January 9, 2023

Strong performance to continue…

The last quarter saw a healthy performance despite it being a seasonally weak quarter due to monsoons. This quarter is expected to see another robust performance due to the onset of peak season. Strong leisure demand, sharp rebound in corporate travel along with much needed reset of room rates (*as being seen in H1FY23*) to act as key driving force for the growth in revenues. As per the latest DGCA data, the daily passenger traffic is now back to pre-Covid levels with domestic air traffic crossing 1.28 crore for December 2022. However, for Q3FY23 as a whole, we expect passenger traffic to be lower by 6% from pre-Covid levels to 3.6 crore (or 94% of pre-Covid levels). Foreign inbound travel has so far remained moderate till now but is expected to pick up from Q4FY23 onwards. However, domestic tourism and sharp rebound in corporate travel to aid in healthy revenue growth for Q3FY22E.

We expect occupancy levels to increase from ~68% to 77% YoY, mainly led by rebound in corporate travel as leisure segment had already witnessed the strong traction last year itself. Average room rates are likely to stay firm at ₹ 9,027/room (up 7% QoQ) for the premium segment. Overall, we expect revenue of our coverage universe to increase ~33.1% YoY, 17% QoQ to ₹ 2,088.7 crore. Going forward, we expect 2023 to stay strong for the sector supported by full resumption of the economy and also opening-up of international borders for foreign tourists. Further, India's G20 presidency in 2023, ICC world cup and easing of E-visa rules are expected to lead to a sharp rebound in foreign tourist arrivals in CY23. In terms of rooms supply, we expect launch of new hotel projects to get delayed due to higher land and input costs that would augur well for existing branded players. Further, hotel players are now leaner in terms of costs. This would aid in healthy margin expansion.

Reduced fixed overheads to aid in margin expansion

A majority of the Hotel industry's cost is fixed with power/lighting and employee costs taking the major share accounting for over 65% of total costs. Due to long 18 months of pandemic phase, hotel players have structurally re-aligned their cost base to become leaner in terms of cost. Hence, we expect over ~7% reduction in operating costs from pre-Covid levels during Q3FY23E, which would help the companies to improve margins. During the quarter, we expect our coverage universe to report EBITDA margin of 32.3% vs. 28.9% last year and 31.4% reported during pre-Covid era.

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

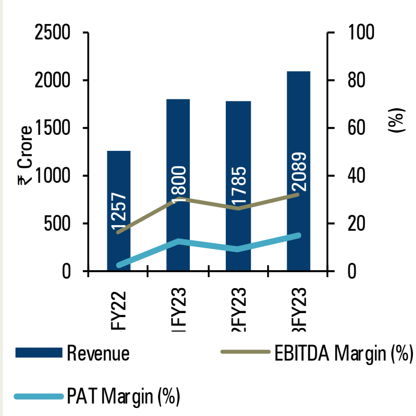
In our coverage universe, Indian Hotels, EIH both are best placed on b/s front. Fund raising of ₹ 4000 crore, ₹ 350 crore by IHCL, EIH, respectively, has strengthened their b/s further. This would help them to further gain market share. Lemon Tree Hotels, being on a capex mode, is highly levered vs peers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

Exhibit 1: Estimates for Q3FY23E: (Hotels) (₹ Crore)

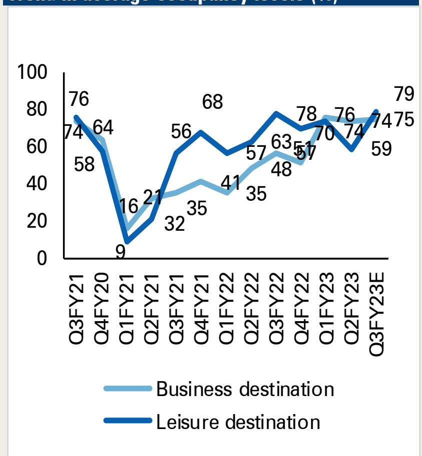
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY23	YoY	QoQ	Q3FY23	YoY	QoQ	Q3FY23	YoY	QoQ
EIH	412.4	31.2	16.0	109.1	59.7	40.2	63.6	95.4	134.0
Indian Hotel	1,443.4	29.9	17.1	451.7	40.4	53.7	222.2	192.4	82.8
Lemon Tree Hotels	232.9	62.1	18.4	114.1	80.3	21.9	33.1	LP	73.5
Total	**2,088.7**	**33.1**	**17.0**	**675.0**	**48.9**	**45.0**	**319.0**	**209.7**	**90.0**

Source: Company, ICICI Direct Research

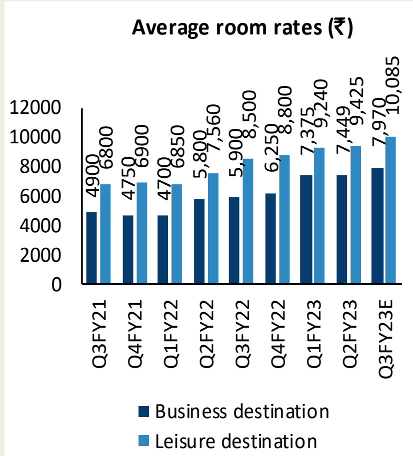
Topline & Profitability (Coverage Universe)



Trend in average occupancy levels (%)



Trend in average room rates (In ₹)



Top Picks

EIH
Lemon Tree Hotels

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Company specific view

Company	Remarks
Indian Hotels	We expect healthy performance from domestic leisure hotel business on YoY basis. Occupancy levels and ARRs in the domestic segment to improve to 77% and ₹ 10,750/room vs. 67% and ₹ 9150/room reported in Q3FY22. Overall, we expect 29.9% YoY, 17.1% QoQ growth in revenues with likely EBITDA of ₹ 451.7 crore
EIH	We expect revenue of EIH to also improve over 31.2% YoY led by strong revival in the business locations. We expect company to report EBITDA margin of over 26.5% led by strong ARR. PAT is expected at ₹ 63.6 crore
LemonTree	Being a pure mid-scale segment domestic hotel player, we expect revenue growth of 62.1% YoY (highest among peers). Expect EBITDA margin of over 49% (highest among peers) due to stringent cost controls. Expect company to report PAT of ₹ 33.1 crore 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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