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Investors stay wedded to hotels

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Investors of hotel stocks are enjoying a good view. So far in 2024, stocks of The Indian Hotels Co. Ltd (IHCL), EIH Ltd, Chalet Hotels Ltd and Lemon Tree Hotels Ltd have gained 97%, 64%, 41%, and 27%, respectively. A good part of the recent surge can be attributed to the recovery in the September quarter (Q2FY25). After a challenging Q1 due to heatwaves and elections, the sector saw a pickup across the board last quarter led by strong occupancies and improvement in ARRs or average room rates.

What has also boosted the Q3 outlook is strong demand aided by a higher number of wedding dates and robust meetings, incentives, conferences, and exhibitions activity. Motilal Oswal Financial Services expects key hotel companies, especially luxury and upper upscale players, to report about 10-12% RevPAR growth in Q3, driven by about 8-10% ARR growth and 100-200 basis points improvement in occupancy. RevPAR is revenue per available room; one

Room for more?

Revenue growth of most hotel companies was strong in H1FY25

Year-on-year H1FY25 revenue growth (in %)



Hospitality business only

mint

Source: Company, Motilal Oswal Financial Services

PRANAY BHARDWAJ/MINT

basis point is one-hundredth of a percentage point. "We anticipate hotel companies to post healthy growth in 2HFY25/FY26, aided by: an increase in ARR across hotels, due to a favorable demand-supply scenario, corporate rate hikes, and room upgrades through renovations; and healthy operating leverage," said Motilal

Oswal in a 16 December report.

Optimistic about revenue growth, IHCL MD & CEO Puneet Chhatwal said in the Q2 earnings call, "With 30% higher wedding dates and an increase in foreign tourist arrivals expected in H2, we remain confident of comfortably delivering double-digit revenue growth, even exclud-

ing the positive impact of TajSATS." It is the airline catering division.

Enhanced connectivity, growing interest in spiritual and wildlife tourism and higher foreign tourist arrivals are expected to aid demand from a medium-to-long term perspective.

"The near-term outlook appears

mixed with a deceleration in broader markets while key cities of Delhi, Hyderabad, Bangalore, and Mumbai—which form 30% of the branded inventory—seem to be doing well," said analysts from Nuvama Research.

"While the short-term outlook for the sector is positive, the medium to long-term like-for-like growth assumption of 7-8% may limit operating leverage benefits."

Shares of IHCL, Chalet and Lemon Tree hit new 52-week highs this month. "Valuations for IHCL are running well ahead of its historical averages, which compelled us to downgrade the stock to 'reduce,'" said the Nuvama report earlier this

month, adding, "We remain optimistic on the business though."

To capitalize on robust demand, hotel firms are raising funds, which could be used for expansions. Schloss Bangalore (Leela Hotels), Ventive Hospitality and Brigade Hotels are looking at initial public offerings (IPOs). "Cumulatively, these companies are looking to raise around ₹8,000 crore in IPOs including fresh raise of nearly ₹6,000 crore. This follows a ₹1,000 crore QIP by Chalet Hotels earlier in year and three IPOs (Samhi Hotels, Park Hotels & Resorts, Juniper Hotels), which cumulatively raised around ₹4,000 crore," said a Jefferies

India report on 10 December. ITC Ltd is also going to demerge its hotels business in Q4FY25.

As the listed universe of hotels expands with potential IPOs of four new companies, industry ARRs and occupancy rates will become key monitorables for investors.

INVESTORS CHECK IN

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