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# Drop anchor before investing in consumption stocks

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Consumption-related stocks such as hotels and quick service restaurants (QSRs) have been hitting the ball out of the park ahead of the ICC Men's World Cup 2023, which begins on October 5.

On the other hand, the Miss World Pageant scheduled for later this year in New Delhi, too, could provide some tailwind to these stocks, especially hotels and aviation. However, analysts suggest investors put their best foot forward and buy these counters only on a decline given the recent rally and economic headwinds.

"We believe India's hotel industry is poised for robust growth in the second half of the current financial year with various events, including the Cricket World Cup, Miss World Pageant, and recovery in foreign tourist arrival (FTAs), supporting the demand momentum," said Shobit Singhal, research analyst at Anand Rathi Institutional Equities.

Meanwhile at the bourses, shares of HLV Group, Chalet Hotels, Lemon Tree Hotels, The Indian Hotels Company, Taj GVK Hotels, and Royal Orchids from the hotel industry have surged in the range of 12 per cent to 154 per cent, so far, this financial year (FY24), while those of travel related companies like IndiGo, and Indian Railway Catering and Tourism Corporation (IRCTC) have jumped up to 25 per cent, but SpiceJet has fallen around 9 per cent, ACE Equity data revealed.

Those from the quick service restaurant (QSR) segment, including Barbeque Nation Hospitality, Restaurant Brands Asia, Westlife Foodworld have risen up to 40 per cent during the period.

By comparison, the Nifty50



## ON THE FRONT FOOT

HOTELS	CMP (₹)	% Chg YTD
Westlife Foodworld	958.8	21.4 ▲
Barbeque-Nation Hospitality	735.7	-23.8 ▼
Chalet Hotels	579.9	67.0 ▲
Indian Hotels	406.9	27.7 ▲
Restaurant Brands Asia	122.6	9.6 ▲
Lemon Tree Hotels	116.9	36.4 ▲
QSRs		
United Spirits	985.8	12.4 ▲
Varun Beverages	919.9	39.1 ▲
Zomato	100.8	69.8 ▲
AVIATION		
InterGlobe Aviation	2,383.8	18.8 ▲
SpiceJet	35.4	-8.6 ▼
MARKET		
S&P BSE Sensex Index	65,226.0	7.2 ▲
NSE Nifty50 Index	19,436.1	7.4 ▲

CMP: Current market price; YTD: Year to date;  
Source: Bloomberg; Compiled by BS Research Bureau; As on October 4, 2023

and Nifty 500 indices have gained 12 per cent and 17.8 per cent, respectively.

### Buy selectively

Among the lot, analysts remain bullish on the hospitality sector from a long-term perspective as limited supply, coupled with a pick-up in corporate and leisure travel demand, is expected to inflate average room rate (ARR) of hotels.

In the immediate future, the hospitality sector, analysts believe, is entering its seasonally best October-December quarter which sees year-end holidays, MICE (meetings, incentives, conferences, and exhibitions) and wedding period, and influx of

foreign tourists in India.

Occupancies and room rates have, historically, peaked in Q3, which makes H2 of any FY better than H1.

This time, Q3-FY24 will witness the World Cup and festive season simultaneously, a first in the Indian history.

During the previous boom period in the hospitality sector, between 2004-2008, the average room rate (ARR) grew at a compounded annual growth rate (CAGR) of 21 per cent.

Over the next three years, Singhal of Anand Rathi expects ARR to grow at a CAGR of 10-12 per cent amid a 10-per cent year-on-year (Y-o-Y) growth in demand.

According to a Jefferies

report, average rates for the World Cup match days are up by 150 per cent for select hotels compared to the week prior to match day with some rates up to the extent of 13x. As a strategy, they remain bullish on Indian Hotels, Lemon Tree, and Chalet Hotels and suggest buying them on a dip.

### Oil: The show stopper

Headwinds for the airlines and QSR sectors, analysts believe, could outweigh the positives in the form of a demand uptick due to these events. Surging oil prices that have moved up 19 per cent in the last three months, they said, could be the show stopper, they suggest.

"While the domestic demand for airlines took off due to the festive season and World Cup, potential challenges should not be overlooked. Crude oil prices have reached \$95 per barrel, which is the highest level this year.

If this elevated price persists, it could potentially impact airlines' margin profile," cautioned Parul Rao, research analyst, SAMCO Securities.

On October 1, aviation turbine fuel (ATF) prices for domestic airlines were hiked by 5 per cent.

Jet fuel prices have risen by over 32 per cent since June, and are at the highest level since November 2022.

Coupled with pilot shortage and limited capacity, Rao advises investors to stay away from airline stocks.

With regard to QSRs, analysts believe margins for the pack would improve in Q3 than Q2 of FY24 as inflation would have likely peaked by then.

Varun Beverages, United Spirits, and Zomato are the top bets of analysts at Motilal Oswal Financial Services (MOFSL) to play the consumption theme.