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Reserving success: Hotel stocks thrive as demand checks in for the long stay

Ride the wave of Q3FY24 strength, fuelled by rising average room rates and enhanced occupancy

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Mumbai, 18 February

Led by the luxury hospitality major EIH, listed hotel stocks have been major outperformers over the past year, and the trend has continued over the past month. Compared to the S&P BSE Sensex/National Stock Exchange Nifty, which has delivered flat performance over the past month, the average returns for the top four listed entities were 4 per cent.

EIH has performed much better than peers as well as the benchmarks, with a return of 36 per cent over the past month and over 70 per cent over three months.

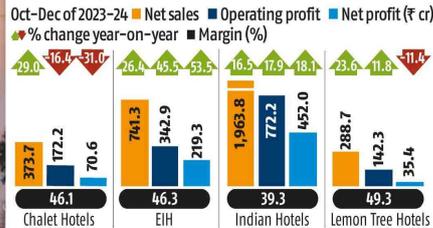
The recent trigger for hotel stocks has been the strong performance in the 2023-24 (FY24) October-December quarter (Q3) and the expectation that the trend will continue going forward.

The hotel industry maintained its healthy performance in Q3FY24, mainly aided by an increase in the average room rate (ARR) and an improvement in occupancy, highlights Motilal Oswal Research.

Leading the pack on the ARR front was



WHERE GROWTH RESIDES



UNLOCKING 'SUITE' RETURNS

| As on February 16 | Current market price (₹) | One-year returns (%) | 2024-25 P/E (x) |
|-------------------|--------------------------|----------------------|-----------------|
| Chalet Hotels | 857 | 135.9 | 45 |
| EIH | 394 | 136.5 | 29 |
| Indian Hotels | 537 | 66.9 | 47 |
| Lemon Tree Hotels | 136 | 72.4 | 39 |
| NSE Nifty50 | 22,041 | 22.2 | 18 |
| S&P BSE Sensex | 72,427 | 18.1 | 18 |

PIE (x): Price-to-earnings (ratio)
Compiled by BS Research Bureau

EIH, which reported a 19 per cent growth, followed by Indian Hotels Company with a growth of 17 per cent. The company has indicated that revenue per available room (RevPAR) has remained strong for the past three months and expects an improvement in ARR going forward.

Chalet Hotels saw a 630-basis point (bp) improvement in occupancy, while Lemon Tree Hotels was the only one to report a decline of 170-bp year-on-year (Y-o-Y), given the opening of its Mumbai property, Aurika.

Commenting on the key operational parameters in the quarter, Mahaveer Jain, director, India Ratings & Research (Ind-Ra), highlighted that the hotel sector continued to showcase strong operating performance in Q3FY24.

Ind-Ra peer-set occupancy improved

from 65 per cent to 71 per cent, with the occupancies in Mumbai improving compared to other key locations.

RevPAR, the key performance indicator, has also increased by 18 per cent to 20 per cent Y-o-Y and 10-12 per cent sequentially.

Ind-Ra expects the strong room rates to stay as demand appears to outstrip supply, especially in the five-star category in Tier-I cities.

In addition to favourable demand-supply, other triggers, such as foreign and domestic tourist arrivals, remain robust.

Domestic passenger volumes were up 19 per cent Y-o-Y in December, while for the calendar year 2023 (CY23), the figure was 24 per cent higher.

Foreign tourist arrivals grew 20 per cent Y-o-Y in November 2023. While year-

to-date CY23 (until November) foreign tourist arrivals in India still stand below pre-pandemic levels by 16 per cent, it indicates further scope for growth in foreign tourist arrivals, observe analysts Santosh Sinha and Kevin Shah of Emkay Research.

Moreover, ARR is expected to pick up in the fourth quarter (Q4) of FY24 as business travel resumes following the holiday season. Q4 would also have weddings and conferences, which would support demand, they add.

Going ahead, brokerages expect margins to improve for the major players, led by operating leverage benefits, the addition of more hotel rooms through management contracts, which come at higher margins, and new businesses.

Indian Hotels Company is a key beneficiary of the above trends. In addition

to management contracts, Lemon Tree Hotels would benefit from the increasing contribution of Aurika Mumbai. Chalet Hotels could gain from commercial properties that come at a higher margin. While it has an 'add' rating on all three hotels, its preferred pick is Chalet Hotels.

Motilal Oswal Research expects growth in 2024-25 to be driven by favourable demand-supply dynamics and demand catalysts, including the opening of new convention centres in Delhi-National Capital Region and Mumbai, spiritual and religious tourism, an increase in weddings (meetings, incentives, conferences, and exhibitions), improved connectivity, and an expected rebound in foreign tourist arrivals. It has a 'buy' rating on Indian Hotels Company and Lemon Tree Hotels.