

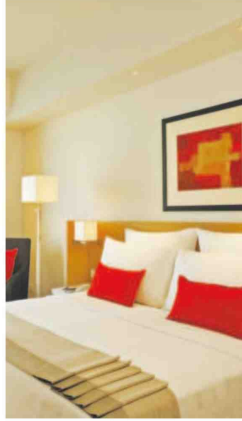
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Hotels eye more room for growth

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The hospitality industry raised the curtain on FY25 with a subdued start. Demand for hotel rooms in the June quarter (Q1FY25) was marred by a cocktail of unfavourable temporary factors such as general elections, heat-waves, muted air traffic growth and lower number of wedding days. The revenue per available room (RevPAR) was flat at ₹4,335 year-on-year in Q1FY25, showed HVS Anarock data compiled by Motilal Oswal Financial Services. Thus, another key metric—the average room rate (ARR) increased slightly by just about 2% to ₹7,067. However, this was offset by a 70-basis-point dip in occupancy to 61.3%, as per HVS data. One basis point is 0.01%.

But the momentum is seen picking up helped by pent-up demand, higher auspicious dates, and an increase in meetings, incentives, conferences, and exhibitions (MICE) events. Plus, the supply of branded rooms is expected to lag demand, which augurs well for industry growth. "Various estimates peg FY24-28 industry supply CAGR at 5-6% versus demand CAGR at about



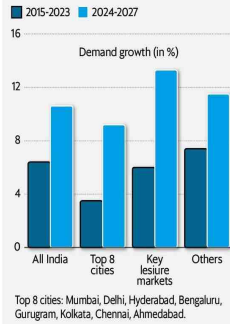
Listed hotels are betting on property renovations to boost RevPAR.

10%," an IICI Securities report on 30 August said. CAGR is compound annual growth rate.

Amid this, over the medium-to-long term, listed hotel companies bet on renovation of existing properties to generate better RevPAR. In Q1FY25 earnings call, The Indian Hotels Co.

Promising prospects

Demand for branded hotel rooms is expected to be robust in the medium term



Source: Horwath HTL, Motilal Oswal Financial Services

PRANAY BHARDWAJ/MINT

Ltd's (IHCL) management said St. James in London, President (Mumbai), Taj Holiday Village (Goa) and Jai Mahal Palace (Jaipur), were some properties under renovations in the quarter. Renovations usually lead to a short-term blip in revenue, but the IHCL management said that investing in renovation

of key properties like Taj which is a major revenue source, is critical.

In some cases, the capital expenditure incurred on renovations may weigh on balance sheet strength and hurt near-term margins, but eventually boosts earnings growth. For instance, Lemon Tree Hotels Ltd management reiterated plans to spend ₹100 crore each in FY25 and FY26 on renovations. The company undertakes renovations in the first half of the year. In Q1FY25, 700 rooms were shut for renovations. After the renovations, the company expects Ebitda of ₹60 crore annually from 'Keys' portfolio with ₹4,500 ARR.

For EIH Ltd, 209 rooms of The Oberoi Grand, Kolkata will undergo significant renovation and will reopen after three years. Similarly,

after an upcoming renovation of 74 rooms in The Oberoi, Bali, the management believes the ARR can grow about 2x at that property.

"With occupancies at all-time highs, a key lever has almost maxed out," said a Nuvama Research report on 19 August. Hotels across the board have tur-

ned to renovate key big-box assets and spruce up older assets to reprice and hike RevPAR growth, it said.

These companies are adding inventory and expanding portfolios. Here, management contracts (where properties are not owned) are expected to be in favour. For this asset-light model, companies are seen either acquiring

operational hotels or utilizing existing land banks.

For now, investors in some hotel stocks are sitting on decent gains. In the past year, IHCL, EIH and Chalet Hotels shares have rallied by over 50% each.

On the other hand, Lemon Tree has been a relative laggard with returns of 23%. "Heading into the festive season, from September 2024, a key monitorable will be sustenance of

demand growth from H2FY24's high base, which we expect to be in high single-digits (7-8% RevPAR growth)," said IICI Securities. After the industry's rebound post-pandemic, analysts say that companies face cost pressures due to higher wages and commissions, which can weigh on margins outlook.

THE TIDE MAY TURN

Q2FY25 is expected to be better, helped by pent-up demand, more auspicious dates

BRANDED rooms' supply is expected to lag demand, which augurs well for industry growth