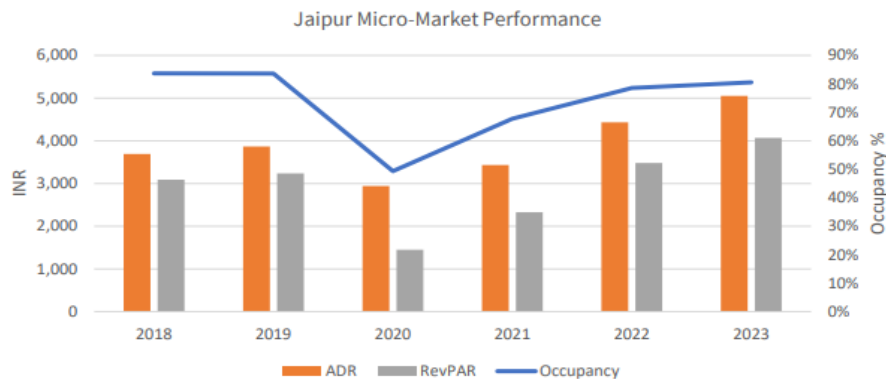


Source: Own Source

The chart above highlights the city’s upcoming room inventory distribution across key categories as of March 2024. As seen in the chart, 66% of the total lies in the upper upscale and upscale segments.

**Performance**

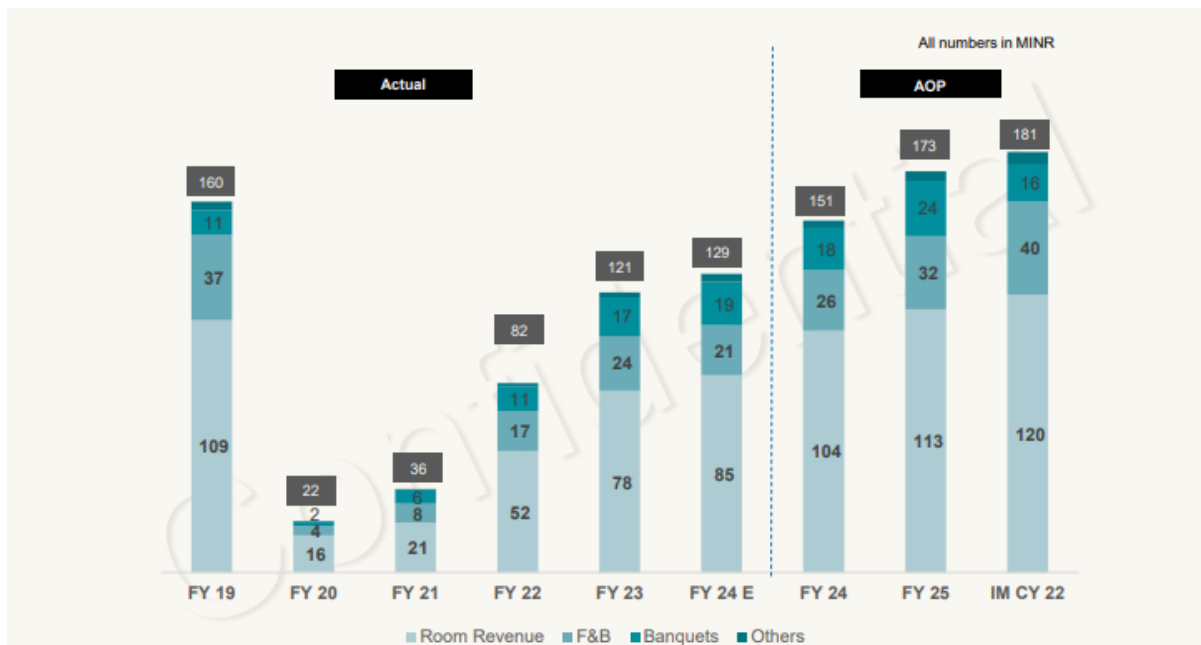
**Figure 6**



Source: Jones Lang LaSalle Hospitality

Trading statistics across the micro market show an increase in occupancy levels and ADRs (Average Daily Rate) in the recent past.

**Figure 7: Analysis 1-Revenue Mix from FY’19- Sunday, Jaipur, Rajasthan**



Source: Own Source

\*MINR denotes Millions in Indian Rupees 1.0 MINR=10 lakh INR

The above analysis indicates the following-

- Looking across FY19-FY24, the primary source of revenue is ‘Room Revenue’
- In spite of the COVID-19 pandemic, all revenues have reduced drastically. But even in the truncated revenue, the major share is *still* of ‘Room Revenue’.
- Sunday, Jaipur has not been able to achieve pre-Covid revenue returns.
- According to the chart, the asset was expected to target revenue of MINR 181 for FY22 but the actual figure was MINR 82 (~55% lower than the valuations)
- The adverse effect of Covid on this asset has not been recovered in FY23

***Reasons why Sunday Jaipur did not achieve the levels indicated by most hotels in the micro-market, as shown in Figure 7***



- The asset was rebranded after investment by SoftBank in 2023. It was earlier known as ‘5 by OYO’. It is the mindset amongst guests that OYO signifies a budget segment, and by that time the ‘OYO’ brand had run into difficulties.

**Vadodara- (Hotel 2-96 keys operational hotel)**

**Figure 8: Sunday, Vadodara Façade**



Source: Google Images

Acquisition Cost-501 MINR, Capex-24 MINR, Total Cost-525 MINR

### **Vadodara Market Overview**

A major city in Gujarat, Vadodara has a population of 21.8 lakhs and is home to many cultural and heritage attractions such as the Lakshmi Vilas Palace and Pratap Vilas Palace. Vadodara is a major manufacturing, chemical, pharmaceutical, and automobile hub. The city is on the major roads and rail networks connecting Mumbai with Delhi and Ahmedabad. The city has the oldest cricket ground in Asia, called the Moti Baug, and is equipped with sports facilities.

### **Demand Drivers**

The primary driver of room night demand in the micro market is the corporate segment, accounting for 87% of the total, with the MICE segment contributing 10%, and the leisure segment making up 3%. There is a significant MICE demand for corporate conferences and events that run every week.

### ***MICE & Corporate***

The micro-market sees a healthy level of demand for training sessions for new and existing employees, especially from the construction, banking, and entertainment companies around the area. There is also a significant demand for months-long projects, requiring employees to relocate temporarily to the city. MICE demand comes in the form of events and conferences throughout the week, both 50-70 and 100+ PAX depending on the type of events.

### ***Leisure***

The micro-market is in proximity to many cultural and heritage sites throughout the city, from the Laxmi Vilas Palace, the Shiva Statue, and the Government Museum, to the Sayaji Gardens. Hotels in the region see minimal weekend demand for individuals travelling to Kevadia for leisure purposes. This segment sees an uptick in performance levels from the October-December season as a part of the end-of-the-year festivities, such as Diwali, Navratri, etc.

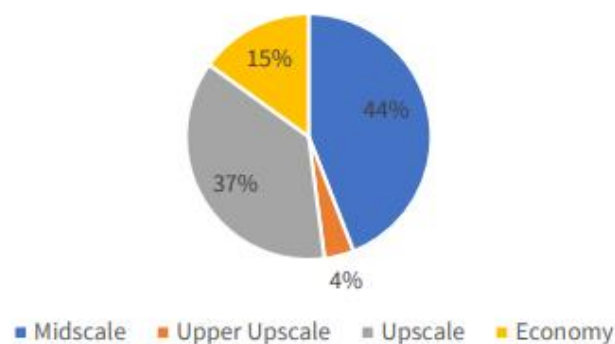
### **Supply**

#### ***Existing Supply***

There are 32 branded hotels comprising 2,305 keys in Vadodara.

**Figure 9**

Vadodara Existing Hotel Supply - By Segmentation



Source: Own Source

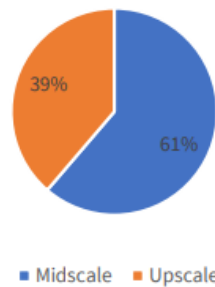
The midscale segment (44%) dominates the list, followed by upscale (37%) and economy (15%) hotels. In terms of the number of hotels, the midscale segment (50%) tops the list, followed by upscale (25%) and economy (22%) segments.

### Upcoming Supply

Currently, there are 5 upcoming hotels in Vadodara's pipeline, comprising 310 keys in total, and most of the proposed room inventory belongs to the midscale category (61%).

Figure 10

Vadodara Upcoming Supply - By Segmentation



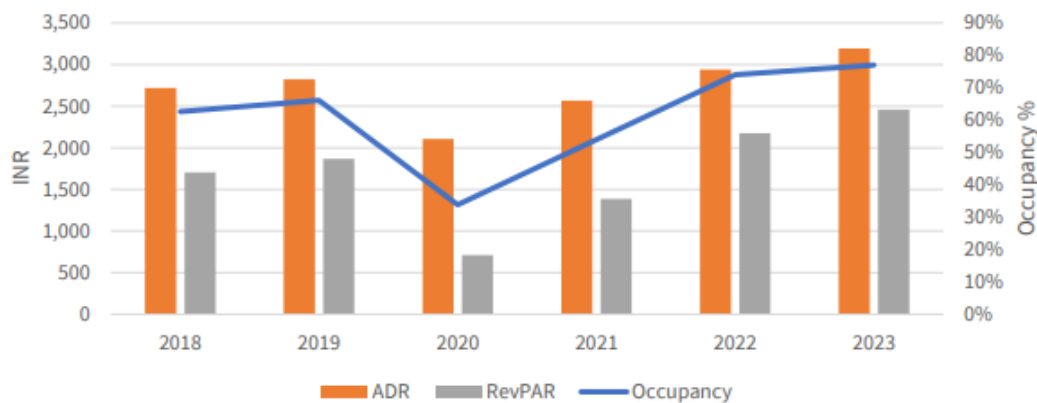
Source: Own Source

The chart above highlights the city's upcoming room inventory distribution across the 2 key categories as of March 2024. As seen in the chart, 61% lies in midscale and 39% in the upscale segment.

### Performance

Figure 11

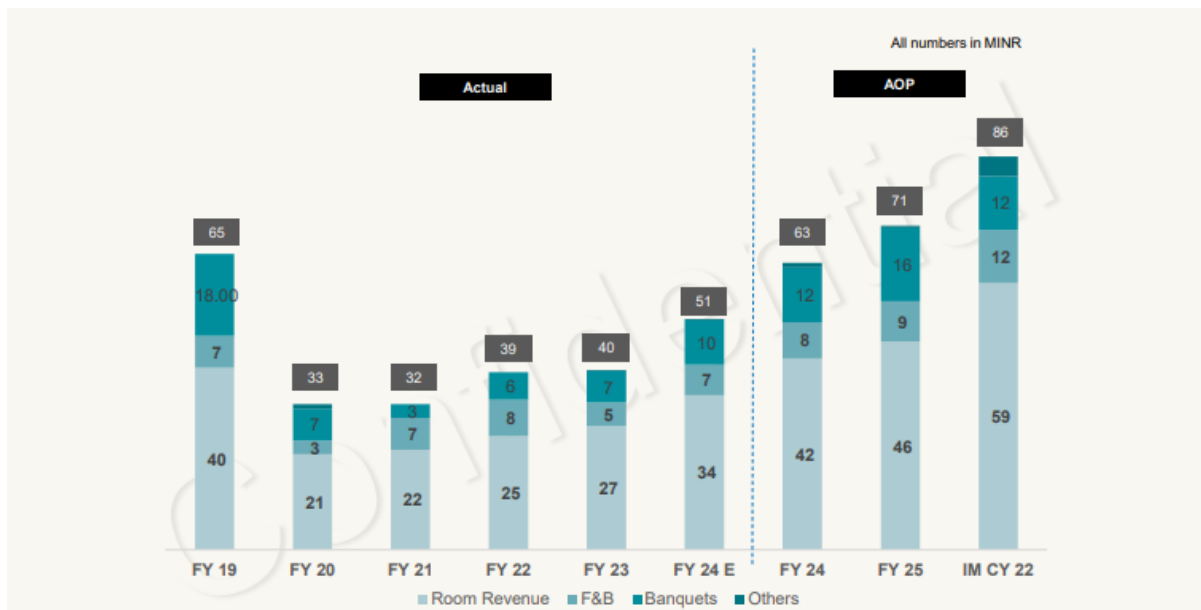
Vadodara Micro-Market Performance



Source: Jones Lang LaSalle Hospitality

Trading statistics across the micro market show a consistent increase in occupancy levels and ADRs in the recent past.

**Figure 12: Analysis 2-Revenue Mix from FY'19- Sunday, Vadodara, Gujarat**



Source: Own Source

The above analysis indicates the following-

If one compares Sunday Vadodara with the market analysis as indicated in Figure 12, the same story seems to be repeated as has been seen in the Jaipur asset. In Vadodara, unlike Jaipur, the market has done better compared to pre-Covid levels. The reasons for the difference are the same that have been stated for the Jaipur asset.

- Looking across FY19-FY24, the primary source of revenue is ‘Room Revenue’
- Despite the COVID-19 pandemic, what is seen is that all revenues have reduced drastically. But even in the truncated revenue major share is *still* from ‘Room Revenue’.
- According to the chart, the asset was expected to target revenue of MINR 86 for FY22 but the actual figure was MINR 39 (~55% lower than the valuations)
- The adverse effect of Covid on the hospitality sector has not been recovered (FY23) as the asset has not met the pre-Covid revenue levels (of FY19)

**Zirakpur (Hotel 3)**-166 rooms hotel; spacious rooms, ranging from 300 – 600 sq. ft) - Before acquisition by Softbank, the asset was owned by UrbanEdge Hotels and Holdings Pvt. Ltd.- a subsidiary of Auromatrix, which manages the Aloft portfolio.

**Figure 13: Sunday, Zirakpur Façade**



Source: Own Source

Acquisition Cost-675 MINR, Capex-109 MINR, Total Cost-784 MINR

Serving as the capital city for both Punjab and Haryana, Zirakpur is one of India's first planned cities with a strong focus on urban design and architecture. As of 2023-24, the city's total GDP was INR 490 billion (USD 6 billion with a total population of 1,055,450 (as of the 2011 Census). The important industries are manufacturing, basic metals, machinery, pharmaceuticals, and auto parts, to name a few. It also has two exporting SEZs, of which one is the Rajiv Gandhi Zirakpur Technology Park (RGCTP), and a cumulative FDI equity inflow of roughly USD 80 million (from October 2019 to June 2023).

The city's infrastructure is also well-developed, be it the road and rail network, the domestic airport (managed by the Ministry of Defence) and the international airport. NH21 passes through the city which connects Zirakpur to New Delhi, and it is also connected through twin track railway lines from Delhi and Mumbai upto Ambala, Kalka, and Shimla.

### **Demand Drivers**

Room night demand in this micro market is intrinsically linked to corporate and social events in the region. While a noteworthy share of room night demand also comes from the corporate OTA

(Online Travel Agent) segment, the remaining can be attributed to leisure, transit travellers and groups.

***MICE & Corporate***

The Zirakpur micro market sees a healthy level of demand for training sessions for corporates from the banking, pharma, fertilizers, pesticides and manufacturing sectors as well as off-sites, annual meetings and sales events due to its surrounding corporate, industrial and manufacturing hubs. All hotels in Zirakpur play host to several wedding parties throughout the year, especially on auspicious dates, from locals as well as neighbouring states such as Jammu & Kashmir, Himachal Pradesh, Punjab and Haryana.

***Leisure***

The hospitality sector here enjoys demand from leisure and group transit travellers due to its location along the Ambala – Zirakpur Expressway which connects it to key leisure destinations such as Shimla, Manali, and various other hill stations etc.

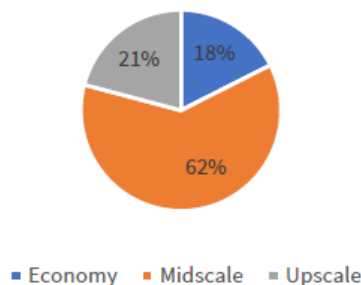
**Supply**

***Existing Supply***

There are 13 branded hotels comprising 1,137 keys in Zirakpur.

Figure 14

Zirakpur Existing Hotel Supply - By Segmentation



Source: Own Source

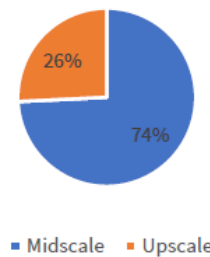
The chart above highlights the city's room inventory distribution across the 3 key categories as of March 2024. As seen in the chart, 62% of inventory lies in the midscale category, 21% lies in upscale, and 18% in the economy segment.

**Upcoming Supply**

Currently, there are 5 upcoming hotels in Zirakpur’s pipeline, comprising 582 keys in total, and most of the proposed room inventory belongs to the midscale category (74%).

**Figure 15**

Zirakpur Upcoming Supply - By Segmentation



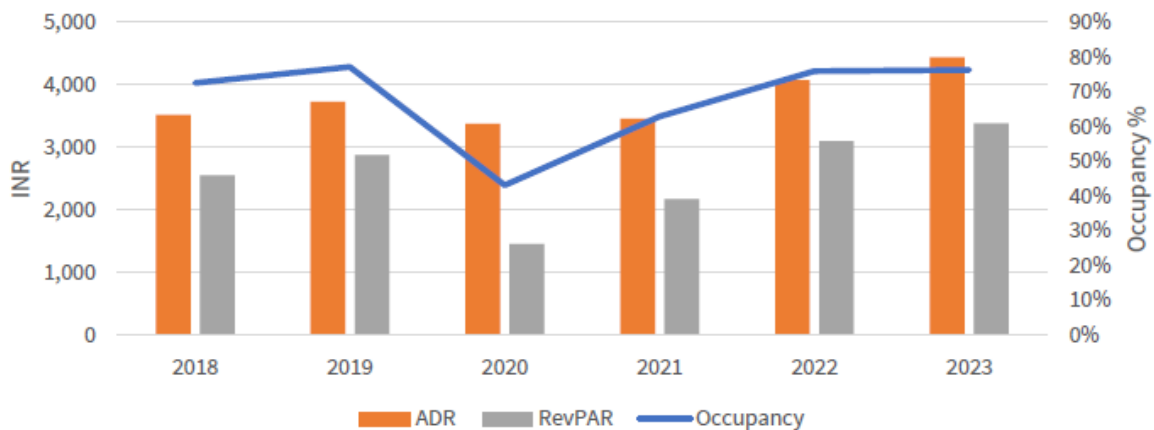
Source: Own Source

The chart above highlights the city’s upcoming room inventory distribution across the 2 key categories as of March 2024. As seen in the chart, 74% lies in midscale and 26% in the upscale segment.

**Performance**

**Figure 16**

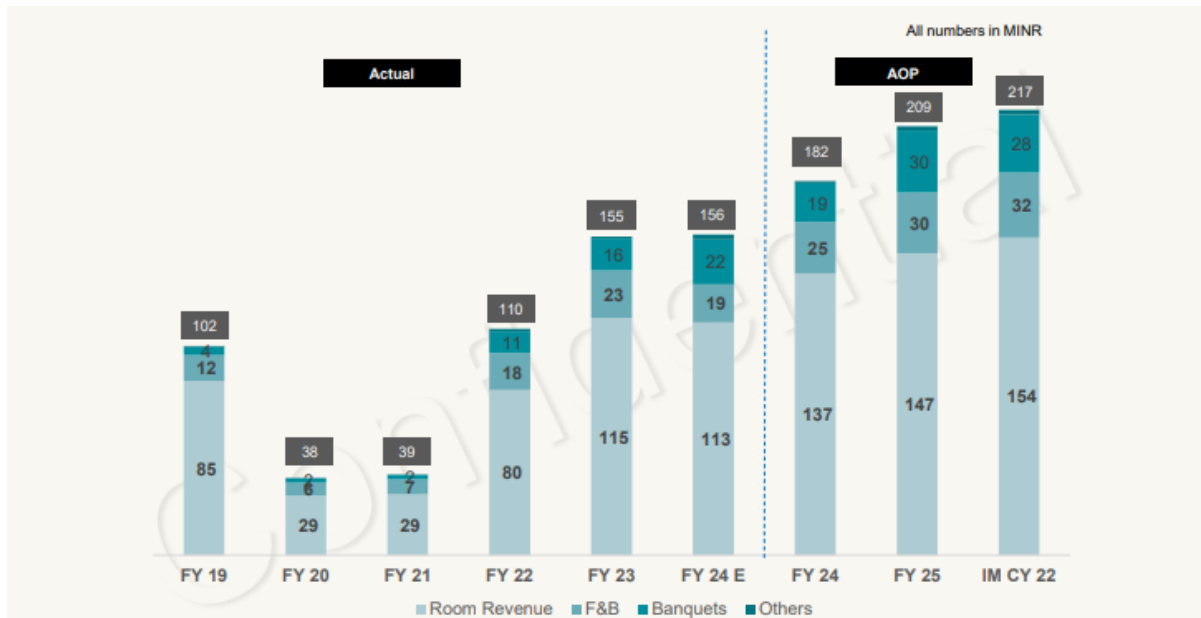
Zirakpur Micro-Market Performance



Source: Jones Lang LaSalle Hospitality

Trading statistics across the micro market show that occupancy levels have returned to pre-Covid levels whereas the ADRs have grown significantly for the same period.

**Figure 17: Analysis 3-Revenue Mix from FY’19- Sunday, Zirakpur**



Source: Own Source

The above analysis indicates the following-

- Looking across FY19-FY24, the primary source of revenue is ‘Room Revenue’
- According to our analysis, Sunday, Zirakpur has been able to achieve pre-Covid revenue returns in FY22 itself.
- According to the chart, the asset was expected to target revenue of MINR 217 for FY22 but the actual figure was MINR 110 (~49% lower than the valuations)

**Studying the trends indicated by the bar charts in Analysis 1, 2 and 3**

The bar charts in Analysis 1,2, and 3 indicate that Zirakpur (Analysis 3), outperformed in all aspects from FY22 onwards. It surpassed the FY19 results. This was not seen in Jaipur (Analysis 1) and Vadodara (Analysis 2). Where they have to date not been able to achieve the FY19 levels. The reasons for this could be the following:

- 1) Dependence on the type of clientele that each asset of these boutique hotels caters to.



- 2) Location of the assets
- 3) Inventory Size (this is expressed in the number of rooms as well as the expanse of the hotel)
- 4) Number of hotels within the vicinity

Taking all these factors into account, the Jaipur and Vadodara Hotels were majorly used by business and inbound travellers. While the Zirakpur Hotel's occupancy was primarily driven by tourists. An important factor in the type of clientele that used the premises was its location. The Zirakpur asset was located en route to hill stations mainly- Shimla, Manali and other tourist destinations in Himachal Pradesh. It had fewer boutique hotels around the micro market.

Vadodara and Jaipur Hotels on the other hand, though considered "Boutique" in nature, catered more to business travellers. The reason for this could be the site at which the hotel is located along with the fact that the cities were primarily business oriented. The results point to the fact that-

- After the pandemic, the extent of travelling due to work has not reached the same levels as they were in FY19
- The curb on travel because of the pandemic has translated to people wanting to travel with their family and friends for leisure.

These might be the reasons for the increase in overall revenues of the Zirakpur asset compared to the other two hotels.

With limited supply growth and a strong outlook for continued demand, investing in this sector seems to be a smart move for the long term.

### **The Limitation of Supply and Its Operational Benefits**

Limited supply growth in the hotel sector can present an array of operational benefits for existing establishments. When the inventory is limited, it translates to increased occupancy and higher average daily rates (ADRs).

Hotels can capitalise on this by focusing on guest experience and quality as fewer available options may make travellers willing to pay a premium for better and personalised accommodations.

Moreover, operational costs like marketing etc., may be reduced, leaving the budget for other hotel operations. Whether negotiating corporate rates, group bookings, or walk-in rates, the hotel has a stronger position when inventory is in the higher demand category relative to availability.

Another aspect worth mentioning is the impact of loyalty programs. With fewer new hotels entering the market, guests are more likely to accumulate points and benefits with existing establishments, strengthening long-term customer relationships (like Marriott Bonvoy etc.)

While limited supply growth isn't a permanent state, and market conditions can change quickly, hotels that find their way in tier 1-tier 2 cities, have the opportunity to solidify their market position. Through a focus on service quality, rate management, and apex branding, hotels can turn any scenario into a significant operational advantage.

### **Conclusion**

The study has indicated that India has high potential growth for leisure and business travel. Various destinations specialise in attracting both inbound and outbound travellers. These could be both in the leisure as well as corporate categories. Research has indicated that the Sunday Hotel in Zirakpur has done extremely well post-Covid due to its location as well as attracting both sets of above-stated travellers. The hotels in Jaipur and Vadodara were not able to achieve their pre-Covid performance because they were primarily catering to the corporate segment not out of choice but because of their location. To turn these two assets around, it would be necessary for them to showcase their property on a wider spectrum that includes;

- Offer affordable packages with a range of choices that appeal to specific groups, such as families, couples, or solo travellers.
- Make the experience traveller-friendly.
- Design targeted campaigns to showcase experiences that travellers want, and use channels to market, for example leveraging over-the-air partnerships and social media and encouraging loyalty programs.
- Increase MICE (meetings, incentives, conferences, and exhibitions)

With the hospitality industry increasing post-Covid and the rise of new boutique hotels. The Sunday properties of Jaipur and Vadodara must move towards making their presence felt by incorporating strategies that increase occupancy and brand visibility.

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