June 28, 2022

Clear sky ahead…

The past two years have been very challenging for the hotel sector due to pandemic related setbacks. While most of FY21 remained shut for tourism, gradual re-opening of the economy from H1FY22 led to a rise of revenge tourism. As a result, hotels across domestic leisure destinations, first witnessed a sharp rebound in bookings that was also aided by tourists who would have otherwise travelled abroad in the absence of any restrictions. Now with full resumption of the economy along with opening-up of international borders for foreign tourists, we expect hotel business across key metro cities like Mumbai and Delhi to also improve significantly from FY23E. As per the latest DGCA data, domestic air traffic has now reached ~94% of pre-Covid levels based on last three month's data despite higher air fares. Hotel booking data also suggests strong buoyancy in the demand with hotel booking for March-June crossing pre-pandemic levels led by wedding seasons, vacations and IPL matches. Also, opening of international borders for foreign tourists would further fuel growth from H2FY23E onwards. 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 the existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. Hence, we also expect companies to cross their pre-Covid level EBITDA margins in FY23E as the cost optimisation drive initiated from FY21 would start providing fruitful results from FY23E onwards.

Reduced fixed overheads to aid in healthy 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 15% reduction in operating costs from pre-Covid levels, which would help companies to improve margins sharply compared to pre-Covid levels.

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 the market share. Though, Lemon Tree Hotels has high leverage vs. peers, it has strong potential to grow faster compared to other large players supported by strong institutional backing for liquidity support.

Our preference in tourism space

Given the strong growth momentum expected in all segments of tourism (i.e. premium & midscale hotels including air travel, etc), we prefer leaders across these segments. Our top picks include **Indian Hotels** – having large presence in luxury hotel segment across India and International destinations 2) **Lemon Tree Hotels** – Branded quality player in the mid-scale segment having high growth potential. It is also expanding its presence in the select premium segment in the domestic market. 3) **Easy Trip Planners** – Best proxy to play air travel recovery given its low cost and negative w/cap characteristics along with strong balance-sheet. The company is also expanding into non-air segment like online bus & hotel booking that are high margin business.

Sector View: Positive

Top Picks in Hotels & Tourism Space

Company	Rating	CMP (₹)	TP (₹)	Upside (%)
Indian Hotels	BUY	229	290	26.6
Lemon Tree Hotels	BUY	61	78	27.9
Easy Trip Planners	BUY	391	490	25.3

Key risks to our call

- Any further stringent lockdown on likely 4th/5th wave could hamper business
- Higher inflation/talent crunch to remain key concern going ahead

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Sector Update

ICICI Securities – Retail Equity Research

Top bets in Tourism Coverage Universe

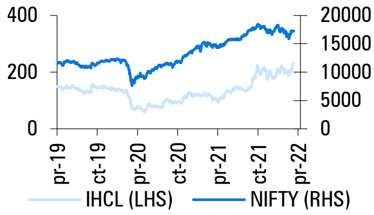
Indian Hotels (INDHOT)

With room inventory of 20,581 rooms, Indian Hotels occupies diversified position in the hotel industry through brands such as Taj, Vivanta, SeleQtions and Ginger brands. The company also has selective presence in the luxury segment in the US, the UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties.

- Opening doors fully for foreign tourists (FTAs) from March 2022 to provide further fillip to leisure and business hotel room demand from FY23 onwards
- Expect revenue CAGR of 32.2% during FY22-24E. Margins seen at over 24% in FY24E, which has potential to further expand by ~100 bps thereafter

Along with the improved outlook, the company is also focusing on driving more efficiencies through cost optimisation. We remain positive on the company and maintain our **BUY** rating with a TP of ₹ 290 (i.e.31x FY24E EV/EBITDA).

Price Chart



Particulars

Particular	Amount
Market Cap	₹ 32527 crore
Debt (FY22)	₹ 1985 crore
Cash (FY22)	₹ 1188 crore
EV	₹ 33324 crore
52 week H/L	269/129
Equity capital	₹ 142 crore

Exhibit 1: Financial summary

	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Yeaar CAGR (%)
Net Sales	4,512	4,463	1,575	3,056	(12.2)	4,496	5,341	32.2
EBITDA	830	968	(362)	405	(21.3)	988	1,293	78.7
EBITDA (%)	18.4	21.7	(23.0)	13.2		22.0	24.2	
Net Profit	287	354	(720)	(248)	PL	491	791	LP
EPS (₹)	2.0	2.2	(6.0)	(1.8)		3.5	5.6	
EV/EBITDA	44.7	38.7	(105.8)	87.9		35.9	26.4	
RoNW	6.6	7.4	(23.3)	(3.7)		6.6	9.8	
RoCE	7.4	7.0	(6.2)	1.3		6.3	9.1	
ROE	6.6	7.4	(23.3)	(3.7)		6.6	9.8	

Source: Company, ICICI Direct Research

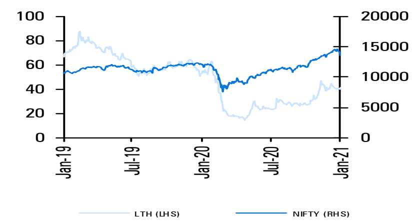
Lemon Tree Hotels (LEMTRE)

Promoted by Patanjali Keswani, Lemon Tree is the largest hotel chain in the mid-priced segment in India. It operates 8,489 rooms in 87 hotels across 54 destinations in India and abroad under brands like Aurika (premium), Lemon Tree premier, Lemon Tree (midscale), RedFox (economy) and Keys.

- The favourable location of its properties in prominent business and tourist districts supports revenue growth prospects and reduces concentration risk
- Post completion of expansions, LTHL will be operating ~10,462 rooms in 105 hotels across 64 destinations, in India and abroad by FY24E

The company's large asset base, strategic partnership, and financial flexibility to continue support liquidity profile if further need arise. We retain **BUY** rating on this stock with SOTP based TP of ₹ 78/share (i.e. implied value at 21x FY24E EV/EBITDA.

Price Chart



Particulars

Particulars	Amount
Market Cap (₹ crore)	4829
Debt (FY22) (₹ crore)	1642
Cash (FY22) (₹ crore)	142
EV (₹ crore)	6329
52 week H/L	₹ 71/36

Exhibit 2: Financial summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Sales	549.5	669.4	251.7	402.2	-9.9	697.5	863.3	46.5
EBITDA	168.8	238.3	61.3	118.7	-11.1	318.5	378.1	78.5
EBITDA (%)	30.7	35.6	24.3	29.5		45.7	43.8	
PAT after MI	52.9	-9.5	-127.0	-87.4	PL	23.8	38.8	LP
EPS (₹)	0.7	-0.1	-1.6	-1.1		0.3	0.5	
EV/EBITDA	37.0	27.9	107.8	56.8		21.1	18.1	
RoNW	6.7	-1.5	-21.4	-15.7		4.6	6.8	
RoCE	5.5	5.5	-0.7	1.0		6.5	7.5	

Source: Company, ICICI Direct Research

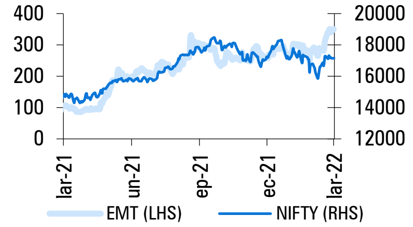
Easy Trip Planners (EASTRI)

Easy Trip Planners or EaseMyTrip.com (EMT) is the fastest growing and only profitable company in the online travel portal in India. The company offers a comprehensive range of travel-related products and services for end-to-end travel solutions, including airline tickets, hotels and holiday packages, rail tickets and bus tickets.

- Airline tickets accounted for 94.0% of revenues (pre-Covid levels) while hotels and other services contributed 5.4% and 0.6% of revenues, respectively
- Gross booking revenue (GBR) for FY22 were at ₹ 3716 crore with total domestic air passenger traffic @ 59% of pre-Covid levels. Now with full resumption, we expect GBR to grow at 39% CAGR during FY22-24E
- Lean cost model and no convenience fee strategy remain key pillars supporting such rapid, profitable growth. This has also led to stickiness by customers with healthy repeat transaction rate of ~86% in the B2C channel
- Further benefits would accrue from high margin segments like hotels (Traviate - B2B tehnology platform, Spree Hospitality - hospitality management company and bus booking segment (Yolo - intercity mobility platform)

We like EMT for its user friendly platform, unique travel offerings, low cost business model and healthy financial position. Considering strong growth potential of this technology platform in travel, we maintain our **BUY** recommendation with TP of ₹ 490/share, valuing at 45x FY24E EPS (i.e. Implied PEG ratio of 0.9x).

Price Chart



Particulars

Particulars	₹ crore
Market Capitalization	8496
Total Debt (FY22)	50
Cash (FY22)	133
EV (₹ crore)	8413
52 week High/Low	₹ 476/191
Equity Capital	43.5

Exhibit 3: Financial summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Gross operating revenues*	205	286	198	400	24.9	671	754	37.2
EBITDA	25	31	75	132	74.6	241	303	51.3
EBITDA (%)	12.1	10.7	38.0	33.1		36.0	40.2	
Net Profit	24	33	61	106	64.0	186	235	48.8
EPS	1.9	1.5	2.8	4.9		8.6	10.8	
P/E	212.5	260.1	139.7	81.0		46.2	36.6	
RoNW	35.3	32.6	37.7	44.9		47.8	41.2	
RoCE	36.0	33.6	36.0	37.7		44.4	40.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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