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**AVERAGE ROOM RATES** to increase in 4-5 years on growth in domestic business and leisure travel and foreign tourist arrivals, boosting prospects for mid-segment and luxury chains

# Hotel Cos Get Back Pricing Power as Demand Rises, Supply Slows

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**ET Intelligence Group:** Luxury and upscale mid-market hotels may be able to increase average room rates further in the current fiscal given the slowing supply of rooms and rising occupancy rates.

In the past 18 months, the hotel sector has been reporting a gradual demand recovery. The occupancy rate rose to 65% in FY18 from 57% in FY13 and average room rates increased by 2-3% after stagnancy during FY13 and FY17.

According to hotel consultancy firm Horwath HTL, between FY17 and FY21, the demand for rooms is expected to rise by 12.4% annually while supply is expected to grow at a slower pace of 7.8%.

Rising domestic travel aided by corporate events, increasing trend of leisure travel among the middle class and growth in foreign tourist arrivals will likely boost average room

## Going Strong

	Indian Hotels			Lemon Tree Hotels		
	FY18	FY19	FY20	FY18	FY19	FY20
<b>Revenues</b>	4,103.5	<b>4,473.5</b>	4,914.6	477.8	<b>581.2</b>	768.9
<b>EBITDA</b>	671	<b>840</b>	996	136.2	<b>188.6</b>	286
<b>Net Profit</b>	96.9	<b>257</b>	343.6	14.1	<b>38.8</b>	81.5

Figures in ₹ crore

SOURCE: Bloomberg



rates in the coming years.

The sector's occupancy level may touch 75% in the next 4-5 years given the slow pace of supply. According to various analysts' estimates, key markets such as Mumbai, central Delhi, and Goa are clocking occupancy over 70%. Revenues of hotels in midscale-budget segment are expected to rise by 20% annually in the next four-five years. In the same period, revenues of luxury hotels are expected to grow at 15% per annum.

Among luxury hotel chains, Indian Hotels is placed well. A significant reduction in debt (net debt-equity ratio fell to 0.5 in FY18 from 2 in FY15), presence in almost all segments of the industry, and shift to management contracts—accounting for 25% of total capacity — has led to improvements in performance.

In the mid-market segment, Lemon Tree Hotels looks attractive due to diversified geographical presence in 32 cities with over 5,342 ro-

oms, fair degree of rooms under management contract (33% of its total capacity) and competitive pricing.

According to Bloomberg data, considering FY20 expected earnings, the enterprise value (EV) of Indian Hotels is 21.1 times the operating profit before depreciation (EBITDA), which is quite attractive compared with the three-year average of 26.8. For Lemon Tree Hotels, the EV/EBITDA is 27.1 compared with the two-year average of 55.