



Horwath HTL

Hotel, Tourism and Leisure

Industry Report – Sri Lanka

Prepared for:
Ventive Hospitality Ltd.

9 September 2024

Mr. Ranjit Batra
CEO
Ventive Hospitality Limited
Tech Park One, Tower 'D'
Next to Don Bosco School
Off Airport Road,
Yerwada
Pune - 411 006

Dear Mr. Batra,

We were retained by Ventive Hospitality Limited (formerly known as ICC Realty (India) Private Limited) to prepare an industry report comprising an overview of the Sri Lankan hospitality industry. We understand that the Company intends to use data from this industry report in connection with the proposed Initial Public Offering (IPO) of the Company.

We have issued a report titled Industry Report – Sri Lanka (“Report”) on 9 September 2024. This Report covers the following key aspects:

- Overview of several key factors that impact the demand for, and performance of the hotel sector - factors such as tourist arrivals, seasonality, access infrastructure, key demand drivers, visa policies, government initiatives and challenges.
- Broad overview of the impact arising from Covid 19 pandemic, and the recovery therefrom.
- Brief analysis of hotel supply in Sri Lanka.

Hotel inventory and other data points used for this Report are as on 31 March 2024. Information on pipeline inventory and other data have been updated based on information available to us upto 15 May 2024; we have not updated this for any events occurring after that date notwithstanding that in some cases the Report may contain a comment on an event after that date. Further, we have no obligation to update the information and our comments for changes and events that occur after 15 May 2024.

Information herein is based on our research and knowledge of the market; it is possible that corporate plans and other confidential information, which are not within our knowledge may provide an understanding that may be different from the statements and conclusions herein.

For sake of making the Report meaningful, we have been selective in the data included herein; we have sought to avoid providing a mass of data that may be less comprehensible – however, it is possible that additional data may cause a reader to reach a different conclusion.



Hotel, Tourism and Leisure

As is typical of such reports, our estimates / projections / outlook and statements that may be regarded as forward-looking statements cannot be guaranteed in any manner; these have, however, been prepared after conscientious research and analysis.

We shall be pleased to provide any further clarifications or assistance as may be required.

Thank you and with regards,

Yours truly,

For Crowe Horwath HTL Consultants Pvt. Ltd.

A handwritten signature in blue ink, appearing to read "V.P. Thacker".

Vijay Thacker
Managing Director

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Our opinions are based on information available to us at the time of preparation of the report and economic, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. Should circumstances change significantly, or additional information become available, after the issuance of this report, the conclusions and opinions expressed herein may require revision. There is no requirement for CHHTL to update this report in any such circumstances. The statements and opinions expressed in this report are made in good faith and in the belief that such statements and opinions are not false or misleading. Recipients should make their own enquiries and evaluations they consider appropriate to verify the information contained in the Industry Report. This Industry Report does not purport to provide all of the information the recipient may require in order to arrive at a decision.

Forward-Looking Statements

This Industry Report contains estimates/projections/outlook and statements that may be regarded as forward-looking statements. These statements are based on a number of assumptions, expectations and estimates which, while considered by us to be reasonable, are inherently subject to significant uncertainties and contingencies many of which are beyond the control of ourselves or Ventive Hospitality Ltd (on whose behalf this report has been prepared) or which may reflect future business decisions which are subject to change. Recipients of this information are advised that the estimates/projections/outlook may be regarded as inherently tentative. Due to the subjective judgments and inherent uncertainties of statements about future events, there can be no assurance that the future results, or subsequent estimates/projections/outlook will not vary significantly from the estimates/projections/outlook and other statements set out in Industry Report.

This disclaimer must accompany every copy of this Industry Report, which is an integral document and must be read in its entirety.

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.



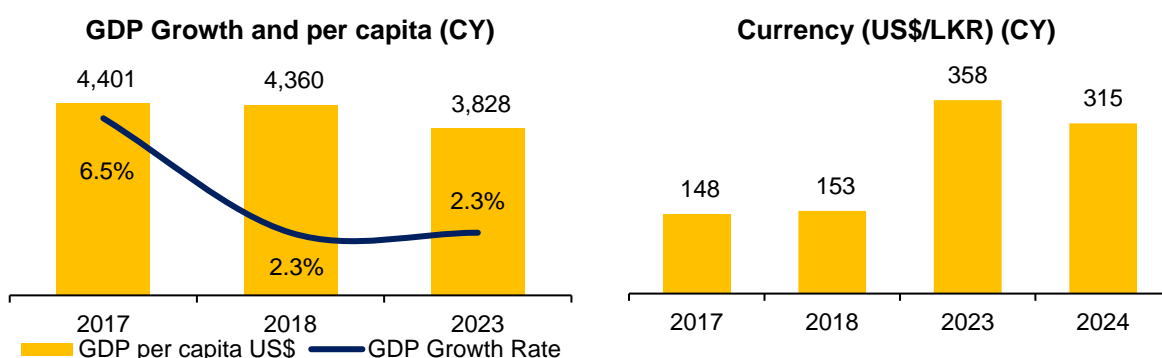
Sri Lanka Tourism Offerings:

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)

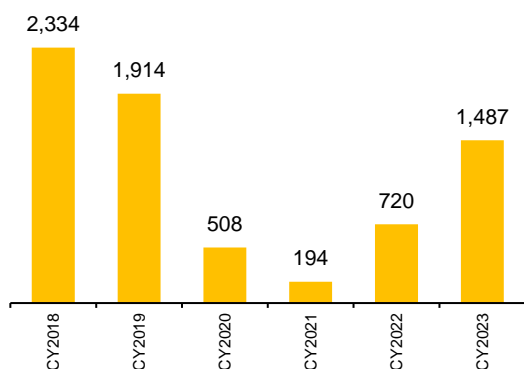
Earnings from tourism increased to US\$ 2.1 bn in 2023 as against US\$ 1.1 bn in 2022 recording a growth of 82% over 2022. In Q1-24 the earnings grew by 103% over Q1-23, increasing from US\$ 0.5 bn in Q1-23 to US\$ 1 bn in Q1-24. Pre COVID and before the economic crisis the earnings were US\$ 4.4 bn in 2018 and US\$ 3.6 bn in 2019.

(Source: Central Bank of Sri Lanka)

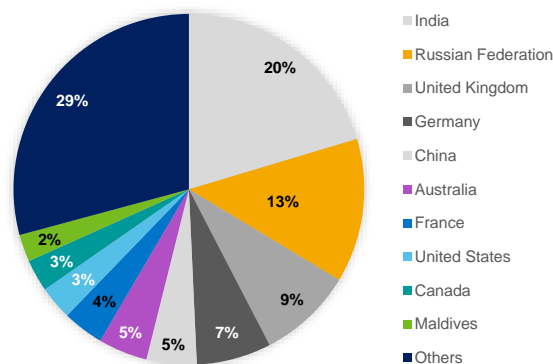
Tourism & Establishments - Sri Lanka

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 Q1-23 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.

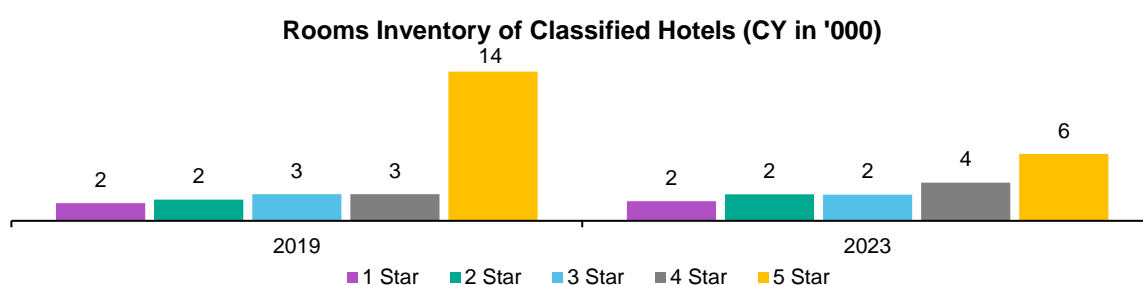
Inventory

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 or 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 patterns 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.