Horwath HTL

Hotel, Tourism and Leisure

Industry Report –

Upper Tier Hotels, India

Prepared for:

Ventive Hospitality Ltd.

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The consulting experience of Horwath HTL India covers over 150 Indian cities, towns and destinations and over 20 international destinations. Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors, international lenders, including several major international and domestic hotel chains and their associates.

Our hospitality consulting practice has advised on significant and diverse projects and the principal services provided by us are market and financial feasibility studies, strategic planning for hotel chains, operator search and management contract negotiations, valuation of hotel companies and hotel properties, structuring financial bids, operational reviews, efficiency audits and service audits and systems design and reviews for hotels.

Abbreviations

Abbreviation	Full Form	Abbreviation	Full Form
AAI	Airports Authority of India	K	Thousand
ARR	Average Room Revenue	MICE	Meetings, Incentives, Conferences & Exhibitions
Bn	Billion	Mn	Million
CAGR	Compound Annual Growth Rate	MoSPI	Ministry of Statistics and Programme Implementation
COVID	Coronavirus Disease	NCP	National Commission on Population
CY	Calendar Year	NCR	National Capital Region
DIPP	Department of Industrial Policy & Promotion	Occ	Occupancy
DMRC	Delhi Metro Rail Corporation	Pax	Passengers
EBITDA	Earnings Before Interest Taxes Depreciation & Amortization	Q1	Quarter 1
E-Visa	Electronic Visa	RevPAR	Revenue Per Available Room
F&B	Food & Beverage	SAARC	South Asian Association of Regional Cooperation
FDI	Foreign Direct Investment	STR	Smith Travel Research
FTA	Foreign Tourist Arrivals	Tn	Trillion
FY	Financial Year	WTTC	World Travel & Tourism Council
GCC	Global Capability Centres	UNWTO	United Nations World Tourism Organization
GDP	Gross Domestic Product	UP	Uttar Pradesh
GOP	Gross Operating Profit	USA	United States of America
GST	Goods and Services Tax	US$	United States Dollars
HAI	Hotel Association of India		
H1	First Half		
H2	Second Half		
IMF	International Monetary Fund		
IT	Information Technology		

Overview of Indian Hotel Industry

Some key characteristics of India's hotel industry, relevant for a better understanding of the market and more particularly the upper-tier segments i.e. luxury, upper upscale and upscale segments, are briefly set out herein.

1.1. **Indian GDP growth to drive hotel demand:** India is the 5th largest global economy and among the fastest growing economies in the world. The hotel sector has a strong multiplier effect that contributes materially to India's economy by way of GDP, asset and investment growth, employment, foreign exchange earnings and tax revenues. Hotel demand is driven by business and leisure travel, staycations and travel for weddings, conferences and events.

The travel and tourism sector contributed Rs. 19.1 tn in CY23 (5.6% of GDP) and is expected to contribute about Rs. 21.2 tn in CY24 and over Rs. 43 tn by 2034. The sector was estimated to employ about 43 mn persons by CY23.[1] Demand for chain affiliated hotel rooms has increased to 120k rooms per day (2.48 rooms per Rs crore of GDP) in FY24 from 71k rooms per day (2.24 rooms per Rs. crore of GDP) in FY16, and is expected to increase further to 165k rooms per day by FY27[2].

1.2. **Indian hotel market – potential for greater penetration:** India has only 188k chain affiliated hotel rooms, across segments, as of 31 March 2024 compared to 121k keys in San Francisco and 150k keys in London as of 31 December 2023. The sector is underpenetrated compared to global counterparts in terms of ratio of rooms to commercial office stock with top 8 cities of India having 118 keys per msf of office space, compared to 637 keys per msf of office space in London and 486 keys per msf of office space in San Francisco as of 31 December 2023[3]. Total hotel keys penetration basis population as of 31 December 2023 is also lower in India at 0.3 keys per 1,000 people compared to 22.1 / 2.7 keys per 1,000 people in the USA / globally.

1.3. **Shift towards chain affiliated hotels:** Prominence of chain affiliated hotels has evolved materially over last 10 years and the trend is expected to continue over next few years. International hotel chains are also gaining market share with inventory share of international chains increasing from 21% in FY01 to 45% as at FY24. Guest preferences for chain hotels have increased materially due to greater consistency of product, better appreciation of lifestyle and boutique hotel offerings, well-curated F&B experiences, leisure, recreation, loyalty points and entertainment.

1.4. **Robust domestic demand:** The domestic travel industry has been robust and has grown materially. Having touched 2.3 bn visits in 2019, the post COVID recovery has been strong with 1.7 bn visits in 2022[4]; while 2023 data has not been announced by MoT, WTTC research reports that domestic visitor spending rose by 15% in 2023, surpassing the 2019 level. Leisure, weddings and social demand, MICE demand, and increased number of sports / other events have significantly contributed to overall hotel revenues.
Continued growth of domestic travel is expected and would be beneficial for the industry in the future. Pilgrimage related travel has also grown significantly with spiritual tourism sector projected to expand at 9% CAGR, from US$ 60 bn in 2023 to US$ 130 bn by 2032, also gaining from GOI's PRASHAD Scheme and Swadesh Darshan 2.0 programme[5]. Air passenger movement for Varanasi has risen at 13% CAGR from FY15-24. For 2023, RevPAR for over 100 hotels across several pilgrim centres has risen 38.5% since 2019, to Rs. 3.2k[6].

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[1] Source: World Travel and Tourism Council (WTTC) 2024 Economic Impact Research

[2] Source: GDP data – Department of Economic Affairs, Govt of India and hotel rooms data – Horwath HTL

[3] Source: Hotel rooms data – Horwath HTL and office space data - CBRE

[4] Source: Ministry of Tourism, India

[5] Source: Equitable Growth and Emerging Real Estate Hotspots, June 2024 – Colliers and AAI

[6] Source: India Hotel Market Review 2023 - Horwath HTL

The supply pipeline (FY25 to FY27) includes 5.3k rooms at pilgrim centres and this will support continued demand growth in this segment[7].

1.5. **Foreign tourist arrivals on an improving trajectory:** FTA was 9.2 mn in CY23, reflecting 85% recovery compared to 10.9 mn in CY19[8]. HAI estimates FTA to grow materially, to cross 30 mn by 2037. Growth of FTA will further strengthen hotel ADRs, besides demand and occupancy, particularly for the upper-tier hotels. Inbound hotel demand (i.e. from FTA) are a significant contributor to the hotel sector.

1.6. **Future demand drivers:** Demand will be driven by diverse domestic and inbound travel needs - business, leisure, MICE, weddings, social events and international political and business delegations. Each segment is expected to be robust based on a positively growing economy, improved travel infrastructure, new convention centres, and increased airline services. Newer demand will arise for international and national sports and entertainment sector events. Continued urbanisation and changing demographics, with millennials and younger travellers seeking experiences and willing to spend on entertainment, recreation, wellness and lifestyle will drive discretionary travel.

1.7. **Hotel demand in Key Markets in India:** Hotels have generally enjoyed positive demand conditions in the aftermath of COVID pandemic. Aggregate demand for the ten Key Markets (Mumbai, Delhi NCR, Bengaluru, Chennai, Hyderabad, Kolkata, Pune, Ahmedabad, Jaipur and Goa) was 27.4 mn rooms for FY24 compared to 25.5 mn rooms for CY19. This growth is particularly notable considering that inbound travel for business and leisure is yet to fully recover, and further that the IT sector is yet to fully implement ‘return to office’. Cities with wider reach across multiple demand segments have gained more speedily; thus, Pune gained from its advantage as a significant hub for the services sector (GCCs, IT, ITeS, banking, professional services, retail) and for manufacturing (mainly automotive and engineering) to achieve demand of 5k rooms per day for FY24 compared to 4.8k rooms per day for CY19. As an emerging metro city, Pune has absorbed large supply growth (7.4k chain affiliated hotel rooms; ranked eighth in India) and is ahead of Kolkata, Ahmedabad, and Gurugram as of FY24. Bengaluru with material concentration on the IT and ITeS sector has taken longer to recover from COVID pandemic – demand for FY24 was 11k rooms per day compared to 9.6k rooms per day for CY19. Business has regained momentum, with this large and growing hotel market gaining from expanding air travel to the city and growth in aero and defence activities in addition to IT services.

All India inventory growth from FY24 to FY27 is estimated at 9.3% CAGR; in contrast Pune and Bengaluru have a more limited pipeline reflecting inventory growth and 2.5% and 3.3% CAGR respectively.

[7] Source: Horwath HTL

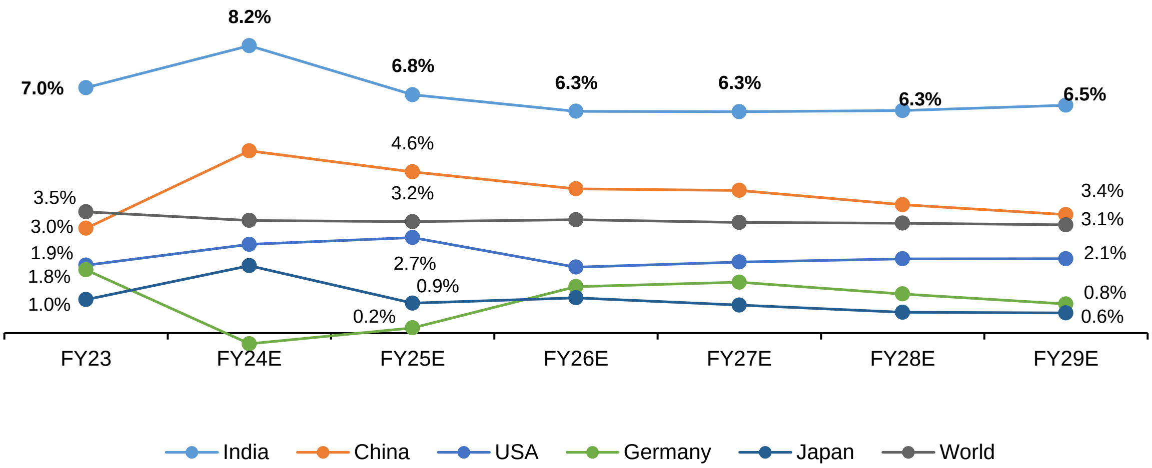
[8] Source: Ministry of Tourism, Govt. of India

Overview of the Indian Economy

Among the World's Fastest-Growing Major Economies

In FY24, India was the fifth largest global economy with estimated Gross Domestic Product (GDP) at current prices of US$ 3.55 tn.[9] Since FY05, Indian economy's growth rate has been twice as that of the world economy and it is projected to sustain this growth momentum in the long term. The GDP growth for FY24 was 8.2%; based on IMF estimates, India GDP growth for FY25 is projected at 6.8%. Below is a snapshot for GDP growth rate (at constant prices) for the top five global economies through FY29.

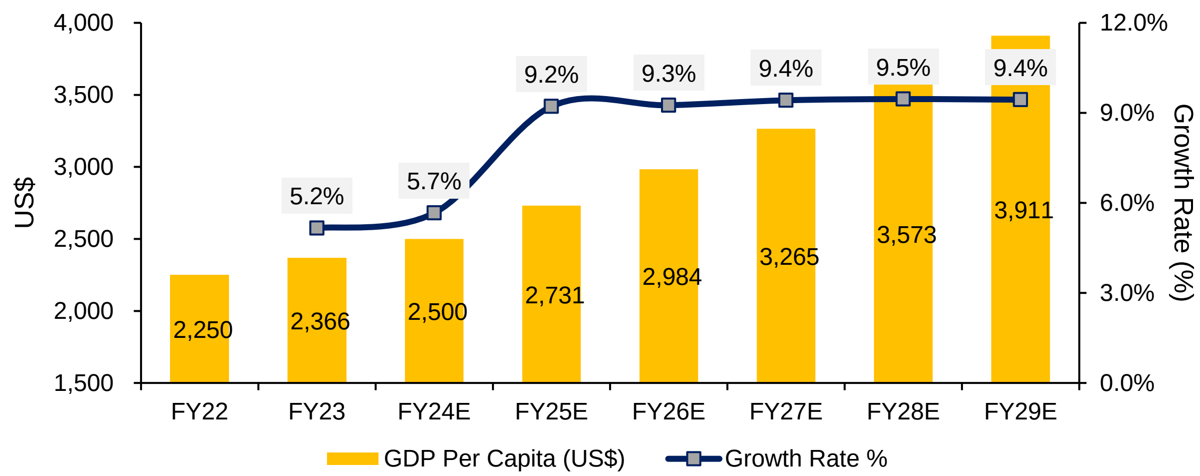
<u>Top 5 Global economies GDP Growth Forecast</u>



Source: World Economic Outlook, IMF, April 2024, World Development Indicators Database, World Bank, 15 January 2023 and Ministry of Tourism

IMF's World Economic Outlook Report (April 2024) estimates per capita GDP growth at 8.7% CAGR between FY23-FY29. Increased individual incomes is expected to create additional discretionary spending, which may be beneficial for the hospitality sector.

<u>India Per Capita GDP Forecast</u>



Source: World Economic Outlook, IMF, April 2024, World Development Indicators Database, World Bank, 15 January 2023, National Statistics Office, Ministry of Statistics & Programme Implementation - MoSPI, Govt of India

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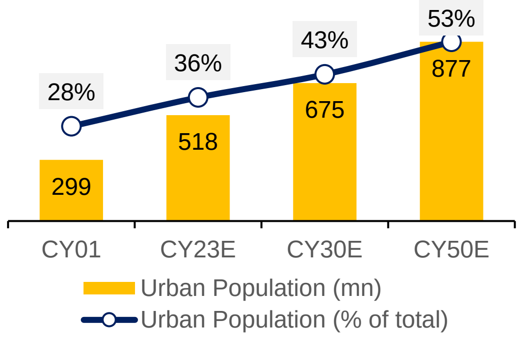
[9] Source: World Development Indicators - World Bank

Growth Drivers

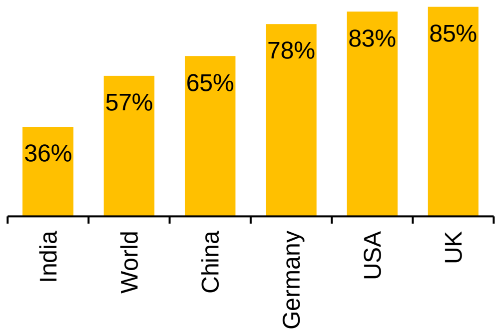
<u>Increased Urbanisation</u>: India's urban population share increased from 28% in CY01 to 31% in CY11 and was further projected to increase to 36% in CY23. At these levels, urbanization is under penetrated in India compared to USA (83%), UK (85%) and China (65%). Nevertheless, India was estimated to have second largest urban population in the world, comprising of 518 mn in CY23 and growing to 675 mn by CY35.

India currently has 5 megacities with population > 10 mn. Additionally, Pune, Hyderabad and Ahmedabad are expected to become megacities by CY30.[10] Cities and towns have expanded, creating multiple micro-markets and business districts. Urbanisation creates the need for jobs, thereby attracting investment and development of multiple business sectors. Growth in business and business opportunities due to increased urban-led activity is evidenced by increase in air traffic, wider real estate activity, and growth of hotels in several existing and newer markets.

India Urbanization Trend



Urbanization % (CY23)



Source: World Urbanization Prospects 2018, United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects: The 2022 Revision

<u>Rising Middle Class and High-Income Population:</u> India's middle-class population is expected to grow at a rapid pace from 432 mn in FY21 to 715 mn in FY31 and 1,015 mn by FY47, moving ahead of US and China within this decade.

Increasing income levels are demonstrated by a robust growth in its middle-class and high-income households. Number of middle-class households (income of Rs. 0.5 mn to 3 mn per annum) grew at 4% CAGR between FY16-21, increasing its share from 26% to 31% over the period. This segment is further projected to grow and is estimated to represent approximately 47% of households by FY31. High-income households (income > Rs. 3 mn) had 37 mn population in FY16 and is projected to be 437 million in FY47 increasing at the CAGR of 8%.[11]

Rising middle class and high-income class population is an important demand driver for the hospitality sector, using midscale and upscale hotels and with aspirational demand for upper upscale hotels. Sections of the middle class are slowly graduating to the upper class due to attitudinal and lifestyle changes creating demand potential for different services (rooms, F&B, functions, entertainment) at upscale and luxury hotels.

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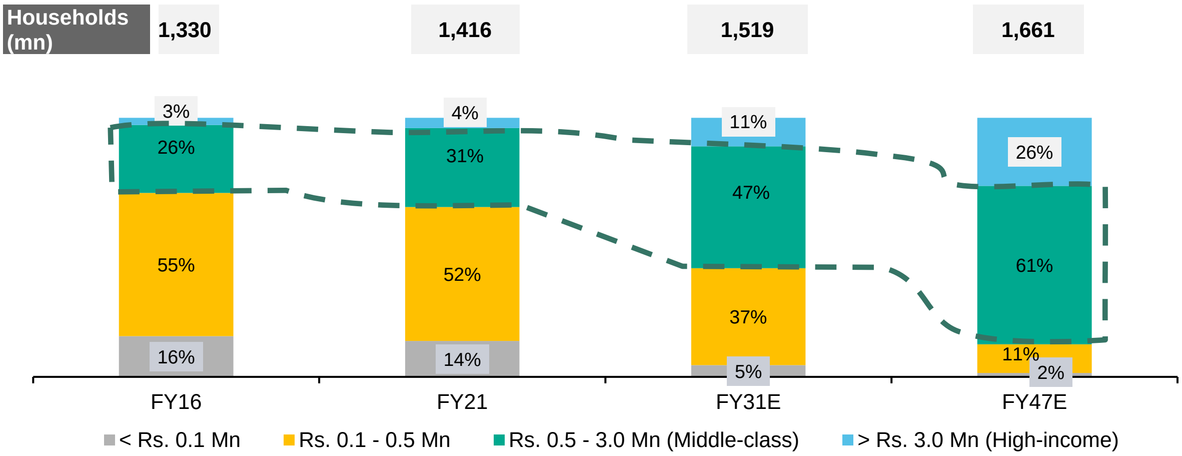
[10] Source: UN World Urbanization Prospect Report

[11] Source: The Rise of India's Middle-Class Report - PRICE

<u>India's Rising Middle-Class—Households share by annual income as a % of Total (FY16-FY47E)</u>

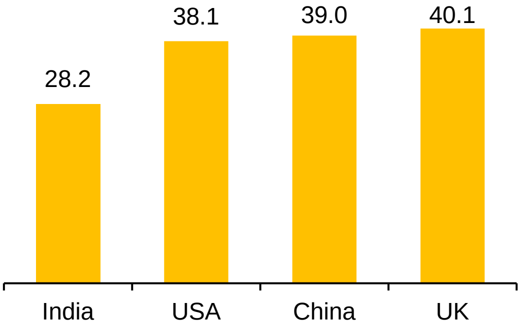


Source: "The Rise of India's Middle Class" Report published in November 2022 by People Research on India's Consumer Economy (PRICE)

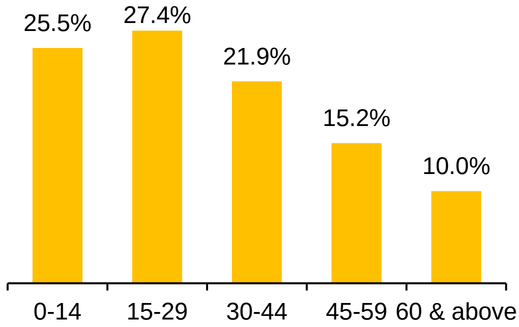
<u>Largest youth population globally:</u> India has emerged as world's most populous nation with an estimated population of 1.4 bn in CY23.[12] 27.4% of India's population of 1.4 bn is in the age group of 15-29, making it the largest youth population globally. In 2023, the median age of India was estimated at 28.2 years which is 9.9-20.9 years younger than the median age for the G-7 countries. Median age in India is projected to remain below 30 years, until 2030.[13]

The large working age population requires jobs, placing importance on employment creation – the hotel and tourism sector has substantial ability to create direct and ancillary jobs, if the sector is sufficiently enabled. A large working population also carries enhanced discretionary spend capacity and propensity to spend on lifestyle aspects, which could benefit the hotel sector.

<u>Estimated Median Age in Years (CY23)</u>



<u>India population % by Age group (CY21)</u>



Source: United Nations, Department of Economic and Social Affairs, Population Division (2022).State of World Population Report 2023 , UNFPA, World Population Prospects: The 2022 Revision and Youth in India Report 2022, published by Ministry of Statistics and Programme Implementation (MoSPI)

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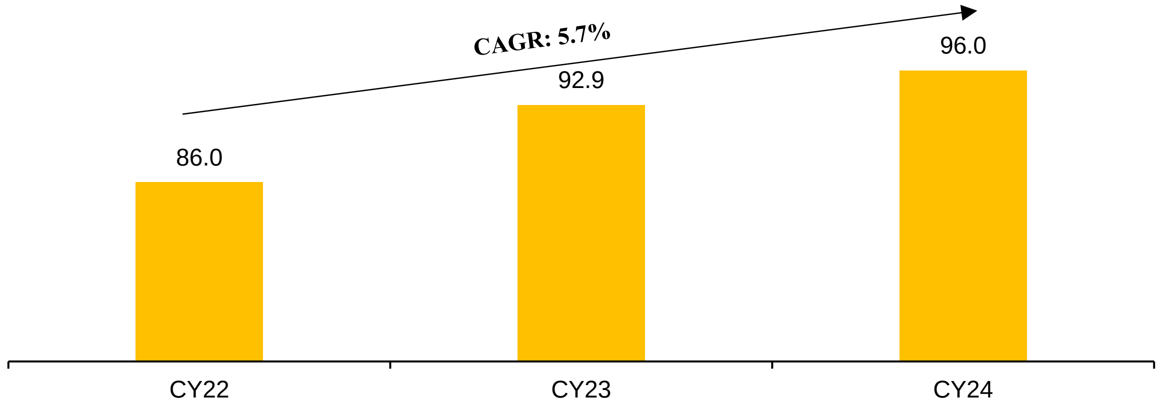
[12] Source: State of World Population report 2023, UNFPA

[13] Source: United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects: The 2024 Revision

Increased consumer spending: India has seen an increase in consumer spending in the last 5 years, gaining from factors such as a larger and younger workforce, double income families, a trend towards consumerism and lesser savings, and greater credit penetration. Increased spend patterns auger well for travel and F&B spends at hotels.

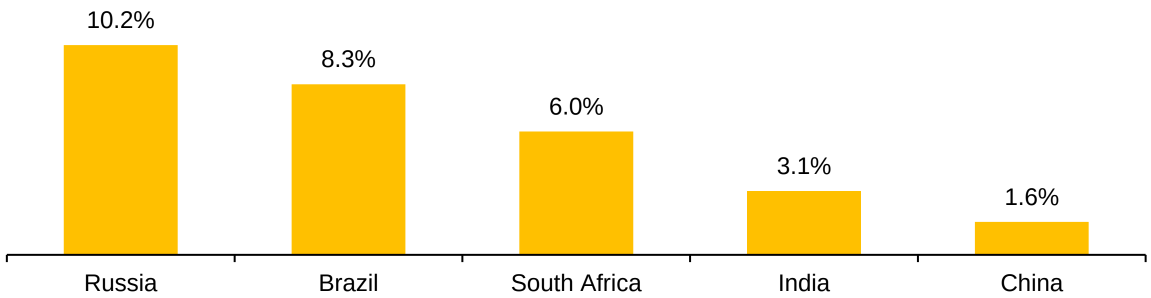
Consumer Spending in India – CY22 to CY24 (in Rs. trillion)



Source: MOSPI

Stable currency: Foreign exchange ("Forex") reserves were near an all-time high of US$646.4 bn at end March 2024.[14]

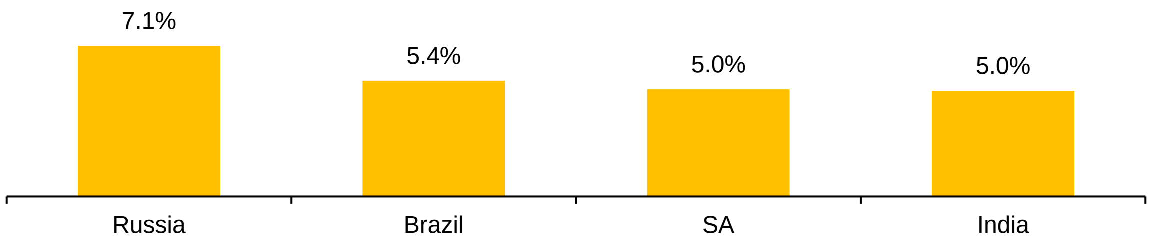
CAGR of currency depreciation % against US$ (FY14-FY24)



Source: Reserve Bank of India, Half Year Report on Management of Foreign Exchange Reserves, Oct 2023- Mar 2024, Foreign Exchange data is taken from Investing website

Stable inflationary environment: Inflation environment in India has been relatively stable post COVID over the past few years with FY24 consumer price index ("CPI") inflation YoY % reported at 4.8%.

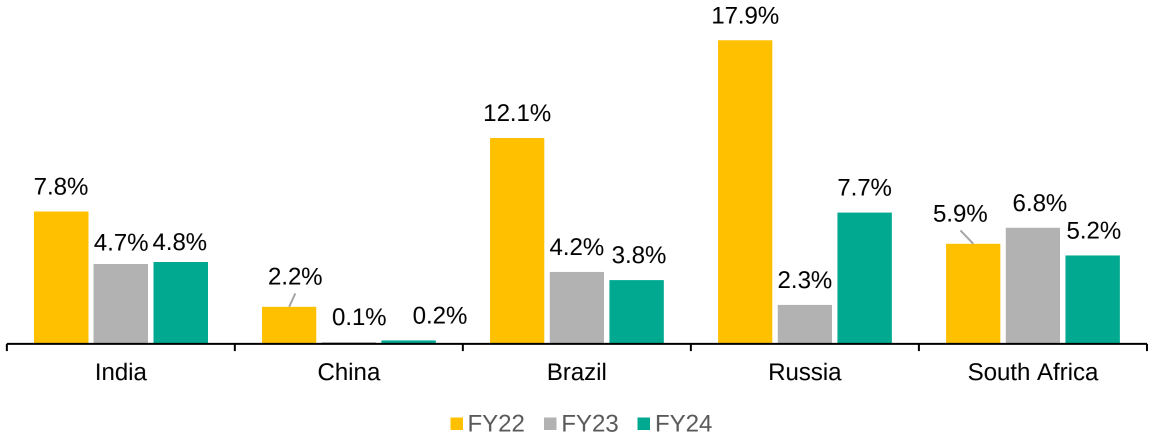
CPI Inflation (CAGR FY14-FY24)



Source: Trading Economics via MOSPI, Brazilian Institute of Geography and Statistics; National Bureau of Statistics of China; Federal State Statistics Service, Russia and South Africa Statistics.

[14] Source: Half Yearly Report on Management of Foreign Exchange Reserves: October 2023-March 2024 - RBI

CPI Inflation % (FY22, FY23 and FY24)



Source: Trading Economics via MOSPI, Brazilian Institute of Geography and Statistics; National Bureau of Statistics of China; Federal State Statistics Service, Russia and South Africa Statistics
Note: China data is not available for longer period

Major reforms in the hospitality industry:

- Over the last few years, the Government of India has undertaken multiple initiatives to increase hotel and tourism flows: The main elements comprise:
- **Electronic Visa (E-visa) scheme** made available effective November 2014 has successfully enabled inbound visitors to come in with short lead-time and ensured ease of travel.
- **Industry Status:** 11 states have granted industry status to hotels, enabling benefits such as industrial rates for energy, water, property tax incentives etc.
- **Tourism and Hospitality Skill Development**: The government has launched skill development programs to enhance the quality of hospitality services. Government initiatives and training programs aim to provide training and certification to individuals seeking employment in the tourism and hospitality industry.
- **Infrastructure Development:** The government has focused on developing tourism infrastructure, including the improvement of transportation networks, upgrading airports, and enhancing connectivity to popular tourist destinations. Expansion of airports and air connectivity (300 airports expected in India by 2047, up from over 153 airports currently wherein only 125 airports are currently operational), improvement / expansion of highways and the new Vande Bharat trains are enabling a positive impact by attracting more tourists and increasing demand for accommodation. *(Source: AAI)*
- **FDI:** the government has already permitted 100% FDI in hotels under the automatic route; this has been selectively availed as yet and deeper investments will arise as the profile of projects, portfolio consolidation and secondary transactions arise, creating direct / indirect capital flow into the sector.

Overview of Hotel Industry Demand

India Hotel Demand Drivers

The key demand drivers are briefly described herein:

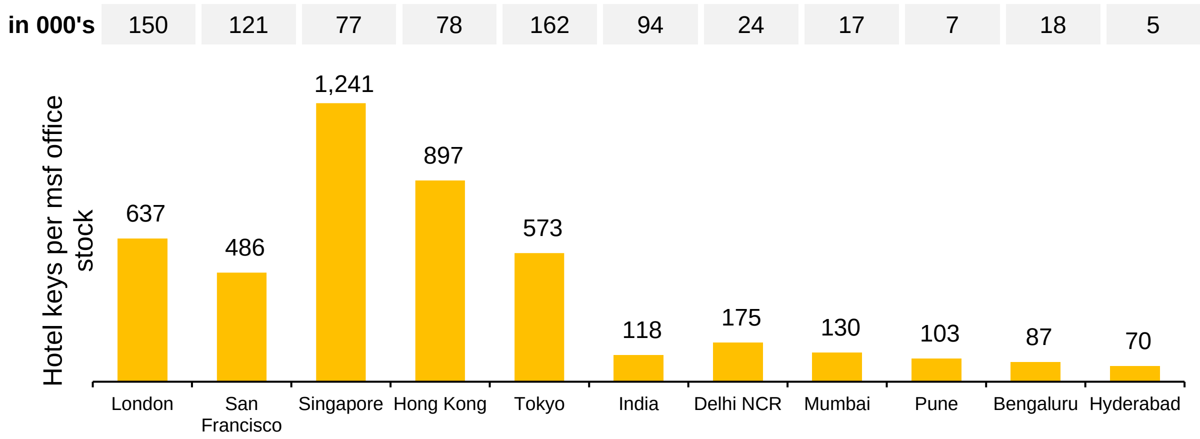
a. **Business Travel:** This comprises of foreign and domestic visitation for business related purposes. Such travel is either on corporate account or by individual business travellers, visiting primarily business-oriented locations. IT, automobile, banking and financial services, healthcare, manufacturing, consulting, retail etc are the key sectors which drive demand for business travel. Pune is an important hub for IT, automobile and manufacturing sectors, and Bengaluru the leader in IT and ITeS sectors, further bolstered by biotech and defence sector activities.
b. **Tourism:** India is popularly known for its rich cultural heritage, historical sites, diverse landscapes, and vibrant festivals. Growth of domestic and inbound tourism contributes significantly to the demand for hotels.
c. **Leisure Travel:** This travel is discretionary and comprises long / short vacations, staycations at city hotels, weekend stays for recreation and entertainment, leisure attached to a business trip or to a trip for weddings and meetings. Greater affordability and propensity, changing lifestyle, and improved connectivity have materially benefitted hotels with good F&B, recreation and entertainment facilities.
d. **Weddings and Social demand:** This segment comprises destination weddings and other social / celebratory events, as well as substantial use of hotels for weddings and social events for local (non-residential) events. The trend for hosting weddings in city hotels or as destination weddings has grown materially and is gaining further momentum, as it percolates to the mid-market segment as well. Several city hotels attract large residential weddings, akin to destination weddings in leisure centres.
e. **MICE:** Conferences, trade shows, corporate events, and training programs are an important demand source, attracting various sectors. IT, banking and finance, retail, FMCG, pharma and automotive sectors are some of the major demand generators - Pune and Bengaluru are well positioned to further deepen the sizeable current demand from this segment. New convention centres in India have increased the potential for larger international and domestic events. The G20 events from Dec-22 to Sep-23 took international visitors to multiple destinations providing occupancy, rate and revenue boost to hotels. The success of those events creates the potential to host varied delegations with international standard offerings and service.
f. **Diplomatic Travel:** This comprises of government leaders and representatives of other countries, often accompanied by large trade delegations. Besides, diplomats posted to India prefer using upper-tier hotels during the transition period.
g. **Airline Crew:** Helps create a core of demand at hotels, albeit at discounted pricing. Airlines also generate limited demand for layovers.
h. **Transit Demand:** Comprises persons on overnight transits during air or road travel to a domestic or international destination.
i. **Pilgrim Demand:** Chain affiliated inventory and demand at pilgrim centres has materially increased in the past few years. Better quality hotel options have enabled visitors to move away from mediocre independent hotels and other pilgrim facilities.

Each demand segment attracts domestic and foreign travel of varying measures, also dependent upon the hotel and destination character. Demand quantum, profile and rate paying capacity are impacted by seasonality factors which may apply differently to business and leisure hotels – for example, higher rate paying leisure travel predominates in winter; business travel predominates on weekdays and business hotels are more reliant on leisure and other demand on weekends. Wedding groups may pay higher rates than business / leisure travellers, for the same dates / period.

Indian Hospitality Industry – Potential for greater penetration:

Indian cities are substantially under penetrated compared to several global cities, both in terms of absolute hotel inventory and as a ratio vis-a-vis commercial office stock.

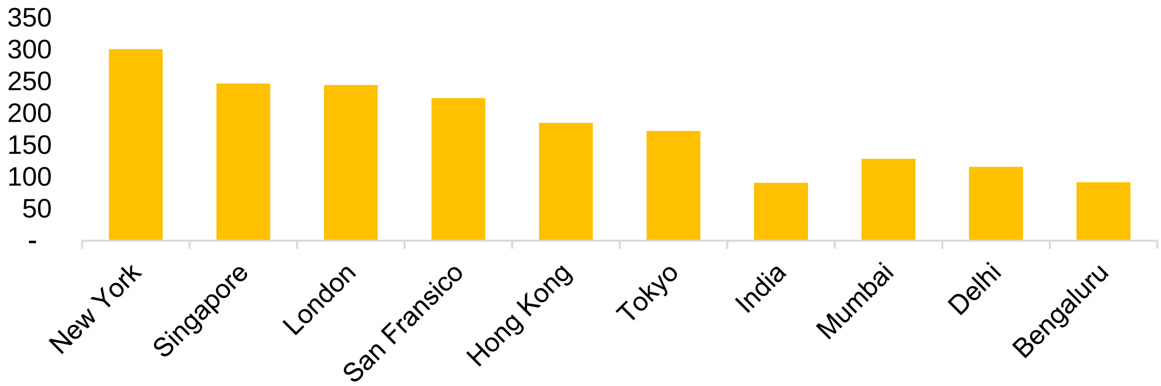
Hotel Keys per msf Office Space as of Dec-23



Source: Hotel Keys by Horwath HTL and Office space data provided by CBRE
Note: India hotel inventory and office stock comprises 8 markets - Mumbai, Delhi NCR, Bengaluru, Hyderabad, Chennai, Kolkata, Pune and Ahmedabad; Pune office stock includes strata sold area

ADRs at Indian cities are also lower than global cities.

ADR Comparison with Global Cities for CY2023 (US$)

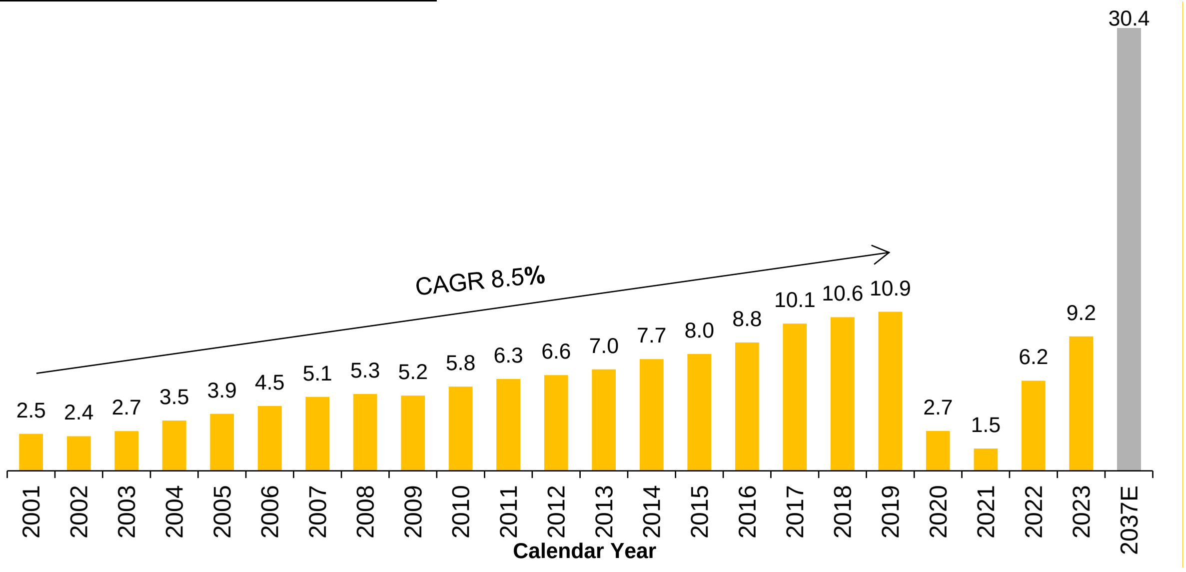


Source: CoStar

Recovery in Foreign Tourist Arrivals (FTA)

Post COVID, FTA has recovered well to 9.2 mn for CY23 which is 85% of CY19 (pre-COVID) levels.

India – Foreign Tourist Arrivals (mn)

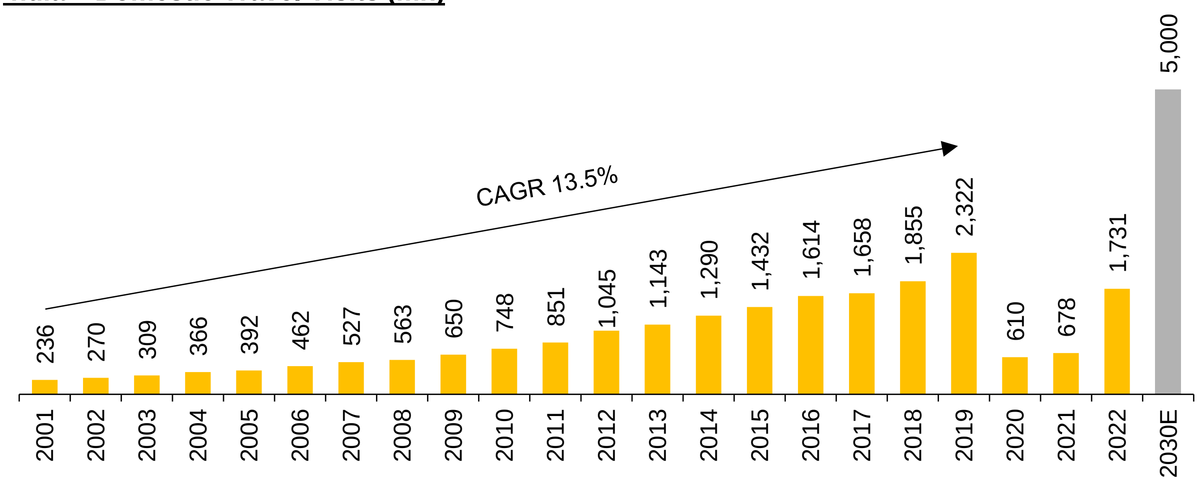


Source: Ministry of Tourism, Govt. of India and HAI

Domestic Travel Visits

Domestic travel visits grew at 13.5% CAGR between CY01 - CY19, from 236 mn visits in CY01 to 2.3 bn visits in CY19. Domestic travel numbers for CY22 at 1.7 bn reflects strong recovery of 74.5% of CY19 (pre-COVID).[15] Data for CY23 is not yet released by the government. The domestic sector has become a key demand generator with leisure, recreation, weddings and MICE demand driving weekend and off-season occupancies and enabling hotels and resorts to achieve significantly higher occupancies. '*How India Travels 2023?'* report by Booking.com and McKinsey estimates 5 bn domestic travel visits by 2030.

India – Domestic Travel Visits (mn)



Source: Ministry of Tourism, Govt. of India, Booking.com and McKinsey report

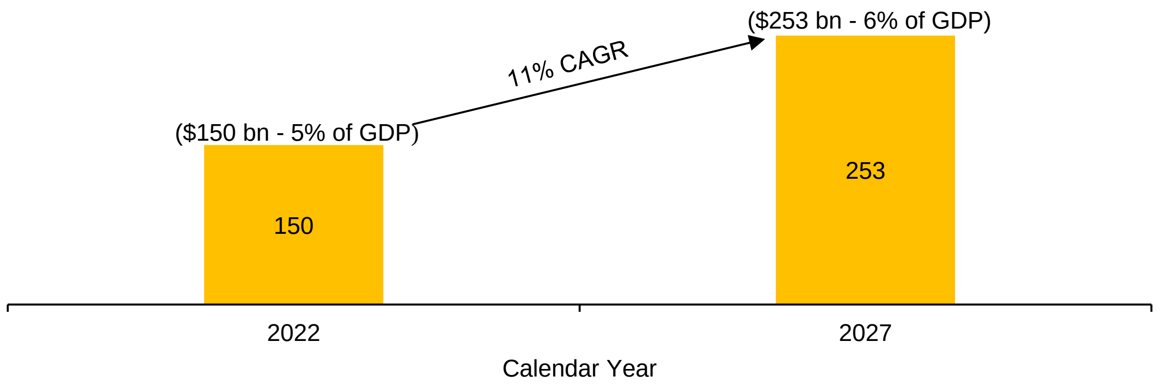
[15] Source: Ministry of Tourism, Govt. of India

Domestic Spend value on Tourism

With growing household earnings and a median age of 28.2 years in CY23[16], the spend on tourism is projected to rise to US$ 253 bn in CY27, increasing by 69% from US$ 150 bn spent in CY22 reflecting 11% CAGR (CY22-27).[17] Bengaluru and Pune are among the popular destinations, ranked at 2 and 5 respectively among the top 10 visited destinations within India.[18]

Per McKinsey's research, India currently is the world's sixth-largest domestic travel market by spending. Hospitality and tourism sector is expected to grow 1.6 times in CY27 compared to CY22.

Domestic Spend Value on Tourism & Hospitality (% of India GDP)



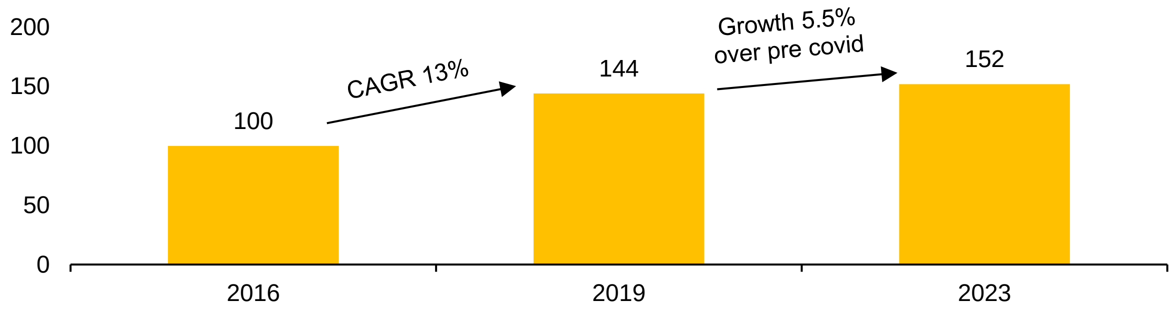
Source: HAI Vision Report 2047

Travel and Tourism is projected to contribute 6.6% to India's GDP in CY24.[19]

Domestic Air Traffic

As at end 2023, India had 153 airports in the country of which 125 were operational.[20] Domestic travel comprises 84% of aircraft movements and 82% of passenger movement at the Indian airports. The domestic passenger movements increased by 44% in 2019 compared to 2016 reflecting CAGR of 13%.[21] This growth was driven by opening of new airports, capacity expansions at existing airports and improved connectivity particularly to cities and towns outsides the main destinations.

Domestic Passenger Air Movement (in million)



Source: Directorate General of Civil Aviation

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[16] Source: United Nation, World Population Prospect 2022

[17] Source: HAI Vision Report 2047

[18] Source: '*How India Travels 2023?'* report by Booking.com and McKinsey

[19] Source: World Travel & Tourism Council (WTTC)

[20] Source: Ministry of Civil Aviation, Govt. of India

[21] Source: Directorate of General of Civil Aviation

Overview of Industry Inventory – Chain Affiliated Hotels

Hotel Inventory - Segment Classification

In this section, we provide an overview of inventory and demand size, and inventory composition of the upper-tier hotels (including luxury, upper upscale and upscale hotels) in which Ventive Hospitality has its hotels and projects. Consistent with the reporting pattern across the DRHP, inventory data for pipeline hotels is considered only up to FY27, based on data that was available as of 15 May 2024.

Data is separately presented on all India basis, for Key Markets and for Select Markets:

Key Markets comprise the Mumbai Metropolitan Area, Delhi NCR, Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad, Pune, Jaipur and Goa. These are the top ten markets in India in terms of hotel room inventory.

Select Markets are markets where Ventive Hospitality has an operating hotel or planned hotel project – Pune, Bengaluru and Varanasi. These hotels of Ventive Portfolio in India are

Operating: – 8 hotels:

- Two luxury hotels – JW Marriott, Pune and The Ritz Carlton, Pune
- One upper upscale hotel – Marriott Suites, Pune
- Five upscale hotels – Courtyard by Marriott, Pune, DoubleTree by Hilton, Pune, Marriott Aloft Whitefield, Bengaluru, Marriott Aloft ORR, Bengaluru and Oakwood Residences, Pune

Ventive has 64% and 12% share of the luxury and upper upscale rooms inventory respectively in Pune. JW Marriott, Pune is the largest luxury hotel based on the number of keys in Pune and is one of only eight luxury hotels in India with inventory between 400 to 500 keys as at March 31, 2024. It has the largest ballroom among luxury hotels in Western India. The Ritz Carlton Pune is one of only two Ritz Carlton hotels in India, with the largest luxury hotel rooms in Pune[22].

The several hotels in Pune serve multiple significant micro-markets in the city.

Planned/Under development:–

- Expansion of Marriott Aloft Whitefield, Bengaluru
- Varanasi hotel, under a non-binding MOU with Marriott (for a potential Marriott brand)

In this report, CAGR between a financial year (start year) and another financial year (end year) is calculated from 31 March of the start year to 31 March of the end year, unless a different set of dates is indicated.

The analysis of hotel inventory and demand principally deals with chain-affiliated hotels, i.e. hotels that are either (i) owned and operated by hotel chains, (ii) operated by hotel chains on behalf of other owners or (iii) operated under franchise from hotel chains. For this purpose, all recognised international chains operating in India and domestic hotel chains that are generally considered as operating under common branding have been included; other domestic chains are considered if these have five or more hotels operating at least regionally in India. For clarity, groups with multiple hotels only within one state are not considered unless these are generally regarded as hotel chains by the market. Companies that primarily operate time-share facilities, one-star hotels and hotels under aggregators (such as Oyo, Treebo and FabHotels) are excluded.

CoStar performance data from CY20 includes participating units of the aggregators; to the extent these units provided data for earlier periods, it is included in the performance data available from CoStar for earlier periods.

[22] Source: Horwath HTL

Classifications: The hotels are segmented into the Luxury and Upper Upscale (Lux-UpperUp) Segment, Upscale Segment, Upper Midscale Segment (Up-Mid), Midscale Segment and Economy Segment. The hotels offer additional facilities such as restaurants, bars, and facilities for meetings and events, varying for each hotel. Each segment will include entry-level hotels in that segment besides hotels that are more fully of segment standards. These industry terms used for classifying, categorising and segmenting hotels are explained below.

- **Luxury and Upper Upscale segment** typically comprises top tier hotels; in India, these are generally classified as five star, deluxe and luxury hotels. Several brands classify themselves as luxury hotels, based on certain criteria (e.g. room size) without having the service standards and consistent guest profile typically associated with true luxury hotels.

- **Upscale segment** comprises hotels which are more moderately positioned and priced, generally with smaller room sizes than the luxury and upper upscale hotels. In India, upscale hotels are generally classified as 4 or 5 star hotels (typically carrying entry level 5-star quality).

- **Upper Midscale segment** comprises full service or select service hotels, typically with lesser public areas and facilities and smaller room sizes, which are more moderately positioned and priced than upscale hotels. In India, these would generally be classified as 4 star and sometimes 3-star hotels.

- **Midscale segment** typically are 3-star hotels with distinctly moderate room sizes, quality and pricing, and a lower extent of services; domestic brand midscale hotels often offer more services than select service international branded midscale hotels.

- **Economy segment** are typically 2-star hotels providing functional accommodation and limited services, being focused on price consciousness.

Classification of hotels into the various segments is based on the definition and method adopted by CoStar (for hotels participating with CoStar and followed for data reporting and market comparison by the industry. Segmental classifications are essentially based on the intended positioning and overall rate structure of respective hotel brands; actual standards of individual properties may vary, but adjustment is not made on subjective basis. Hotels considered for our report but which are not participating with CoStar have been classified by us within these segments based on our assessment of positioning of the brand / hotel. If a chain has modified the positioning of a brand, such change would be reflected in current and previous period data.

This report generally does not cover independent hotels, except to the extent that some independent hotels may have participated in collection of any reported data.

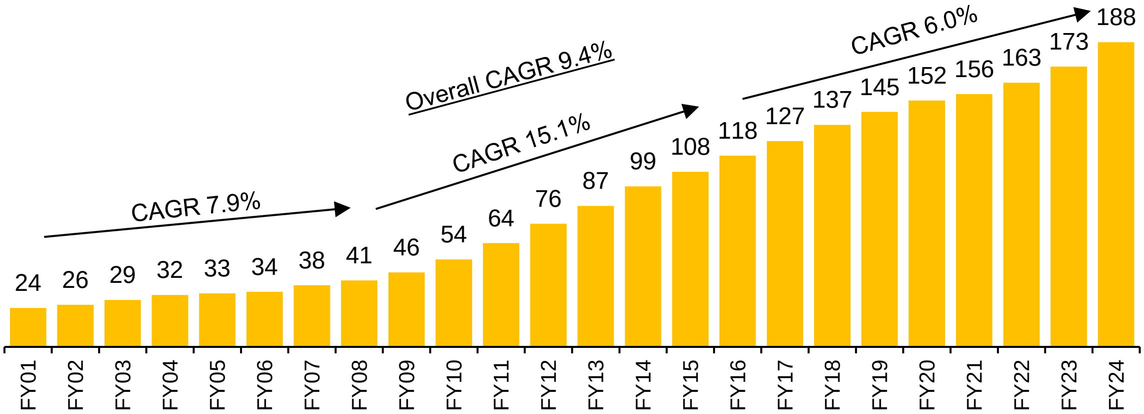
Other Independent hotels have been excluded due to – (a) lack of sufficiently co-ordinated, reliable and consistent data for independent hotels; (b) increasingly challenged competitiveness of several independent hotels against growing presence of chain-affiliated hotels, (c) longer-term constraints on independent hotel growth as hotel chains grow into second-tier markets and smaller towns; (d) general reluctance of banks to finance large projects unless these have access to suitable chain marketing and management systems. We believe that an analysis based mainly on chain-affiliated hotels (while also competing with any independent hotels in the relevant catchment area) is adequate reflection of the overall market conditions.

In this report Luxury, Upper Upscale and Upscale segments combined are referred as 'Upper-tier' segment and Upper Midscale, Midscale and Economy segments combined are referred as 'Mid-tier' segment.

All India Chain Affiliated Hotel Room Inventory:

India had 188k chain-affiliated rooms as at end FY24. Inventory has grown at a CAGR of 9.4% over 23 years. About 63k rooms were added between FY09-FY15 and about 36k rooms between FY20-FY24. Inventory CAGR of 6.0% between FY17 and FY24 is less than half the inventory CAGR of 15.1% for the period FY09 to FY15.

All India Chain Affiliated Rooms Inventory (in '000s)



Source: Horwath HTL

Segmental inventory has evolved significantly:

Inventory composition has evolved since FY01 towards greater segmental balance, with lesser concentration of the Luxury and Upper-Upscale segments, and increased inventory share and footprint for Upscale, Upper Midscale and Midscale & Economy segments. A similar trend is broadly expected for the next 3 years, particularly as the Upper Midscale and Midscale-Economy segments comprise about 53% of inventory growth between FY24 and FY27, with material inventory creation outside the Key Markets[23].

Segmental Composition (Inventory in '000s)
Inventory CAGR has been highest in the midscale-economy segment and lowest in the luxury segment, arising from (a) more limited inventory in the midscale-economy segment at FY01; (b) growth potential of the midscale-economy segment across larger number of markets as compared to the luxury segment; and (c) the substantial growth push by hotel chains, particularly domestic chains, in the midscale-economy segment.

Category	FY01	FY08	FY15	FY24	FY27	CAGR FY01-08	CAGR FY08-15	CAGR FY15-24	CAGR FY24-27
Luxury	6	10	18	30	36	6.9%	7.9%	6.3%	6.0%
Upper Upscale	7	11	25	36	45	6.2%	13.5%	4.0%	7.6%
Upscale	5	8	22	40	52	5.6%	16.5%	6.8%	9.4%
Upper Midscale	4	7	20	32	43	9.7%	16.1%	5.4%	9.9%
Midscale-Economy	2	5	24	50	69	17.1%	24.2%	8.6%	11.9%
Upper-Tier Total	**18**	**28**	**65**	**106**	**133**	**6.3%**	**12.6%**	**5.7%**	**7.8%**
Total	**24**	**41**	**109**	**188**	**246**	**7.9%**	**15.1%**	**6.3%**	**9.3%**

Source: Horwath HTL

Luxury and Upper Upscale hotels contribute higher share of revenue:

While supply has spread across segments, Luxury and Upper Upscale hotels remain extremely relevant to the hotel sector, as reflected by its materially larger contribution to rooms revenue, due to its superior pricing and quality. This aspect, combined with the limited supply pipeline for Luxury and Upper Upscale hotels, creates beneficial value for existing hotels and pipeline hotels that get completed.

[23] Source: Horwath HTL

Segmental Revenue Share (CY23)

Positioning	Inventory Share	Revenue Share
Luxury and Upper Upscale	34%	55%
Upper and Upper Midscale	39%	34%
Midscale-Economy	26%	11%

Source: India Hotel Market Review 2023 - Horwath HTL

Inventory Spread of Key Markets

The Key Markets have nearly 59% of inventory share as of FY24; while this has dropped from 69% inventory share at end FY15, it is reflective of greater market maturity as supply spreads over larger parts of the country and pushes demand more significantly.

Inventory Distribution across markets

Market Category	Room Count ('000)				% Share			
	FY01	FY15	FY24	FY27	FY01	FY15	FY24	FY27
3 Main Metros	10	41	59	69	40.2%	38.1%	31.3%	28.1%
Other Key Markets	6	34	53	60	26.4%	31.0%	27.9%	24.5%
Other Markets	8	34	77	116	33.5%	30.9%	40.8%	47.4%
Total	**24**	**109**	**188**	**246**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Select Markets	**2**	**17**	**26**	**29**	**7.6%**	**15.9%**	**14.0%**	**11.8%**

Source: Horwath HTL; Note: Select markets comprise Bengaluru, Pune and Varanasi; 3 main metros are Mumbai, Bengaluru and Delhi NCR; Other Key Markets are Chennai, Hyderabad, Kolkata, Pune, Ahmedabad, Jaipur and Goa.

Select Markets have grown materially and have cumulatively 26k keys as of FY24. Limited new upcoming inventory in the Select Markets (2.7k rooms) will cause inventory share to drop from 14% in FY24 to 11.8% in FY27. Inventory in Select Markets is expected to increase at 3.3% CAGR from FY24-27, which is materially lower than 9.3% CAGR inventory growth expected on all-India basis.

Aggregate inventory in Pune and Bengaluru is expected to see 2.4k increase from FY24-27 at CAGR of 3.0%[24].

Room Inventory by Market and Segment

Room Count ('000)	Luxury				Upper Upscale				Upscale			
	FY01	FY15	FY24	FY27	FY01	FY15	FY24	FY27	FY01	FY15	FY24	FY27
Top 3 Metros	4	10	14	16	3	10	13	16	2	8	11	13
Other Key Markets	2	5	11	12	2	9	11	13	0.3	7	11	13
Other Markets	1	2	5	8	1	6	12	16	3	8	17	26
Total	**6**	**17**	**30**	**36**	**7**	**25**	**36**	**45**	**5**	**22**	**40**	**52**
Select Markets	**0.4**	**2**	**5**	**5**	**0.7**	**4**	**5**	**6**	**0.4**	**4**	**6**	**6**

Source: Horwath HTL

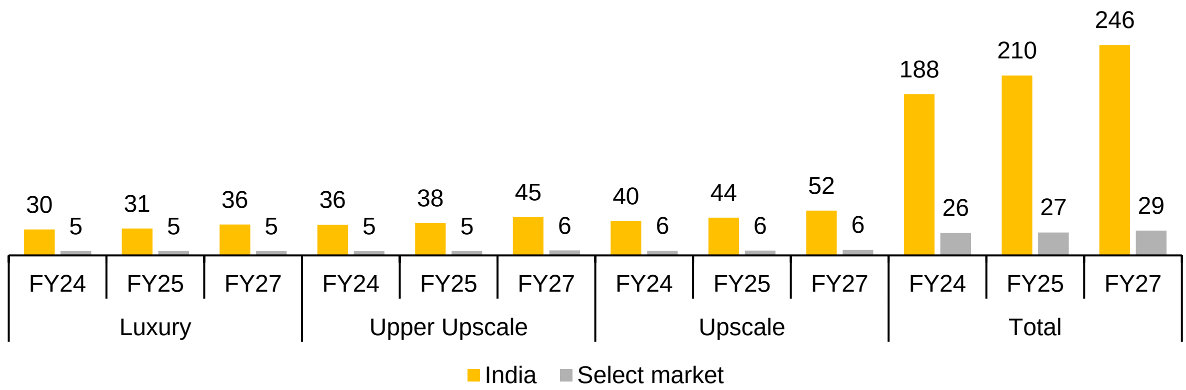
- Inventory composition has evolved over the years with a preference towards upper-tier hotels.
- For the Select Markets, estimated new inventory across all segments remains modest for the period FY24 to FY27

[24] Source: Horwath HTL

Future hotel inventory:

Per current data, 57k rooms are expected to be added between FY24 and FY27. Given the past track record of materialised inventory being at a slower rate, actual inventory growth may be lower, or may be delayed from the year in which it is presently expected.

Expected Inventory (Rooms in 000s)



Source: Horwath HTL; Select Markets comprise Bengaluru, Pune and Varanasi

Only 4.7% of new inventory between FY24 and FY27 is expected in the Select Markets. As of FY27, the upper-tier segment will have 20k (60%) of total Select Markets inventory and the Mid-tier segment will have 12k (40%) rooms inventory. Moderate inventory expansion in the Select Markets will likely enable higher occupancies and ADR growth.

Inventory addition between FY24-FY27 across India is expected to comprise about 25% in the Luxury and Upper Upscale segment, 21%, 19% and 35% respectively in the Upscale segment, Upper-Midscale segment and Midscale-Economy segment.

Increased share of foreign chain affiliated inventory in India:

Between FY01-FY24, foreign chains have gained material inventory share through multiple brands and diversified hotel development investment and ownership which suits the management / franchise model sought by foreign chains. Foreign chains now operate / franchise about 45% of the chain affiliated hotel keys in India offering multiple brands across segments, global loyalty programs and operational practices; their ownership share is very limited.

Foreign & Domestic Chain Affiliated Inventory

	FY01		FY24		FY27	
	Domestic	**Foreign**	**Domestic**	**Foreign**	**Domestic**	**Foreign**
Overall	**79%**	**21%**	**55%**	**45%**	**54%**	**46%**

Source: Horwath HTL

Barriers to Entry:

Development of hotels in India faces several challenges, principal among which are:

a. **Land:** Availability of land at suitable locations for hotels, high costs of available land and potential alternate uses of land creates limitations on hotel development, viability, and hotel size.

b. **Regulatory Approvals:** Hotel projects require multiple regulatory approvals and licenses (often more than 50 licenses for hotel construction and 40-60 licenses for operations). The process is time consuming, with uncertainties and delays – the resultant longer time to hotel opening causes project cost escalations, significant additional interest cost, debt-service pressures, and project quality impact.

c. **Development Costs:** Project costs have risen since COVID, requiring larger investment in hotel development. Rising project costs limits hotel size and provides competitive advantage to existing hotels which carry lower historical costs. Project costs vary from hotel to hotel due to several factors including positioning, size of hotel, F&B spaces - number and type of restaurants and bars, restaurant standards and appeal, function spaces, other public areas, number of basements (including based on regulatory requirement for parking), brand specific needs, site specific development challenges and financing plans and patterns.

d. **Bank Financing:** While debt tenures have lengthened up to 15 years and availability has selectively eased, earlier challenges of debt cost, availability, shorter loan tenures, and repayment structures were inconsistent with the capital-intensive nature of hotels. The resultant debt service pressures and defaults have impacted lender outlook towards the hotel sector.

e. **Availability of Equity Capital:** Particularly in the context of growing project costs (land and development), shortage of sufficient long-term equity capital is a significant constraint towards capacity creation, particularly a portfolio of hotels or large hotels, and working capital.

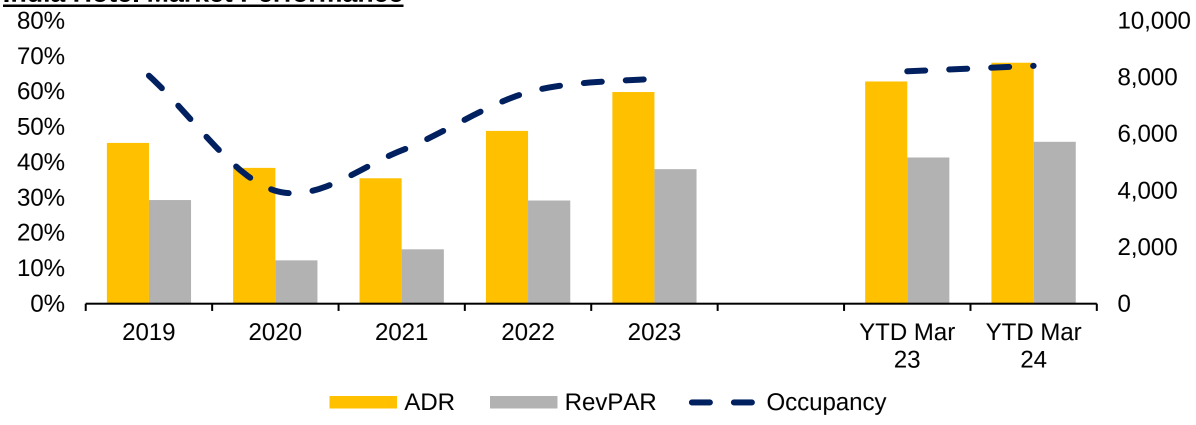
f. **Manpower Shortages:** Increasing manpower shortages - staff and managers with sufficient operating experience and skills – and high attrition across managerial and staff levels poses service limitations for hotels. Increased use of technology and larger talent pool of hotel chains will be sought.

India Performance Analysis

India Historical and Current Performance:

- Occupancy revived since CY15 as demand conditions improved and new inventory had slowed. The upward trend in RevPAR up to December 2019 was materially occupancy led, with improved occupancy gradually enabling ADR increases.
- The COVID-19 pandemic was a major disruption with severe travel and operating restrictions causing reduced travel across segments and a material drop in occupancies and ADR.
- Recovery started in late CY20 and continues to gain momentum giving way to strong performance through YTD Mar 24.
- ADR for CY23 was higher by 22.5% compared to CY22, and by 31.6% compared to CY19 (pre-COVID levels)
- For YTD March 24, ADR has increased by 8.4% while occupancy has increased from 65.7% to 67.2%, compared to YTD March 23.
- The Indian hotel market generally experiences better performance in the second half of an FY relative to the first half of the FY.

India Hotel Market Performance



Source: CoStar

India Future Demand

In this section we have projected future demand. Assumption underlying our estimates of future demand are given below:

- Estimated demand growth by market category (for this purpose markets are categorised as Top 10 markets, Key Tier 1 markets and Other Markets). The total estimated All India demand is an aggregate of demand from these three categories.
- Existing demand for FY24 is segregated between demand from supply as at 31 March 2023 and new additions between 1 April 2023 and 31 March 2024.
- We have adjusted the new hotel supply in FY24 for the period for which these hotels were open and for the expected supply from FY25 to FY27 for the period from when these hotels are likely to open. New hotels are generally on a ramp-up mode upon opening and need a certain period (generally two to four years) to achieve stable level occupancy. As new supply is added in a market it also leads to demand creation. During the ramp-up period we are basing our demand projections on partial absorption of new supply.

Demand Recovery / Growth estimates

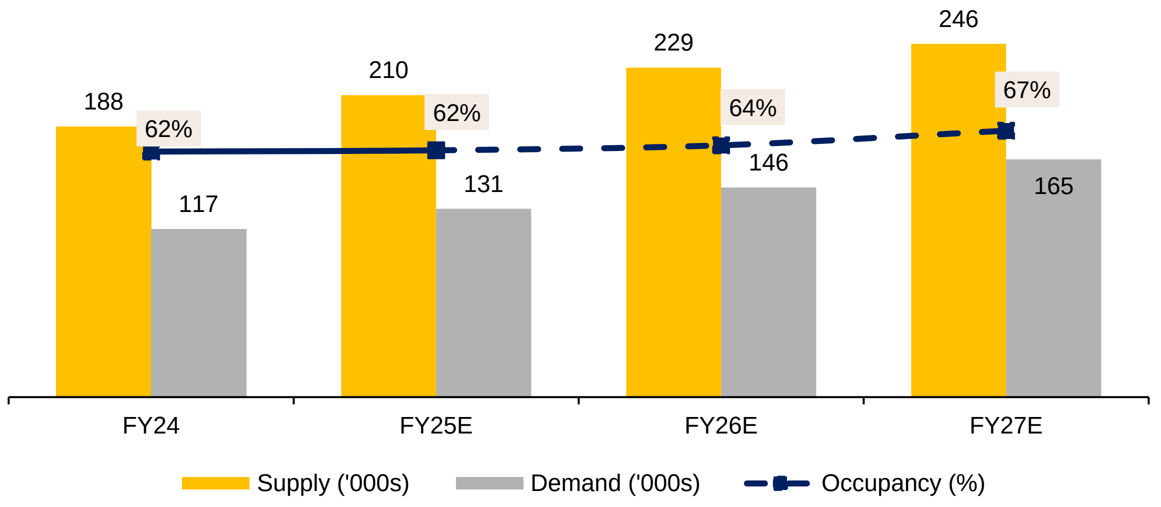
Inventory and Demand CAGR
Demand growth for chain affiliated hotels in India across all segments is significantly higher compared to inventory growth, with the trend expected to continue between FY24-FY27. This will likely cause increased hotel occupancy, and potentially support strong ADR levels.

All India CAGR	FY15-24	FY24-27
Inventory CAGR	6.3%	9.3%
Demand CAGR	7.4%	12.3%

Source: Horwath HTL

Based on the demand estimates above, and the estimates of future inventory described earlier, all-India occupancy estimates up to FY27 evolve as per the chart provided below.

<u>All India – Rooms Inventory, Demand and Occupancy Estimates (FY24–27)</u>



Source: Horwath HTL

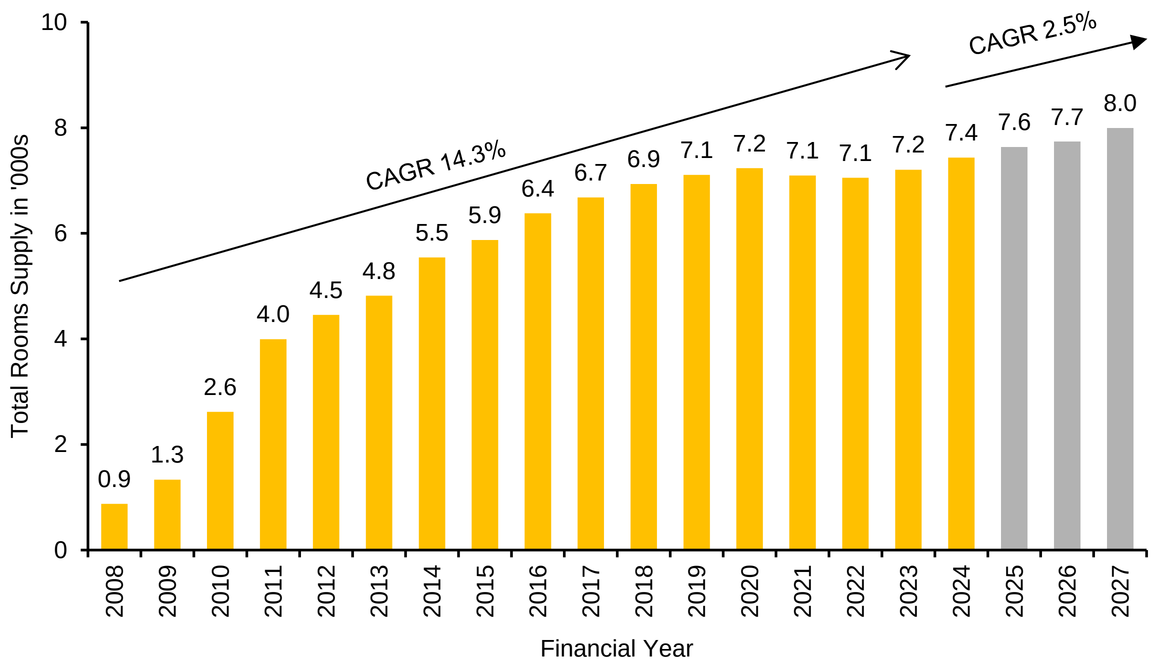
Occupancy levels are projected to moderately increase going forward, considering positive demand dynamics and the wider spread of inventory growth across markets.

Pune Hotel Market

Hotel Inventory

Overall inventory in the Pune market across segments has grown at 14.3% CAGR since FY08. However, inventory growth between FY24-27 will be limited at only 2.5% CAGR. The very modest supply growth will enable greater stabilisation and improvement in hotel occupancies and ADRs, as the city continues to expand and deepen its business standing in the services and manufacturing sectors. The spread of hotels and demand across multiple micro-markets helps capture and even generate demand from the micro-markets, including for F&B and function facilities.

Pune Chain affiliated Inventory



Source: Horwath HTL

Segmental Inventory:

In line with the economic growth of Pune, its increased quantum of inbound travel and wider demand spread across IT and manufacturing sectors, the upper-tier segment added 1.6k rooms in inventory from FY15-24.

Pune Segmental Inventory

Category	FY01	FY15	FY24	FY27	CAGR FY15-24	CAGR FY24-27
Upper-Tier	0.3	3.2	4.6	4.7	3.9%	1.2%
Mid-Tier	0.1	2.6	2.9	3.2	0.9%	4.4%
Total	**0.4**	**5.9**	**7.4**	**8.0**	**2.7%**	**2.5%**

Source: Horwath HTL

Key Features:

- Pune is the second largest economy in Maharashtra. The Union Ministry of Housing and Urban Affairs in its second edition of Ease of Living Index 2020 Report ranked Pune as the 2nd most liveable city in India. The ACIS Survey Report 2018 ranked Pune as the 1st in urban governance.

- Pune is among a handful of major Indian cities with significant demand sources across manufacturing (automotive and ancillary industries, engineering), GCCs IT, ITeS, other service sectors, as well as demand from corporate houses. In addition, Pune hotels draw substantial demand for weddings and conferences. Each of these demand sources also create substantial F&B and functions related demand for upper-tier hotels.

- **Infrastructure:** Several infrastructure developments including road, airport and metro rail infrastructure development are in progress across Pune to enable a major expansion of its business capability. Its geographic proximity to Mumbai has played an important role in boosting economic activity; this proximity stands enhanced by the Atal Setu Bridge (as well as the ongoing expansion of the Mumbai-Pune Expressway). Opening of Navi Mumbai International airport (2 hours away) by March 2025 will material add inbound and domestic travel options and business / MICE traveller accessibility to Pune.

  Pune Airport Expansion: Pune airport had one terminal with capacity to handle 7.1 mn passengers a year. A new terminal has been operationalized in July 2024, with capacity to handle 12 mn passengers a year and addition of several modern amenities. A new cargo terminal was opened in August 2023. The Airports Authority of India (AAI) plans to shut down the existing terminal building of Pune airport for renovation after the operations are fully shifted to the new terminal. Passenger traffic was 10 mn in FY24.

  Navi Mumbai International Airport: Pune will benefit from the new Navi Mumbai International Airport which is expected to become operational by March 2025, with initial capacity for 20 mn passengers annually. The entire project is scheduled to be completed in 2032 with a capacity to handle 90 mn passengers annually.

- **Manufacturing:** As of December 2023, Pune had the highest share of MIDC (industrial areas and parks) units (27%) and investments (60%) made within the state. Some of the major industrial estates setup by the government are in Chakan, Talegaon, Ranjangaon, Indapur and Jejuri. Pune has the world's largest vaccine manufacturing facility[25].

- **Automotive:** Pune is among the largest automotive hub in India. Major auto companies such as Tata Motors, Volkswagen, Mercedes Benz, Piaggio, Skoda and Bajaj Motors have sizeable manufacturing units in Pune, supported by their ancillary manufacturers.

- **IT and ITeS:** Pune has also emerged as an important IT destination and a leader in IT and BPO services within the state, with 35% of the state's 577 approved private IT Parks located in the city. Software exports from Pune have risen by almost 16x in the past 16 years (between 2004-05 and 2020-21)[26].

- **Office Space:** Total office space in Pune has grown to 55.6 msf in Q1 2024. Future supply (Q2 2024 to 2026) is projected at 13.7 msf[27].

- **Events and Conferences:** The IT, manufacturing, education and growing retail base (to support growing population and spend propensity) creates demand for national and international events, conferences, exhibitions, and trade shows, in turn leading to increased domestic and inbound demand for hotel accommodations.

- **Education and Student Population:** Pune has the fourth highest number of colleges (450+) in India. The sizeable student population provides a ready talent pool for growth of services and manufacturing activities[28].

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[25] Source: Maharashtra Economic Survey 2023-24

[26] Source: Maharashtra Economic Survey 2023-24, Software Technology Parks of India

[27] Future Supply is based on the current under-construction supply expected to be completed between Q2 2024-Q4 2026 sourced from CBRE

[28] Source: Department of Higher Education 2020

Hotel Performance:

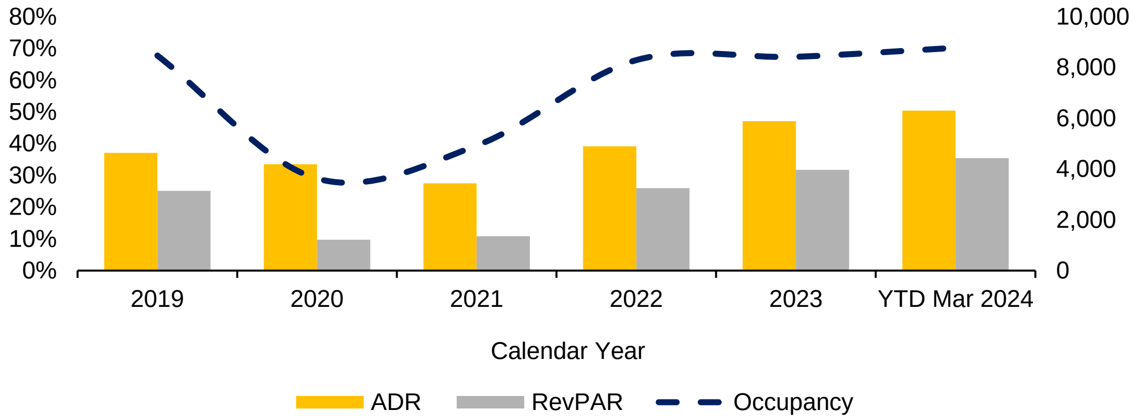
- Current demand in Pune is about 5k rooms per day yielding an average occupancy of 67% for CY23; rooms demand per day was higher by 204 rooms compared to CY19, enabling a positive rate scenario. Thus, CY23 ADR is 26.9% higher than CY19 ADR.

- The city continues to maintain growth momentum from the COVID pandemic, with occupancy levels touching 70% for YTD Mar24 while ADR grew 28.6% over YTD Mar19 and 6.1% over YTD Mar23

- Strong demand potential from business travel, corporate MICE and residential weddings is a positive for upper-tier hotels. The multiple demand segments across manufacturing and services, and with operations and hotels in different micro markets provides greater demand stability and growth prospects. Besides, the city now has quality luxury hotels comprising The Ritz Carlton, Pune, JW Marriott, Pune and Conrad with capability to draw top tier demand and top tier ADR levels.

- Material foreign demand, and increasing spend propensity for experiential products will help create demand for quality F&B outlets and entertainment facilities.

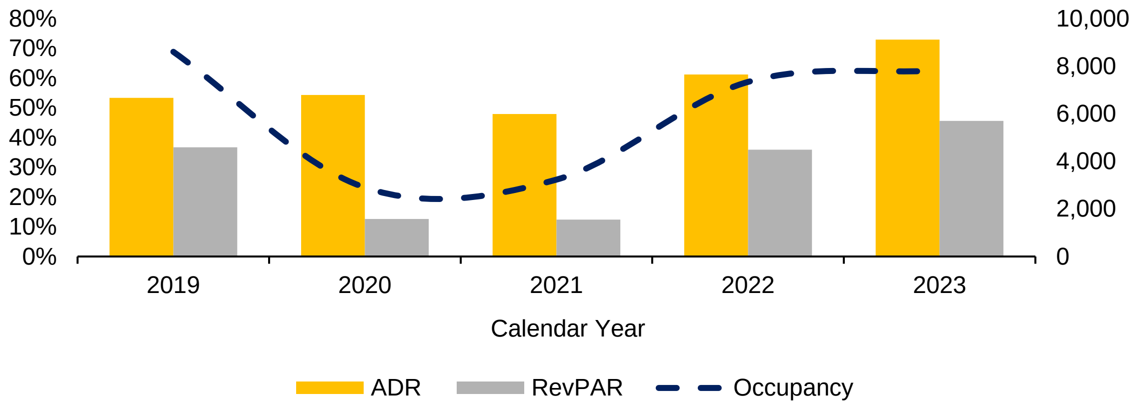
Pune Performance Overall



Source: CoStar

The Luxury and Upper Upscale Segment is enjoying meaningful demand conditions, particularly considering that two luxury hotels of Ventive Hospitality have materially repositioned their ADR levels upwards. For CY23, the segment has gained nearly 36.7% ADR growth over CY19, and 24.2% RevPAR gain over CY19

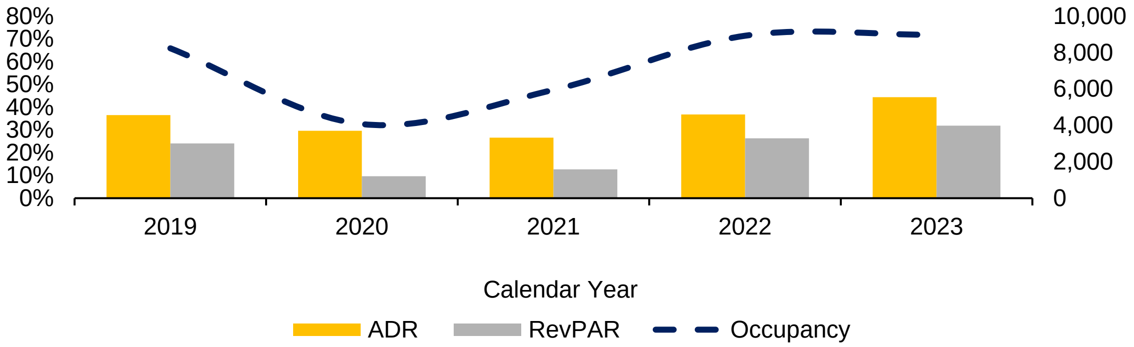
Pune Performance Luxury and Upper Upscale Segment



Source: CoStar

Upscale and Upper-Midscale segment has reported 72% occupancy for CY23 which is the highest in the last 5 years, while gaining 21.6% ADR growth over CY19.

Pune Performance Upscale and Upper Midscale



Source: CoStar

Comparative Performance Index – Occupancy, ADR and RevPAR Index from 2019 to 2024

High ADR levels at Ventive portfolio hotels enables high RevPAR. RevPAR is a key performance parameter reflecting the effective yield on guest rooms. The occupancy, ADR and RevPAR indices (hotel performance for occupancy, ADR and RevPAR over the market occupancy, ADR and RevPAR) for Pune portfolio and the two luxury hotels in Pune are provided below

Comparison between Ventive hotels performance and respective market performance

Performance Parameter	Ventive Pune vs Pune Overall	Ventive Pune Lux-UpperUp vs Pune Lux-UpperUp	Ventive Pune Up-UpMid vs Pune Up-UpMid	The Ritz Carlton, Pune vs Pune Lux-UpperUp	JW Marriott, Pune vs Pune Lux-UpperUp
Occupancy Index					
2019	1.06	1.02	1.13	0.32	1.04
2020	0.74	0.92	0.68	0.69	0.80
2021	0.66	0.89	0.69	0.81	0.72
2022	0.86	0.91	0.93	0.72	0.89
2023	0.90	0.91	0.96	0.78	0.91
ADR Index					
2019	1.55	1.23	1.19	1.78	1.24
2020	1.87	1.30	1.49	1.65	1.28
2021	2.10	1.51	1.29	2.00	1.40
2022	1.76	1.33	1.22	1.83	1.28
2023	1.77	1.33	1.29	1.71	1.34
RevPAR Index					
2019	1.64	1.25	1.34	0.58	1.29
2020	1.39	1.20	1.01	1.14	1.03
2021	1.39	1.34	0.89	1.62	1.01
2022	1.52	1.21	1.13	1.33	1.14
2023	1.60	1.22	1.23	1.34	1.22

Ventive Pune – JW Marriott, Pune, The Ritz Carlton, Pune, Marriott Suites, Pune, Courtyard by Marriott, Pune, DoubleTree by Hilton, Pune, and Oakwood Residences, Pune; Ritz Carlton, Pune commenced operations in October 2019
Ventive Pune Lux and UpperUp – JW Marriott, Pune, The Ritz Carlton, Pune, Marriott Suites, Pune
Ventive Upscale and UpMid – Courtyard by Marriott, Pune, DoubleTree by Hilton, Pune, and Oakwood Residences, Pune
Source: Hotel Performance – Ventive Hospitality Management; Market Performance - CoStar

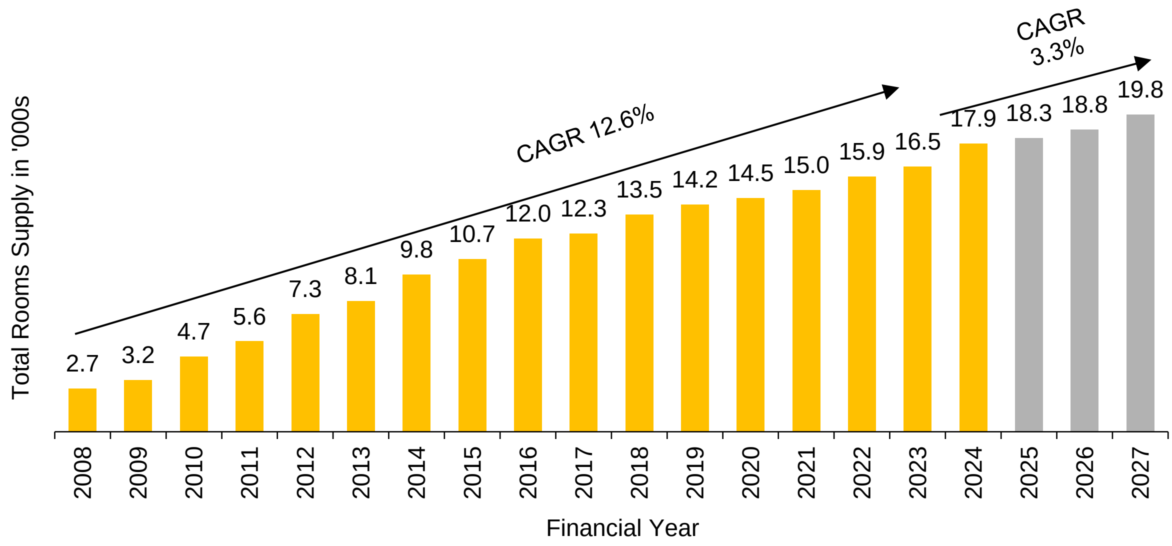
Indices interpretation: Occupancy, ADR and RevPAR indices > 1 reflects Company performance higher than market; =1 reflects Company performance equal to market; < 1 reflects Company performance less than market.

Bengaluru Hotel Market

Hotel Inventory:

Hotel inventory in Bengaluru grew at a 12.6% CAGR between FY08 to FY24, and materially up to 2016. Inventory growth between FY16 to FY24 slowed to 5.1% CAGR. Going forward, supply growth is expected to be modest, adding only 1.9k rooms up to FY27, at 3.3% CAGR.

Bengaluru Chain Affiliated Inventory



Source: Horwath HTL

Segmental Inventory:

Bengaluru has balanced inventory across segments, with 5.9% CAGR from FY15-24. The upper-tier segment has grown by 6.0% CAGR while the mid-tier segment grew at 5.7%. Inventory in the upper-tier segment is expected to grow at a CAGR of 4.2% for FY24-27.

Bengaluru Segmental Inventory

Category	FY01	FY15	FY24	FY27	Inventory CAGR FY15-24	Inventory CAGR FY24-27
Upper-Tier	1.0	6.2	10.4	11.8	6.0%	4.2%
Mid Tier	0.1	4.6	7.5	8.0	5.7%	2.2%
Total	**1.1**	**10.7**	**17.9**	**19.8**	**5.9%**	**3.3%**

Source: Horwath HTL

Key Demand Drivers

- Bengaluru is the third largest urban agglomeration in India by size[29] and referred to as the 'Silicon Valley' of India because of presence of strong IT and technology setup. It contributes 36% to state GDP and the per capita income at Rs. 621k is significantly higher than the national average[30]. It has third busiest airport in India[31].
- Key sectors that have presence in Bengaluru include IT & ITeS, biosciences, pharma, manufacturing, electronics, aviation and aerospace, professional services, education, healthcare and retail.

[29] Source: Census of India - 2011

[30] Source: Karnataka State Economic Survey 2022-23

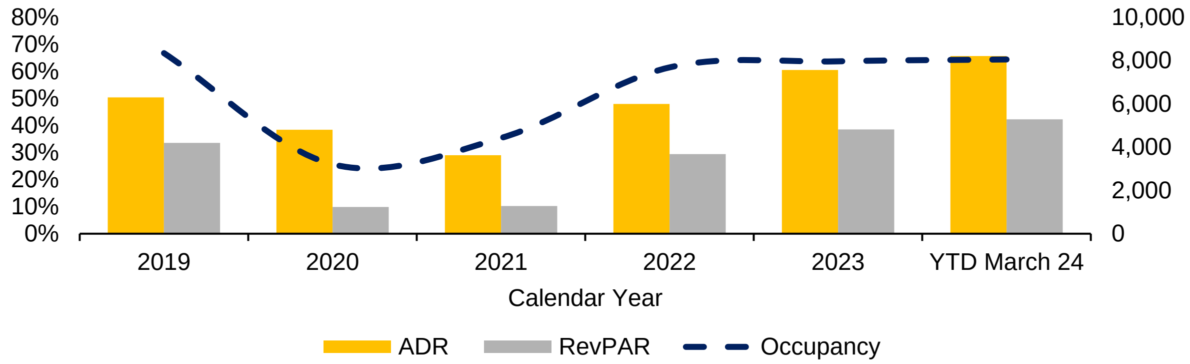
[31] Source: Airports Authority of India

- Startup Hub of India: Global Startup Ecosystem Index report issued by Israel based StartupBlink place Bengaluru as the strongest startup ecosystem in India and eighth globally.
- It is the largest hub of semiconductor design companies, outside the Bay Area in California. Nearly 70% of the chip designers in India work in Bengaluru and around 80% of the sector's revenues in design are from Bengaluru[32].
- The city is also emerging as a hub for aerospace and defence activities.
- At the end of Q1 2024 Bengaluru had 208 msf of office stock, which was the highest office stock among major cities in Asia Pacific region[33]. It has several Global Capability Centres (GCCs) such as Cisco, Deloitte, Dell, ADP, IBM, Veritas, Okta, UPS, Kraft Heinz etc.

Hotel Performance:

- On city-wide basis, Bengaluru has the largest hotel room inventory in India (about 18k rooms) and the largest inventory of commercial office space among Asian cities.
- Recovery post COVID was more gradual than several other Key Markets but has continued to gain momentum as the IT sector returns to office-based working and with growing activity in the aerospace sector with global companies setting up R&D and manufacturing bases in the Aerospace SEZ near Bengaluru airport. Passenger numbers have surpassed pre-COVID levels, having achieved 38 mn passengers in FY24[34].
- Continued return to office by the IT sector, and related increase in inbound travel will enable further demand accretion which will be beneficial to hotel occupancy and ADRs.
- While Bengaluru was among the few markets which was slow to recover post COVID due to wider scale WFH, the reversal of WFH is expected to materially propel demand and related ADR growth. ADR in 2023 was 20% higher than 2019 ADR.
- YTD Mar24 ADR was at Rs. 8.2k (1.9% higher than YTD Mar23) while occupancy remained steady at 64%.
- Bengaluru demographics, with a growing workforce size and younger profile workforce, point to larger F&B spends at hotels with the requisite appeal.

Bengaluru Performance Overall



Source: CoStar

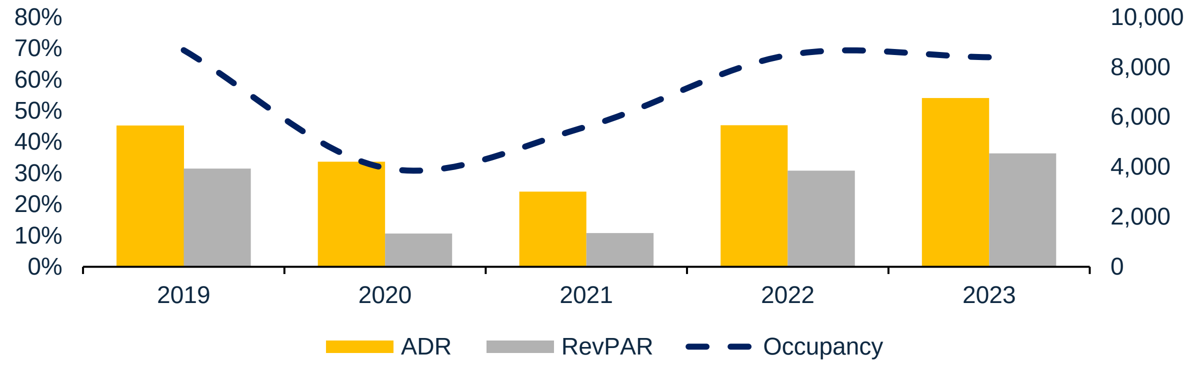
The upscale and upper midscale segment has outperformed the market in CY22 and CY23, with RevPAR growth materially emanating from ADR increases. ADR for CY23 crossed Rs. 6.8k with 19.1% growth over CY22 while maintaining comparable occupancy.

[32] Source: Aerospace and Defence, Invest India Presentation June 2019 - Government of Karnataka

[33] Source: Office space data provided by CBRE

[34] Source: Airport Authority of India

Bengaluru Performance Upscale and Upper Midscale



Source: CoStar

Improved accessibility through Bengaluru airport expansion:

Bengaluru International Airport Ltd (BIAL) that operates Kempegowda International Airport (KIA) has a master plan for 3 airport terminals. Currently Bengaluru has 2 terminals operating domestic and international flights. Bengaluru airport is expected to cross 60 mn passengers in the next 5-8 years. The Karnataka Government is also contemplating a new airport in Bengaluru on the Tumkur Road. The need for a new airport comes as KIA expects to reach its structural capacity of 92 mn passengers by 2032-33.

Comparative Performance Index – Occupancy, ADR and RevPAR Index from 2019 to 2024

The occupancy, ADR and RevPAR indices (hotel performance for occupancy, ADR and RevPAR over the market occupancy, ADR and RevPAR) for Bengaluru Hotels are provided below

Comparison between Ventive hotels performance and respective market performance

Performance Parameter	Ventive Bengaluru vs Bengaluru Overall	Ventive Bengaluru vs Bengaluru Upscale-UpMid
Occupancy Index		
2019	1.05	1.01
2020	0.79	0.64
2021	0.79	0.62
2022	1.05	0.95
2023	0.99	0.94
ADR Index		
2019	1.07	1.18
2020	1.21	1.38
2021	0.79	0.95
2022	1.01	1.06
2023	1.02	1.14
RevPAR Index		
2019	1.12	1.20
2020	0.95	0.88
2021	0.62	0.59
2022	1.06	1.01
2023	1.00	1.06

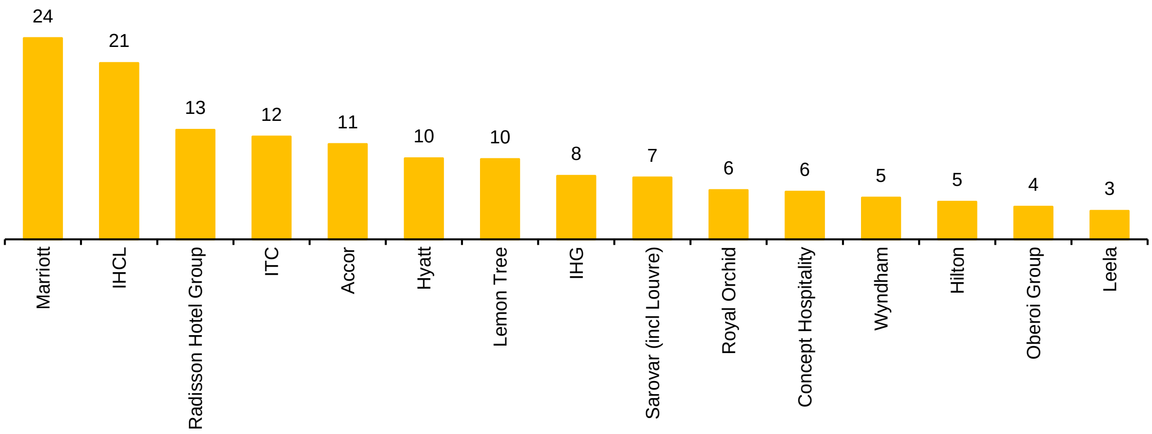
Ventive Bengaluru and Ventive Bengaluru - Upscale and UpMid comprise Marriott Aloft Whitefield, Bengaluru, and Marriott Aloft ORR, Bengaluru
Source: Hotel Performance – Ventive Hospitality Management; Market Performance - CoStar

Indices interpretation: Occupancy, ADR and RevPAR indices > 1 reflects Company performance higher than market; =1 reflects Company performance equal to market; < 1 reflects Company performance less than market.

Inventory composition – Hotel Chains:

About 77% of total inventory is controlled by the top 15 chains. Seven hotel chains – Marriott, IHCL, Radisson Hotel Group, ITC, Accor, Lemon Tree and Hyatt – each have 5% or greater inventory share by number of rooms; in aggregate, these chains have 54% share of total inventory

Rooms Inventory of Top 15 Chains (in 000s)



Notes: (a) Marriott excludes hotels under franchise with ITC Hotels; these are included under ITC Hotels; (b) Louvre Group includes Sarovar
Source: Horwath HTL

Operating Performance Parameters

Operating Performance Comparison

Tables below provides a summary of operating performance including F&B Revenue of select listed hotel companies, that own 1.5k or more rooms, for FY22 to FY24. Hospitality segment data of listed companies that operate predominantly in other business (non-hotel) segments is not included.

Operating Performance - Select Listed Hotel Companies (Rs. Mn)

Company@	FY22			FY23			FY24		
	Revenue #	EBITDA	%	Revenue #	EBITDA	%	Revenue #	EBITDA	%
IHCL	32,114	5,599	17%	59,488	19,435	33%	69,517	23,401	34%
EIH	10,440	574	5%	20,964	6,750	32%	26,260	10,416	40%
Chalet$	4,100	661	16%	10,281	4,327	42%	12,932	5,742	44%
Lemon Tree	4,163	1,327	32%	8,786	4,511	51%	10,768	5,288	49%
SAMHI	3,331	218	7%	7,614	2,606	34%	9,787	2,879	29%
JHL*	3,438	1,015	30%	7,173	3,224	45%	8,263	3,197	39%
ASPHL	2,678	583	22%	5,244	1,771	34%	5,917	2,052	35%
Total / Avg@	**60,264**	**9,977**	**17%**	**119,550**	**42,624**	**36%**	**143,444**	**52,975**	**37%**
Chalet (Total)$$	**5,297**	**1,204**	**23%**	**11,780**	**5,023**	**43%**	**14,370**	**6,044**	**42%**

Source: Listed Company annual reports / quarterly reports
 # Consolidated numbers unless otherwise stated; Revenue includes Other income
$ Company operates in multiple segments; revenue and EBITDA is only for the hospitality segment
$$ Revenue and EBITDA for the entire company (all segments)
** Juniper Hotels (JHL) acquired Chartered Hotels (CHPL) on September 20, 2023, hence consolidated figures for revenue and EBITDA have been provided for FY23*
@ IHCL, EIH, Lemon Tree and ASPHL are hotel companies that own and operate hotels and also operate and manage hotels of other owners.
@ Chalet, SAMHI and JHL are hotel developers and owners. Hotels of these companies operate under a management or franchise agreement with third party hotel operators.

F&B and Total Revenue - Select Listed Hotel Companies (Rs. Mn)

Company@	FY22			FY23			FY24		
	Revenue#	F&B	%	Revenue #	F&B	%	Revenue#	F&B	%
IHCL	32,114	10,594	33%	59,488	21,348	36%	69,517	23,861	34%
EIH	10,440	3,813	37%	20,964	7,569	36%	26,260	9,535	36%
Chalet	4,100	1,565	38%	10,281	3,386	33%	12,932	4,009	31%
Lemon Tree	4,163	581	14%	8,786	1,144	13%	10,768	1,401	13%
SAMHI	3,331	950	29%	7,614	1,820	24%	9,787	2,402	25%
JHL	3,438	895	29%	7,173	2,024	30%	8,263	2,470	30%
ASPHL	2,678	883	33%	5,244	2,280	43%	5,917	2,509	42%
Total / Avg	**60,264**	**19,281**	**32%**	**119,562**	**39,193**	**33%**	**143,444**	**46,187**	**32%**

Source: Listed Company annual reports / quarterly reports
 # Consolidated numbers unless otherwise stated; Revenue includes Other income
NA - F&B data is available only in annual reports and hence data as of 31 March 2024 is not available
@ IHCL, EIH, Lemon Tree and ASPHL are hotel companies that own and operate hotels and also operate and manage hotels of other owners.
@ Chalet, SAMHI and JHL are hotel developers and owners. Hotels of these companies operate under a management or franchise agreement with third party hotel operators.

Potential risk factors to the hospitality industry

1. **Reputation Risk**

   The reputation of a hotel is critical to its success. Such reputation is built by the product quality, location and appeal, range and quality of food & beverage offerings, quality of function spaces and the branding of the hotel. Service is critical to building a strong reputation. Reputation damage could occur if health and safety norms are not adequately complied with and implemented.

2. **Demand risk**

   The discretionary nature of hotel demand can impact demand volumes, profile and pricing due to factors such as economic slowdown; new competitive supply or loss of product quality. Seasonality aspects could also have a material impact on demand, particularly if any challenges occur during high season periods for a destination.

   Overall demand is more discretionary for leisure, weddings and MICE purposes, while for business driven destinations a certain element of business travel is often inevitable; pricing and demand interplay can negatively impact revenues during an economic or travel slowdown.

3. **Competition Risk**

   Arises from newer and more contemporary hotels setup in a market and from alternate accommodation. Material new supply created in a market or micro market within a concentrated timespan, can impact occupancy and pricing unless there is ready latent demand to absorb the new supply. Good quality new hotels at different price points could also channel away demand at higher priced hotels which are benefitting from pricing strength due to lack of adequate supply. On the other hand, depending on circumstances in a market additional supply could also create better visibility and greater critical mass to the benefit of various hotels.

4. **Economic Risk**

   Business conditions for hotels can be impacted by the overall economic situation in the country/ city aor in key source markets. A slow, stagnant or declining economy creates demand and pricing pressure, including on demand for restaurants, functions etc. A growing economy with positive sentiment helps to lift demand, pricing and spends. Economic risks can in turn impact foreign currency reserves and create foreign currency risks which, in turn, can impact availability of foreign exchange debt funding for hotel projects. While the hotel / resort sector can obtain Substantial foreign currency revenue earned by the hotel / resort sector, temporary currency shortages can have potential impact on foreign currency available to fund imports of goods and services for hotel operations.

5. Health and Security Risk

Health and or security factors affecting a destination, destination country, or key source markets can negatively impact demand. This was seen during the Covid pandemic or in certain Asian markets during the SAARS epidemic, or when terror attacks occurred in Mumbai and New York in 2008 and 2001 respectively. Recovery from health and security concerns depends on the cause but generally remains robust if the destination market is a key market.

6. Source Market Concentration Risk

Source market economic issues can impact demand and revenues in a destination particularly if there is substantial demand concentration and reliance upon a particular source market which is suffering an economic downturn. Substantial demand concentration or reliance upon specific source markets can impact demand and revenues, if one or more of such source market suffers from demand risks on account of economic, health or security issues.

7. Digital Security and Data Privacy Risk

Substantial use of the digital medium for sales and marketing, and the collection, use and storage of guest personal data creates the risk of data breach which could affect operating systems and operations, as well as compliance with data privacy laws and regulations. In turn, this can expose hotel companies, including managed hotels, to liability under international and domestic laws and regulations e.g. GDPR Regulations and the Digital Personal Data Protection Act, 2023 (regulations yet to be notified). Further, hotel companies that do not have a robust digital platform can suffer competitive disadvantage.

8. Human Resources Risk

The hotel sector is materially subject to Human Resources (HR) risk as regards availability of a sufficiently large pool of managers and employees with relevant skills and experience to meet staffing needs of a rapidly growing industry, higher competitive costs for personnel, and high attrition levels due to demand for trained hotel staff across various service sectors. While staffing pattern have been modified as an outcome of the Covid pandemic, the HR risk is expected to remain significant.

9. Operating Margin Risk

Operating margins can come under pressure due to decline in revenue (quantum and or rate based) and increase in costs. Cost increases are not always immediately controllable, particularly fixed cost elements towards various utilities, payroll costs with increases amidst competition, increasing input costs towards F&B and other supplies. Sales costs can vary depending upon sales channels used and the strength of operator's sales channels through its loyalty programs and digital or other systems. Greater ability of a hotel to reduce its fixed cost would prove beneficial in managing operating margins.

10. Compliance Risk

Substantially increased compliance requirements results in greater risk of compliance failure and in added compliance costs which have effect on operating margins. Variances in compliance needs across different states in India add to the risks levels and to compliance cost.

11. Third Party Risk

The changing business ecosystem with increased outsourcing of various functions and sharper procurement timelines create newer third-party risk for hotels and asset portfolios.

Third party risk can also arise from outdoor catering events and from greater use of contract employees.

12. Development and Growth Risk

Growth of hotel supply can be impacted by various developmental risks including availability of suitable land with clear titles, entitlements and affordable costs; need for multiple approvals without defined time commitments from authorities, project delays due to regulatory requirements, funding delays including availability and cost of foreign currency funding and inability to meet escalated project cost due to the aforesaid factors. Projects also get delayed, and sometimes abandoned, due to economic disruptions, insufficient funding, and resultant cost escalations. These can cause hotel projects to be delayed or downsized (with or without reduction in scale during project implementation),or carrying inadequate initial quality due to lack of funding.

13. Debt Service Risk

Debt stress can arise due to development and implementation challenges for hotels, or from overly leveraged hotels or lack of demand growth or penetration to the extent anticipated thereby causing inadequate funds availability for debt service. Debt service obligations can pile up quite rapidly if allowed to persist, impacting the hotel asset and service quality, performance and competitiveness.

14. Asset Impairment Risk

Lack of suitable care in the upkeep, renovation and upgrade of individual hotel assets from time to time can impact the hotel's competitive positioning and capability and thereby impact its earnings. As a cyclical consequence, this can further reduce funds availability for reinvestment in improving the asset and to overcome asset quality impairment.

15. Climate Change Risk

Climate change factors can have material bearing on hotels in terms of changing business seasons, impact of global warming, increased operating costs due to need for additional air-conditioning and or lack of water, reduced demand due to high temperatures flooding and landslides (these can even restrict access) and higher cost of operation to comply with sustainability needs and expectations which may be regulatory and / or competitive in nature.

Horwath HTL

Hotel, Tourism and Leisure

Industry Report –

Upper Tier Hotels, Maldives

Prepared for:

Ventive Hospitality Ltd.

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The consulting experience of Horwath HTL India covers over 150 Indian cities, towns and destinations and over 20 international destinations. Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors, international lenders, including several major international and domestic hotel chains and their associates.

Our hospitality consulting practice has advised on significant and diverse projects and the principal services provided by us are market and financial feasibility studies, strategic planning for hotel chains, operator search and management contract negotiations, valuation of hotel companies and hotel properties, structuring financial bids, operational reviews, efficiency audits and service audits and systems design and reviews for hotels.

Overview of Maldives Hospitality Industry




Some key characteristics of Maldives hotel industry are set out herein.

1.1. **Resort Destination with Unique Offerings:** Maldives is an island nation spread over 26 major atolls in the Indian Ocean. Over the last 5 decades, it has solidified its status as a widely popular tourist destination given its strong recognition as a leading beach and resort destination adorned with low-lying coral islands, pristine white sand beaches, and azure ocean waters teeming with diverse marine life. Maldives has been ranked consistently as one of the best tourist island destinations globally including World's Leading Destination (2023) and Indian Ocean's Leading Destination (2024) at the World Travel Awards. Its unique "one island one resort" concept enables resorts to offer rooms with direct views and proximity to the seawaters and exclusive use of the island's beach.

1.2. **Tourism and Allied sectors significantly contribute to GDP:** The tourism and allied sectors directly contributed 42% of the nation's GDP in CY23 (40% in CY22) and has a significant multiplier effect. The tourism sector generates over 60% of foreign currency earnings in addition to material FDI, tax revenues, and employment.[1]

1.3. **Accessibility to various atolls via Male, the Capital City of Maldives:** Maldives has created robust connectivity to its key source markets, to enable convenient travel for visitors right through to the resorts where they are staying. Male is served by several major global airlines with direct flights to Velana airport, Male from 21 countries and 34 destinations as of June 2024 (19 countries in 2019). Tourists travel to various island resorts by boat or sea planes. Geographic spread of resorts in the vast waters of Maldives in the Indian Ocean has been supported by the development of international and domestic airports to the North and South of Male, providing convenient access to more distant atolls and resorts. In all, Maldives

[1] Source: Maldives Bureau of Statistics and PwC Republic of Maldives - Worldwide Tax Summaries 2022 via Maldives Tourism Climate Action Plan, Ministry of Tourism

has 18 airports including 4 international airports. 30 international carriers operated flights to Maldives in CY23.[2]

1.4. **Market dominated by chain-affiliated hotels:** As of March 31, 2024, Maldives has 22.6k hotel and resort rooms across various segments, developed on numerous islands, distinctive of Maldives' "one-island-one-resort" concept. Top 5 atolls - Kaafu, Raa, Alifu Dhaalu, Baa and Dhaalu - comprise 69% of the luxury inventory and continue to attract global tourists due to concentrated presence of top global and domestic chains. Ventive Hospitality resorts are in the key atolls, with 7.8%, 2.6% and 8.3% share of total inventory in Alifu Dhalu, Kaafu and Raa atolls respectively. 74% of Maldives' inventory is chain affiliated (international and domestic chains), with increasing management participation by international hotel chains. Resorts are typically of moderate size, ranging from 80-100 keys.

1.5. **Robust post Covid recovery:** The Maldives market recovered rapidly post-Covid, with tourist arrivals recovering to 110% from 2019. Maldives received 1.8 million foreign tourists in 2023 from various international source markets (including long-haul markets), momentum has continued in YTD Mar24 with 15% growth in the period compared to last year. Maldives has remained a popular tourist destination and continues to draw tourists from major global destinations including US and Europe. By nature, Maldives is a high rate destination with multiple luxury resorts and demand at luxury pricing. While source market contributions did vary over these years, the destination's popularity resulted in uptick in demand from Europe, Russia and India offsetting demand loss from certain other markets which were still closed in 2022 (notably China). CY23 FTA from China was only two-thirds of CY19 levels, indicating opportunity for future FTA increases. Further growth in arrivals is expected in the short to medium term given Maldives' strong reputation as a leading beach and resort destination and the upcoming opening of the new airport terminal at Velana, Male will increase airport capacity from 1.5 million per annum to 7.5 million per annum.

1.6. **Demand spread across luxury hotels commanding high ADRs:** Maldives benefits from sizeable demand for Luxury and Upper Upscale (Lux-UpperUp) hotels, consistent with the fundamental attractiveness of the destination. Demand for premium experiences has resulted in approximately 34% and 19% of inventory being of Lux-UpperUp hotels, respectively with this quality being sought by global travellers. ADR levels for the period CY19-23 ranged between US$ 681 - US$ 844.

1.7. **Global Spending on Luxury Leisure**: As per McKinsey report (*The State of Tourism and Hospitality 2024*), global spending on luxury leisure hospitality was US$ 239 billion in 2023 and is projected to reach US$ 391 billion in 2028 growing at CAGR of 10.3%. Share of very high net worth and high net worth individuals is projected to be increase to 58% in 2028 from 49% in 2023.

1.8. **Limited upcoming supply:** Based on available data, the actual identifiable pipeline of resorts is limited, comprising 16 resorts with 2,112 rooms having specific project timelines and progress for completion by end 2026. 16 resorts are expected to be completed in the next 3 years. Actual fructification of other new projects can be expected to be gradual (only 132 hotels / resorts opened between 2001 and 2024). Expected supply in the Upper Tier resorts is significantly lower., at 5.5% CAGR for CY23–26, given multiple barriers in creation of Lux-UpperUp and upscale resorts in Maldives; this will materially benefit existing inventory as demand continues to grow.[3]

1.9. **Barriers to construction and operation of hotels:** Resort development and operations carry high costs (typically 4-6x of construction costs in India), as almost all material and supplies need to be imported and transferred by sea to each island. The high costs pose a material barrier to entry, requiring substantial equity financing capacity and debt support, with greater viability risk. Consequently, new projects could take longer time to complete than anticipated, with resultant cost escalations – both factors, create a competitive advantage for

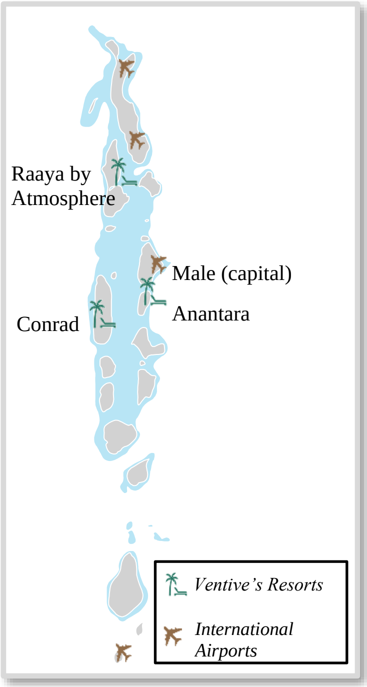
[2] Source: Maldives Airports Company Limited

[3] Source: Ministry of Tourism

existing resorts. Project implementation periods often stretch over 5-8 years; with 3-5 years further required for operational stability, resorts take substantial time to become competitively relevant from the time the project is conceived / announced.

Overview of Maldives and its Economy

Geographical Characteristics of Maldives:
The Republic of Maldives is an archipelago of 26 major atolls (chains of coral islands), located in the Indian Ocean southwest of India. The islands are spread over 820 kilometres from the northernmost Ihavandhippolhu Atoll to the southernmost Addu Atoll. Of 1,190 coral islands in the archipelago, only 202 are inhabited. The map shows a geographic overview of the Republic of Maldives.



Maldives - Uniqueness of Tourism Offerings
The Maldives is a widely popular, time-tested, island destination in the Indian ocean, known for its surrounding azure waters, pure white sand beaches and coral reefs. Its shallow lagoons offer the special advantage of being conducive for casual swimming and development of high-end water villas to add valuable resort inventory that may be restrained by the land size of the island. Maldives is conveniently accessible via direct and long-haul flights from major global demand source areas (including convenient transit via the Middle East).

Comparison with Select Island Destinations
Maldives, Mauritius, and Seychelles are among the key island tourism destinations in the Indian Ocean; Bali and Phuket are to the east of the Indian Ocean and are also popular destinations for beach tourism in the wider Southeast Asian region. Each of these attract regional and long-haul visitation.

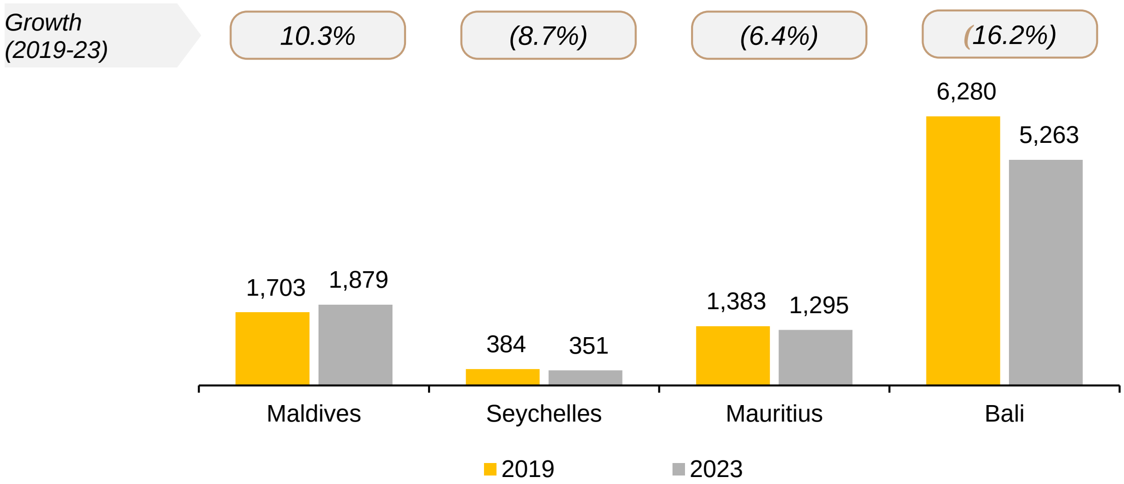
Some key distinctions between these destinations are:

- **One island, one resort**: Maldives is the only destination globally where resorts are located on various individual islands across a vast area of the ocean, based on the 'one island, one resort' principle. Resorts in Seychelles are mostly located on three large islands – Mahe, Praslin and La Digue. Mauritius, Bali and Phuket have several resorts located on a single main island. Resorts in the Maldives, with superior guest experience and facilities, are largely able to capture the entire guest spending on F&B, spa, and other activities.
- **Government policy support on Tourism**: Maldives relies heavily on tourism as the primary contributor to economic activity and GDP; as such, its policies earnestly consider the needs of the tourism sector.
- **Larger visitor numbers:** Maldives attracts more visitation than Mauritius and Seychelles. The table below provides a comparison of international tourist arrivals at these destinations.

International Tourist Arrivals - Other Select Island Destinations

Year	Maldives	Seychelles	Mauritius	Bali
CY 2015	1,234,248	276,233	1,151,252	4,000,000
CY 2019	1,702,887	384,204	1,383,488	6,280,000
CY 2022	1,675,303	332,068	997,290	2,155,777
CY 2023	1,878,543	350,879	1,295,410	5,263,258
YTD March 24	604,004	97,517	338,554	1,344,621

Tourist arrival Growth (2019 - 2023) in '000s

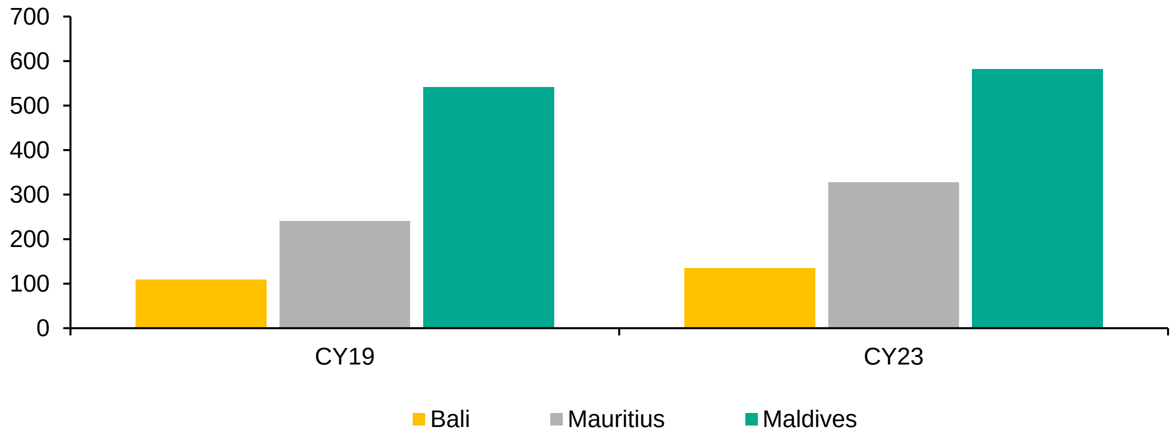


Source: Tourism yearbook 2023 Maldives, Statistics of Bali Province, Seychelles Visitors Arrivals Snapshot (Week 52) and Statistics of Government of Mauritius

Note: While Bali is included as it is a popular beach resort destination in the region, its geographic proximity to Australia draws a mass of tourists that renders effective comparability to be limited.

- **Higher Room Rates in Maldives:** Maldives draws significantly higher ADR than Mauritius, Bali and Phuket, gaining from substantial Lux-UpperUp demand. For 2023, Maldives ADR was at US$ 582, higher compared to Bali and Mauritius. Seychelles had comparable ADR levels to Maldives for 2023 (US$ 589)[4], while having much lesser Lux-UpperUp inventory and lesser connectivity with direct flights from only 14 countries.

CY23 vs CY19 ADR (in US$) Performance Comparison



Source: CoStar

Note: Seychelles data not available for 2019

Maldives – Economic Overview

Maldives GDP

Gross Domestic Product (GDP) is estimated to be US$ 7.2 billion in CY 24 (+7.6% YoY). GDP is reflected in the Chart below and reflects steady growth from CY 2015-19 (+7% CAGR), strong recovery post pandemic with CY 2024 GDP expected to be 26% above 2019 GDP (5% CAGR).

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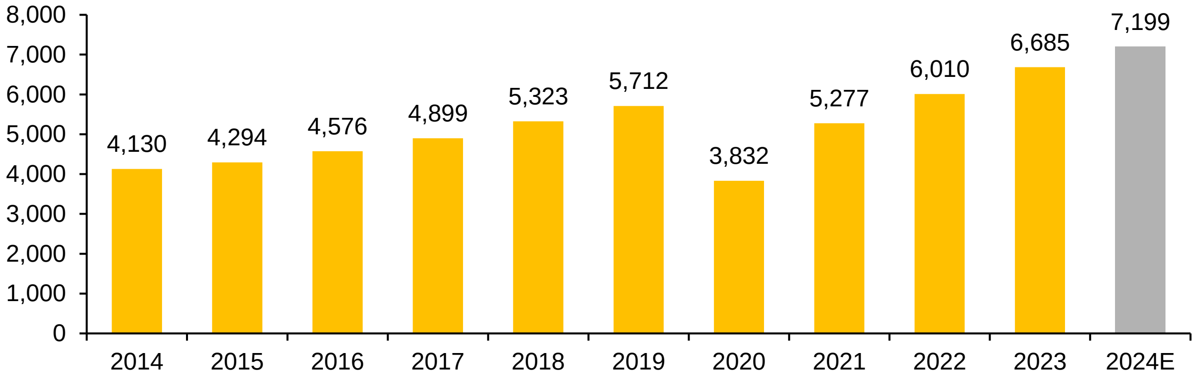
[4] Source: CoStar

IMF's World Economic Outlook Report (April 2024) forecasts GDP (in US$) growth at 5.2% for CY 2024, 6.5% for CY 2025 and average 4.8% from CY 2026 – 2028.

GDP Chart (US$ Mn)



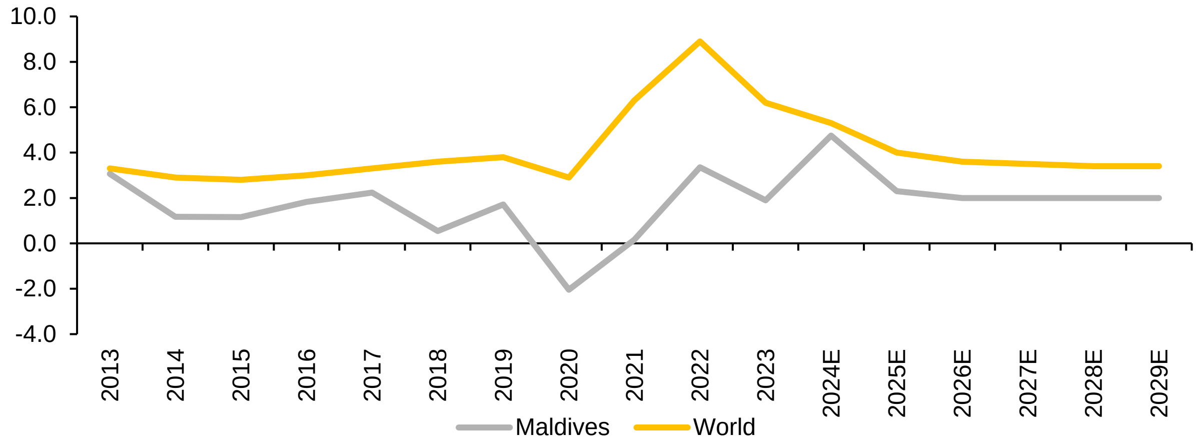
Source: Ministry of Tourism – 2015 to 2023, IMF – 2024, World Economic Outlook - April 2024

Inflation (CY)

The Inflation Rate averaged 1% from 2013 until 2022, increasing to 1.9% in 2023. Inflation is forecasted at 4.8% for 2024 and subsequently expected to decrease between 2025 and 2029 to around 2%. Inflation in Maldives has remained lower than global inflation rates with this trend expected to continue over the next 4-5 years. Lower inflation aids in lower operating costs incurred by resorts, in turn improving the operating margins.

Inflation in Maldives is also lower than other island destinations such as Mauritius (3.5%) and Seychelles (3.4%).[5]

Inflation Rate CY (%)



Source: World Economic Outlook, IMF, April 2024

Travel and Tourism in Maldives

Tourism and Allied Sector Contribution to GDP

The Maldivian economy is highly dependent on Tourism and allied sectors as a source of foreign currency and contributor to GDP. In CY23, Tourism and Allied Sectors contributed 42% of Maldives GDP (40% in CY19). The tourism and allied sector has been consistently growing since CY16 in terms of percentage share of GDP from 39% to 42%.

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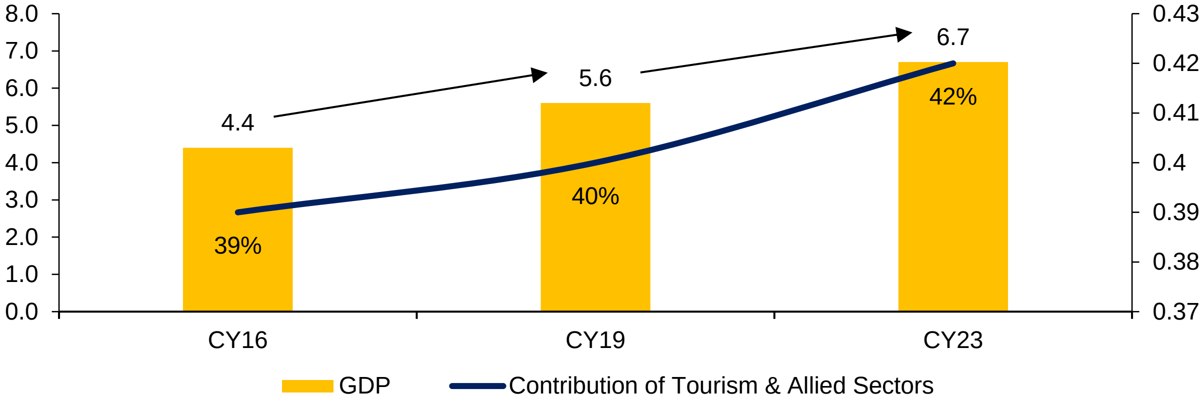
[5] Source: World Economic Outlook, IMF, April 2024

Increasing GDP (US$ Bn) dependence on Tourism and Allied sectors



Source: Maldives Bureau of Statistics and Ministry of Tourism
Note: Tourism and allied sectors include transportation and real estate

Maldives government has released the Fifth Tourism Master Plan (2023-2027) to address various areas of tourism industry. It focuses on promoting sustainable tourism and coordinates tourism development – some key goals include attracting and retaining a world-class tourism workforce, achieving net zero emission, accelerating 360 digitisations, and building climate resilient assets.

Existing International Airports at Maldives:

- Male Velana International Airport ("MVIA") is the main international gateway with annual passenger capacity of 1.5 mn. The airport connects to over 34 international destinations with over 30 international airlines[6], and functions alongside the world's largest seaplane operation. This airport is currently undergoing an expansion with investment of US$ 1bn.
- The other international airports are Maafaru and Hanimaadhoo (both located north of Male), and Gan, located in the southern region of the country. Presently, these airports serve more domestic flights, enabling visitors to arrive at Male and conveniently reach resorts further from the Capital.

Expansion Projects at Maldives Airports:

- MVIA is being further upgraded and expanded with a new passenger terminal building, a second runway, cargo terminal complex, fuel farm and a seaplane terminal. The new terminal building would accommodate up to 7.5 million passengers a year (5x increase); the second runway will provide capacity support. The new modern terminal is expected to open in December 2025. The seaplane terminal Noovilu, located at the eastern lagoon area of the airport, has a capacity of 100 seaplanes.
- Hanimadhoo International Airport Redevelopment is intended to upgrade the infrastructure to international standards and serve as a catalyst for the development of northern Maldives. Construction commenced in January 2023 with an expected capacity of 1.3 million passengers per annum. The airport will also have a seaplane terminal for parking seaplanes and provide anchorage for ferries.
- Gan International Airport expansion is expected to complete by end of 2025. This includes construction of an air traffic control tower, fire station, as well as an upgrade of the existing terminal, parking facilities, roads, duty-free shops and restaurants. The airport will have a capacity to serve 1.5 million passengers annually.
- Upon completion of expansion at all the above airports, the aggregate capacity for international operations will be 10.3 million passengers per annum.

[6] Source: Maldives Airports Company Limited

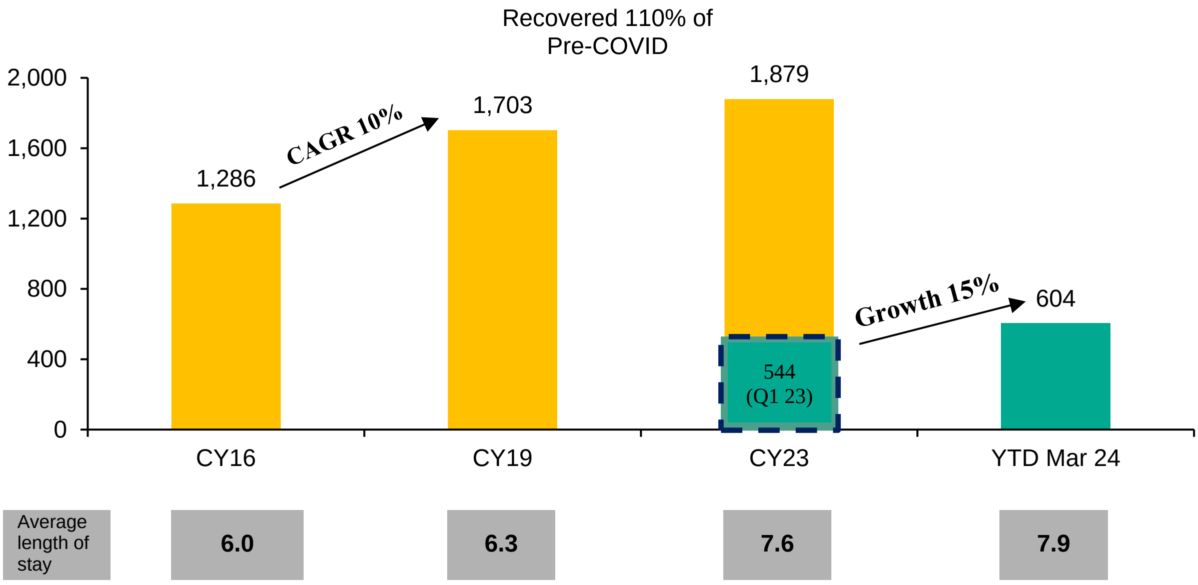
Overview of Key Demand Drivers

In this section, we provide an overview of several key factors that impact demand for hotels, performance of the hotel sector and future development of the sector.

Foreign Tourist Arrivals (FTA)

Maldives benefited from early travel resumption by certain markets post pandemic, particularly as its island-based resort structure offered substantial Lux-UpperUp exclusivity in comparison to other destinations. Tourist arrivals for YTD Mar 2024 totalled 0.6 million, representing a 15% increase YoY in Q1 CY24.As per estimation provided by Ministry of Finance's recently released macroeconomic update, FTA is estimated to cross 2 million in CY24.

Foreign Tourist Arrival by Air ('000s)



Source: Ministry of Tourism

FTA Source Markets – By Countries

Globally Diversified Customer Profile (Contribution in Arrivals)

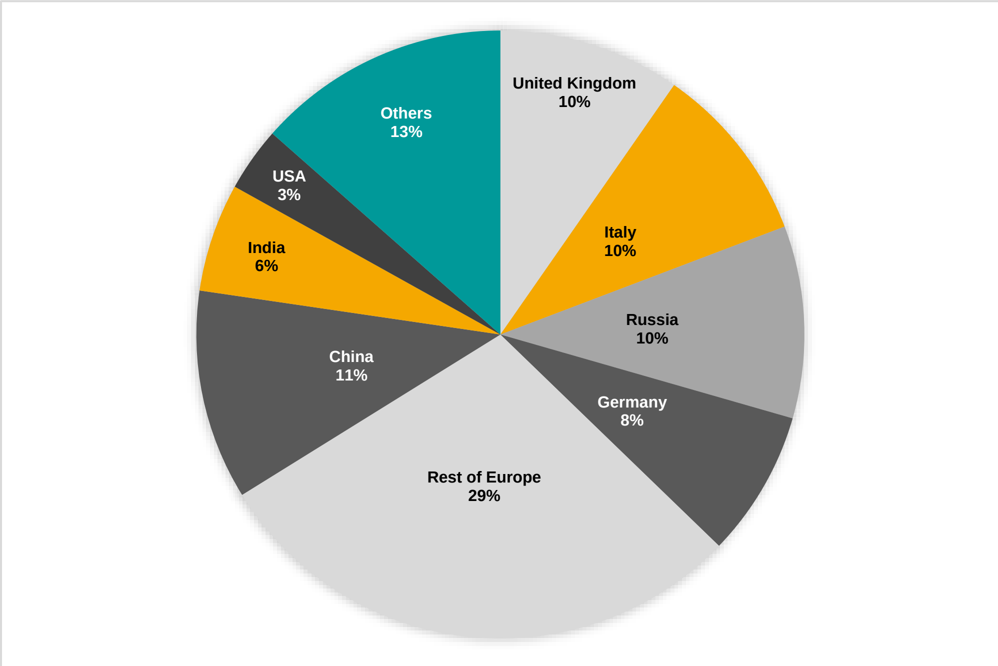
	2016	2019	2023	Q1 2024	Q1 2023
United Kingdom	101,843	126,199	155,994	58,460	49,868
Italy	71,202	136,343	118,525	57,648	46,091
Russia	46,522	83,369	209,146	61,753	65,060
Germany	106,381	131,561	135,091	47,022	37,095
Rest of Europe	249,228	356,467	435,953	174,700	148,475
China	324,326	284,029	187,125	67,399	17,691
India	66,955	166,030	209,193	34,847	56,208
U.S.A	32,589	54,474	74,838	20,636	22,212
Others	287,089	364,415	352,678	81,539	81,228
Total	**1,286,135**	**1,702,887**	**1,878,543**	**604,004**	**523,928**

Source: Ministry of Tourism

- Maldives has a diverse pool of demand from across the globe, which provides the ability to overcome temporary demand decline from local issues in specific source markets.
- Europe and UK demand contributes materially to the higher ADR levels in the market
- China is a key source market; although Chinese demand post Covid was slow to recover, it accounted for 11% of YTD Mar24 market share, and carries space and opportunity for growth.

- Visitors from USA are increasing, notwithstanding the long-haul travel. This augurs well for ADR levels at the Lux-UpperUp hotels.

Global Diversified Customer Profile Q1 2024 (% share in arrivals)

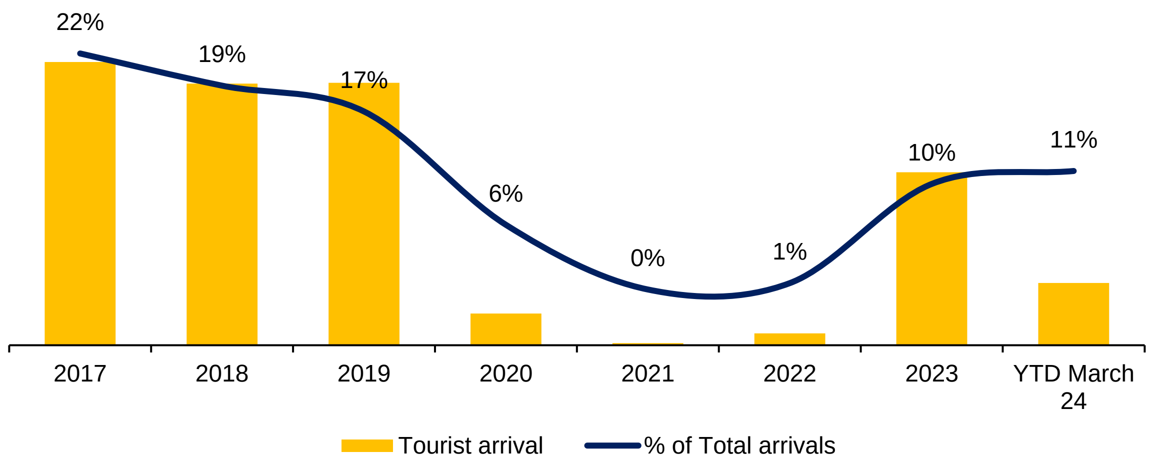


Source: Ministry of Tourism

Demand recovery from China

- China had emerged as a top source market for visitors to Maldives but its stringent zero-COVID policy materially constrained overseas travel. While borders were eventually reopened in Jan'23, the recovery in outbound tourism has been slower due to slower ramp up of flight connectivity. Chinese arrivals into Maldives is regaining momentum but still fall short of pre-Covid levels.

Arrivals from China (CY)



Source: Ministry of Tourism

Ease of access and On-arrival Visa

Maldives provides on-arrival visa for all tourists irrespective of nationality, offering convenience and flexibility to tourists and encouraging foreign travel.

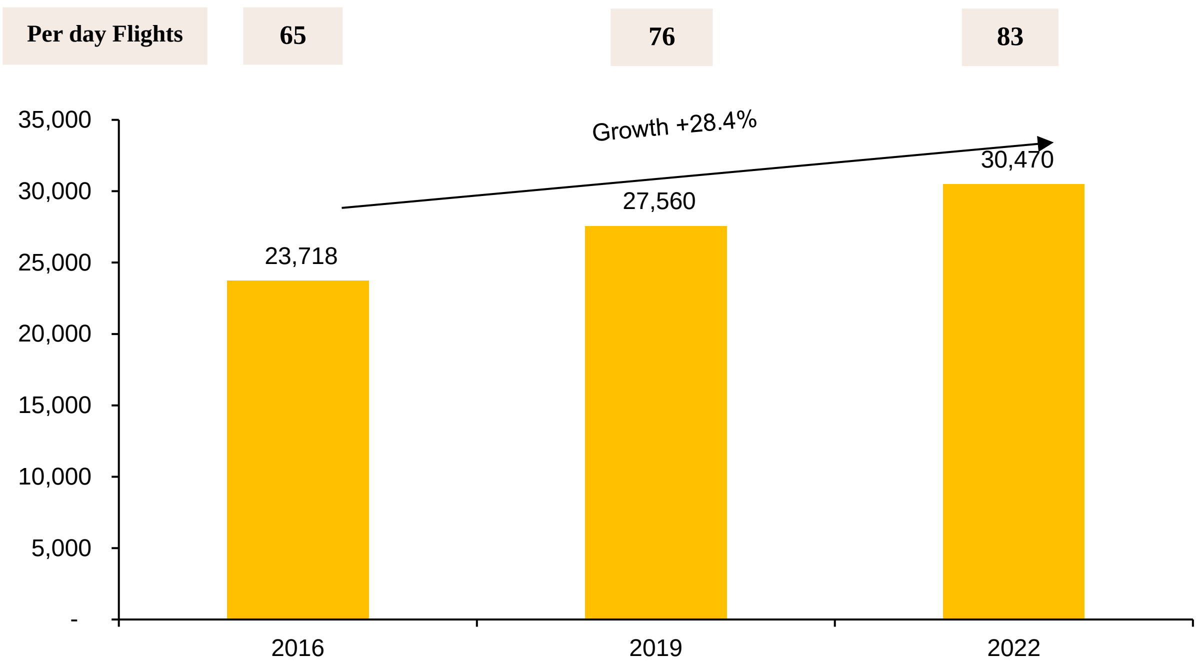
Airline Connectivity

- Middle Eastern connectivity to Maldives has grown materially, also serving as a transit hub for flights between America and Europe.
- Weekly passenger capacity offered to Maldives by some major airlines are:

Airlines	Mar-24	Mar-19
Emirates	10,038	10,038
Qatar Airways	7,098	4,886
Indigo	5,000	2,520
Sri Lankan Airlines	4,081	6,237
Aeroflot	3,714	1,870
Etihad Airways	3,311	2,569

(Source: Maldives Airports Company Limited)

Number of International Flights



Source: Maldives Bureau of Statistics

Overview of Key Supply Drivers

Supply Classification

Segmental pacification is based on classification adopted for CoStar reporting purposes, to the extent the resorts are participating with CoStar. This basis is summarised below:

- **Luxury and Upper Upscale segment** typically comprises top tier hotels; in India, these are generally classified as five star, deluxe and luxury hotels. Several brands classify themselves as luxury hotels, based on certain criteria (e.g. room size) without having the service standards and consistent guest profile typically associated with true luxury hotels.
- **Upscale segment** comprises hotels which are more moderately positioned and priced, generally with smaller room sizes than the luxury and upper upscale hotels.
- **Upper Midscale segment** comprises full service or select service hotels, typically with lesser public areas and facilities and smaller room sizes, which are more moderately positioned and

priced than upscale hotels. In India, these would generally be classified as 4 star and sometimes 3-star hotels.

- **Midscale- Economy segment:** Midscale refers to three/two-star hotels characterized by moderate room sizes, quality and pricing, and a lower extent of services. The economy segment is typically two-star hotels providing functional accommodation and limited services being focussed on price consciousness.

In respect of resorts not participating in CoStar reporting, classification is made as follows:

- If the management company / brand represents a hotel chain that is otherwise classified by CoStar, such classification has been used.
- In other cases, classification is made based on review of general pricing offered by these resorts and the general price range expected to be applicable to the various hotel sectors.

Consistent with the reporting pattern across the DRHP, inventory data for pipeline hotels is considered only up to CY26, based on data that was available as of 15 May 2024.

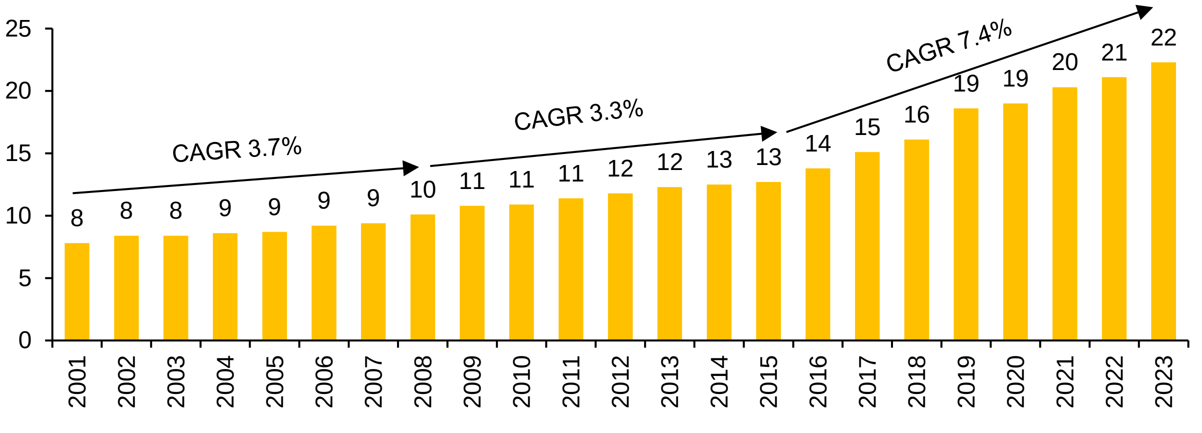
Ventive Portfolio has three resorts in Maldives all positioned as luxury– (a) Conrad, Maldives; (b) Anantara, Maldives, and (c) Raaya by Atmosphere, Maldives.

Conrad is among the first internationally branded resort in Maldives; it opened in 1997 as Hilton and was repositioned as a luxury Conrad in 2007; its private accommodation comprised as an integrated undersea residence called Muraka, which is reportedly the first such resort product globally along with an underwater restaurant known as Ithaa.

Maldives Inventory

The long-standing popularity of the destination is reflected in inventory expansion from about 8k keys in 2000 to 22.3k keys at the end of CY23. Material expansion occurred between 2016 and 2021 (7.6k keys added in this period). Overall inventory growth displayed in the chart below.

All Maldives Rooms Inventory (in '000s) – CY



Source: Horwath HTL

Based on available data, the actual identifiable pipeline of resorts comprises only 16 resorts with 2,112 rooms – these have specific project timelines and progress for completion by end 2026. Actual fructification of other new projects can be expected to be gradual (only 132 hotels / resorts opened between 2001 and 2024); while 134 hotel and resort projects are listed by the government, there are no details of progress, timelines or even certainty of implementation particularly given the rising development costs, funding challenges and foreign exchange crises; thus, project materialisation would likely be partial and over the much longer term

Segmental Composition (Inventory in 000s)

- Tourist demand is significantly higher for luxury and upper upscale resorts. Though there has been supply of relevant inventory in last decade, creating new supply is difficult on account of multiple challenges. Since 2001, the Upper Tier (Lux-Upper Up and Upscale) segment inventory has increased from 36% to 66% as at YTD Mar'24.

- The significant share of upper tier supply is consistent with the destination's quality and appeal. Overwater villas providing direct access to the Indian ocean provides a unique experience, additional privacy, and engenders a propensity to pay higher room rates for upper tier resorts.
- Expected supply in the Upper Tier resorts is significantly lower for CY23–26 at a CAGR of 5.5%.

Inventory Composition (000s) - CY

Segments	2001	2015	2023	2026	CAGR 2001-15	CAGR 2015-23	CAGR 2023-26
Luxury	1	4	8	9	11.2%	9.0%	4.3%
Upper Upscale	1	2	4	5	3.5%	10.7%	4.7%
Upscale	1	1	3	4	4.0%	8.2%	9.6%
Upper Tier Total	**3**	**7**	**15**	**17**	**6.8%**	**9.3%**	**5.5%**
Total	**8**	**13**	**22**	**NM**	**3.5%**	**7.4%**	**NA**

Source: Horwath HTL

Top International chains

The table below summarises the top 10 international chains at Upper Tier level**.**

Atmosphere Core has the largest inventory with 1,440 rooms and little over 6.3% supply share in all segments. Sun Siyam with 1,308 rooms has the second largest presence among international chains. Most major global brands such as Marriott, Hilton, IHG, Accor, Four Seasons, Minor, and Shangri La etc have a presence in the Maldives.

Ventive Hospitality holds asset of Hilton (Conrad, Maldives), Atmosphere Core (Raaya by Atmosphere, Maldives) and Minor Hotels (Anantara, Maldives)

International Chains (Upper Tier) - Top 10

Resorts	Rooms	Resorts/Hotels
Atmosphere Core	1,440	9
Sun Siyam	1,308	5
Marriott	784	7
Minor	660	5
Accor	608	6
Hilton	514	4
Cinnamon	454	4
Cocoon Collection	413	3
Club Med	324	2
IHG	292	3

Source: Horwath HTL

Resort Management Structure

Between CY 2001 and March 2024, international chains have gained material inventory share. The table below summarises the inventory composition by nature of resort management.

Foreign & Domestic Chain Affiliated Inventory

	2001			2023			YTD March 24		
	Maldivian	International	Independent	Maldivian	International	Independent	Maldivian	International	Independent
Overall	**38%**	**29%**	**32%**	**18%**	**56%**	**26%**	**18%**	**56%**	**26%**
Luxury	6%	88%	6%	6%	83%	11%	6%	83%	11%
Upper-Up	6%	88%	7%	2%	78%	20%	2%	78%	20%
Upscale	34%	18%	48%	20%	59%	21%	20%	59%	21%
Mid-Eco	53%	10%	37%	40%	21%	39%	41%	18%	41%
Others	48%	0%	52%	26%	7%	67%	26%	7%	67%

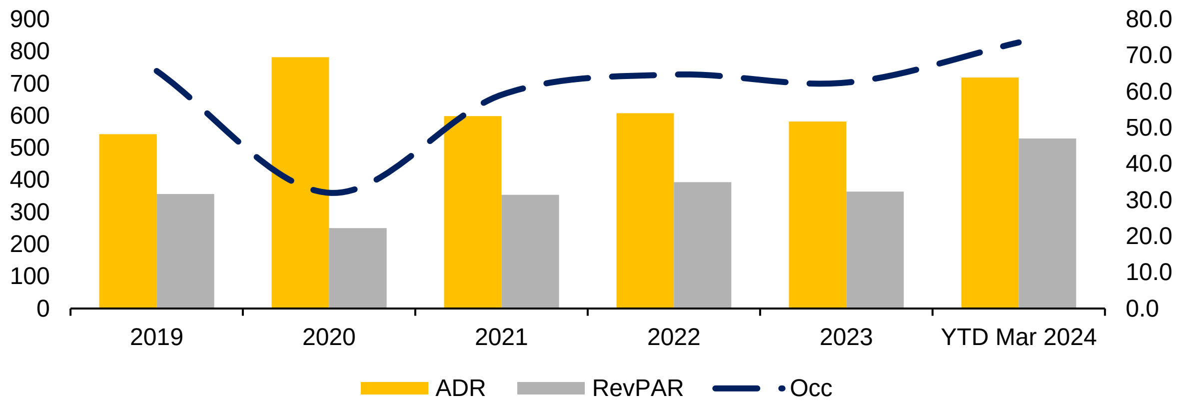
Source: Horwath HTL

- The overall share of chain affiliated supply (Maldivian + International) has increased from 68% to 74% between 2001 to YTD Mar'24. The ratio between international and Maldivian chains has evolved substantially with international chains now having 56% supply share, gaining 10.3k rooms in this period. On the other hand, inventory under Maldivian chain management only grew from 3k rooms in CY 2001 to 4k rooms as of YTD Mar'24[7], causing its supply share to decline from 38% to 18%.
- While international chains largely maintained their supply share of Lux-UpperUp resorts, there has also been a material gain in supply share at the upscale, mid-scale and economy segments.
- As of YTD Mar'24, International chains have 78% of their total supply in the Lux-UpperUp segment, which is also consistent with the market need for superior quality and price positioning of the destination to tourists.

Hospitality Industry Performance Overview

- The chart below shows performance of hotels / resorts for the Maldives market that are participating with CoStar, across all segments, for the calendar years 2019 to 2023 and YTD March 2024. Occupancy for Mar-24 is not reflective of overall occupancy trends as it covers only the high season.

Maldives Hotel Market Performance - CY



Source: CoStar

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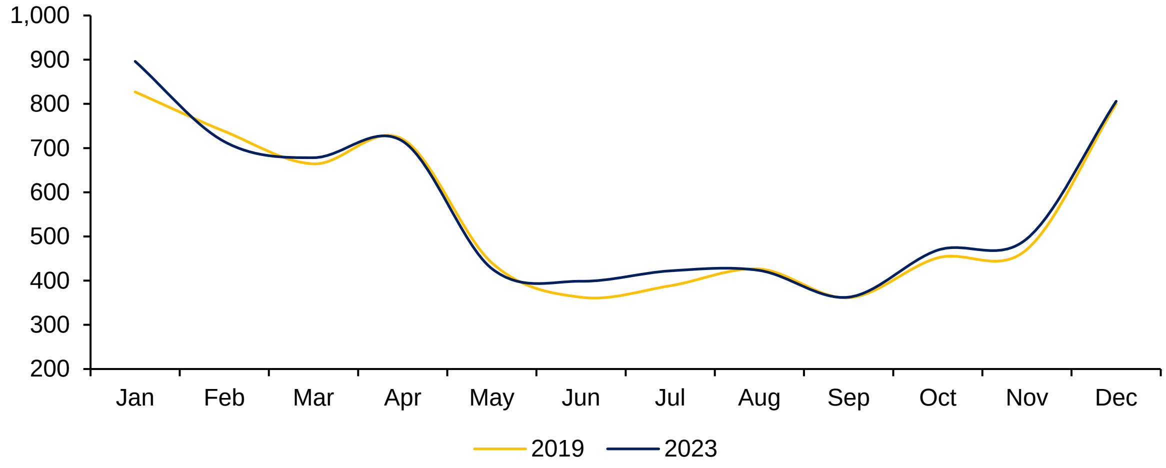
[7] Source: Horwath HTL

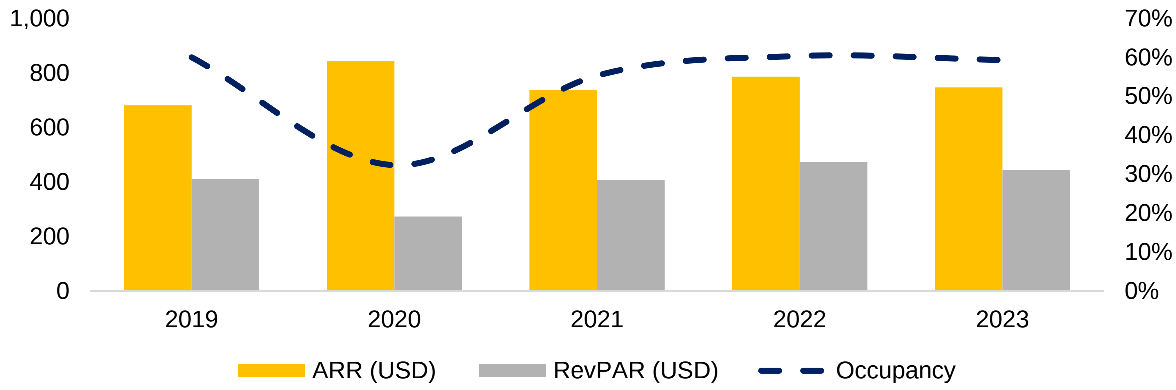
Maldives Hotel Market ADR Monthly Performance - CY



Source: CoStar

- The Maldives hotel market generally experiences better performance in the last and first quarter of CY relative to the second and third quarter of the CY.
- Occupancy has largely remained in the mid-60's (65% / 63% for CY22 / CY23). Steady occupancy levels post Covid highlight strong demand for the market.
- Market-wide, ADR levels have increased to $582 for CY 2023 ($542 in CY19). Market-wide ADR levels are impacted by increased supply of mid-tier resorts. On the other hand, ADR for Lux-UpperUp resorts has increased to $747 for CY 2023 ($681 in CY19)

Luxury and Upper upscale Performance



Source: CoStar

Segmental ADRs have seen a growth trend between CY19 and CY23. Lux-UpperUp resorts are able to drive better demand and pricing due to the exclusiveness and seclusion offered under "One-island; One-resort" policy. Occupancy and rates have seen a flattening or decline trend in 2023 as Maldives competed for business for other lower cost beach destinations that opened after remaining closed or restricted for travel after the pandemic.

Comparative Performance Index – Occupancy, ADR and RevPAR Index from 2019 to 2024

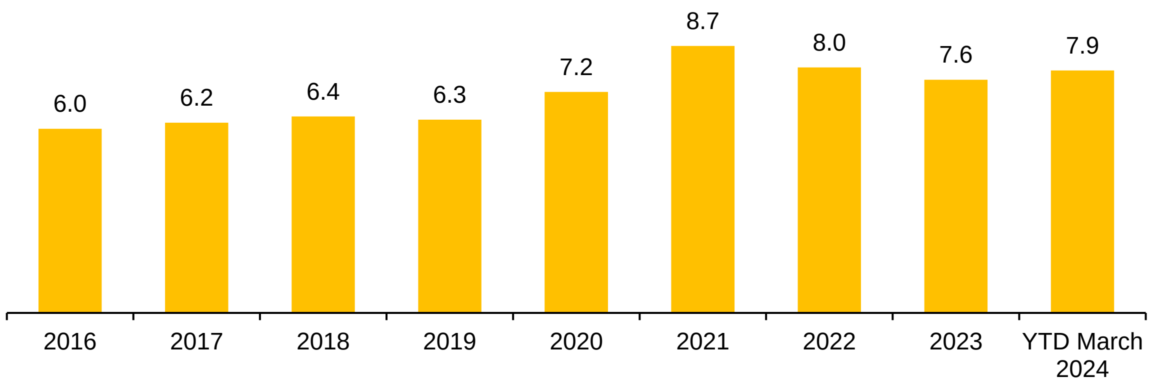
The occupancy, ADR and RevPAR indices (hotel performance for occupancy, ADR and RevPAR over the market occupancy, ADR and RevPAR) for Maldives Hotels are provided below

Performance Parameter	Ventive Maldives vs Maldives Overall	Ventive Maldives Lux-UpperUp vs Maldives Lux-UpperUp	Conrad, Maldives vs Maldives Lux-UpperUp	Anantara, Maldives vs Maldives Lux-UpperUp
Occupancy Index				
2019	1.08	1.18	1.12	1.23
2020	1.10	1.09	0.78	1.56
2021	0.88	0.94	0.93	0.95
2022	0.85	0.91	0.70	1.12
2023	0.80	0.84	0.74	0.92
ADR Index				
2019	1.23	0.98	1.12	0.88
2020	1.05	0.97	1.14	0.84
2021	1.32	1.07	1.39	0.87
2022	1.51	1.17	1.48	0.97
2023	1.52	1.18	1.47	1.00
RevPAR Index				
2019	1.32	1.15	1.25	1.08
2020	1.16	1.06	0.89	1.32
2021	1.16	1.01	1.30	0.83
2022	1.28	1.07	1.04	1.09
2023	1.21	0.99	1.09	0.92

Source: Hotel Performance – Ventive Hospitality Management; Market Performance – CoStar
Indices data excludes Atmosphere Raaya as the hotel has opened only during 2023.

Indices interpretation: Occupancy, ADR and RevPAR indices > 1 reflects Company performance higher than market; =1 reflects Company performance equal to market; < 1 reflects Company performance less than market.

Average Length of Stay - CY



Source: Ministry of Tourism

- With blended work-and leisure trips becoming more common with companies adopting remote work policies, longer average length of stays has been observed since Covid of about 8 days in the last three years

- Length of stay varies by market with travellers from Asian markets typically having a shorter stay, likely due to convenient proximity of the destination, while long haul visitors from Europe and USA tend to stay for one week or longer.

Cost of Development per Key

Development costs are impacted by various factors such as the size of the resort, number of water villas constructed, project standards and related choice of material, staffing needs relative to project standard, island environment treatment issues etc.

Consequently, development costs are materially higher than in several other markets and can also materially vary for the factors stated above.

High development costs provide a material advantage to operating resorts that have been developed at lower historical costs; these too may carry sizeable costs for renovation and renewal but nevertheless gain from the lower initial costs incurred.

Barriers to entry

Establishing new resorts in Maldives carries several challenges which limits the effective pace of development. Key barriers to entry for resort development in the Maldives include:

- **Project cost:** The need for importing and transporting all project material to the resort island materially adds to the time and costs associated with development. Further, several projects have lagoon cottages / villas which are attractive to guests and yield higher room rates; however, the underlying development effort for constructing such cottages / villas with a foundation within a lagoon are substantially high. Consequently, we find development costs to be higher than in India by a factor of 4-6 times across different categories of hotels. For example, a high-end luxury hotel in India would cost INR 25 million per room while the same would cost approximately INR 160 million per room in the Maldives.
- **Project Financing:** The high development cost requires substantial equity commitment and term debt to finance. As a result, the availability of sufficient promoter funding for debt service can prove to be restrictive in the pursuance of new development projects. Term debt needs to be largely sourced from outside the Maldives because of lending capacity limitations by banking in the Maldives and the substantial need for project spending in foreign exchange due to large imports. Banks in Singapore, India, China and the Middle East have provided term funding often based on the corporate base of the project promoters. Considering the high public debt scenario in the Maldives, international lending for projects will be more selective, and may carry higher cost, thereby further curtailing the number and scale of projects that can support high-cost development project.
- **Project Sites and Environment:** Project sites have been available in the Maldives through leases offered by the governments across multiple islands. Numerous leases have been signed for future trading / future development, rather than acquiring the lease right with a specific project intent. This factor, combined with the cost and funding aspects, has restricted total project count. Islands taken up for development require investment towards land filling (for expansion or strengthening of the island mass) to enable development in the lagoons. Land leases are typically granted on a 50 year basis, which provides developers with a moderate timeframe to generate returns on their investment post-development.

  From a location standpoint, the natural beauty of the Indian Ocean is supportive of developing exclusive resorts on remote island in distant Atolls. At the same time, availability of projects sites closer to Male is more restrictive and comes with higher lease costs, posing challenges for future developments. The resultant travel distance adds to challenges regarding development and operating overheads, in addition to lengthy and expensive transport costs for guests.

Potential risk factors to the hospitality industry

1. **Reputation Risk**

   The reputation of a hotel is critical to its success. Such reputation is built by the product quality, location and appeal, range and quality of food & beverage offerings, quality of function spaces and the branding of the hotel. Service is critical to building a strong reputation. Reputation damage could occur if health and safety norms are not adequately complied with and implemented.

2. **Demand risk**

   The discretionary nature of hotel demand can impact demand volumes, profile and pricing due to factors such as economic slowdown; new competitive supply or loss of product quality. Seasonality aspects could also have a material impact on demand, particularly if any challenges occur during high season periods for a destination.

   Overall demand is more discretionary for leisure, weddings and MICE purposes, while for business driven destinations a certain element of business travel is often inevitable; pricing and demand interplay can negatively impact revenues during an economic or travel slowdown.

3. **Competition Risk**

   Arises from newer and more contemporary hotels setup in a market and from alternate accommodation. Material new supply created in a market or micro market within a concentrated timespan, can impact occupancy and pricing unless there is ready latent demand to absorb the new supply. Good quality new hotels at different price points could also channel away demand at higher priced hotels which are benefitting from pricing strength due to lack of adequate supply. On the other hand, depending on circumstances in a market additional supply could also create better visibility and greater critical mass to the benefit of various hotels.

4. **Economic Risk**

   Business conditions for hotels can be impacted by the overall economic situation in the country/ city aor in key source markets. A slow, stagnant or declining economy creates demand and pricing pressure, including on demand for restaurants, functions etc. A growing economy with positive sentiment helps to lift demand, pricing and spends. Economic risks can in turn impact foreign currency reserves and create foreign currency risks which, in turn, can impact availability of foreign exchange debt funding for hotel projects. While the hotel / resort sector can obtain Substantial foreign currency revenue earned by the hotel / resort sector, temporary currency shortages can have potential impact on foreign currency available to fund imports of goods and services for hotel operations.

5. **Health and Security Risk**

   Health and or security factors affecting a destination, destination country, or key source markets can negatively impact demand. This was seen during the Covid pandemic or in certain Asian markets during the SAARS epidemic, or when terror attacks occurred in Mumbai and New York in 2008 and 2001 respectively. Recovery from health and security concerns depends on the cause but generally remains robust if the destination market is a key market.

6. **Source Market Concentration Risk**

   Source market economic issues can impact demand and revenues in a destination particularly if there is substantial demand concentration and reliance upon a particular source market which is suffering an economic downturn. Substantial demand concentration or reliance upon specific source markets can impact demand and revenues, if one or more of such source market suffers from demand risks on account of economic, health or security issues.

7. **Digital Security and Data Privacy Risk**

   Substantial use of the digital medium for sales and marketing, and the collection, use and storage of guest personal data creates the risk of data breach which could affect operating systems and operations, as well as compliance with data privacy laws and regulations. In turn, this can expose hotel companies, including managed hotels, to liability under international and domestic laws and regulations e.g. GDPR Regulations and the Digital Personal Data Protection Act, 2023 (regulations yet to be notified). Further, hotel companies that do not have a robust digital platform can suffer competitive disadvantage.

8. **Human Resources Risk**

The hotel sector is materially subject to Human Resources (HR) risk as regards availability of a sufficiently large pool of managers and employees with relevant skills and experience to meet staffing needs of a rapidly growing industry, higher competitive costs for personnel, and high attrition levels due to demand for trained hotel staff across various service sectors. While staffing pattern have been modified as an outcome of the Covid pandemic, the HR risk is expected to remain significant.

9. **Operating Margin Risk**

Operating margins can come under pressure due to decline in revenue (quantum and or rate based) and increase in costs. Cost increases are not always immediately controllable, particularly fixed cost elements towards various utilities, payroll costs with increases amidst competition, increasing input costs towards F&B and other supplies. Sales costs can vary depending upon sales channels used and the strength of operator's sales channels through its loyalty programs and digital or other systems. Greater ability of a hotel to reduce its fixed cost would prove beneficial in managing operating margins.

10. **Compliance Risk**

Substantially increased compliance requirements results in greater risk of compliance failure and in added compliance costs which have effect on operating margins. Variances in compliance needs across different states in India add to the risks levels and to compliance cost.

11. **Third Party Risk**

The changing business ecosystem with increased outsourcing of various functions and sharper procurement timelines create newer third-party risk for hotels and asset portfolios. Third party risk can also arise from outdoor catering events and from greater use of contract employees.

12. **Development and Growth Risk**

Growth of hotel supply can be impacted by various developmental risks including availability of suitable land with clear titles, entitlements and affordable costs; need for multiple approvals without defined time commitments from authorities, project delays due to regulatory requirements, funding delays including availability and cost of foreign currency funding and inability to meet escalated project cost due to the aforesaid factors. Projects also get delayed, and sometimes abandoned, due to economic disruptions, insufficient funding, and resultant cost escalations. These can cause hotel projects to be delayed or downsized (with or without reduction in scale during project implementation),or carrying inadequate initial quality due to lack of funding.

13. **Debt Service Risk**

Debt stress can arise due to development and implementation challenges for hotels, or from overly leveraged hotels or lack of demand growth or penetration to the extent anticipated thereby causing inadequate funds availability for debt service. Debt service obligations can pile up quite rapidly if allowed to persist, impacting the hotel asset and service quality, performance and competitiveness.

14. **Asset Impairment Risk**

Lack of suitable care in the upkeep, renovation and upgrade of individual hotel assets from time to time can impact the hotel's competitive positioning and capability and thereby impact its earnings. As a cyclical consequence, this can further reduce funds availability for reinvestment in improving the asset and to overcome asset quality impairment.

15. Climate Change Risk

Climate change factors can have material bearing on hotels in terms of changing business seasons, impact of global warming, increased operating costs due to need for additional air-conditioning and or lack of water, reduced demand due to high temperatures flooding and landslides (these can even restrict access) and higher cost of operation to comply with sustainability needs and expectations which may be regulatory and / or competitive in nature.

Horwath HTL

Hotel, Tourism and Leisure

Industry Report – Sri Lanka

Prepared for:
Ventive Hospitality Ltd.

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HORWATH HTL CREDENTIALS

Horwath HTL India is a member of Crowe Global. Crowe Global is among the top ten largest accounting and consulting networks worldwide. Crowe Global member firms engaged in the field of consulting to the Hotel, Tourism and Leisure industry, under the name and style of Horwath HTL, are recognised as being the premier consultants to this industry, providing practical and well-reasoned professional advice to their clients.

The consulting experience of Horwath HTL India covers over 150 Indian cities, towns and destinations and over 20 international destinations. Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors, international lenders, including several major international and domestic hotel chains and their associates.

Our hospitality consulting practice has advised on significant and diverse projects and the principal services provided by us are market and financial feasibility studies, strategic planning for hotel chains, operator search and management contract negotiations, valuation of hotel companies and hotel properties, structuring financial bids, operational reviews, efficiency audits and service audits and systems design and reviews for hotels.

Overview of Sri Lanka Hospitality Industry

Overview of Sri Lanka:

Sri Lanka, is an island nation located off the southeastern coast

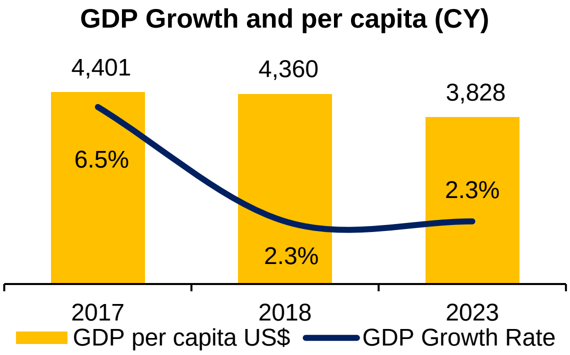
of India separated by the Palk Strait and the Gulf of Mannar. Popularly referred as the Pearl of Indian Ocean, it consists of over 100 offshore small islands and coral reefs around the mainland of Sri Lanka, varying in size from the largest Mannar Island to the smallest Sinigama and Werallaiya islands. In the thirteenth century the famous explorer Marco Polo referred this country as "finest island of its size on earth". It has beautiful coastal plains, sandy beaches, rugged terrain, steep slopes and high peaks. It also has eight UNESCO World Heritage sites.

Sri Lanka Tourism Offerings:

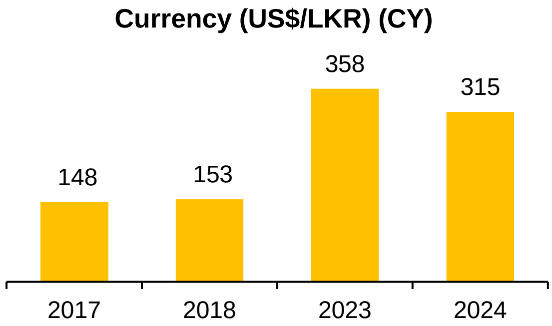
Sri Lanka offers varied and diversified tourism experiences - beaches and waterfront experience, surfing, wildlife parks and safaris, historic, cultural, and religious sites, and tea gardens - each of these attract demand from international and local tourists.

Economic Outlook

Sri Lanka's GDP growth rates and per capita income have been erratic over the past decade. Growth rate and GDP per capita increased steadily till CY2017 and then started declining from CY2018 with much deeper economic challenges due to Covid-19. CY2023 again saw GDP per capita increase by 14% to US$ 3,828 against CY2022 (US$ 3,342), signalling gradual but modest recovery in living standard and economic health. GDP growth for Q4-23 and Q1-24 was 4.5% and 5.3% respectively. World Bank estimates 2.2% and 2.5% GDP growth for CY2024 and CY2025 respectively reflecting more stability from the previous uncertainties with the potential for improved economic performance in coming years.
(Source: National Account Estimates, Central Bank of Sri Lanka)



Source: IMF, Central Bank of Sri Lanka & World Bank



Source: Exchange rates are taken from Investing.com

Sri Lanka has seen significant currency depreciation against US dollar, at 9% CAGR over CY2014-24. The currency was stable for CY2014-18 but then began to depreciate amid economic crisis that started in 2019 and political instability in the country in 2022. Sri Lanka has taken measures to stabilize the currency by internationally negotiating for debt restructuring and availed Extended Fund Facility of US$ 2.9 bn from IMF in March 2023. Sri Lankan Rupee started stabilizing mid-2023 onwards, and appreciated against the US$ by 7.4% in 2024.

Gross foreign exchange reserves of US$ 7-9 billion before CY2019 began to decline from 2018 due to economic conditions and external factors and further declined due to pandemic which impacted tourism, trade, and remittances. The reserves dropped to US$ 3.1 billion in CY2021 and to critical level at US$ 1.9 billion in CY2022. With international aid, reserves slightly recovered in mid-23 and

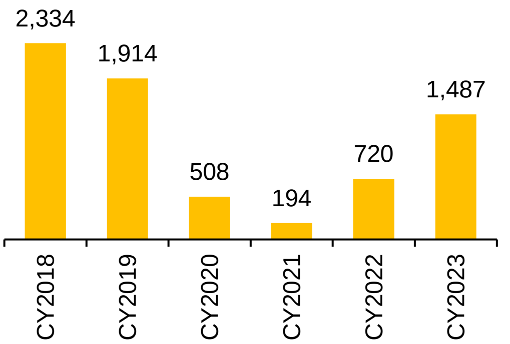
closed at US$ 4.4 billion at end of CY2023. Foreign exchange reserves was at US$ 5.5 billion and US$ 5.4 billion at the end of Apr-24 and May-24 respectively.
(Source: Central Bank of Sri Lanka)

Earnings from tourism increased to US$ 2.1 bn in 2023 as against US$ 1.1 bn in 2022 recording a growth of 91% over 2023. In Q1-24 the earnings grew by 103% over Q1-23, increasing from US$ 0.5 bn in Q1-23 to US$ 1 bn in Q1-24. Pre COVID and before the economic crisis the earnings were US$ 4.4 bn in 2018 and US$ 3.6 bn in 2019.
(Source: Central Bank of Sri Lanka)

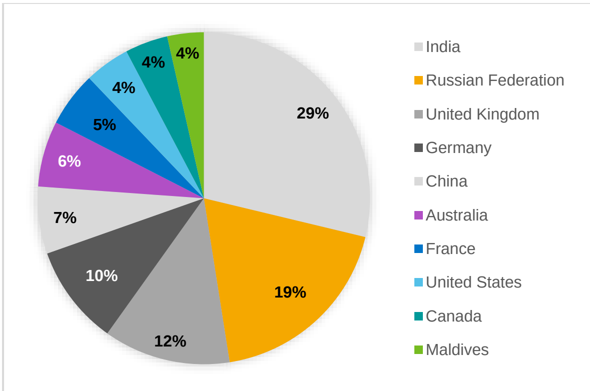
Tourism & Establishments - Sri Lanka

Tourism is a major industry in Sri Lanka and a flagship sector for the country. According to WTTC Economic Impact 2023, tourism sector was estimated to contribute 9.2% to the national GDP in CY2023, making it the third-largest source of foreign income. The industry also generates significant direct and indirect employment. The major attractions include UNESCO World Heritage sites such as Sigiriya, the ancient city of Anuradhapura, and the Temple of the Tooth in Kandy; wildlife reserves, led by Yala National Park with safaris featuring elephants, leopards, and various bird species (Yala National Park has 130,000 hectares of forest, grassland and lagoons that are divide into 5 blocks with Yala East located in the Southeast coast of Sri Lanka having 18,150 hectares.) SLTDA statistics provide that Yala National Park attracted 29% of total wildlife park visitors out of 22 wildlife parks in Sri Lanka in CY2023. Different parts of the island's coastline is popular for beaches and swimming, surfing and other activities. Nuwara Eliya in the mountains is surrounded by tea plantations. The country's hospitality, distinctive cuisine, and adventure activities such as surfing and hiking make it a popular destination for international travellers.

Foreign Tourists Arrivals (FTA) in 000's



Tourist Arrivals- By Country



Source: SLTDA

Comments

- In CY2023 FTA in Sri Lanka were 1.5 mn doubling from the arrivals in CY2022. In CY2023, The average length of stay was 8.4 days.
- India is the highest single contributor of tourist arrivals since CY2014, contributing (16% to 20%), followed by Russia, contributing around 13% of tourists since CY2022 (+44% since CY2019).
- Europe accounted for 51% of total tourist arrivals reflecting the island's ability to draw long haul demand, and Asia-Pacific 40%, America 6%, Middle East and Africa 2% and 0.6%, respectively.
- In Q1-24 FTA was 638k increasing from 338k in Q1-24 reflecting a growth of 89%. For CY2024, Sri Lanka government is targeting to achieve 2.3 mn international tourist arrivals.

Ventive Hospitality is developing an 80 key resort, the Sri Lanka hotel, under a non-binding MOU with Marriott (for a potential Ritz Carlton Reserve brand), located at Pottuvil, near Kumana National Park in South-east Sri Lanka.

Kumana National Park, formerly known as Yala East National Park, spans over 35,000 hectares and is known for its rich avifauna. It is a popular for bird watchers and wildlife enthusiasts. In CY2023, international visitors accounted for 25% of park visitors out of total 28.5k visitors. Kumana joins with Ruhuna National Park to the west, creating the expansive Yala National Park.

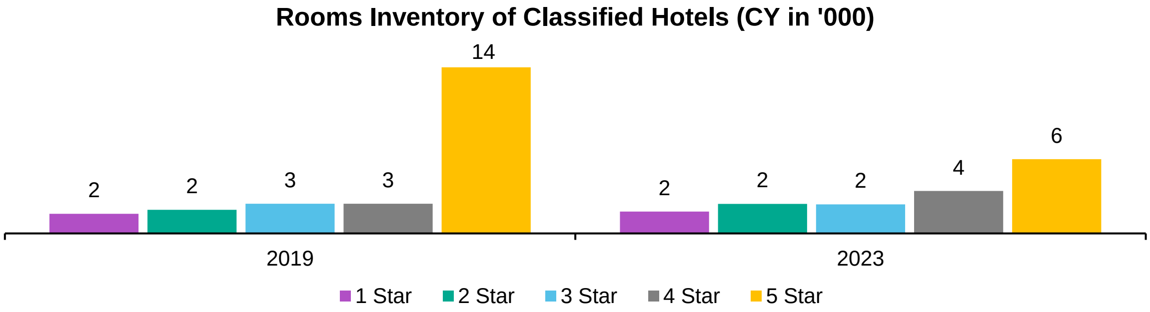
Inventory

SLTDA classifies accommodation in various categories including Classified category, homestays, guesthouses, bungalows, rented apartments, etc.

Classified category are the star hotels categorized as 1 to 5 stars on various basis including size, location, positioning, level of service and ownership and affiliation. Together with some significant Sri Lankan chains with international standing, the market has hotels and resorts operated by leading international chains such as Marriott, Hilton, Shangri-La, Radisson, IHCL, ITC Hotels, InterContinental and Aman Resorts.

In CY2023, the SLTDA registered a total of 4.3k hotels, out of which 3.9% were under classified category, including 30 five-star hotels.

Classified Category Inventory



Comments:

- In CY2023, the total room supply at classified hotels was 16.7k, with 168 hotels. This is 27% lower compared to CY2019 owing to the pandemic and economic challenges which resulted in downgrades, deflagging, and closure of hotels.
- 5 star hotels have the highest share since CY2019. In CY2023, 5 star hotels hold a market share of 38% in the classified category.
- Colombo, as the capital, plays a crucial role as a business and tourism hub, whereas Galle is famous for its historical sites. Tourists are also drawn to Gampaha, Kalutara, and Kandy due to their cultural and natural attractions. Together, these districts have the highest concentration of rooms, which is 58% of the total inventory.

Focus on Tourism Sector Future

Tourism is a strategically important industry for Sri Lanka contributing as the third largest export earner for the national economy, creating local jobs both direct and indirect and creating opportunities for foreign direct investments. To stimulate rapid recovery of tourist demand, Government has specified five strategic objectives under Sri Lanka Strategic Plan for Tourism 2022-2025

- To achieve target foreign exchange earnings of US$5 billion from tourism by CY2025 (reduced from the previous $10 Billion target specified under the national policy framework due to the Pandemic situation)
- Increase daily tourist in-country spend to US$185- US$ 225 from a baseline of US$181 in CY 2019 and US$158 in CY2020
- SLITHM adopt and modernise the delivery of training by re-skilling / upskilling the tourism workforce to reach 10,000 trainees per year and aims to train at least 30% female trainees by CY2025.
- Increase the share of tourist room nights spent, in previously underserved areas from 6% to 15% by CY2025.
- All new tourist products should comply with environmental regulations by CY2024 and schemes to enhance the performance of existing assets should be implemented by CY2025.

These strategies if followed rationally, might build back a more sustainable and resilient tourist sector.

Potential risk factors to the hospitality industry

1. **Reputation Risk**

   The reputation of a hotel is critical to its success. Such reputation is built by the product quality, location and appeal, range and quality of food & beverage offerings, quality of function spaces and the branding of the hotel. Service is critical to building a strong reputation. Reputation damage could occur if health and safety norms are not adequately complied with and implemented.

2. **Demand risk**

   The discretionary nature of hotel demand can impact demand volumes, profile and pricing due to factors such as economic slowdown; new competitive supply or loss of product quality. Seasonality aspects could also have a material impact on demand, particularly if any challenges occur during high season periods for a destination.

   Overall demand is more discretionary for leisure, weddings and MICE purposes, while for business driven destinations a certain element of business travel is often inevitable; pricing and demand interplay can negatively impact revenues during an economic or travel slowdown.

3. **Competition Risk**

   Arises from newer and more contemporary hotels setup in a market and from alternate accommodation. Material new supply created in a market or micro market within a concentrated timespan, can impact occupancy and pricing unless there is ready latent demand to absorb the new supply. Good quality new hotels at different price points could also channel away demand at higher priced hotels which are benefitting from pricing strength due to lack of adequate supply. On the other hand, depending on circumstances in a market additional supply could also create better visibility and greater critical mass to the benefit of various hotels.

4. **Economic Risk**

   Business conditions for hotels can be impacted by the overall economic situation in the country/ city aor in key source markets. A slow, stagnant or declining economy creates demand and pricing pressure, including on demand for restaurants, functions etc. A growing economy with positive sentiment helps to lift demand, pricing and spends. Economic risks can in turn impact foreign currency reserves and create foreign currency risks which, in turn, can impact availability of foreign exchange debt funding for hotel projects. While the hotel / resort sector can obtain Substantial foreign currency revenue earned by the hotel / resort sector, temporary currency shortages can have potential impact on foreign currency available to fund imports of goods and services for hotel operations.

5. **Health and Security Risk**

   Health and or security factors affecting a destination, destination country, or key source markets can negatively impact demand. This was seen during the Covid pandemic or in certain Asian markets during the SAARS epidemic, or when terror attacks occurred in Mumbai and New York in 2008 and 2001 respectively. Recovery from health and security concerns depends on the cause but generally remains robust if the destination market is a key market.

6. **Source Market Concentration Risk**

   Source market economic issues can impact demand and revenues in a destination particularly if there is substantial demand concentration and reliance upon a particular source market which is suffering an economic downturn. Substantial demand concentration or reliance upon specific source markets can impact demand and revenues, if one or more of such source market suffers from demand risks on account of economic, health or security issues.

7. **Digital Security and Data Privacy Risk**

   Substantial use of the digital medium for sales and marketing, and the collection, use and storage of guest personal data creates the risk of data breach which could affect operating systems and operations, as well as compliance with data privacy laws and regulations. In turn, this can expose hotel companies, including managed hotels, to liability under international and domestic laws and regulations e.g. GDPR Regulations and the Digital Personal Data Protection Act, 2023 (regulations yet to be notified). Further, hotel companies that do not have a robust digital platform can suffer competitive disadvantage.

8. **Human Resources Risk**

The hotel sector is materially subject to Human Resources (HR) risk as regards availability of a sufficiently large pool of managers and employees with relevant skills and experience to meet staffing needs of a rapidly growing industry, higher competitive costs for personnel, and high attrition levels due to demand for trained hotel staff across various service sectors. While staffing pattern have been modified as an outcome of the Covid pandemic, the HR risk is expected to remain significant.

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PUNE COMMERCIAL OFFICE INDUSTRY REPORT

Ventive Hospitality Private Limited

Final Report Date: August 31st, 2024

SF Code: SF-0001887569

CBRE

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CBRE South Asia Pvt. Ltd. ('CBRE') has been instructed by Ventive Hospitality Private Limited (referred as the 'Client' or the 'Instructing Party') to prepare a Pune Commercial Office Industry Report ('Industry Report') as of 31st March 2024. In relation to the proposed IPO transaction, this report is intended to be included as part of the Preliminary Placement Document (the "Preliminary Placement Document") to be filed by the Client with the Securities and Exchange Board of India (SEBI).

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Wherever data for the 12-month period ended March 31 has been presented in this section, a reference to "fiscal year" or "financial year" or "FY" along with the relevant year has been included. Any other data included concerning a period relates to data for the relevant calendar year period. Unless otherwise stated, references to absorption shall refer to gross absorption.

Note: The office market-related data points for this report comprise of Grade A- non-strata and institutional developments with leasable area greater than 0.1 msf of completed supply and above 0.3 msf of developments in the upcoming supply. This classification of data points has been undertaken to drive a market comparison to align with the nature of office annuity assets included in the offer.

GLOSSARY

Term	Definition
Absorption/Take up	Represents the total office space known to have been let out to tenants or owner-occupiers during the survey period. A property is deemed to be taken-up only when contracts are signed or a binding agreement exists.
Development Completions / Supply	Represents the total area of new floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit, where required, has been issued during the survey period. The status of the building will have been changed from space 'Under Construction' to 'Completed' during the quarter. Development Completions are also known as 'New Supply' in some markets.
Grade A Office	Refers to a development type; Tenant profile should include prominent multinational corporations, while the building area should not be less than 50,000 sq. ft. It should include an open plan office with large size floor plates, adequate ceiling height, 24 X 7 power back-up, supply of telephone lines, infrastructure for the internet, central air-conditioning, spacious and well decorated lobbies, circulation areas, good lift services, sufficient parking facilities and should have centralized building management and security systems.
Grade A Retail	Is defined as an urban consumption centre where the disposition model observed is lease only (owned and operated by a single developer/operator) and the building Leasable Area (excluding city centric locations) is usually not less than 0.3 mn sq. ft. Further, the occupancy observed across Grade A urban consumption centres is typically above 70%.
Institutional Developments	Refers to large-scale, high-quality projects undertaken by institutional investors such as REITs and investment funds and are only available on a lease basis.
IT (Information Technology) Developments	Refers to a development type; includes buildings developed for occupiers involved in IT/ITeS operations (as defined in the National and State Level IT Policies), inclusive of STPI (Software Technology Parks of India).
Non-Strata	Refers to Grade A developments held by entities comprised of institutional fund/ developer entities. Further, the assets are only available on lease basis.
Annuity Assets	Annuity Assets here refer to the Grade A commercial office assets that are considered under the public offering
Rental Values	Quoted rental values; measured in INR per sq. ft. per month representing the average asking (quoted) rental rate for all available space in existing buildings at the end of the quarter/year. This rate indicates an average of what landlords have achieved to lease space in that market, with operating costs covered by the tenant. Rental values provided in this database are exclusive of property taxes.
SEZ (Special Economic Zone)	Refers to a development type that includes all IT-focused Special Economic Zones approved by the SEZ India Authority. It has different economic laws than the rest of the developments.
Total Occupied Stock	Calculation: Total Stock minus Vacant Space.
Total Stock	Represents the total completed space (occupied and vacant) in the market at the end of the quarter/year.
Vacancy Rate (%)	Calculation: Vacant Space expressed as a percentage of Total Stock.
Vacant Space	Represents the total office space in completed properties, which is available for lease and is being actively marketed at the end of the quarter/year. Space that is not being marketed or is not available for occupation is excluded from vacancy. Space that is under construction is also excluded from Vacant Space.

OVERVIEW OF PUNE

Pune is the second-largest city in Maharashtra after Mumbai and the eighth-most populous[1] city in India. The city has steadily transformed from an agrarian, defence, industrial and education-based economic centre to a prominent IT/ITeS[2] hub attracting domestic and multinational clientele from across India and global markets. Pune is ranked 2nd as per the Quality of Living Index report[3], 2023.

In terms of GDP[4], Pune is one of the faster-growing districts contributing significantly to Maharashtra's and India's GDP. Pune District's GDP as of year 2023 is the state's third largest economic contributor estimated to be US$ 50.9 billion[5]. It is the seventh-largest economy and sixth highest by per capita income in India. The services sector has been one of Pune's major contributors to office demand, growing at 10.3% from FY2021 to FY2022, outperforming the overall GDDP[6] which grew at 9.0% GDDP growth over the same period[7]. The share of the services sector in Pune's GDP increased from 56.3% in FY2012 to 62.7% in FY2022. *(Source: Directorate of Economics and Statistics, Maharashtra)*

The key drivers of demand for the Commercial segment in Pune are as follows:

- **Physical infrastructure:** Pune is well connected with other parts of the state and country via road, rail and air, along with international flight connectivity options. Prominent existing infrastructure such as the Mumbai-Bengaluru Bypass, Mumbai-Pune Expressway, and Pune-Ahmednagar Road, facilitates connectivity between different parts of the country. Multiple infrastructure initiatives including new airport terminal, metro rail connectivity and ring roads are under various stages of development which are expected to enhance inter and intra-city connectivity resulting in real estate growth across the city over time.

- **Proximity to Financial Capital of India (Mumbai):** With the commissioning of the six-lane Mumbai-Pune Expressway in year 2002, the travel time from Pune to Mumbai has been reduced to below four hours. The 95-km Mumbai-Pune Expressway has been a major milestone in reducing the travel time between the two cities and the under-construction 13.3 km long 'Missing Link' on the Mumbai-Pune Expressway is set to further enhance connectivity between the two cities by reducing travel time by an additional 25-30 minutes. This project coupled with the recently operational Mumbai Trans Harbor Link (Atal Setu) connecting South Mumbai and Navi Mumbai and the upcoming Navi Mumbai International Airport, will significantly enhance accessibility and boost commercial activity in Pune. High rentals associated with commercial office spaces in Mumbai with an average rental of INR 136 psf[8] per month *(Source: CBRE, Q1 2024)* has led to large IT tenants exploring alternate locations for expansion and Pune (INR 82 psf per month) emerged as a strong alternative due to the connectivity as well as the availability of skilled workforce.

- **Skilled workforce:** Pune is a leading educational hub in India anchored by the Deccan Education Society since 1880. Pune is commonly referred to as the 'Oxford of the East' due to the presence of over 900 colleges which produce 1.5-1.65 lakh graduates annually[9]. It includes seven universities and renowned institutions like Fergusson College, College of Engineering Pune (COEP), Symbiosis, and the Armed Forces Medical College.

- **Automotive and Manufacturing Hub:** Pune is the largest automotive manufacturing hub in India with more than 4,000 manufacturing and ancillary units as of 2023[10]. The establishment of major auto manufacturers such as Tata Motors, Bajaj Auto, Volkswagen, Mahindra, and General Motors propelled the growth of Pune's auto ancillary industry. Pune also houses the Serum Institute of India renowned for manufacturing an extensive range of vaccines, including the COVID-19 vaccine Covishield. The region

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1 According to Census, 2011 & World Population Review.com, 2024

2 IT/ITeS - Information Technology/Information Technology Enabled Services

3 Mercer's Quality of Living City Index

4 Gross Domestic Product

5 One US$ is considered as INR 51 (as of 2012) for converting GDP (at constant rate FY 2011-12)

6 Gross District Domestic Product

7 Source: District Domestic Product of Maharashtra, 2022, Directorate of Economics and Statistics

8 psf – per Square Feet

9 Source: All India Survey of Higher Education (AISHE), Development Plan of Pune Metropolitan Region 2021-41

10 Maharashtra, Industry, Trade and Investment Facilitation Cell, Govt. of Maharashtra

leads with 27% of all industrial units and 60% of all investments[11] among MIDCs (Maharashtra Industrial Development Corporation) in the state. The city serves as a base for various large and small units operating in sectors such as engineering, IT, pharmaceuticals, machine tools, chemicals, electrical and electronics, instrumentation and control, iron and steel, castings and forgings, and food processing. With the development of large industrial areas within a radius of 50 km of the city, the region has become prominent in India's industrial development. The engineering and manufacturing segment constituted approx. 18-19% share of Pune's office leasing in years 2022 and 2023 compared to 5-6% share in 2019. *(Source: CBRE)*

- **Pro-industry Government policies and initiatives:** Maharashtra State developed MIDC parks to cater to sectors such as Automobile, Information Technology, Engineering, Petrochemicals, Transportation, Biotechnology, Pharmaceuticals, Textiles, and Wine. MIDC has assisted in the planning and systematic development of industrial areas in the city such as Hinjewadi, Chakan, and Ranjangaon. The state's proactive IT/ITeS policies, including the establishment of Integrated IT Township (IITT) and incubation centers like Software Technology Parks of India's (STPI) CoEs (Centre of Entrepreneurship) and Next Generation Incubation Scheme (NGIS) have provided a conducive environment for IT establishments and startups.

- **IT Hubs:** During the past decade, the IT sector in Pune has witnessed strong growth, leading to the overall development of the city. The city also has the first software technology park in India housed in Rajiv Gandhi Infotech Park, Hinjewadi. Pune is among the top three cities in software exports in India. STPI-registered units in Pune contributed INR 969 billion in IT/ITeS/ESDM exports in fiscal year 2021. *(Source: STPI, Pune, most recent report)*

- **Entry of New Corporates and Expansion**: Pune's strategic location, talent pool, competitive operating costs, and supportive infrastructure have positioned the city as a preferred expansion site. In recent years, Barclays, Mastercard, BNY Mellon are among some of the corporates that have expanded their operations in the region and multinationals such as British Petroleum, Citibank, and UBS, are a few who are planning to expand their operations into Pune. Additionally, Hindalco Industries, Hyundai, Uno Minda and Johnson Controls are few industrial and manufacturing players who have announced expansion plans recently in industrial areas like Chakan and Talegaon in Pune. (Source: media reports)

Infrastructure Initiatives in Pune

Some of the key ongoing infrastructure initiatives in Pune are highlighted below:

- ***New Airport Terminal:*** The recently operational new airport terminal at Pune International Airport, Lohegaon will enhance the domestic and international air connectivity in the city. It can handle approx. nine million passengers per annum. (Source: media reports)

- ***Metro Rail Routes*****:** Spread over a total length of approx. 71.8 km, out of which 27.9 km is operational, with an average daily ridership of approx. 55,000 passengers. The project consists of 3 Corridors, the corridor I is partially operational connecting PCMC[12] in the north to Swargate in the central region. An extension of Corridor I from Nigdi – PCMC (4.5 km) is in the tendering stage. The Corridor II recently became operational connecting Vanaz in the west to Ramwadi in the east. The Corridor III (under construction) connecting Hinjewadi in the west and Civil Court in the central region is expected to be operational by 2026.

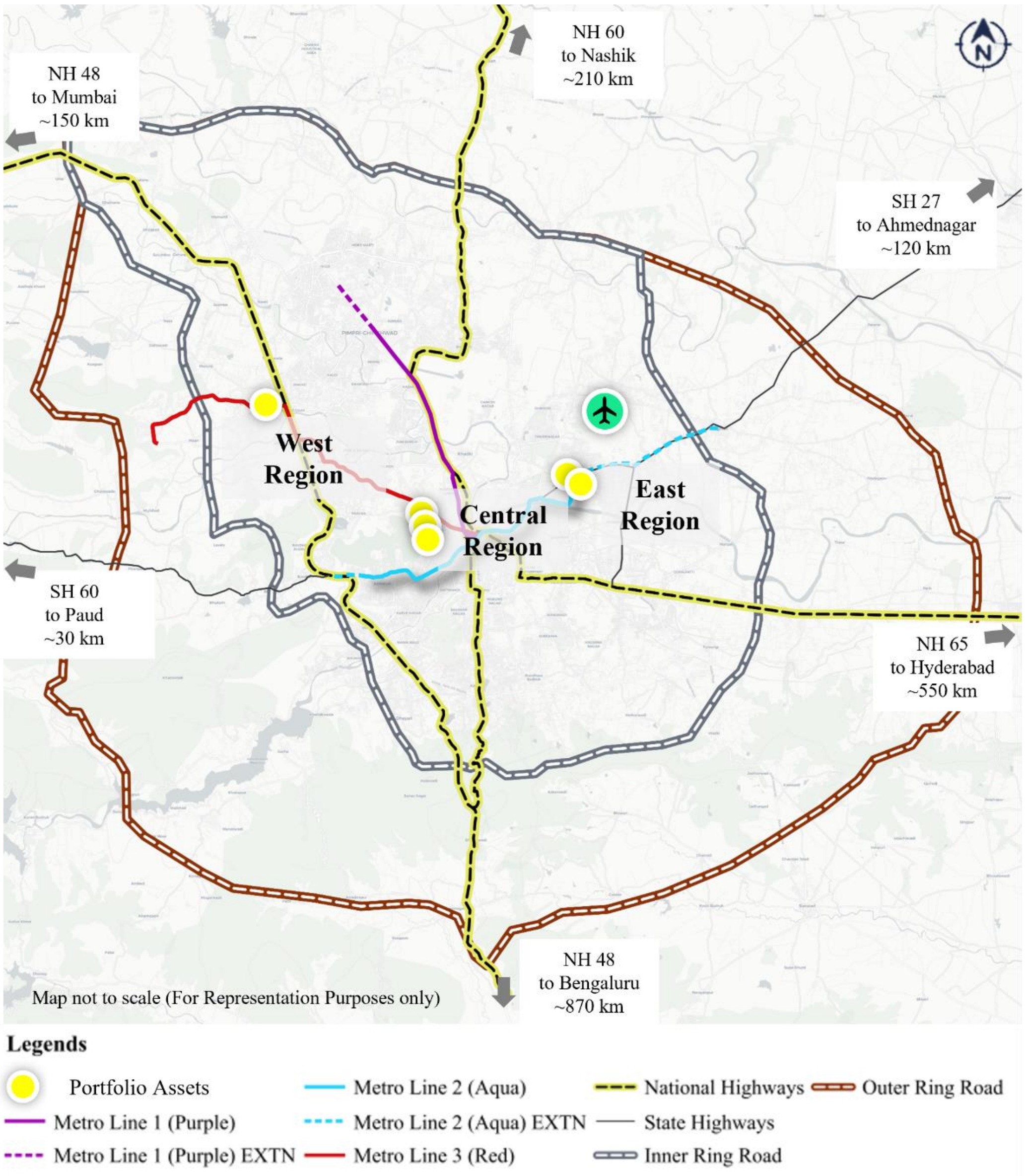
- ***MSRDC[13] Outer Ring Road:*** A 136 km long, 110-meter-wide peripheral ring road currently under construction in Pune which is expected to be completed by 2030. It will divert vehicular traffic intended towards Nashik and Mumbai from entering the city thus reducing congestion on major arterial routes.

[11] Source: Maharashtra Industrial Development Corporation (2020-2023)

[12] PCMC – Pimpri Chinchwad Municipal Corporation

[13] Maharashtra State Road Development Corporation

Map 1: Key Infrastructure Initiatives - Pune



- ***PMRDA[14] Inner Ring Road:*** The under-construction ring road project is to operate in conjunction with the outer ring road in the northern region of Pune. The 83 km long and 65-meter-wide road will provide connectivity to peripheral locations and new growth vectors for residential developments. It is expected to be operational by 2026.

- ***'Missing Link' at Mumbai-Pune Expressway*:** Mumbai Pune Expressway's 13.3 km 'Missing Link' project by MSRDC is an 8-lane access-controlled highway with a route alignment connecting Khopoli to Kusgaon. The link with a string of viaducts, tunnels and bridges aims to bypass Khandala Ghat's hairpin turns prone to landslides. It will reduce the distance by 6 km and estimated travel time by about 25-30 minutes. It is expected to be operational by 2025 and is designed to improve connectivity to Mumbai along with the recently operational Mumbai Trans Harbour Link (Atal Setu) from Navi Mumbai to South Mumbai.

- ***Navi Mumbai International Airport:*** Navi Mumbai International Airport (NMIA) is a greenfield airport under construction in Ulwe, Navi Mumbai. The airport is being developed in phases and is expected to be operational by year 2025. Once fully operational, it will significantly enhance air connectivity for Mumbai and Pune. The airport is located at approx. 100 km from Pune (Ravet).

[14] PMRDA – Pune Metropolitan Region Development Authority

Pune Commercial Market

The Pune commercial market has emerged as a prominent GCC (Global Capability Centre) and IT/ITeS hub in Maharashtra. Currently, it ranks as the 6th largest office market in India in terms of completed stock. *(Source: CBRE)* One of the key factors contributing to the market's growth is the availability of land banks, which have facilitated the development of large-sized campuses and offered a wide range of high-quality assets at competitive rentals.

In 2023, absorption in the market reached 4.6 million sq. ft., marking a growth of approx. 21% compared to 2022 and in line with the absorption witnessed in 2019. This growth was supported by the influx of high-quality supply from prominent developers coupled with leasing rents around or below approx. one US Dollar. The demand for commercial office space was spread across Pune's core and peripheral micro-markets in 2023. Central locations such as Senapati Bapat Road, Koregaon Park, and Kalyani Nagar contributed approx. 22% to the city's absorption, while the east (Kharadi, Yerwada, Viman Nagar) and west (Hinjewadi, Aundh, Baner) regions accounted for approx. 43% and 35%, respectively. *(Source: CBRE)*

Over the past few years, the office space market (in key markets like Pune) has undergone a significant transformation, shifting from a call center and BPO[15] dominated landscape to one centered around GCCs. These GCCs prioritize quality, amenities, and facility management over cost. Pune has emerged as a prominent GCC hub, contributing approximately 8% of India's total GCC leasing activity in 2022 and 2023, with a total space absorption of 3.2 msf[16]. GCCs constitute approximately 39% of Pune's total absorption in 2022 and 2023. *(Source: CBRE)* The region has been an established hub for BFSI[17] GCCs and is now emerging as an R&D[18] hub in software and engineering. Nvidia has expanded the size of their GCC in Pune, which makes Pune the largest development campus outside Silicon Valley (Source: media reports), BNY Mellon recently acquired its largest space in Pune in India. Other prominent GCC occupants include British Petroleum, Amazon, Roche, Deloitte, Panasonic, and UST Global.

Post the COVID-19 pandemic, the adoption of flexible workspaces increased rapidly, and this trend is expected to continue. Startups, small and medium enterprises, and large corporations are increasingly opting for flexible spaces to manage costs, enhance agility, and attract talent. Pune's active startup ecosystem further bolsters demand for coworking and flexible office solutions. The co-working operators generally engage in longer lease terms. While co-working spaces are gaining traction, Grade A office spaces continue to be relevant for BFSI, the Technology sector and the Engineering and Industrial sector due to the continuous expansion opportunities. The return-to-office policies are now gaining prominence as companies focus on aspects such as employee attrition and company culture. This is expected to drive the overall demand in the market.

The table below highlights the key statistics[19] of the Pune commercial market as of March 31, 2024:

Particulars	Details
Total Completed Stock (Q1 2024)	55.6 msf
Current Occupied Stock (Q1 2024)	46.9 msf
Current Vacancy (Q1 2024)	15.60%
Current Vacancy – Non-SEZ[20] (Q1 2024)	13.25%
Average Annual Gross Absorption (2016–Q1 2024)	3.9 msf
Future Supply (Q2 2024–Q4 2026) *	13.7 msf
General Lease Terms	9 years (3+3+3), 10 years (5+5)

Source: CBRE; as of Q1 2024

**Future Supply is based on the current under-construction supply expected to be completed between Q2 2024-Q4 2026*

[15] Business Process Outsourcing
[16] msf - million square feet
[17] BFSI – Banking, Financial Services and Insurance
[18] Research & Development
[19] Note: The office market-related data points for this report comprise of Grade A- non-strata and institutional developments with leasable area greater than 0.1 msf of completed supply and above 0.3 msf of developments in the upcoming supply. This classification of data points has been undertaken to drive a market comparison to align with the nature of office annuity assets included in the offer.
[20] SEZ – Special Economic Zone

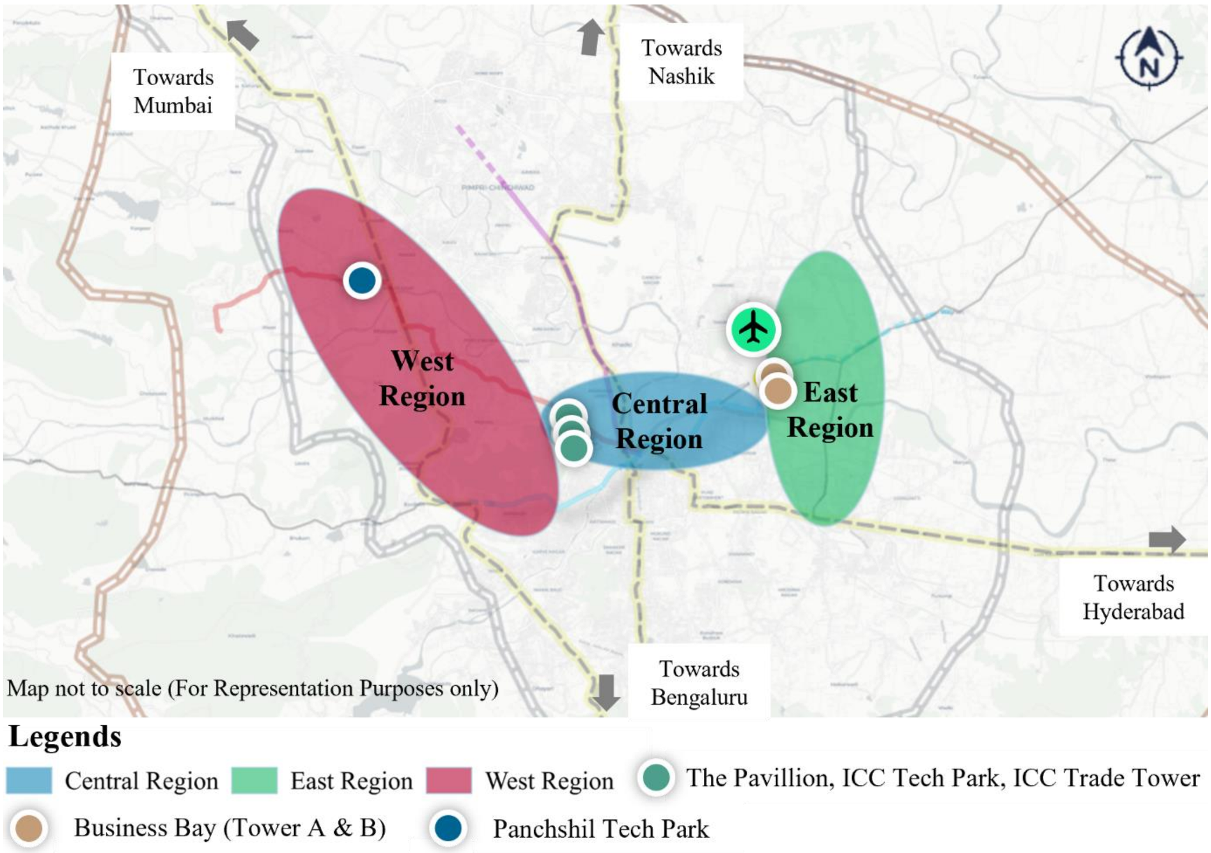
Pune: Key Office Sub-Markets

The office market consists of three sub-markets: Central Region (where three annuity assets are located), East Region (two annuity assets) and West Region (one annuity asset).

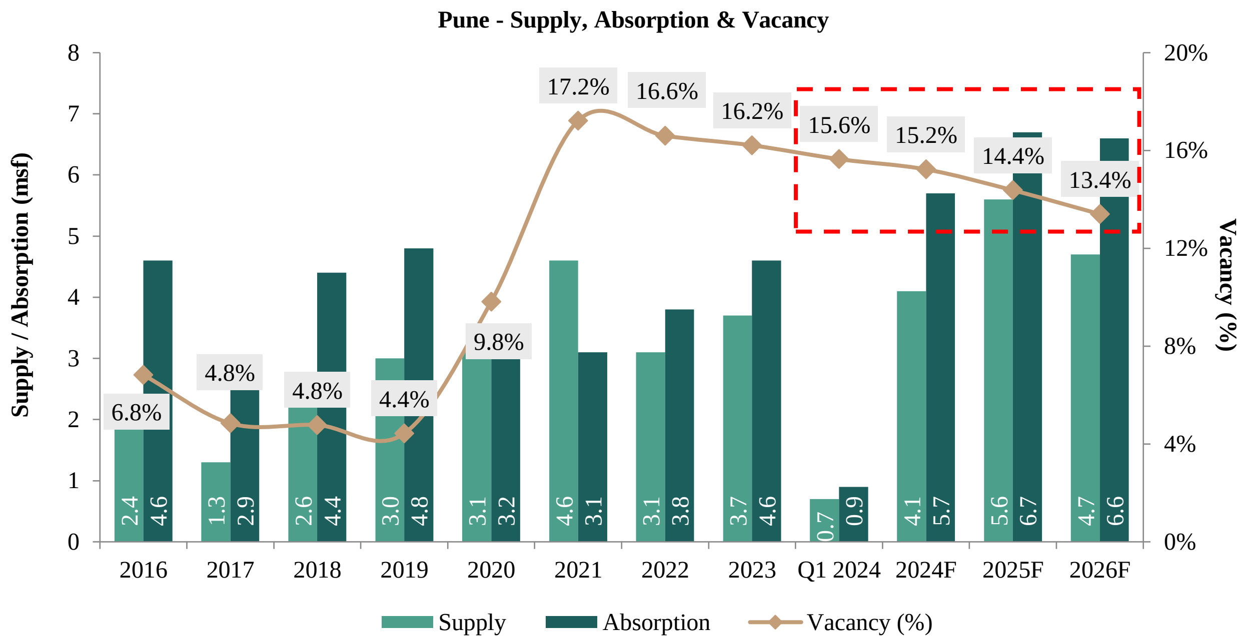
Sub-market	Central	East	West
Locations	Bund Garden, Boat Club Road, Koregaon Park, Shivaji Nagar, Wakdewadi, Kalyani Nagar, Senapati Bapat Road	Hadapsar, Mundhwa, Viman Nagar, Shastri Nagar, Yerwada, Kharadi	Aundh, Baner, Bavdhan, Pashan, Karve Road, Hinjewadi
Total completed office stock (msf)	5.2	30.9	19.5
Occupied stock (msf)	4.6	26.7	15.6
Vacancy (%)	11.9%	13.5%	20.2%
Vacancy – non-SEZ (%)	11.6%	12.2%	16.6%
Annuity Assets (all non SEZ)	The Pavilion, ICC Tech Park, ICC Trade Park	Business Bay (Tower A & B)	Panchshil Tech Park
Annuity Asset Size (msf)	1.0	1.8	0.2

Source: CBRE; as of Q1 2024

Map 2: Commercial Micro markets - Pune



Pune: Supply, Absorption and Vacancy



*Source: CBRE; as of Q1 2024**

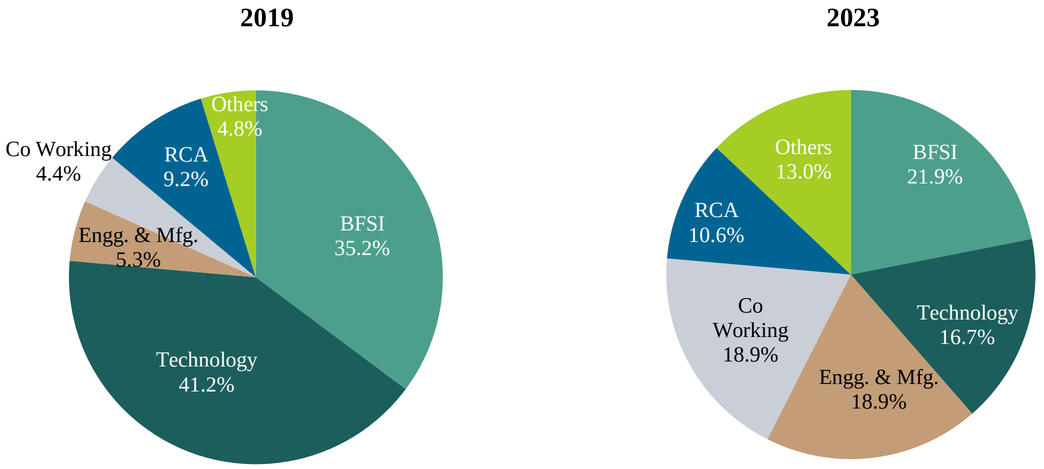
**Forecasts for years 2024, 2025 and 2026 have been estimated based on the current market situation and information available regarding future supply and current absorption. Forecasts have been estimated under the assumption that absorption continues to grow at a similar pace compared to the last two years. It assumes that market conditions remain stable over the forecast period.*

Strong occupier interest and availability of quality office space at competitive rents have led to high absorption levels in Pune. As a result, the city recorded low vacancy levels in the range of approximately. 4-7% between 2016–2019. However, additional supply coupled with the slowdown in absorption due to the pandemic resulted in high vacancies in 2021. Also, the phase-out of SEZ tax benefits in 2020 triggered exits of companies from SEZ spaces, contributing to higher vacancy rates within these zones.

The overall market witnessed a recovery in demand, with absorption exceeding supply since 2022 resulting in vacancy declining to 15.6% as of Q1 2024 (13.25% for non-SEZ space). (*Source: CBRE*) Based on the current demand trend over the last two years, gross absorption is estimated to cross pre-COVID levels, reaching to 5.7 msf by the end of 2024. Based on future supply from current under-construction projects, 2025 is expected to register a peak in supply and absorption of 5.6 msf and 6.7 msf respectively, with some moderation in supply in 2026. The growth in flexible workspaces and GCCs coupled with the availability of skilled workforce and demand from the diversified tenant sector is likely to result in vacancy levels improving to 13.4% by the end of 2026.

Pune: Absorption by Tenant Sector

The technology and BFSI sectors have traditionally anchored Pune's commercial real estate market. However, a notable shift towards diversification in the tenant base occurred in 2023, with flexible workspace operators and engineering & manufacturing sectors emerging as equally significant contributors to the absorption with a share of approx. 18-19% each. These flexible workspace operators have capitalized on the uncertainties brought by the pandemic, offering businesses flexibility and agility. While the BFSI sector continued to remain strong, the technology sector faced challenges due to hybrid working and global economic conditions, leading to a moderate absorption. This shift has resulted in a growing preference for flexible workspaces, particularly among companies exploring new markets. *(Source: CBRE)*

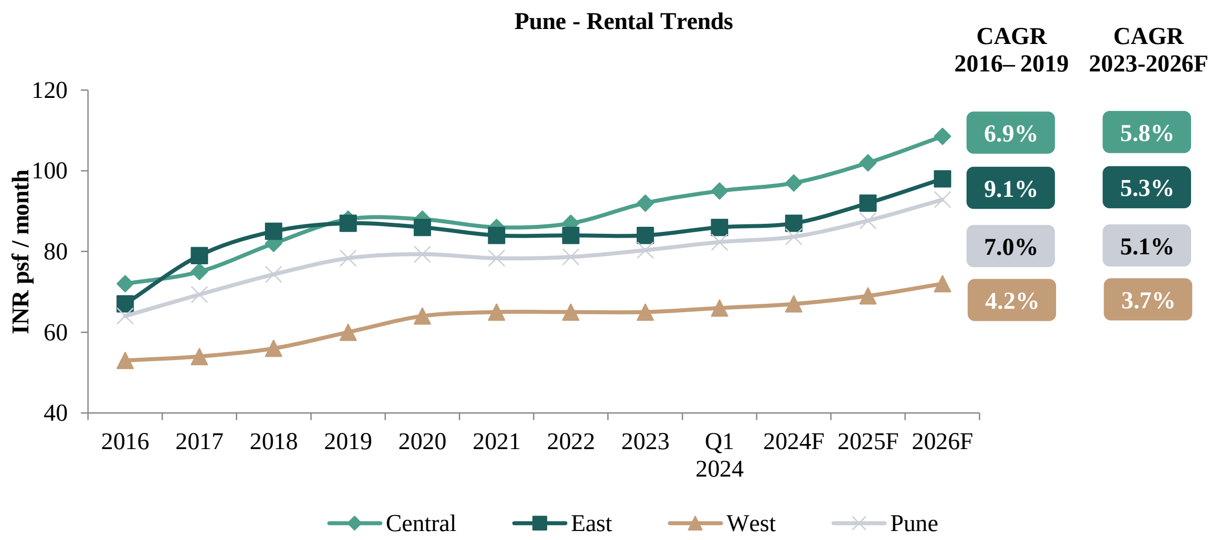


Source: CBRE; as of Q1 2024

RCA – Research, Consulting and Analytics, BFSI – Banking, Financial Services and Insurance

Pune: Rental Growth

Pune's office rental market experienced a robust growth trajectory in the pre-COVID era (2016-2019), driven by strong demand and low vacancy rates. This period witnessed a healthy CAGR[21] of 7%. However, the onset of the pandemic disrupted this upward trend. Increased vacancy rates and subdued absorption led to stagnant rentals. 2023 saw a revival in absorption with the vacancy levels estimated to decline over the next three years. The rental growth is expected to be steady with projected CAGR of 5.1% over the next three years till 2026. *(Source: CBRE)*



*Source: CBRE; as of Q1 2024**

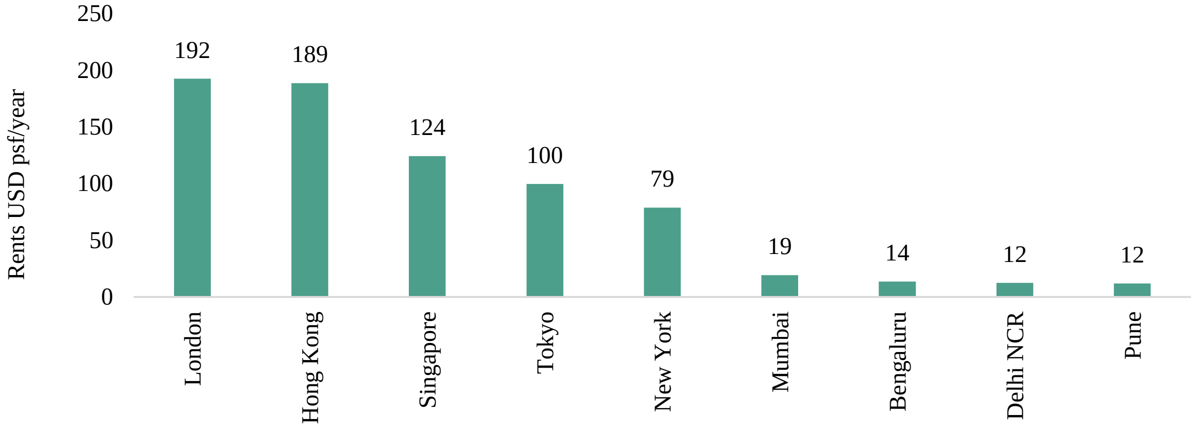
* *Forecasts for years 2024, 2025 and 2026 have been estimated based on the current market situation and information available regarding future supply and current absorption. Forecasts have been estimated under the assumption that absorption continues to grow at a similar pace compared to the last two years. It assumes that market conditions remain stable over the forecast period.*

[21] CAGR - Compound Annual Growth Rate

Rentals across Global Locations

Comparatively, Bengaluru and Pune commercial markets in India offer significantly lower rentals compared to global commercial hubs.

Rentals across global locations - Q1 2024, USD psf/year



Source: CBRE; as of Q1 2024
Note: London and New York represent prime rent in Europe and Class A rents in US Markets respectively; New York represents Manhattan's rental values, London represents Central London's rental values, Hong Kong, Tokyo, Singapore represent Grade A rents on Net Floor Area; Mumbai, Bengaluru, Delhi NCR (National Capital Region) and Pune represent Grade A rents on Gross Area. (calculated on the average exchange rate in 2024, 1 USD = INR 83)

Annuity Assets vs the Micro-markets

Below is a portfolio of Grade A assets ("Annuity Assets") owned by Panchshil Group. Panchshil Group is one of the largest commercial office space developers in Pune. Panchshil Group currently contributes approx. 28% of the completed Grade A stock and approx. 15% of the upcoming supply in Pune. *(Source: CBRE)*

The annuity assets comprises of five assets with a total stock of 2.9 msf and a vacancy of 3.2%. The east region constitutes the largest share at 1.8 msf followed by the central and the west region with 1.0 msf and 0.2 msf respectively. Additionally, the annuity assets also include a Grade A retail space (ICC Pavilion) of 0.4 msf, forming part of the ICC Convention Centre, in the central region.

The annuity assets have an average in-place rental of INR 107 psf/month while the average office rental for Pune market is INR 82 psf/month as of March 2024. The annuity assets are generally a superior classification to the average in the market and thus command a premium compared to the average rentals in the respective micro-markets, with the exception of the West region.

Annuity Assets	Location	Micro-market	Stock (msf)	Vacancy %	Rental (INR/psf/ month)
The Pavilion	Senapati Bapat Road	Central Region	0.3	0%	137
ICC Tech Park	Senapati Bapat Road	Central Region	0.4	0%	115
ICC Trade Tower	Senapati Bapat Road	Central Region	0.3	7%	121
Business Bay (Tower A)	Yerwada	East Region	0.9	0%	116
Business Bay (Tower B)	Yerwada	East Region	0.9	0%	90
Panchshil Tech Park	Hinjewadi	West Region	0.2	37%	61
		Total	**2.9**	**3.4%**	**107**

Source: Client data, as of Q1 2024

Potential Threats and Challenges associated with the Commercial Office Sector

The commercial office sector has experienced significant expansion in recent years. However, there are inherent risks that must be carefully considered when making any investment decision. These crucial risk factors can potentially impact the performance of the segment and the general market.

- **Economic Uncertainty:** There is a strong correlation between the demand for commercial office segment and macroeconomics, both in a global and an Indian context. Events like COVID-19 may force companies to impose work-from-home protocols and reduce their usage of office spaces which may impact the revenues and occupancies of the office spaces. Currently, there is heightened uncertainty in many global markets, particularly as they look to manage escalated inflation. This has been directly impacting their economies, including the commercial office sector. Global uncertainty increases the risk that economic challenges may transition to the Indian market.

- **Inflation:** Currently, there is a heightened inflation environment globally. Higher inflation results in higher construction costs, placing strain on the profitability of new and under-construction developments.

- **Over Supply Risk:** In anticipation of strong demand from the occupiers, developers tend to launch more projects leading to higher stock of office space in the short to medium term. If the market slows down, this over-supply can lead to higher vacancies and reduction in rental rates.

- **Leasing Risk due to Competition:** The Indian commercial office market is becoming increasingly competitive, with new entrants and established players expanding with high-grade office supplies. This can pose a threat to the company's market share and profitability.

- **Flight to Quality:** Prominent occupiers tend to prefer high-quality assets with all the latest amenities and facilities for their employees. This leads to the relocation of tenants to newer assets with better specifications resulting in higher vacancies for older assets.

- **Regulatory Policy Changes:** Government regulatory changes, such as alterations in tax laws, building codes, zoning regulations, and environmental standards, can significantly influence the profitability and value of commercial office properties. These changes can increase development costs, limit the types of businesses allowed, and raise operating expenses.

- **Political Instability:** Political instability can significantly impact the commercial office market. It can erode investor confidence, deterring investors and developers away from real estate projects. Additionally, political turmoil often leads to economic disruptions, such as currency fluctuations, inflation, and limited private investment. These economic downturns can reduce demand for office space and negatively impact the sector.

- **Technological Disruption:** Technological disruptions are reshaping the commercial office market. Remote work and co-working spaces have shifted the demand for traditional offices. Additionally, automation and AI are transforming the workplace, potentially changing the nature of work and reducing the office space requirement.

- **Interest Rate Fluctuations:** Rising interest rates increase the cost of financing for commercial real estate projects. This can make it more expensive for developers to acquire land, construct buildings, or refinance existing properties leading to lower profit margins. Conversely, falling interest rates can make financing more affordable.