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Hotel stocks maintain good momentum after strong Q1

Growth driven by G20 events, ICC Men's Cricket World Cup, and the wedding season

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Hotel stocks are in the spotlight, reaching new highs on the stock market, driven by upcoming events, such a the G20 Summit, ICC Men's Cricket World Cup, and the wedding season. The outlook for the stocks remains strong, despite a weak second quarter due to the monsoon.

Analysts said the recovery in international tourist arrivals to pre-covid levels will boost demand. The Indian Hotels stock scaled a 52-week high on Thursday, while EIH Ltd, Lemon Tree Hotels Ltd, and Chalet Hotels Ltd are also trading near their 52-week highs for the last one week. Most hotel stocks, including ITC Ltd, have gained 13-50% in the past six months.

"As we move into the festive season, the demand outlook for chain-affiliated hotels looks strong on the back of buoyant domestic demand, significantly high foreign tourist arrivals due to one-time events (G20 Summit and ICC World Cup) and the forthcoming wedding season" said analysts at JM Financials Institutional Securities.

Hotels have continued to see strong recovery in their earnings in the past year after covid-19 concerns eased. They had seen a strong first quarter performance. The hospitality basket reported revenue and earnings before interest, taxes, depreciation and amortization growth of 16% and 17% from a year earlier, respectively, with EIH (with 26% and 56% y-o-y growth respectively) leading the pack as per data by Motilal Oswal Financial Services Ltd. The healthy financial performance was backed by 9-38% average room rate (ARR) growth over last year, with Chalet Hotels leading.

17%
Rise in Ebitda of hospitality sector from a year ago

Occupancy is likely to improve in the near term, led by favourable demand-supply dynamics and demand drivers, said analysts at Motilal Oswal. ARR will continue to inch up, boosting RevPAR (revenue per available room), they said.

The performance may slightly soften during the seasonally weak September quarter but may improve subsequently. "Our channel checks for forward hotel room rates for October-November against October-November 2022 period indicate that hotels continue to follow the strategy of keeping rates at least 10% higher than previous year levels," said analysts at ICICI Securities Ltd.

While July-September is seasonally the weakest quarter owing to monsoon, demand drivers remain intact heading into the second half of FY24 with the G20 Summit, Cricket World Cup, wedding season and international tourist arrivals recovering to pre-covid levels, expected to drive demand, they added.

According to HVS Anarock Hotels and Hospitality overview in August, hotel rates remained consistently above 2019 levels, despite a drop in occupancy. RevPAR, a metric used in the hospitality sector to measure performance, also indicated a healthy show. RevPAR at ₹3,840-4,092 in July was 15-17% above July 2019 even though occupancies dipped slightly.

₹7,106
ARR expected in 2023, up from ₹6,100 in 2022

Referring to India Hospitality Industry Overview by HVS Anarock, analysts at ICICI Securities said industry level occupancies, which recovered to 60% in 2022, are likely to reach 66% in 2023, 68% in 2024 and 70% in 2025. At the same time, industry ARR, which stood at ₹6,100 in 2022, is expected at ₹7,106 in 2023, ₹7,639 in 2024 and ₹7,983 in 2025. Industry RevPAR is likely to grow at a 15.8% compound annual growth rate during 2022-2025.

According to estimates, incremental room supply will lead to CAGR of 5-6% in 2022-2026. and medium-term demand-supply dynamics will remain healthy for the Indian hotel sector.

The asset light model adopted by the hotels is yet another positive, said analysts. Firms are looking at managing and franchising properties, rather than owning assets, which will help adjust according to demand and supply, they said.

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