Published Date:	26 Jun 2024	Publication:	Mint [New Delhi]
Journalist:	Pallavi Pengonda	Page No:	4
Circulation:	93,000		

Hotel stocks dig up keys to growth

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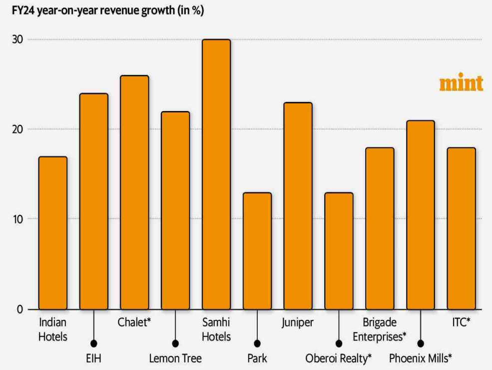
Investors in hotel companies in India should brace for a soft start to the financial year 2025. These firms are expected to bear the brunt of subdued demand in the ongoing June quarter (Q1 FY25), led by the general elections and the harsh summer. This could weigh on the revenue per available room (RevPAR) in the seasonally weak quarter.

Citing data from hotel analytics firm STR, Jefferies analysts said the Indian hotel industry's RevPAR and average room rate (ARR) growth moderated sharply to 3% each year-on-year (y-o-y) in May. This compares with RevPAR growth of 5-6% y-o-y so far in Q1, and 12% growth in Q4 FY24.

However, momentum is expected to pick up in Q2 and continue into the second half of FY25. Prospects for FY25 aren't too bad, especially in the light of the high base following strong growth in recent years. It's encouraging that The Indian Hotels Co. Ltd (IHCL) is confident of achieving double-digit growth in consolidated revenue during FY25 after clocking 16.5% growth in FY24.



Good show

The hotels sector saw decent revenue growth in FY24 backed by strong demand

*Hospitality business only

Source: Companies, Motilal Oswal Financial Services

Motilal Oswal Financial Services Ltd's analysis of the hospitality business of 11 companies showed that aggregate revenue and Ebitda increased 20% and 25%, respectively, during FY24. The analysis included pure-play hotel companies and the hospitality segments of companies such as Brigade Enterprises Ltd and ITC Ltd.

As such, business conditions are expected to be favourable over the next couple of years, with demand growth projected to beat supply growth. Corporate travel and the meetings, incentives, conferences and exhibitions (MICE) business is expected to trend upwards. Other demand drivers include spiritual tourism, domestic travel, rebound in foreign tourist arrivals, and destination weddings.

JM Financial Institutional Securities expects growth to recover in the second half of FY25, leading to 10-12% RevPAR growth for FY25E (from a high base in FY24). "For the overall industry, average room rates have grown by about 12% year-on-year in FY24 and we may see a slower growth in FY25E (about 8%) due to a muted 1HFY25E and the high base of last year," added the JM report. The brokerage expects a 250-300 basis points improvement in occupancy levels in FY25. One basis point is 0.01%.

DEMAND TAILWIND

BUSINESS conditions are expected to be favourable over the next couple of years

DEMAND growth is projected to beat supply growth, along with robust MICE trends

Hotel companies are expanding their footprint to capitalize on the bright prospects. IHCL, for instance, plans to open 25 hotels in FY25. As of the end of March, the company had 218 operational hotels and another 92 in the pipeline. Chalet Hotels Ltd, meanwhile, has plans for ₹1,500-2,000 crore of capital expenditure over the next three years. Lemon Tree Hotels Ltd's inventory stood at 9,863 rooms at March-end and it has additional about 4,000 rooms in the pipeline.

For IHCL, Jefferies expects 7-9% growth in RevPAR aided by a strong room pipeline, and has projected that Ebitda will grow at a compound annual growth rate of 17% from FY24 to FY27. For Lemon Tree, how occupancies shape up at its Aurika, Mumbai SkyCity hotel remains crucial in FY25, as does the amount of gains from renovations it is undertaking.

In general, how cost pressures pan out—especially employee wages—is key from a margin perspective.

It's no secret that stocks of hotel companies have been all the rage of late. Over the past year, shares of IHCL, EIH Ltd, Chalet Hotels and Lemon Tree have risen in the range of about 60-115%. Valuations no doubt seem pricey now, which may limit significant near-term upside.

Also, while companies seem poised to sail through FY25, investors will need to assess whether growth will stagnate in FY26.

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