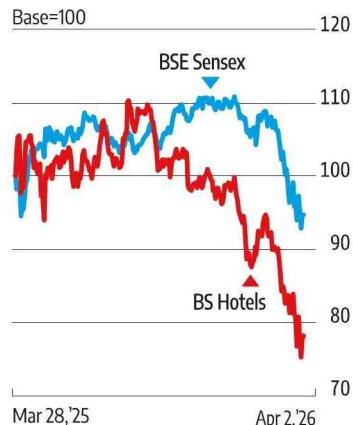


# Valuations, expansion may drive gains for hotel majors

DEVANGSHU DATTA

The share prices of hotel companies have corrected sharply due to the Iran war. Average room rates (ARR) and occupancy may drop in the fourth quarter of financial year 2025-26 (Q4FY26) as foreign arrivals dwindled. The Q1FY27 performance will depend on geopolitics and April has seen some cancellations. There could be a partial offset due to a shift of big-ticket events planned in West Asia. Other than that, the Indian Premier League (IPL), and many sectoral expos are on the schedule.

Among metros, Delhi (and Gurugram, Noida), Mumbai and Kolkata saw weak revenue per available room or RevPAR performance in January and February. Pune, Chennai, Hyderabad, Kochi, Goa and Chandigarh saw growth. Bengaluru and Ahmedabad delivered average RevPAR in Q4.



The current stock prices discount very low RevPAR over prolonged periods and, hence, there could be a sharp rebound. A stretched out conflict and elevated airfares may, however,

hurt. Investors are braced for tepid demand and high uncertainty. Analysts have cut operating profit expectations and valuations, but medium-term prospects are structurally positive.

Among listed players, ITC Hotels has luxury, upper-upscale and mid-market formats, with over 150 hotels and 90 destinations. This is reinforced by the Marriott alliance and Club ITC, supporting higher ARR. The portfolio mix is shifting towards higher-yielding formats. By FY29, ITC Hotels may expand by over 400 owned keys and over 3,700 managed keys.

The proprietary cloud-based Platform-as-a-Service (PaaS) enables lower-cost onboarding of managed hotels, reducing setup costs by 50 per cent. The company could achieve 11.5 per cent revenue growth till FY29, including 2.5 times rise in management fees. The food and beverages (F&B) platform contributed 40 per cent of revenue in FY25.

Memberships and experiential offerings are also set to grow three times over the next five years which will add to the topline and aid significant margin expansion. To be sure, there is a risk of revenue concentration in metros, apart from geopolitical tensions. Indian Hotels Company Limited (IHCL)'s share price has corrected over 20 per cent over the past six months. In Q4FY26, operating profit is likely to grow by 10-11 per cent year-on-year (Y-o-Y), which is around 250 basis points (bps) below prior growth rates. So far, the impact of cancellations on Q4FY26 looks limited. As per management, January-February bookings were strong due to events such as the ICC Men's T20 World Cup and the India AI Impact Summit. However, there have been some cancellations in March.

On management fees, IHCL expects a negative impact on its three Dubai hotels. Overall, given 200 hotels under

management contracts, there may be moderate management fee growth. In FY27, the company could benefit from a low base in several FY26 quarters. There could be 200-300 bps topline contribution each from new acquisitions as well as new rooms added in Frankfurt, Varanasi and Ekta Nagar and mid-high teen management fee growth from new additions. FY27 could also see some margin gains. Chalet Hotel had a good showing in Q3FY26 with both business hotels and resorts witnessing improvement in RevPAR. Chalet's operational portfolio has 3,389 keys with another 1,180 keys in the pipeline. Consensus expects 20 per cent plus operating profit growth through FY30.

In FY27, earnings growth could be in mid-teens with acceleration in FY28. Chalet's consolidated revenue was ₹5,817 crore (up 27 per cent Y-o-Y) and operating profit at ₹265 crore, (up 30 per cent Y-o-Y). Its ARR improved to ₹14,970 per day (up 16 per cent Y-o-Y and up 23 per cent Q-o-Q) in Q3FY26. But occupancy was soft at 68 per cent, down 230 bps Y-o-Y.

Lemon Tree Hotels saw Q3FY26 earnings impacted by higher operating expenses and renovations. Tech investments will continue to impact earnings in FY27 and taper off in FY28. The company has a pipeline of 9,400 managed keys, to be commissioned by 2030. A transition to new executive management and the outcome of the listing of the asset ownership business (Fleur) may weigh on sentiment. Despite the drags, earnings per share (EPS) could grow at 25 per cent in FY27 and over 30 per cent in FY28 and operating profit margin should sustain at over 50.6 per cent. Ventive Hospitality is scaling to a footprint across India, backed by Blackstone's joint ownership. The company is targeting doubling of keys from 2,036 in FY25 to over 4,000 by FY30. Recent takeovers of Hilton Goa Resort and Soho Hospitality India, indicate the aim of scaling rapidly. Post its IPO-related ₹1,400 crore deleveraging, interest cost savings of ₹15-20 crore per annum, will support free cash flow conversion. Expansion can be funded through internal cash generation.