

April 11, 2023

Sustained demand to aid strong operational performance...

The hotel industry is expected to maintain strong average room rates (ARR) that were witnessed in Q3FY23. In January-February 2023, average room rates for hotel industry increased by 10% compared to Q3FY23. The average occupancy also improved closer to 68% in January-February 2023 compared to 66% in Q3FY23. Owing to continued demand from business and leisure travellers and also aided by strong wedding season, we expect Q4FY24E to see another strong performance from the hotel sector. As per the latest DGCA data, the daily passenger traffic is trending at 106% of pre-Covid levels with domestic air traffic crossing 1.20 crore for February 2023. For Q4FY23, as a whole, we expect passenger traffic to be at 105% of pre-Covid levels to 3.8 crore. We expect enhanced domestic tourism and sharp rebound in corporate travel to aid in healthy revenue growth for Q4FY23E. Overall, we expect revenues of our coverage universe revenue to increase 88% YoY (3% QoQ decline) to ₹ 2,364 crore.

Continued strength in ARR to aid margin profile

The hotel industry has been holding on to the elevated room rates that are currently trending higher than pre-Covid levels. A majority of the industry's costs are fixed with power/lighting and employee costs taking the major share accounting for over 65% of total costs. During the Covid-19 pandemic phase, hotel players structurally re-aligned their cost base and become leaner in terms of cost. We expect operating costs to continue to be lower than pre-Covid levels in Q4FY23E, which would help the companies to improve margins. During the quarter, we expect our coverage universe to report EBITDA margin of 35.7% vs. 16% last year (favourable base due to Omicron Covid variant) and 21.4% reported in Q4FY20 (partially impacted due to Covid-19 in March 2020). We expect revenues of Lemon Tree and EIH to increase QoQ by 8% and 3%, respectively, while revenues for Indian Hotels Company (IHCL) are expected to register a decline of 6% owing to weak seasonality in its international business. On the margin front, we expect EBITDA margins to remain flattish QoQ for Lemon Tree and EIH while IHCL is expected to register a marginal decline in EBITDA margin.

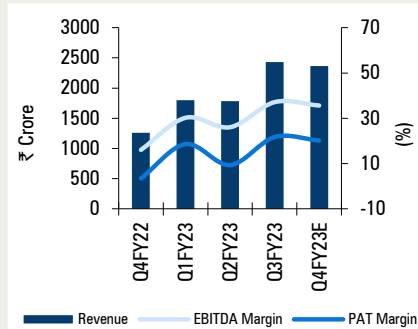
Multiple events in FY24 to enable sustenance of firm RevPAR

FY23 has been a period of strong performance for the hotel industry. As per industry estimates, RevPAR has been up 10% vs. pre Covid levels for April 2022-February 2023 with occupancy levels down nearly 2% compared to pre-Covid levels. The room supply has increased by 3.5% in 9MFY23 over pre-Covid levels but demand growth has been higher over the same period (growth of 5.4%), which would aid in keeping average room rates at a healthy level. Going forward, we expect FY24 to stay strong for the sector supported by full resumption of the economy, India's G20 presidency in 2023, ICC Men's world cup and easing of E-visa rules.

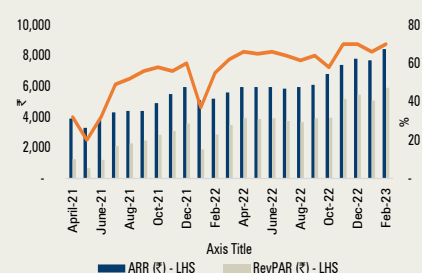
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
EIH	527.8	98.7	3.0	183.9	768.0	1.9	121.7	LP	17.1			
Indian Hotel	1,584.7	81.7	-6.0	523.5	229.3	-12.3	309.5	317.2	-19.1			
Lemon Tree Hotels	251.6	110.5	7.7	135.9	529.1	7.4	43.6	LP	9.0			
Total	2,364.1	88.0	-2.8	843.3	318.0	-6.7	474.8	1,027.7	-9.8			

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Average occupancy levels (%) & room rates



Top Picks

Lemon Tree Hotels

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Company specific view

Company	Remarks
Indian Hotels	We expect a healthy performance from the domestic hotel business on a YoY basis (on a favourable base). Revenues are expected to be driven by higher rates amid enhanced room demand from the wedding and leisure segment with MICE also trending above pre-Covid levels. We expect occupancy levels to be ~ 75%. We expect revenues to increase 82% YoY to ₹ 1585 crore (QoQ de-growth of 6%) and EBITDA of ₹ 524 crore (YoY increase of 229%, QoQ decline of 12%). Consequently PAT is expected to increase 317% YoY to ₹ 310 crore (QoQ decline of 19%)
EIH	We expect revenue of EIH to improve 99% YoY to ₹ 527.8 crore (QoQ: 3% growth) led by a revival in hotel room accommodation in business locations and increase in foreign tourist arrivals. We expect EBITDA margins to marginally decline by 40 bps QoQ to 34.8% (Q4FY22: 8%). Consequently, PAT is expected to increase 17% QoQ to ₹ 122 crore
LemonTree	Being a pure mid-scale segment domestic hotel player, we expect revenue growth of 111% YoY to ₹ 252 crore on a favourable base of Q4FY22 (QoQ growth of 7%). Average room rates and occupancy ratio have improved in Q4FY23 from Q3FY23 levels as occupancy in Q3FY23 was impacted negatively in October 2022 due to Dusshera and Diwali (low travel period) being in October. We expect EBITDA margins to remain healthy at 54% due to stringent cost controls (not increased employees in spite of higher occupancies) and healthy average room rates across hotel categories. We expect the company to report PAT of ₹ 44 crore vs. loss of ₹ 24 crore in Q4FY22 (9% QoQ growth)

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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