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No. 2020/HAI/600/62

July 09, 2020

Shri Shaktikanta Das
Governor
Reserve Bank of India
Central Office Building
18th Floor, Shahid Bhagat Singh Road
Mumbai.
governor@rbi.org.in

Dear Shri Das,

Sub: White paper on the Debt Outlook in the Indian Hospitality Sector

The COVID-19 pandemic continues to have a devastating impact on the country's economy. The hospitality sector is among the worst affected, as hotels had to close during this pandemic, resulting in an unprecedented loss of revenue and jobs. Not only has hospitality been the most immediate and worst casualty of the outbreak, the sector will also take the longest to recover as never before has tourism suffered at all levels – globally, regionally and nationally.

We take this opportunity to convey our deep gratitude to the Government and to the Reserve Bank of India for the moratorium allowed on repayment of loans for six months.

However, while this will help the Industry to survive in the short term it may not suffice for revival and subsequent thrival of Indian hospitality which has attained great heights globally for its service standards.

You are well aware of the Industry's significance in terms of its contribution to the country's GDP, its employment potential and its ability to generate valuable foreign exchange.

As the apex body of the Indian Hospitality Industry, Hotel Association of India (HAI) has been collaborating with the Government on Sectoral policy matters for more than two decades. HAI has developed a white paper suggesting a roadmap that can chart the survival, revival and long-term thrival of the Indian hotel Industry. The white paper has been attached.

On behalf of the Indian hospitality, we humbly request you to urgently consider the proposed relief measures for the survival, revival and thrival of the sector to the mutual advantage of the Industry, the RBI and the national economy

We are confident of your support and thank you for considering our request and making the relevant announcements at the earliest.

With kind regards,

Yours sincerely,

Puneet Chhatwal
(President)

White Paper on Debt Outlook In The Hospitality Sector

The COVID -19 pandemic has led to demand destruction in excess of 90% for the tourism and hospitality sector which employs nearly 4.5 Crore people; provides livelihood to around 16 crore people; and contributes 9% to India's GDP. A recent study by McKinsey identified Airlines and Hotels as the worst impacted sector in India; with around 75% output decline in Q1 FY21 vs. Q4 FY20. Also, hotel sector features in the list of strained sectors on Debt Service Coverage Ratio. The Revenue loss to the hotels industry are expected to be to the tune of Rs. 90,000 crore in the year 2020.

4 key factors are working in tandem against the hotel sector today:

- Hotel demand has been extinguished as it is highly **discretionary**. This has been exacerbated by absence of air travel, corporate restrictions, cancelation of holidays, state lock-downs and imposition of quarantine on travellers
- **70% of a hotels costs are fixed** in nature, mostly towards payroll expenses and Government levies.
- Hotels are **capital intensive** with a long gestation whereas debt offered is typically short term and high cost rendering the sector highly sensitive to demand destruction.
- The **negative outlook on the industry** has made it unattractive for lenders leading to a liquidity crunch and increased rates of interest to cover for the perceived risk.

The hotel industry is now solely focused on survival and would like to request RBI to play a proactive role in this. The current debt levels in the organized part of the industry (which is less than 10% of the total) stands at ₹45,000 Crore.

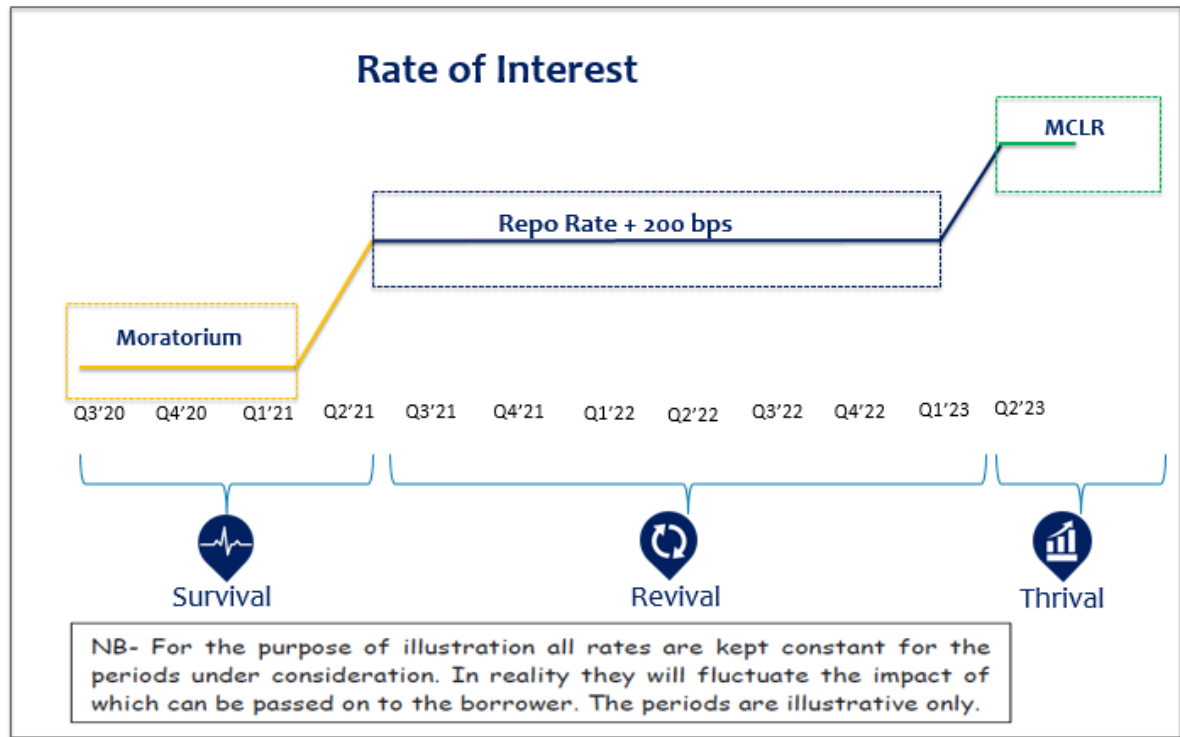
The industry would like to thank RBI for announcing a moratorium on interest and principal repayment for 3 months (later extended to 6 months). This will help in the immediate term to avert the crisis. Unfortunately an immediate term solution will only defer the crisis as what is needed is a longer term solution spanning the next 24-36 months which solves for both stakeholders: the borrower (unable to pay the interest and principal for the foreseeable future) and the lender (loans becoming NPAs).

In this regard we would like to recommend - for those companies with good credit history i.e. Standard Assets as on 31st March 2020. We propose an extended tenure and a staggered approach to the applicable rate of interest in what we anticipate will be the three stages for a return to normalcy

- **Survival Phase (next 9 months):** The moratorium on interest and repayment of principal is extended for the entire FY21 i.e. till 31st March 2021, the interest due is added back to the Total Principal Outstanding and the loan term extended by 12 months. This will solve for the current cash crunch as there is expected to be almost no demand for FY21.
- **Revival Phase (following 18-24 months):** Interest Rate @ Repo Rate + 200 bps: the lending institution can fund this by borrowing from RBI without being out of pocket.
- **Thrival Phase:** At MCLR as the market improves and performance of the industry reaches 50-70% of Pre-Covid levels (expected 30+ months)

The working demonstrates a win-win situation in the proposed scenario of Debt Restructuring^:

Rs. Cr			
Particulars	Time frame	Existing Scenario	Proposed Scenario
Total Debt	As on Mar-20	45000 + 2250 (Interest)	45,000
Interest Payout	Apr-20 to Mar-23	6750	5400
Probability Of Bad - Debts*		50%	10%
NPA Loss		22500	4500
Net Payout (Interest-NPA loss)		-15750	900



Based on the current outlook the interest rates can return to normalcy in line with the recovery of the industry in 30-36 months from now. Should the industry recover earlier a review of the above can be done accordingly^.

^ Assumptions:

- 50% Default if no bail out (based on study of experts :[Click Here](#))
- In Existing Scenario Interest Rate of 9% is assumed
- In Existing Scenario Interest Payout is calculated based on Rs. 22,500 Cr Loan (50% default)
- Proposed Scenario: Rate of Interest is: 9% till Mar-21; 6% for Jan-21 to Mar-23; thereafter 9%