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Hotel stocks book a stay in the gains suite as room rates rise

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A 5x RETURNS UPGRADE: HOTEL STOCKS TRUMP NIFTY 50

LUXURY MARGINS BOOST: 100-150-BP HIKE LIKELY

Stocks of leading hotel companies have been hitting their all-time highs this month, driven by expectations of a strong performance in the October-December quarter (Q3) of 2024-25 (FY25) and continued growth in 2025-26 (FY26), supported by a higher base. After a slow first quarter in FY25, the sector, led by branded hotels, is benefiting from rising demand and limited supply, resulting in healthy 1 occupancy rates and increasing average room rates. The average returns of the top five players by market capitalisation are 5x those of the Nifty 50 over the past year.

Analysts will focus on the performance in the seasonally strong Q3FY25 and the guidance for FY25. Analysts at Motilal Oswal Research expect the sector to see growth in Q3, driven by activity in MICE, supported by a strong wedding season (33 per cent more auspicious dates year-on-year/Y-o-Y in Q3).

The brokerage expects key hospitality players to see revenue per available room (RevPAR) growth of 10-12 per cent Y-o-Y in Q3, primarily due to increases in average room rates, which are projected to rise by 8-10 per cent Y-o-Y. This follows a recovery, as RevPAR increased in the low single digits during the first half (H1) of FY25.

The early part of FY25 was impacted by a heatwave and elections. However, domestic air passenger traffic, which grew 6 per cent Y-o-Y, provided stability during H1. Foreign tourist arrivals reached 9.2 million in calendar year (CY) 2023, and is expected to exceed 10 million in CY 2024.

Analysts of Nuvama Research believe that the resurgence of corporate travel, along with corporate/social MICE events, will drive performance in the second half. While the sector dynamics remain favourable, it has downgraded Indian Hotels Company (IHCL) to 'reduce'.

A strong recovery is expected to help the hotel sector post growth of 13-14 per cent in FY25, following a 17 per cent increase in 2023-24. With demand outstripping supply, CRISIL Ratings expects growth to be 11-12 per cent in FY26. Although higher demand is expected to lead to increased room supply, most of this will come through the asset-light management contract model.

While most peers are focusing on a capital-light growth strategy, Nirmal Bang Research believes that Chalet Hotels, an asset owner, should continue to benefit from the industry upcycle over the medium term. The brokerage has a 'buy' rating, noting that the company's valuations reflect favourable sector trends and superior financial performance.

Kotak Institutional Research believes that branded hospitality companies like IHCL and Lemon Tree Hotels deserve higher earnings multiples, given their superior return profiles and faster expected growth in managed keys (management contracts).

Sharekhan Research is positive on Samhi Hotels, noting that the addition of 525 upscale rooms in markets like Hyderabad and Bengaluru will expand its portfolio to 5,640 rooms within two to three years. The company's use of internal accruals and a higher share of variable leased assets should improve returns and provide capital-efficient growth.

For the broader sector, improved operating leverage and cost optimisation measures could lead to margin increases of 100-150 basis points in FY25. CRISIL Ratings also notes that strong cash flows, asset-light expansion, and sizeable equity raising will help keep debt levels in check, improving credit profiles.

Motilal Oswal Research identifies several long-term structural demand drivers for the industry. These include robust economic activity, new convention centres, improved connectivity and infrastructure, recovery in free trade agreements, and growing trends in spiritual and wildlife tourism. The brokerage maintains a 'buy' rating on IHCL and Lemon Tree.

UNLOCKING THE PENTHOUSE OF PROFITS

	CMP (₹)	Returns (%) 1-month	Returns (%) 6-month	P/E 2025-26E	Target (₹)	Upside (%)
Indian Hotels	861	9.1	38.0	59	776	-10
Chalet Hotels	989	12.5	22.6	42	985	0
Lemon Tree Hotels	150	14.1	4.9	42	154	3
EIH	411	10.9	-5.3	35	400	-2
Samhi Hotels	197	6.5	4.1	26	278	41
Juniper Hotels	345	-4.5	-19.1	38	453	31
NSE Nifty 50	**23,813**	**-1.9**	**-1.0**	**20**	**27,326**	**15**
NSE Nifty 500	**22,445**	**-1.1**	**-0.4**	**22**	**25,361**	**13**

CMP: Current market price; P/E : Price-to-earnings ratio; E: Estimates
Compiled by *BS* Research Bureau
Sources: Bloomberg, exchanges