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After smart rally, hotel stocks have limited room for upside

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1 The shares of hotel companies made an impressive comeback in 2022, after a prolonged period of pain led by the covid pandemic. Although 2022 began with concerns over Omicron wave, a sharp revival in the following months was aided by leisure and business-related travel picking up pace. Last year, shares of key listed hotel companies, such as The Indian Hotels Co. Ltd, Lemon Tree Hotels Ltd, and Chalet Hotels Ltd, surged by 61-84%, comfortably beating the Nifty 500 index.

In some cases, apart from a

turnaround in investor sentiment towards the sector, company-specific factors may have also boosted the performance of the stocks. For instance, The Indian Hotels' increased focus on scaling up high-margin businesses, including amā Stays and Qmin.

During the December quarter of FY23, hotel companies are expected to report robust performance driven by the wedding and holiday season. Considering the severe impact the pandemic had on the sector's revenue and occupancies, the recent demand trends are encouraging. "As per HVS Anarock, October-November 2022 industry RevPAR is 2% higher than October-November

Stunning show

Hotel stocks saw a sharp run-up in CY22, aided by revival in demand.



2019 levels, with average room rates being 9% higher," said analysts at ICICI Securities in a report on 29 December. RevPAR

is revenue per available room.

However, with hotels continuing to keep rates higher, occupancies are lower and could take

a while before sustained growth is visible from pre-covid levels.

Nonetheless, expectations are that with supply lagging demand in the hotels sector, companies will enjoy better pricing power, at least for now. Also, events such as the G20-summit and increase in foreign travellers could help maintain an upbeat momentum.

That said, the sharp upward movement seen in hotel stocks in 2022 may not be repeated in 2023, said Archana Gude, analyst at IDBI Capital Markets and Securities. "True, the demand outlook is strong in leisure and corporate travel, but these elements have already been factored in the current valuations.

This would limit substantial upsides hereon," she added.

Moreover, rising cases of the new covid variant globally could play spoilsport for the sector, as mask mandates could be seen as deterrents for travelling. However, the impact on operations is not likely to be as severe as was seen in the first and second covid waves, said analysts. Another key headwind is the elevated inflation levels, hurting the purchasing power of consumers, which can potentially dent demand.

Besides, it remains to be seen whether the hotel industry manages to see a sustained earnings improvement once the pent-up demand fizzles out.