October 10, 2022

Seasonally weak quarter; still expect healthy performance

Although Q2FY23 is expected to be seasonally weak for the tourism sector due to monsoons, we expect a decent performance from the hotel sector with revenue for the quarter expected to be up ~17% from pre-Covid levels. Consistently strong leisure demand, a sharp rebound in corporate travel along with much needed reset of room rates (as seen in Q1FY23) are expected to act as a key driving force for growth in revenues. However, monsoon led weakness is expected to lead to 6.3% drop in revenues QoQ. As per latest DGCA data, domestic air traffic is expected to decline 8% QoQ to 2.99 crore (~85% of pre-Covid levels).
Foreign inbound travel has so far remained subdued till now but is expected to pick up from H2FY23. Also, a higher base of Q1 (which benefited from wedding season, vacations and IPL matches) would drive revenues lower sequentially. Hence, from Q2FY23E perspective, we expect occupancy levels to come down from ~75% to 67% QoQ, mainly led by softness in the leisure segment (due to seasonality) while average room rates are likely to stay firm at ₹ 8437/room (up 1.5% QoQ) for the premium segment. Overall, we expect revenue of our coverage universe to increase ~64.3% YoY, down 6.3% QoQ to ₹ 1687.1 crore. Although Q2 is expected to be a little softer, we expect FY23E to stay strong for the sector supported by full resumption of the economy and also opening-up of international borders to foreign tourists. In terms of rooms supply, we expect launch of new hotel projects to get delayed due to higher land and input costs, auguring well for existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. This would aid in healthy margin expansion.

Reduced fixed overheads to aid margin expansion

A majority of costs of the hotel industry are fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. Due to long 18 months of pandemic phase, hotel players have structurally realigned their cost base to become leaner in terms of cost. Hence, we expect over ~11% reduction in operating costs from pre-Covid levels in Q2FY23E, which would help companies to improve margins. During the quarter, we expect our coverage universe to report EBITDA margin of 27.7% vs. loss reported last year and 9.2% OPM reported last quarter, which was impacted by the Covid delta wave.

Strong promoter/institutional backing to help branded players gain further market share

In our coverage universe, Indian Hotels and EIH both are best placed on the b/s front. The fund raising of ₹ 4000 crore and ₹ 350 crore by IHCL and EIH, respectively, has strengthened their b/s further. This would help them to further gain market share. Lemon Tree Hotels, being on a capex mode, is highly levered vs. peers. However, it also has strong institutional backing for liquidity support.

Exhibit 1: Estimates for Q2FY23E: (Hotels) (₹ Crore)

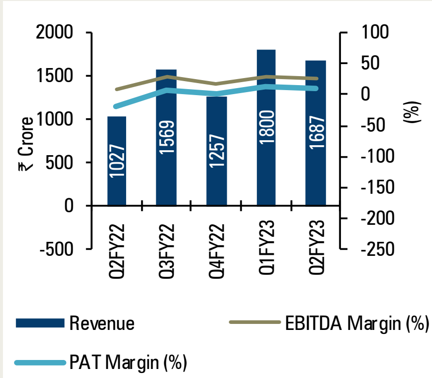
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY23	YoY	QoQ	Q2FY23	YoY	QoQ	Q2FY23	YoY	QoQ
EIH	334.0	65.7	-2.4	70.5	LP	-11.0	40.2	LP	-5.2
Indian Hotel	1,190.1	63.4	-6.0	330.7	354.0	-12.5	143.8	LP	-15.4
Lemon Tree Hotels	163.0	68.2	-15.1	66.1	95.1	-24.5	0.3	NA	NA
Total	**1,687.1**	**64.3**	**-6.3**	**467.2**	**395.0**	**-14.2**	**184.3**	**LP**	**-18.4**

Source: Company, ICICI Direct Research

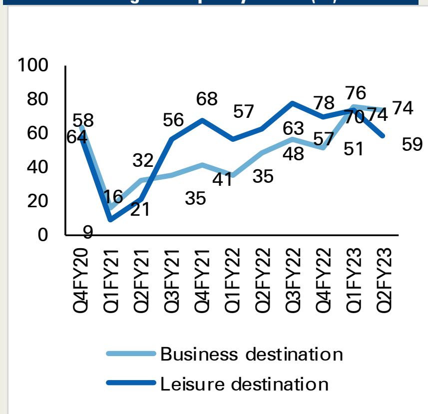
Result Preview

ICICI Securities – Retail Equity Research

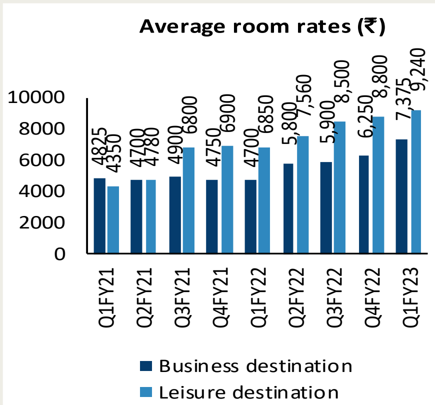
Topline & Profitability (Coverage Universe)



Trend in average occupancy levels (%)



Trend in average room rates (In ₹)



Top Picks

EIH
Lemon Tree Hotels

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Company specific view (Hotels)

Company	Remarks
Indian Hotels	We expect a healthy performance from the domestic leisure hotel business on a YoY basis. Occupancy levels and ARRs in the domestic segment are expected to improve to 71% and ₹ 8550/room vs. 67% and ₹ 8150/room reported in Q2FY22 while on a QoQ basis, we expect occupancy levels to come down by 700 bps QoQ. Overall, we expect 6% QoQ de-growth in revenues and EBITDA of ₹ 330.7 crore
EIH	We expect revenue of EIH to also improve over 65% YoY led by a strong revival in business locations. On a QoQ basis, growth is expected to be down 2.4% as last quarter had the advantage of IPL matches and wedding segment. We expect the company to report EBITDA margin of over 21% led by strong ARR. PAT is expected at ₹ 40.2 crore
LemonTree	Being a pure mid-scale segment domestic hotel player, we expect revenue growth of 68.2% YoY (highest among peers). We expect EBITDA margin of over 40.6% (highest among peers) due to stringent cost controls. We expect the company to report positive PAT despite higher interest burden

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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