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IN THE RIGHT DIRECTION

Hotel stocks have more room for upside; buy the dips

Analysts suggest investing from a long-term perspective; G20, World Cup to provide a fillip to sector

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ITC's decision to demerge its hotel business into a separate entity has brought back focus on hotel stocks, which have seen a good run in 2023-24 (FY24) so far. Analysts say there could be more gains in store for these stocks over the next year, but suggest investors put in money on a correction only from a long-term perspective.

Hotel stocks, according to A K Prabhakar, head of research at IDBI Capital, have rallied as travel picked up after the Covid-19 pandemic. Not only have the room rents shot up, occupancy, too, has surged.

"On their part, hotels have become cost-efficient and trimmed excesses, especially employee costs. All this is being seen positively by the markets. That said, most stocks factor in the positives at the current levels. Lemon Tree, Chalet Hotels, Indian Hotels, Mahindra Holidays & Resorts are some stocks I like in this space. One can buy on a dip from a two-three year's perspective," Prabhakar said.

Howard Hotels has doubled investors' money with a rise of nearly 117 per cent thus far in FY24. Kamat Hotels, Benares Hotels, TajGVK Hotels & Resorts, Asian Hotels, Mahindra Holidays & Resorts, EIH Ltd, and Chalet Hotels have outperformed the markets with a rise of up to 82 per cent.

The S&P BSE Sensex, S&P BSE Midcap, and S&P BSE Smallcap indices have gained around 12 per cent, 23 per cent, and 27 per cent respectively during this period, the ACE Equity data showed.

For FY24, analysts believe demand drivers such as the G20 summit, coupled with sports events such as the Men's Cricket ODI World Cup in October-November 2023, to be held in India, may push revenue per available room (RevPAR) growth for hotels.



SUPERFAST LANE

	Price (₹)	Change* (%)
Howard Hotels	18.4	127.6
Kamat Hotels (India)	235.1	78.1
Benares Hotels	5,143.7	58.4
TajGVK Hotels & Resorts	263.2	40.3
EIH	214.9	29.7
Chalet Hotels	468.8	29.2
Mahindra Holidays & Resorts India	348.0	29.0
BSE SmallCap	34,279.1	27.2
EIH Associated Hotels	510.1	23.3
BSE MidCap	29,750.3	23.6
The Indian Hotels Company	392	20.8
Lemon Tree Hotels	90.4	17.0
BSE Sensex	66,355.7	12.5

Price as on July 25; Index values are absolute numbers; *Financial year-to-date Source: ACE Equity

According to the India Hospitality Industry Overview 2022 by HVS Anarock, industry-level occupancies, which recovered to 60 per cent in CY22, are estimated to reach 66 per cent in calendar year 2023 (CY23), 68 per cent in CY24, and 70 per cent in CY25. Meanwhile, the industry average room

rate (ARR) that stood at ₹6,100 in CY22 is estimated to reach ₹7,106 in CY23, ₹7,639 in CY24, and ₹7,983 in CY25.

"This implies that compared to CY22 industry RevPAR of ₹3,600, RevPAR may rise to ₹4,690 in CY23, ₹5,194 in CY24, and ₹5,588 in CY25, or a 15.8 per cent CAGR in industry

RevPAR over CY22-25. As per various industry estimates, with incremental room supply CAGR expected to range between 5-6 per cent over CY22-26, the medium-term demand supply dynamics remain healthy for the Indian hotel sector," wrote Adhidev Chattopadhyay of ICICI Securities in a recent note.

Region-wise, while leisure destinations such as Goa and Rajasthan may see Q2CY23 RevPAR remaining flat or declining marginally YoY, among business hotels, Mumbai and New Delhi/Gurugram continue to see the strongest demand with Bengaluru and Hyderabad playing catch up, Chattopadhyay said.

Given the favourable demand-supply dynamics over the long term, ICICI Securities maintains an 'add' rating on Indian Hotels Company Limited and 'buy' rating on Lemon Tree Hotels.