

HVS Monday Musings: Hotel Transactions in India in 2020

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Hotel transactions value in India contracted by approximately 50% to reach INR24,611 million (approx. US\$332 million) in 2020 compared to INR49,372 million (approx. US\$690 million) in 2019, but was still higher than the previous peak of INR19,929 million achieved in 2015.

Going into 2020, mergers & acquisitions (M&A) activity in the sector was expected to be stronger than that witnessed in 2019. The year began on the right note with Chalet Hotels signing an agreement to acquire the Novotel in Pune and private equity firm Blackstone receiving approval to acquire the Trident hotel in Hyderabad under the bankruptcy law.

However, due to the uncertain market conditions, and challenges related to conducting due diligence and closing deals on virtual platforms because of the COVID-19 lockdown and restrictions, companies adopted a wait-and-watch policy, deferring their M&A plans, especially during the second and third quarter of the year. As per media reports, the Indian Hotels Company (Taj Hotels), for instance, deferred plans to acquire its first property under the company's investment tie-up with Singapore's sovereign wealth fund, GIC, due to the uncertain business conditions.



Market sentiment started improving towards the latter part of the year with deal activity resuming in December 2020. A single megadeal in the last quarter of the year – Oberoi Realty's acquisition of 50% stake in the upcoming Ritz Carlton hotel in Worli, Mumbai – accounted for over 40% of the total M&A spend in the Indian hotels sector in 2020.

We expect M&A activity in the sector to accelerate in the second half of 2021 as several assets and asset owners come under financial stress and look for exit or ways of reducing debt. Hotel REITs are also closer to becoming a reality in the country, especially as the recent Union Budget 2021 made access of funds easier for REITs and InvITs by enabling debt financing for these instruments, though, the lack of scale can act as a deterrent in the near term.

Summary

2020 was a challenging year for hotel transactions in India, with hotel transactions value in the country contracting by approx. 50% compared to the previous year. The uncertain market conditions and COVID-19 related restrictions suppressed M&A activity during the year as companies adopted a wait-and-watch policy.

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