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Kumar Shankar Roy
bl. research bureau

A good time to check out

HOSPITALITY. EIH faces a two-year pause in earnings growth even as peers push ahead on expansion and scale

In December 2023, with luxury hotels owner and operator EIH trading at ₹236, we had recommended investors to continue to "hold" the stock. The business looked solid, and the hotel sector was in the middle of a favourable cycle, powered by high occupancies, steady room rate hikes and events like G20 Summit and Cricket World Cup.

That cycle has played out even better than we had expected. EIH has since rallied 52 per cent to ₹359. But after this run, the case for holding on weakens. While EIH remains one of the strongest hospitality brands in India, with a luxury-focussed portfolio and a net cash balance sheet, the problem now is the lack of earnings momentum.

MUTED FUTURE EARNINGS

For EIH, which owns and operates a portfolio of around 30 hotels and resorts under the 'Oberoi' and 'Trident' brands in India and abroad, FY25 results were, undoubtedly, strong (see chart on financials). Consolidated revenues grew 9.2 per cent, EBITDA margins held steady at over 37 per cent and adjusted PAT rose about 16 per cent. After its best-ever performance in absolute terms, FY26 is a reset year, and not a continuation.

According to Bloomberg consensus estimates, topline may shrink 1 per cent, margins will grind lower to 36 per cent and bottom-line could fall over 7 per cent. Even in FY27, the expected recovery is modest, with revenue growth pegged at around 8 per cent, projected EBITDA margins still below FY25 levels and profit could be up just 9 per cent. For a stock that trades at 31 times one-year forward earnings, these numbers imply the margin of safety is low now.

More importantly, EIH's numbers pale in comparison to comparable peers. Analysts estimates show that Tata-owned Indian Hotels Company Ltd (IHCL) is expected to deliver a stronger profit CAGR (16 per cent) over the same two-year period and recently-listed ITC Hotels (23.7 per cent) will also grow better than EIH. Relatively smaller and non-luxury players like Lemon Tree Hotels (38 per cent) are projected to grow faster over FY26 and FY27. Even the Nifty 50, which trades at 21 times forward earnings, could be a better growth bet than EIH for the next two years. Hence, the case to hold on to the stock has diminished and investors can book profits.

PIPELINE PROBLEM

A big part of this insipid growth story has to do with supply. EIH currently has about 4,205 (including 497 abroad) operational rooms, largely under its Oberoi and Trident brands. The company has ambitious plans to nearly double this count by 2030, but the key detail here is timing. Based on its latest development pipeline, most of the room additions are heavily back-ended. About 500 keys (13 per cent of total rooms) are expected to be added in 2026 and 2027. Even if occupancies remain strong at current 80+ per cent and room rates (over ₹23,000 in Q4) inch higher, there's only so much operating leverage EIH can extract in the near term. Simply put, the gap in near-term supply creation will translate into a gap in earnings growth. In contrast, IHCL will add 6,200 rooms (23 per cent of total) in 2026 and 2027. That's more than EIH's total keys in just two years.

While the EIH management remains confident of pushing room rates higher, it's important to recognise where we are in the cycle. At over 80 per cent occupancy and an ARR of ₹23,625, the company is already near peak operating leverage. Historically, such high occupancies last 18-24 months before new supply begins to bite. Rate hikes may still come, but the pace and quantum will likely be moderate. Any slip in occupancy can reverse pricing power quickly. Investors should watch this data for trend reversal signals.

If a weak near-term pipeline were the only concern, the EIH stock might still warrant a wait-and-watch. But a series of smaller operational setbacks are also weighing on near-term visibility. The company's high-margin Mumbai airport lounge business has ended — it brought in over ₹120 crore in FY25, and its closure will impact both revenue and operating profit.

The 209-key Oberoi Grand in Kolkata, which contributed ₹70 crore in revenue and ₹43 crore in EBITDA last year, is shut for renovation and won't reopen fully until FY27. Separately, the 80-room Wildflower Hall in Shimla, a ₹78-crore revenue contributor, has exited the portfolio following a State government takeover. While none of these on their own is a game-changer, together they intensify pressure on core operations at a time when EIH has little new room supply to offset the drag.

VALUATION, RISKS

The stock is not expensive optically. At 31 times forward earnings (around 21 times EV/EBITDA), it trades at a discount to Indian Hotels (PE 52x, EV/EBITDA 31x) and ITC Hotels (50x/29x). But this isn't an error in pricing. It actually reflects the reality of lower growth of a luxury hotels business. Naturally, it shouldn't trade at a premium.

And yet, thanks to the broader hotel sector strengths, EIH has held its ground. That, in our view, is a good reason to take some money off the table now, before fundamentals play catch up. Investors can always revisit the stock closer to FY27-28, when new rooms start coming onstream and there is clarity on earnings momentum.

This is not to say EIH is a broken story. The company still holds immense brand equity. Its properties are among the finest in the country. Its long-term vision is bold and credible. But for the next two years, none of that will show up in numbers.

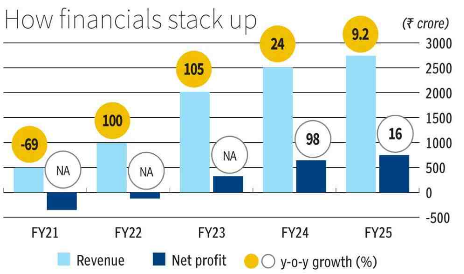
Risks to this call are higher-than-expected foreign tourist arrivals, stronger MICE (Meetings, Incentives, Conferences and Exhibitions) momentum, domestic luxury travel allowing for higher room rates and further growth in occupancy. There is also an outside chance of corporate action down the line, given EIH's low promoter holding (32.85 per cent) and the presence of strategic investors like ITC (16.1 per cent) and Reliance (18.8 per cent).

BOOK PROFITS

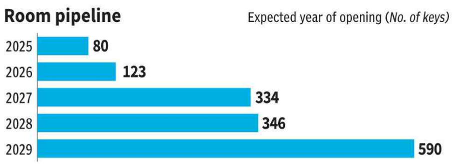
EIH ₹359

WHY

- Earnings growth lower than peers
- Slow room additions near-term
- One-offs, closures pressure core business



Numbers are rounded off, adjusted and on consolidated basis



Source: Bloomberg, Company presentation

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