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# Hospitality players in a sweet spot

Lower costs, improving occupancy, and room rents augur well for stocks

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The hospitality industry seems to be on the recovery path. For the first time since March 2020, occupancies moved above the 65 per cent mark in April. Average room rates (ARR) are now 4 per cent higher than in April 2019 (pre-Covid). Revenue per available room (REVPAR) is also about 5 per cent above the April 2019 figure.

But aggregate revenue for a basket of five hotels was down 19 per cent sequentially in the March quarter of financial year 2021-22 (Q4FY22), though revenue was up around 40 per cent year-on-year (YoY).

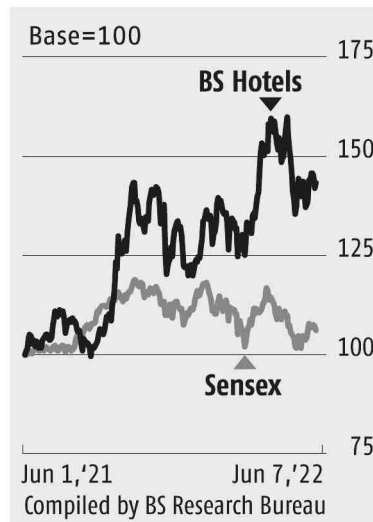
Aggregate Ebitda (earnings before interest, taxes, depreciation, and amortisation) fell 52 per cent sequentially, but was up 200 per cent YoY for most listed hotel players.

Overall, hotels may now be able to improve ARR from pre-Covid levels. Corporate demand seems to be back to pre-Covid levels. Cost cutting has reduced overheads across the industry. There is a gap between room demand and supply, which may result in better realisations.

For Indian Hotels (IHCL), cost cutting reduced corporate overheads to 28 per cent. It is present in over 20 cities and is looking to expand to over 25 more. Revenue in Q4 was around 96 per cent of the pre-Covid level.

IHCL's management plans a portfolio of 300 hotels (by FY22, it had 20,581 rooms at 175 hotels). At present, 60 hotels (over 7,500 rooms) are in the pipeline, with 40 per cent of projects under Ginger and 74 per cent under management contracts.

IHCL is targeting an Ebitda margin of 33 per cent (current Ebitda just over



13 per cent). Its management is guiding for 35 per cent share of Ebitda from new businesses and management fees by FY26 (from 22 per cent currently). Management contracts were 36 per cent of all rooms in FY22 and the target is 50 per cent in the next 3-5 years. It expects a revenue of ₹400 crore from management fees — current revenue from management contracts is ₹230 crore. The target price set by one analyst is ₹260, against the current market price of ₹231.

Lemon Tree Hotels had 80 per cent occupancy in Bengaluru, Hyderabad, Mumbai, and Delhi in April and May. It has announced a capex of ₹1,000 crore, across Lemon Tree Mountain Resort (Shimla) and Aurika (Mumbai International Airport). Its net debt was ₹1,700 crore as of March. The management guidance is for it to be debt free in five years.

The occupancy rate for Chalet

Hotels was 81 per cent in April, with ARR at ₹7,500, the highest since the pandemic's outbreak. Fixed costs have reduced 33 per cent from FY20 levels. Capex over the next two years will be ₹740 crore, with room count expected to rise by 1,000-1,500. Net debt was ₹2,230 crore and will peak at ₹2,600 crore. The management is looking to hit FY20 revenue and Ebitda levels in FY23.

In the case of EIH, expenses have declined 15-20 per cent from FY20 levels. The management expects strong demand and normalising occupancies to push growth. There is similar encouraging guidance from ITC's hotel segment with management indicating occupancies have surpassed pre-Covid levels, though ARR is still lower.

Despite a sequential drop, hotel shares have outperformed the market. The Nifty has risen 3.5 per cent since March 7. In that period, Lemon Tree has risen 27 per cent, while IHCL is up 21 per cent. Asian Hotels and Chalet are up 17 per cent and 14 per cent, respectively. EIH is up 3.8 per cent.