

Q3 results for our covered hotel companies beat our revenue est. though margins for Lemon Tree Hotels (LTH) disappointed due to the start of Aurika and higher renovation costs. Chalet Hotels reported the strongest rev. growth in Q3, with benefits from capacity expansion and ARR growth. We expect Q4 to be another robust quarter for hotels, based on our channel checks, as occupancies and ARR remain elevated. Our TP for all 3 stocks has increased post results, as we adjusted for the rev. beat and increased our multiple amid continued strength in the industry. We maintain ADD on all 3 stocks, aided by supportive macros.

Q3 review: Chalet delivers strong Q3; LTH's KPIs impacted by Aurika

Q3 revenue for hotels was above our estimates, while LTH's margin disappointed with the start of Aurika and higher renovation costs. Hotels reported revenue growth of 17-29% YoY as they benefitted from ARR growth (8-17% YoY) and occupancy improved by 5-6PP YoY for Indian Hotels (IHCL)/Chalet, though occupancy dipped by 1.7pp YoY for LTH with the start of Aurika Mumbai. Chalet reported its strongest revenue growth (up 29% YoY) in Q3, as it also benefitted from capacity expansion. Margin improved by 200-500bps YoY for IHCL and Chalet on operating leverage benefits, though LTH's margins fell ~600bps YoY with the start of Aurika Mumbai and higher renovation costs. Other highlights of Q3 included: i) hotels renovating rooms to support ARR; ii) focus on retail vs. corporate to improve ARR; iii) two new brand launches planned by IHCL; iv) continued hotel openings/signings; v) LTH aiming to be debt free by FY27 vs. FY24 Debt/EBITDA to 3.7x.

FTA picking up from below pre-COVID levels; domestic demand to stay strong

Underlying demand in the hotel industry remains strong. Domestic air travel continues to exhibit strength with the number of passengers increasing 19%/5% YoY in Dec-23/Jan-24, with Jan-24 impacted by weather conditions. For Jan-Dec 2023, domestic air passenger travel increased 24% YoY. FTA grew 20% YoY in Nov-23. As of YTD CY23 (November), FTA in India still stands below pre-COVID levels by ~16%. This indicates further scope for growth in FTA, which can support demand for hotels. Moreover, ARR is expected to pick up in Q4 FY24, as business travel again resumed, following the holiday season. Q4 would also have weddings and conferences, which would support demand.

Outlook positive; revenue and margin to improve further; maintain ADD

Management commentary on the demand outlook remains positive. For IHCL, bookings till March suggest the continuation of demand momentum, further supported by the start of the IPL by March-end. For Chalet, pickup in business travel will support demand. For LTH, Aurika's occupancy has increased to 60% in Q4 (from 40% in Q3) and will be further aided by the Miss World event. Our channel checks also suggest continued strength in ARR in Q4, led by robust demand. We expect double-digit revenue growth over FY24-26, driven by i) RevPAR registering a 10-13% CAGR over FY23-26E supported by renovation; ii) key count increasing at a 10-15% CAGR over FY23-26E; and iii) occupancy moving towards 75-77% by FY26E. Margin is expected to improve for all three companies, led by i) operating leverage benefit, ii) addition of more keys through management contract for IHCL/LTH that come at a higher margin; iii) increasing contribution of Aurika Mumbai for LTH; iv) increased revenue for Chalet from commercial properties that come at a higher margin; and v) rise in revenue from new businesses for IHCL. **We maintain ADD on all 3 names, aided by supportive macros. We prefer Chalet Hotels with a rev./EBITDA CAGR of 22%/33% over FY23-26E. LTH can also see deleveraging by FY27 if Aurika Mumbai's occupancy picks up along with better ARR.**

Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA (x)		P/E (x)	
					FY24	FY25	FY24	FY25
Chalet Hotels	ADD	839	825	(2)	33.5	23.3	62.9	43.9
Indian Hotels	ADD	528	525	-	33.1	26.8	54.8	41.8
Lemon Tree Hotels	ADD	138	145	5	23.7	15.1	79.2	39.1

Source: Company, Emkay Research

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Exhibit 1: Q3FY24 result summary

	Revenue			EBITDA margin		
	Q3FY24E (Rs mn)	YoY (%)	QoQ (%)	Q3FY24E (Rs mn)	YoY (bps)	QoQ (bps)
Chalet Hotels	3,737	29.0	18.8	44.4	525	438
Lemon Tree Hotels	2,887	23.6	27.1	48.4	(575)	357
Indian Hotels	19,638	16.5	37.0	37.3	187	1,254

Source: Company, Emkay Research

Exhibit 2: Q3FY24 results vs. estimates

	Revenue			EBITDA margin		
	Q3FY24 (Rs mn)	Q3FY24E (Rs mn)	Act. Vs. Est. (%)	Q3FY24 (Rs mn)	Q3FY24E (Rs mn)	Act. Vs. Est. (bps)
Chalet Hotels	3,737	3657	2.2	44.4	44.0	45
Lemon Tree Hotels	2,887	2742	5.3	48.4	50.3	(192)
Indian Hotels	19,638	18518	6.1	37.3	35.8	150

Source: Company, Emkay Research

Exhibit 3: Changes in estimates after Q3 results

	Revenue change (%)			EBITDA margin change (bps)		
	FY24E	FY25E	FY25E	FY24E	FY25E	FY25E
Chalet Hotels	0.2	0.5	2.2	-3 bps	12 bps	86 bps
Lemon Tree Hotels	1.5	2.2	2.2	-44 bps	-13 bps	-13 bps
Indian Hotels	2.4	2.9	2.0	67 bps	127 bps	120 bps

Source: Company, Emkay Research

Exhibit 4: Changes in TP and Ratings during Q3 results

	Rating		TP (Rs)		Target multiple (x)	
	New	Old	New	Old	New	Old
Chalet Hotels	ADD	ADD	825	745	20.5	19.5
Lemon Tree Hotels	ADD	ADD	145	140	21	21
Indian Hotels	ADD	ADD	525	485	24	23.5

Source: Company, Emkay Research

Management commentary on demand outlook remains positive

- **Indian Hotels** – The healthy demand in Q3 is continuing in Q4FY24 (January stood strong). Bookings till March suggest the continuation of demand momentum. This will be further accelerated by the commencement of IPL by March-end. The company believes it will register double-digit revenue growth for FY25, driven by growth in its core and new businesses.
- **Chalet** – Demand continues to be strong supported by improvement in business travel and corporate demand. With a focus on business travel, the company can grow rates and at the same time optimize occupancies. Globally, foreign business travel has not come up to pre-pandemic levels yet, in which case it could provide an upside. Pick-up in business travel, wedding season, and business conferences will help demand in Q4.
- **Lemon Tree – Occupancy to rise in FY25:** Management expects an average occupancy of ~65% in FY24. With Aurika stabilizing and contributing higher in FY25, occupancy is expected to increase to ~73% in FY25. Moreover, renovation will continue to increase ARR. Aurika's occupancy has increased to 60% in Q4 (from 40% in Q3) and will be further aided by the Miss World event (100 rooms occupancy for 14 days).

Moreover, our channel checks suggest continued strength in ARR in Q4, led by robust demand. Q3 and Q4 are the strongest quarters for hotels.

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Strength in the sector to sustain in Q4

IHCL: IHCL's revenue growth is expected to sustain in double digits YoY, aided by i) continued addition of keys with an over 11.1K strong pipeline for FY24-27 (~8.5K through management contract); ii) new businesses growing at over 30% YoY, aided by Qmin being added to more Ginger hotels, Ama Stays & Trails revenue doubling in FY25, and TajSATS well-poised to exceed Rs10bn in revenue in FY25 (vs. Rs 6.5bn in 9MFY24).

Chalet Hotels: We see Chalet charting an EBITDA CAGR of 33% over FY23-26E and net debt reducing from FY25, as it initiates a slew of expansion projects, which would engender a 10% room-count CAGR over FY23-26E. The company's strategically located hotels in key cities ensure high occupancy. Leasing of commercial assets provides a partial hedge against the cyclicity of the hospitality industry.

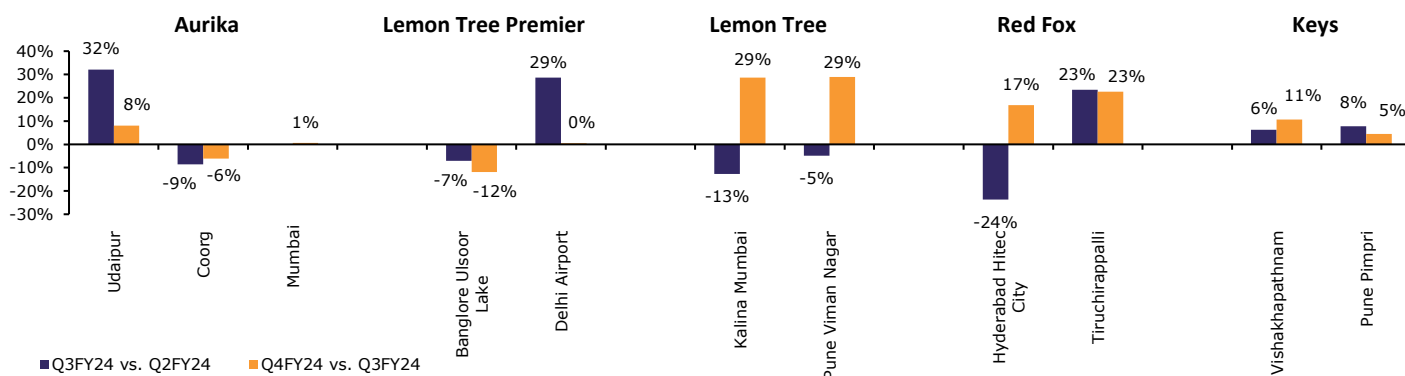
Lemon Tree: We see four growth drivers for LTH: i) pick-up in Aurika's occupancy (40% in Q3); ii) investing in renovations (focus on Delhi, Hyderabad, and Gurgaon) to reprice (up) its portfolio and increasing its ARR; iii) pipeline of 3,677 keys under managed and franchised contracts; and iv) pick-up in demand in Bangalore, Pune, and Hyderabad, driven by the IT sector.

Pickup in ARR to continue for LTH

Gross ARR increased 10% YoY for LTH (7% YoY in Q2). The start of Aurika in Q3 helped in increasing blended ARR. Aurika is yet to stabilize and can continue to drive up ARR. Moreover, renovation will continue to increase ARR.

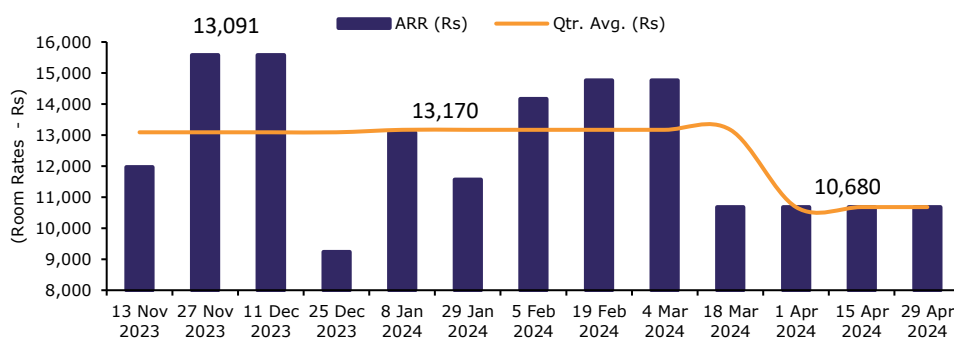
As per our checks, LTH's room rate is expected to increase further in Q4 across different categories, as travel for business picks up in Q4. Only Coorg and Bangalore are expected to see softness in room rates, as per our channel checks.

Exhibit 5: Lemon Tree's ARR change QoQ (%) – ARR to pick up further in Q4 from Q3 levels



Source: Company website, Emkay Research

Exhibit 6: Aurika Mumbai's ARR to increase marginally QoQ in Q4FY24



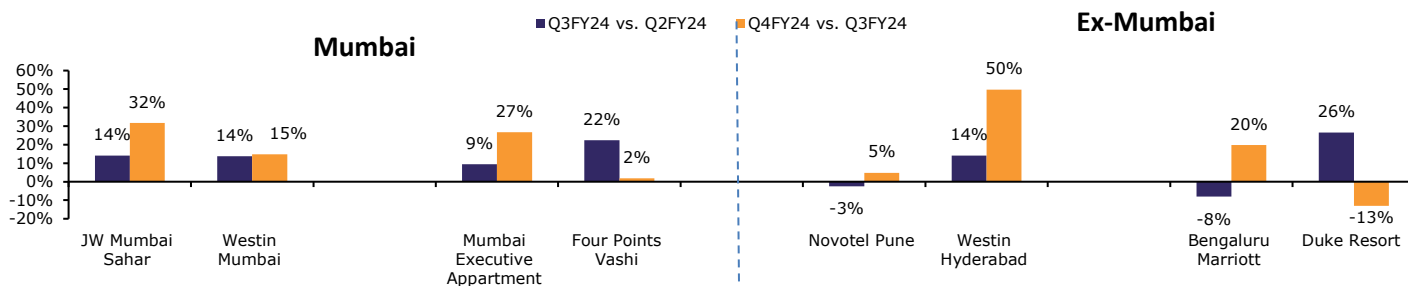
Source: Company, Emkay Research

Q4 to be another strong quarter for Chalet: While Q2 is the slowest quarter, Q3/Q4 are the best quarters for Chalet. Employees are back to offices at the start of Q4 and business travel starts picking up. Pickup can be slow initially, but healthy later (rates are expected to be higher in February), led by corporate meetings, conferences, etc. Q4 is also a wedding season, which adds to demand. Moreover, most business conferences are in H2, as H1 is impacted by the monsoon season. Q4 is likely to have more conferences, as Q3 is a festive period.

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Exhibit 7: Chalet Hotels' ARR change QoQ (%) – Strength in Mumbai ARR to continue

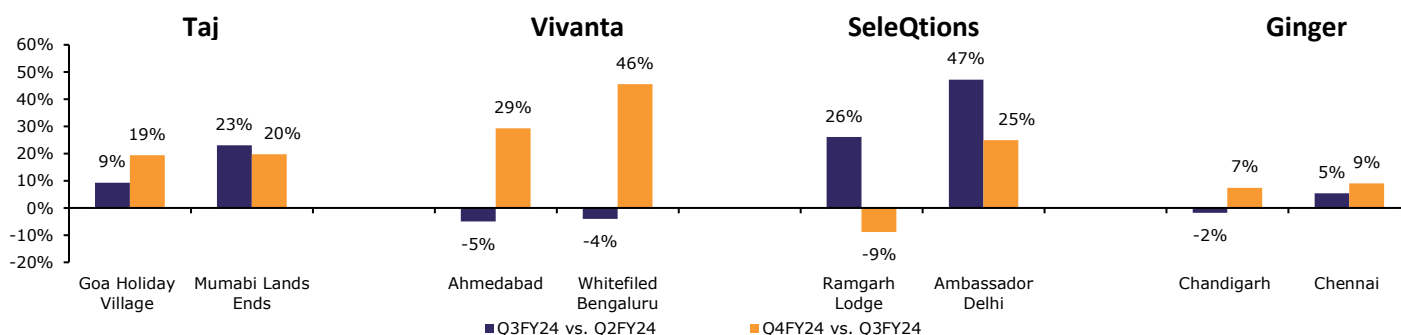


Source: Company website, Emkay Research

Our room rate checks suggest that Chalet's uptick in ARR for Mumbai in Q3 will continue in Q4. The non-Mumbai region was soft QoQ in Q3, but it would pick up in Q4. Q4 is a seasonally strong quarter for Chalet, as business-related occupancy dips in Q3 (with the holiday season) and then picks up in Q4. Dukes Resort is expected to witness a soft quarter post pickup in Q3 (Lonavala), as the holiday season comes to a close.

Indian Hotels – Rates expected to remain strong in Q4: Based on our check of hotel room rates available on the company websites, we expect further improvement in the rates of Taj, Vivanta, and Ginger QoQ in Q4. SeleQtions Ramgarh is the only property in our sample for IHCL, which is expected to witness softness in Q4.

Exhibit 8: Indian Hotels' ARR change QoQ (%) – Taj and SeleQtions rates are going strong; Vivanta and Ginger rates to pick up



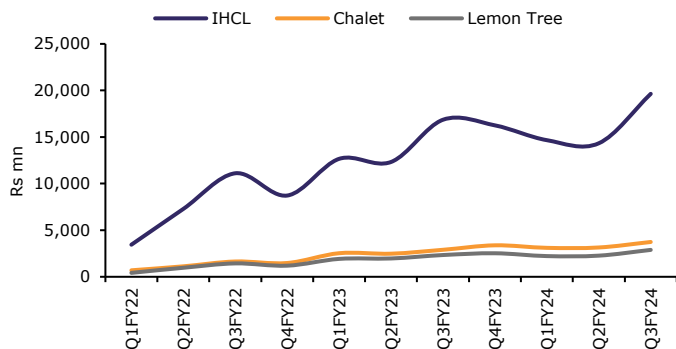
Source: Company website, Emkay Research

Q3 review – Another strong quarter; further scope for growth

Revenue growth momentum sustained in Q3; Chalet leads

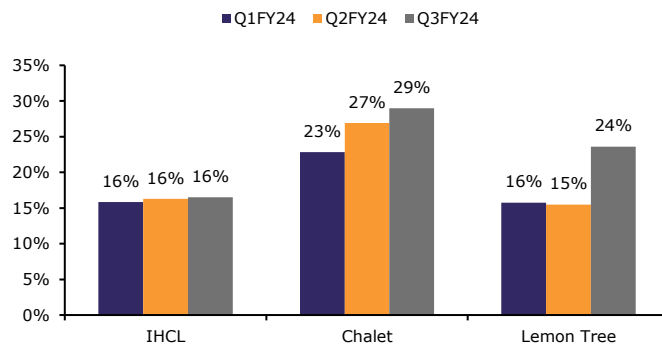
- IHCL maintained the growth momentum YoY seen in Q1/Q2 of ~16%. Standalone revenue increased 20.6% YoY vs. 17%YoY/19%YoY growth in Q1/Q2, indicating pickup in momentum.
- Chalet reported its highest-ever revenue, driven by RevPAR increasing 18% YoY (led by occupancies increasing 6pps YoY) as travelling for business remained strong.
- LTH's revenue growth picked up momentum (up 24% YoY vs. 15% YoY growth in Q2), aided by the start of Aurika Mumbai in Q3.

Exhibit 9: Revenue continues to improve for hotels



Source: Company, Emkay Research

Exhibit 10: Revenue growth YoY – Chalet gaining momentum



Source: Company, Emkay Research

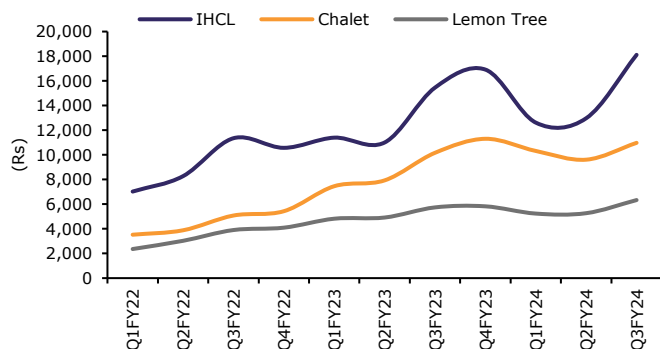
Revenue growth supported by ARR improvement; Hotels see scope for further rise

IHCL: IHCL's ARR was up 17% YoY, led by sustained demand. Management believes that ARR has seen negligible growth for the past several years. ARR in India is also well below that in the Asia-Pacific region (as per an STR report), with an enduring healthy demand-trend indicating further scope for the ARR increase. Additionally, Bharat Mandapam, Delhi Yashobhoomi in Delhi, and Jio World Convention Centre will help the company charge higher prices.

Chalet: ARR growth of 8% YoY was led by ex-MMR region's growth of 16% YoY (including Bengaluru, Hyderabad, Pune, and Lonavala). Some of these places, dominated by the IT industry, were not able to recover post the pandemic.

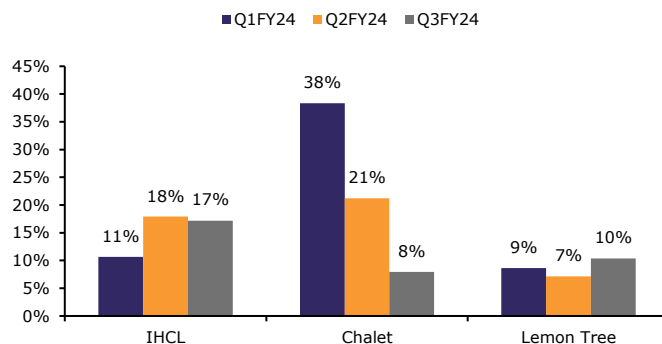
LTH: For LTH, the opening of Aurika in Q3 aided ARR growth of 10% YoY (20% QoQ). Aurika is expected to restrict crew rooms to 100 and increase room for retail, which will support higher ARR. Moreover, LTH is renovating properties, which in turn helps reprice higher and increase occupancy for those properties (aiding the recovery of renovation expense within the next two years). This strategy is now being implemented in Delhi, Gurgaon, and Hyderabad.

Exhibit 11: ARR improves further; IHCL leads with...



Source: Company, Emkay Research

Exhibit 12: ...17% YoY improvement in Q3FY24



Source: Company, Emkay Research

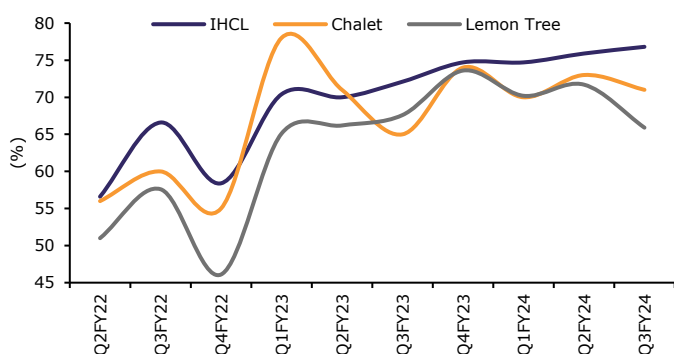
Occupancy to improve further

IHCL's standalone occupancies increased by 4.7pps YoY at 76.8% (vs. 72.1% in Q3FY23 and 75.9% in Q2FY24). Bengaluru (+4ppts YoY) and Goa (+5ppts YoY) registered a good improvement in occupancy YoY.

For Chalet, occupancies increased by 6pps YoY to 71%. MMR occupancy was up 11pps YoY, as Westin Mumbai Powai Lake and Lakeside Chalet, Mumbai, primarily focused on occupancy in Q3 where the company was able to improve occupancy sharply. Occupancy was also supported by growing demand in Bangalore and Hyderabad. There is headroom for growth in occupancies given the strong domestic demand and foreign business travel still below pre-pandemic levels.

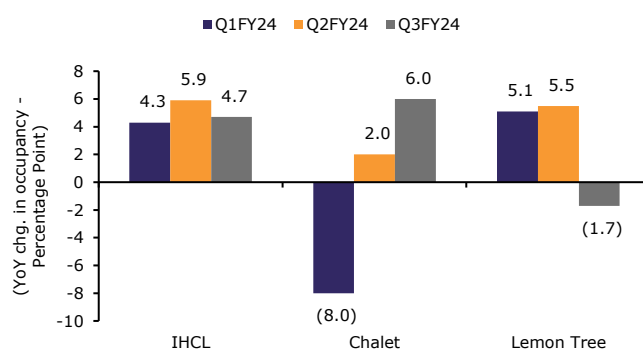
LTH's occupancy declined 170bps YoY to 65.9% (-580bps QoQ) due to the opening up of Aurika Mumbai, which operated at 40% occupancy in Q3. Occupancy has increased to 60% in Q4 and will be further aided by the Miss World event (100 rooms occupancy for 14 days). Bangalore and Pune markets lack demand (still below pre-Covid level) due to their higher dependency on the IT sector. Keys brand has the highest properties in these regions and its occupancy can improve if there is a revival in the IT sector.

Exhibit 13: IHCL leads in occupancy; opening of Aurika impacts LTH



Source: Company, Emkay Research

Exhibit 14: Opening of Aurika in Q3 impacted occupancy

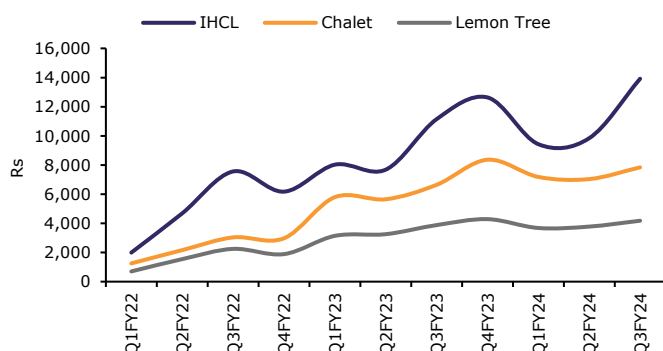


Source: Company, Emkay Research

Robust RevPAR growth for IHCL and Chalet; LTH growth impacted by Aurika

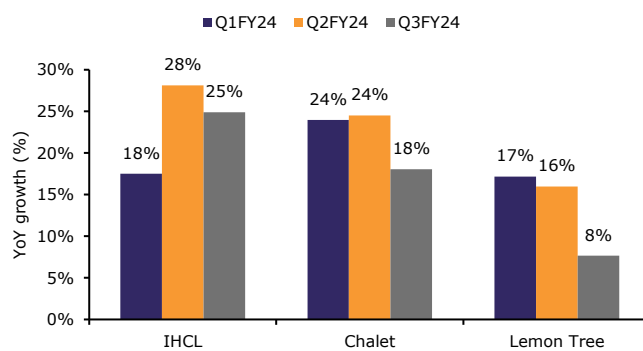
- IHCL's RevPAR was up 25% YoY with Mumbai, Rajasthan, Hyderabad, and Kolkata logging RevPAR growth of over 20% YoY in Q3.
- Chalet's RevPAR increased 18% YoY as occupancies increased by 6pps YoY and ARR grew by 8% YoY.
- LTH's RevPAR growth moderated to 8% YoY (vs. 16% YoY in Q2) primarily due to lower occupancy for Aurika Mumbai (40% in Q3 and expected to be 60% in Q4FY24).

Exhibit 15: IHCL's RevPAR grows 25% YoY from a high base



Source: Company, Emkay Research

Exhibit 16: Aurika's low occupancy impacted LTH's RevPAR growth

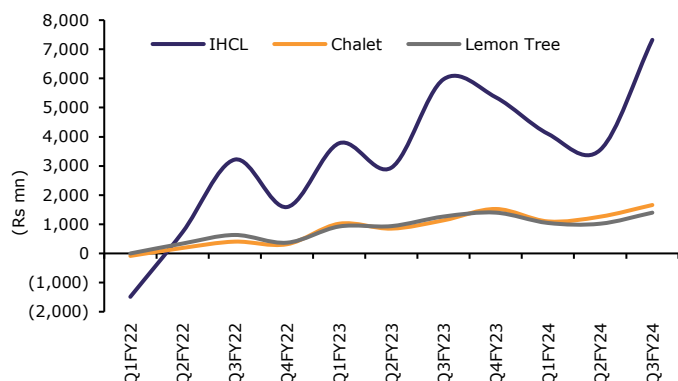


Source: Company, Emkay Research

Chalet's EBITDA growing at a fast pace

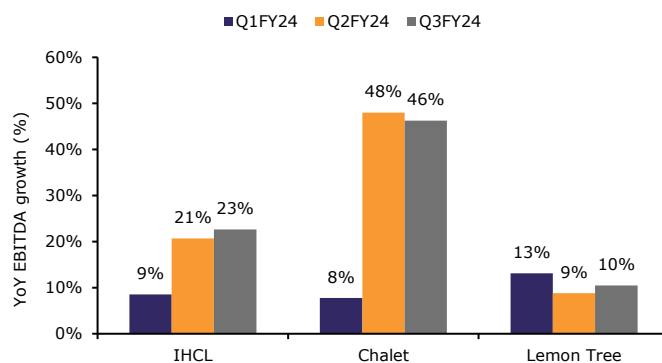
- **Chalet's EBITDA improved at a faster pace (46% YoY)**, led by the addition of more keys. This was supported by (i) the addition of keys from The Dukes Retreat (80 keys), Westin Hyderabad HITEC City (168 keys), and Novotel Pune Nagar Road (88 keys); and (ii) improvement in margin YoY.
- **IHCL's EBITDA growth of 23% YoY** was supported by ARR growth, occupancy improvement, and margin improvement.
- **LTH's EBITDA growth of 10% YoY** was led by ARR growing 10% YoY, managed keys increasing by 587 keys in the past one year, start of Aurika Mumbai, though it was offset partially by a lower margin (as Aurika operated at only 40% margin).

Exhibit 17: Hotels' EBITDA continues to improve



Source: Company, Emkay Research

Exhibit 18: Chalet's EBITDA improved at a fast pace YoY

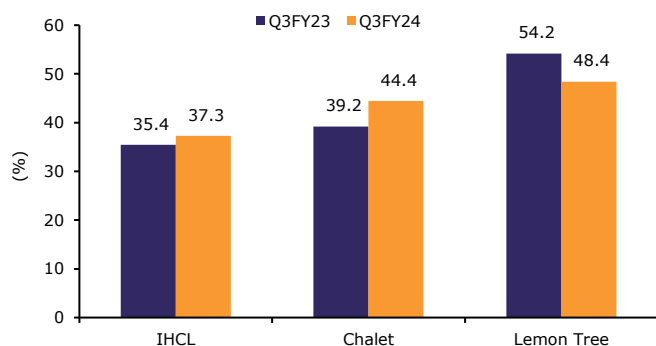


Source: Company, Emkay Research

EBITDA margin improved YoY for IHCL and Chalet; LTH impacted by Aurika

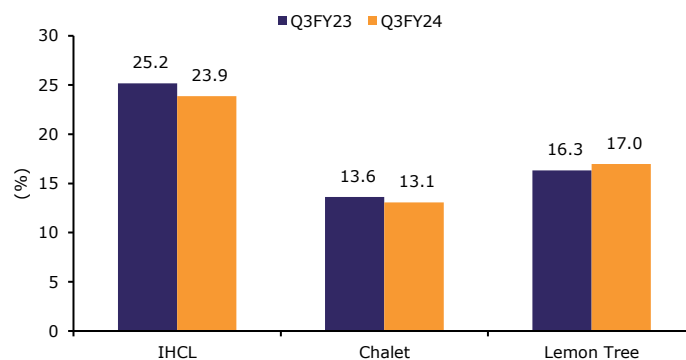
- IHCL's EBITDA margin expanded by 190bps YoY (+1,250bps QoQ) to 37.3%, led by a 130bps decline in employee costs (as the share of revenue); and ii) a 50bps decline in raw-material cost (as the share of revenue). The company's focus on optimizing cost and revenue flow-through has helped expand margins.
- Chalet's adjusted margin increased 525bps YoY to 44.4% on operating leverage benefits with revenue growing 29% YoY.
- LTH's margin was impacted by higher other expenses (+49% YoY), led by increased renovation expenses of Rs98mn (3.4% of revenue) vs. Rs48mn YoY (1.8% of revenue).

Exhibit 19: EBITDA margin improved for IHCL and Chalet YoY



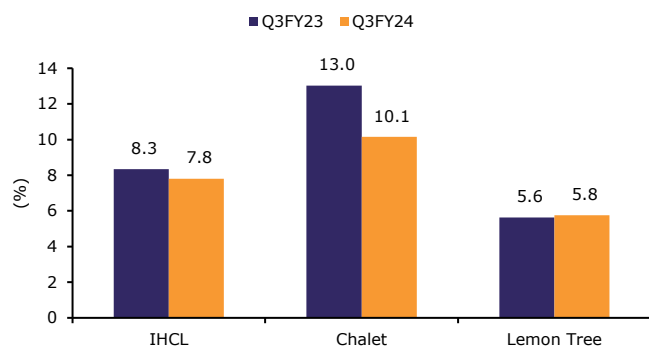
Source: Company, Emkay Research

Exhibit 20: Employee cost as a share of revenue up for LTH



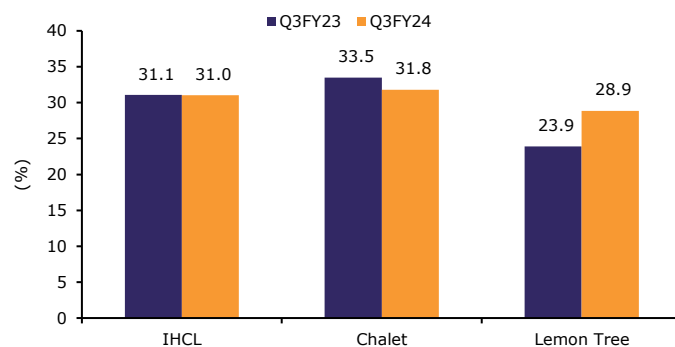
Source: Company, Emkay Research

Exhibit 21: RM cost as a share of revenue down for Chalet



Source: Company, Emkay Research

Exhibit 22: Other costs as a share of revenue up for LTH*



Source: Company, Emkay Research *Note: Power and fuel cost

Margin to improve further for all three companies

- **IHCL:** The company continues to focus on the diversification of topline with new brands, along with investment in digitization that can help in mid-term and long-term revenue growth and margin improvement.
- **Chalet:** Margins to improve aided by (i) operating leverage benefit, (ii) expansion of existing properties that increase revenue without proportional rise in cost; and (iii) increase in revenue from commercial properties that come at a higher margin.
- **LTH:** As Aurika Mumbai starts contributing more going ahead, management expects EBITDA margin of over 50% from FY25.

Exhibit 23: Summary – Chalet’s revenue and EBITDA to grow at a fast pace

	Indian Hotels					Lemon Tree Hotels					Chalet Hotels				
	FY23	FY24E	FY25E	FY26E	CAGR	FY23	FY24E	FY25E	FY26E	CAGR	FY23	FY24E	FY25E	FY26E	CAGR
Total Rooms (Nos.)	21,633	24,576	28,209	30,324	12%	8,382	10,319	11,575	12,733	15%	2,634	2,894	3,094	3,484	10%
YoY growth (%)	5%	14%	15%	7%		-1%	23%	12%	10%		3%	10%	7%	13%	
Owned/Leased	60%	56%	51%	50%		61%	56%	50%	46%		100%	100%	100%	100%	
Managed/Franchised	40%	44%	49%	50%		39%	44%	50%	54%		0%	0%	0%	0%	
ARR (Rs)	13,736	15,618	16,790	17,629	9%	5,340	5,826	6,470	6,897	9%	9,169	10,668	11,280	11,696	8%
Occupancy (%)	72%	76%	76%	77%		68%	70%	74%	75%		72%	73%	74%	75%	
RevPar (Rs)	9,890	11,869	12,810	13,544	11%	3,636	4,088	4,786	5,184	13%	6,605	7,791	8,332	8,802	10%
Revenue (Rs bn)	58.1	67.8	77.4	86.2	14%	8.7	10.6	13.4	15.0	20%	11.3	14.0	17.6	20.6	22%
YoY growth (%)	90%	17%	14%	11%		118%	21%	26%	12%		128%	24%	25%	18%	
EBITDA (Rs bn)	18.0	22.0	26.6	30.1	19%	4.5	5.2	7.2	8.1	22%	4.5	6.0	8.4	10.5	33%
EBITDA Margin (%)	31%	32%	34%	35%		52%	49%	53%	54%		40%	43%	48%	51%	
Net Debt (Rs bn)	-9.6	-21.9	-38.2	-59.0		17.2	17.5	14.1	9.6		27.3	29.8	29.5	27.7	
Net Debt/EBITDA (x) – RHS	-0.5	-1.0	-1.4	-2.0		3.8	3.3	2.0	1.2		6.1	5.0	3.5	2.6	
RoE (%)	14%	16%	18%	18%		14%	15%	22%	23%		13%	16%	19%	22%	
RoCE (%)	15%	18%	20%	19%		12%	14%	19%	20%		10%	12%	15%	17%	

Source: Company, Emkay Research

Other key highlights

Renovation to help increase ARR

- Indian Hotels has renovated hotels, including Taj Mansingh or Taj Mahal, Delhi. ARR has more or less doubled. Currently, there are no particular properties under renovation. Going forward, renovation will be in line with depreciation.
- LTH is investing in renovations (focus on Delhi, Hyderabad, and Gurgaon) to reprice (up) its portfolio and increase its ARR. The company expects Rs400mn capex/opex on renovation. LTH plans to complete renovation at most of its Keys portfolio (will help increase ARR by 8-12% every year) and LTH properties in Delhi and Hyderabad by H1FY25.
- Chalet's Dukes had an 80-room property when the company acquired it. More than half the inventory has been out of action for the last 3-4 months for renovation and expansion, which is expected by Q3FY25.

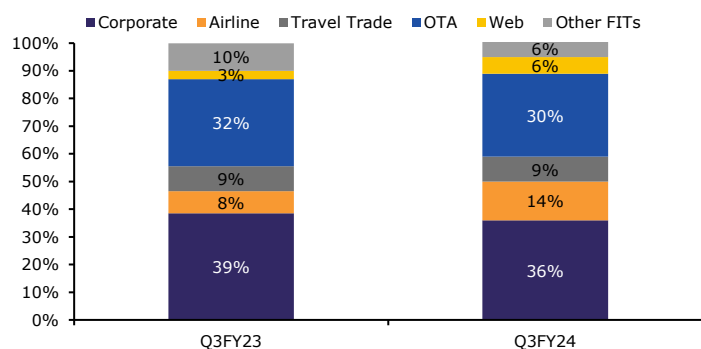
Two new brand launches planned by IHCL

IHCL plans to launch two new or reimagined existing brands in the coming few months. Unlike Ginger, these will be full-service brands (including banqueting and weddings), with the key focus on Tier-2/Tier-3 cities and price points in the range of Rs8,000-Rs9,000. These asset-light initiatives can support the company's margin expansion and make it less volatile to market cyclicity.

Focus on retail over corporate to support ARR

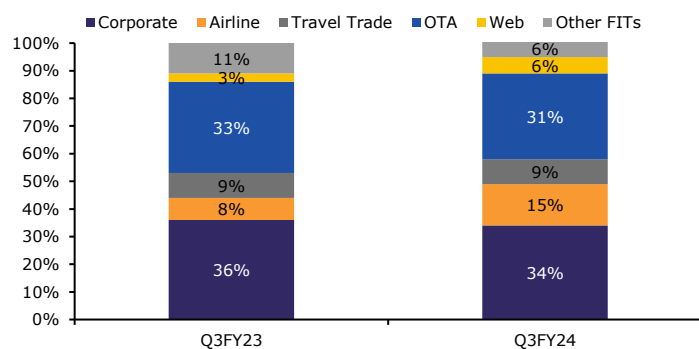
Lemon Tree: Before Covid-19, there were higher negotiations for prices from corporates, which lowered the ARR. Hence, LTH has now increased its rates for corporates while lowering the rates for retail with an intent to expand its retail base. As a result, for retail, the revenue premium of 3% (compared to room nights) has reduced to 1%. This has also led to the doubling (3% to 6%) of room night contribution from its website.

Exhibit 24: Market segments – Room night sold (%)



Source: Company, Emkay Research

Exhibit 25: Market segments – Room revenue share (%)



Source: Company, Emkay Research

IHCL: For IHCL, 58% of the customer mix is from transients, who are non-negotiated customers, where there is a maximum ability to charge revenue.

Deleveraging on cards for LTH

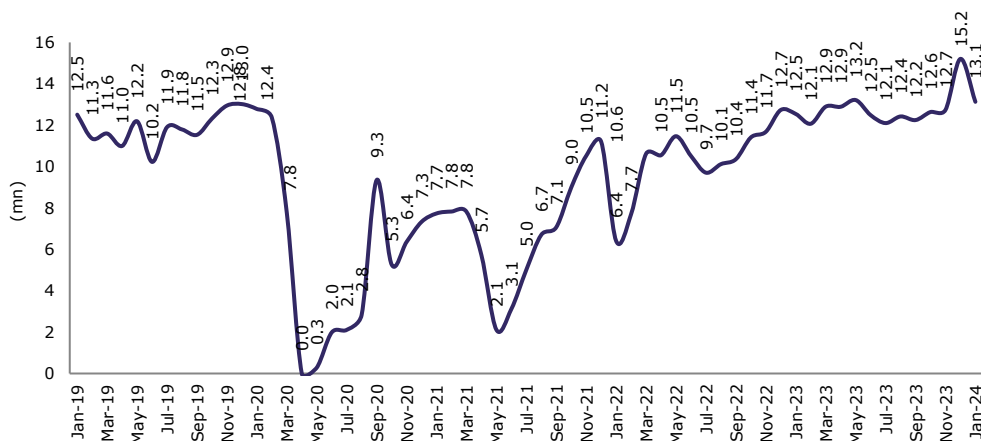
LTH's management aims to bring down its Debt/EBITDA to 3.7 by FY24, 2.5 by FY25, and 1.5 by FY26 and eventually become debt-free in the next four years.

Domestic travel remains strong; foreign tourist arrival recovering

Domestic air travel continues to exhibit strength with the number of passengers increasing 19% YoY in Dec-2023 to 15.2mn, though Jan-2024 numbers were up only by 5% YoY due to bad weather that led to flight delays/cancellations. Dec-2023 passenger number was 17% above pre-pandemic Dec-2019 numbers of 13mn; while for Jan-2024, passenger number was 3% above pre-pandemic Jan-20. **For Jan-Dec 2023, air passenger travel increased 24% YoY and rose 8% vs. Jan-Dec 2019 (pre-pandemic).**

Retain Positive stance on hotels: Given favorable demand-supply dynamics over the long term, with industry demand expected to post a ~7.4% CAGR over FY23-28E vs. room supply CAGR of ~6% over the same period ([link](#)), we expect occupancy to remain at an elevated level for hotels in India. We reiterate our ADD rating on our coverage hotels, i.e., Indian Hotels Co. Ltd. (IHCL), Lemon Tree Hotels (LTH), and Chalet Hotels.

Exhibit 26: Domestic air travel continues to exhibit strength



Source: DGCA

Exhibit 27: Domestic air passengers (mn)

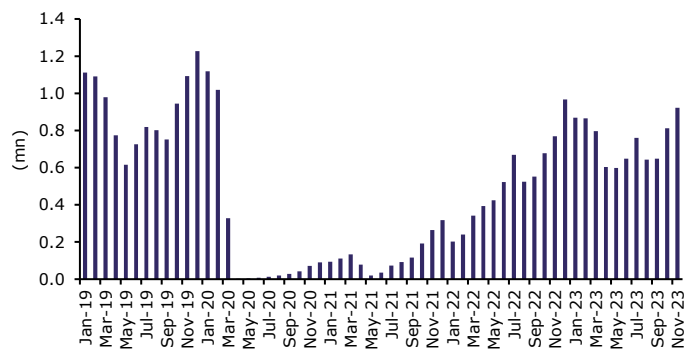
	CY19	CY22	CY23	CY23 vs. CY22	CY23 vs. CY19
Jan	12.5	6.4	12.5	96%	0%
Feb	11.3	7.7	12.1	57%	6%
Mar	11.6	10.6	12.9	21%	11%
Apr	11.0	10.5	12.9	22%	17%
May	12.2	11.5	13.2	15%	8%
Jun	10.2	10.5	12.5	19%	22%
Jul	11.9	9.7	12.1	25%	2%
Aug	11.8	10.1	12.4	23%	5%
Sep	11.5	10.4	12.2	18%	6%
Oct	12.3	11.4	12.6	11%	3%
Nov	12.9	11.7	12.7	9%	-2%
Dec	13.0	12.7	15.2	19%	17%
Total*	142.4	123.2	153.4	24%	8%

Source: DGCA, Emkay Research *Year till date data

FTA in India still below pre-COVID levels; has scope to improve further

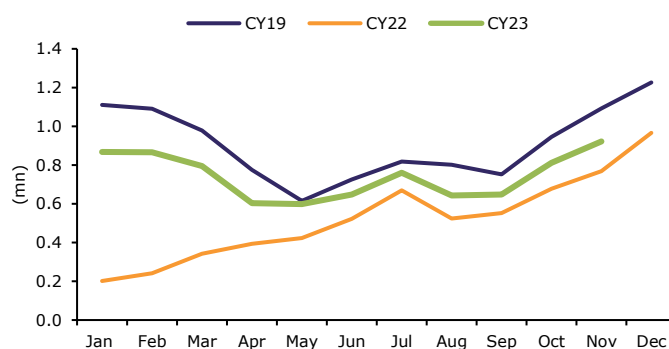
FTA in India, as of YTD CY23 (till November), still stands below pre-COVID levels by ~16%. However, tourist arrival is picking up on a YoY basis. FTA increased 20% YoY in Nov-23. We see the pick-up in FTA to be positive for our covered hotels, as higher FTA will help increase the occupancy rate further.

Exhibit 28: FTA still lower than pre-COVID levels



Source: MoT, Emkay Research

Exhibit 29: FTA to pick up at year-end



Source: MoT, Emkay Research

Exhibit 30: FTA in India continues to log below pre-COVID level

(mn)	CY19	CY22	CY23	CY23 vs. CY22	CY23 vs. CY19
Jan	1.11	0.20	0.87	331%	-22%
Feb	1.09	0.24	0.87	259%	-21%
Mar	0.98	0.34	0.80	132%	-19%
Apr	0.77	0.39	0.60	54%	-22%
May	0.62	0.42	0.60	41%	-3%
Jun	0.73	0.52	0.65	24%	-11%
Jul	0.82	0.67	0.76	14%	-7%
Aug	0.80	0.52	0.64	23%	-20%
Sept	0.75	0.55	0.65	18%	-14%
Oct	0.95	0.68	0.81	20%	-14%
Nov	1.09	0.77	0.92	20%	-16%
YTD total	9.70	5.32	8.17	54%	-16%

Source: MoT, Emkay Research

ARR trend remains strong in the hospitality industry

As per HVS Anarock, ARR stood healthy (>16% YoY growth) in Nov-23. However, the hotel occupancy rate declined 600bps YoY primarily due to Diwali in November (Diwali was in October in CY22). This trend was particularly visible in Pune, Bengaluru, and Mumbai. As a result, RevPAR growth moderated to ~6% YoY (27% YoY growth in October). The strength of the hospitality industry stays strong; hence, occupancy levels are expected to improve strongly in December and Q4FY24. Goa and Mumbai have the highest average rates in Nov-23. Kolkata witnessed a strong spike in ARR (>30% MoM; >23% YoY).

Exhibit 31: Industry trends as per HVS Anarock

	Avg. ARR (Rs)			Avg. RevPAR (Rs)			Occupancy (Rs)		
	CY22	CY23	YoY (%)	CY22	CY23	YoY (%)	CY22	CY23	YoY (PP*)
Jan	5,000	7,600	52%	1,795	4,940	175%	36%	69%	33%
Feb	5,100	8,300	63%	2,755	5,894	114%	54%	65%	11%
Mar	5,500	7,700	40%	3,355	4,852	45%	61%	71%	10%
Apr	5,850	7,200	23%	3,804	4,537	19%	65%	63%	-2%
May	5,850	6,800	16%	3,745	4,217	13%	64%	63%	-1%
Jun	5,850	6,700	15%	3,804	4,289	13%	65%	62%	-3%
Jul	5,750	6,500	13%	3,624	3,966	9%	63%	64%	1%
Aug	5,850	6,700	15%	3,540	4,088	15%	61%	61%	1%
Sep	6,000	7,100	18%	3,781	4,332	15%	63%	61%	-2%
Oct	6,700	7,700	15%	3,820	4,852	27%	57%	63%	6%
Nov	7,300	8,500	16%	5,038	5,356	6%	69%	63%	-6%
Dec	7,700			5,314			69%		

Source: HVS Anarock *PP = Percentage point

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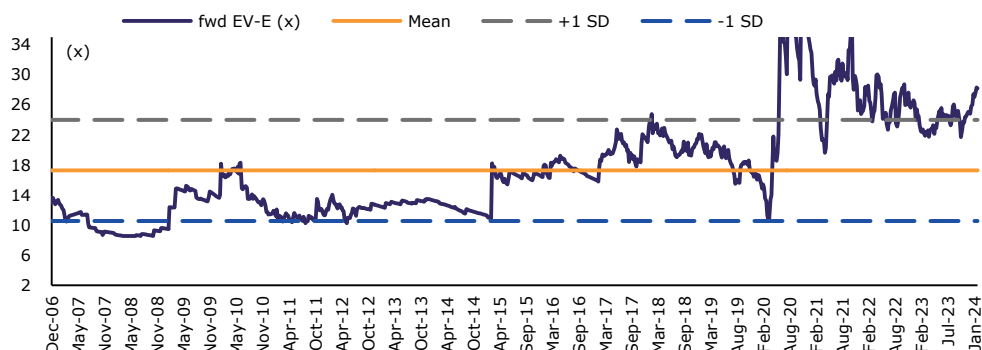
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Valuations to remain elevated amid strength in demand

The sector has seen a re-rating amid strength in demand and improving profitability. For example, while IHCL's long-term one-year forward EV/EBITDA average is 17x, the average for the last two years is at 25x. The valuation for all three covered hotels continues to inch up amid strength in the sector. This trend is expected to sustain as long as they are supported by improving earnings.

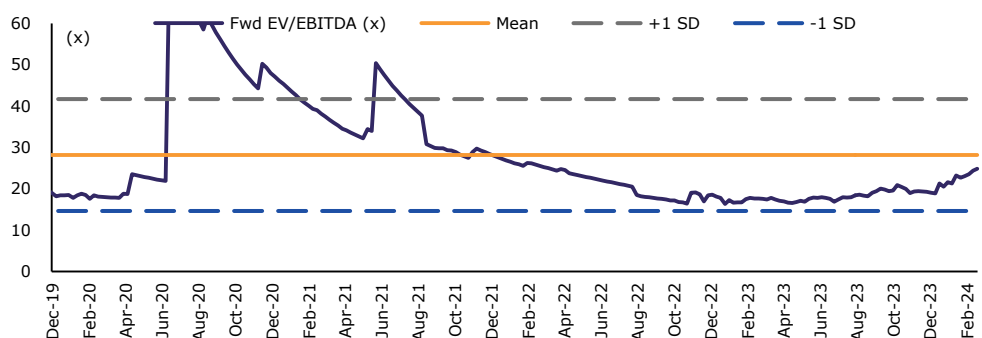
Our sensitivity analysis shows that a 5% improvement in RevPAR can increase EBITDA by 8-12% for hotel companies under coverage and increase our TP by 10-12%.

Exhibit 32: IHCL – One-year forward EV/EBITDA



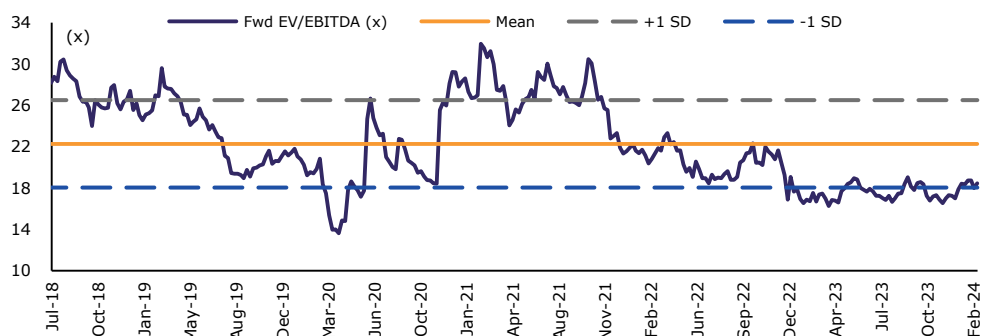
Source: Company, Emkay Research

Exhibit 33: Chalet – One-year forward EV/EBITDA



Source: Company, Emkay Research

Exhibit 34: LTH – One-year forward EV/EBITDA

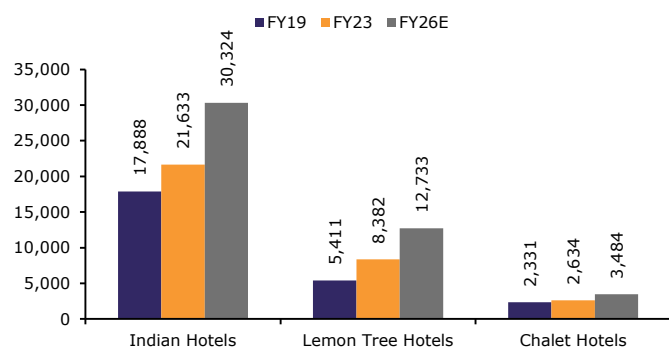


Source: Company, Emkay Research

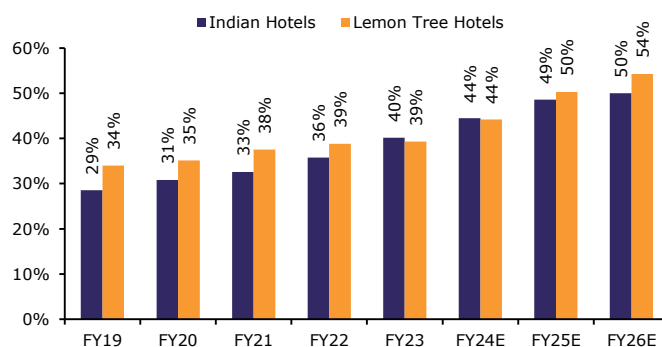
Exhibit 35: Sensitivity to 5% improvement in RevPAR

FY25E		Chalet	IHCL	LTH
Base RevPAR	Rs	8,332	12,810	4,786
New RevPAR	Rs	8,749	13,450	5,025
Change	%	5	5	5
Base Revenue	Rs mn	17,563	77,384	13,437
New Revenue	Rs mn	18,322	81,025	14,109
Change	%	4.3	4.7	5.0
Base EBITDA	Rs mn	8,412	26,573	7,163
New EBITDA	Rs mn	9,077	29,930	7,794
Change	%	7.9	12.6	8.8
Base PAT	Rs mn	3,918	17,947	2,466
New PAT	Rs mn	4,415	20,383	2,844
Change	%	12.7	13.6	15.3
Base RoE	%	19.5	17.6	22.2
New RoE	%	21.7	19.7	25.1
Change	bps	220	216	297
Base RoCE	%	15.4	19.8	18.5
New RoCE	%	16.8	22.6	20.3
Change	bps	136	280	187
Base Net Debt	Rs bn	29.5	-38.2	14.1
New Net Debt	Rs bn	29	-40.6	13.7
Change	%	-1.7	6.2	-2.8
Base Net Debt/EBITDA	x	3.5	-1.4	2.0
New Net Debt/EBITDA	x	3.2	-1.4	1.8
Change	%	-8.9	-5.7	-10.7
Base TP	Rs	825	525	145
New TP	Rs	904	590	159
Change	%	9.6	12.4	9.7

Source: Company, Emkay Research

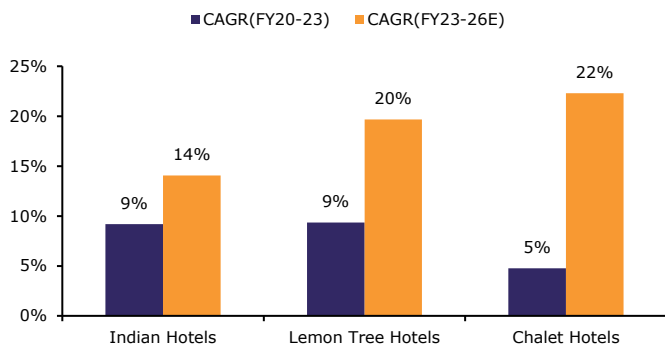
Exhibit 36: Total number of rooms (including 'managed' rooms) to expand at a fast clip

Source: Company, Emkay Research

Exhibit 37: Share of 'managed' rooms in the portfolio to see a more rapid increase for IHCL vs. LTH

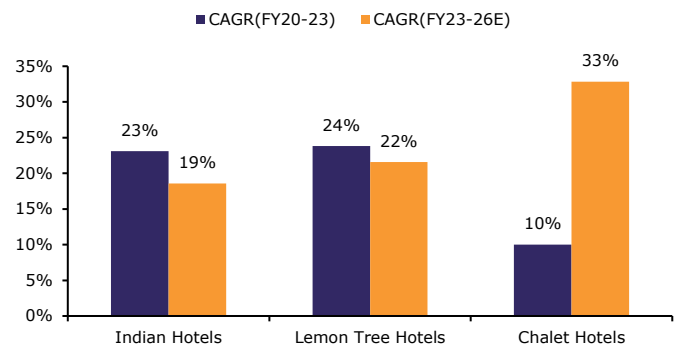
Source: Company, Emkay Research

Exhibit 38: Rev. growth over FY23-26E to be strongest for Chalet



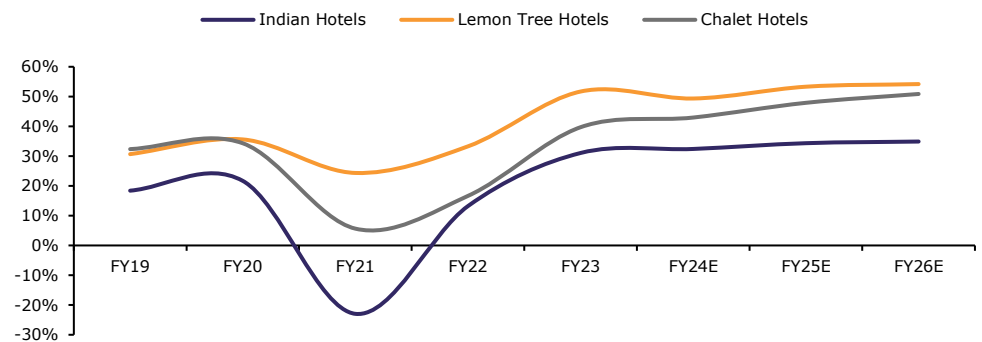
Source: Company, Emkay Research

Exhibit 39: Chalet also led in EBITDA growth



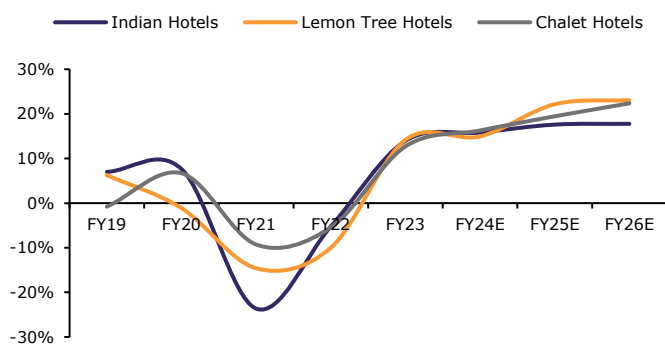
Source: Company, Emkay Research

Exhibit 40: LTH primed to clock the best margin of the three; Chalet to register quicker margin expansion



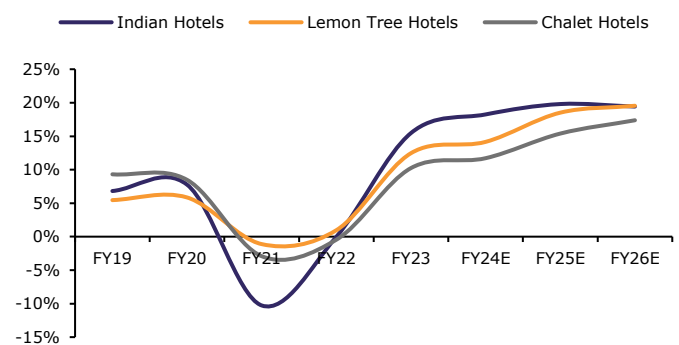
Source: Company, Emkay Research

Exhibit 41: All three companies set to register better RoE...



Source: Company, Emkay Research

Exhibit 42: ...as well as improvement in RoCE



Source: Company, Emkay Research

Appendix

Exhibit 43: Hotel Industry - Quarterly KPIs

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
ARR (Rs)											
IHCL	7,024	8,273	11,348	10,569	11,397	11,003	15,456	16,915	12,614	12,972	18,111
Chalet	3,523	3,882	5,078	5,429	7,457	7,930	10,168	11,304	10,317	9,610	10,974
Lemon Tree	2,362	3,028	3,901	4,093	4,822	4,917	5,738	5,824	5,237	5,268	6,333
YoY growth (%)											
IHCL	45%	53%	37%	24%	62%	33%	36%	60%	11%	18%	17%
Chalet	-57%	-4%	26%	30%	112%	104%	100%	108%	38%	21%	8%
Lemon Tree	-10%	14%	54%	64%	104%	62%	47%	42%	9%	7%	10%
Occupancy (%)											
IHCL	28	57	67	58	70	70	72	75	75	76	77
Chalet	36	56	60	55	78	71	65	74	70	73	71
Lemon Tree	30	51	58	46	65	66	68	74	70	72	66
Occupancy chg. YoY (PP)											
IHCL	7.9	24.3	19.2	1.3	42.0	13.4	5.5	16.3	4.3	5.9	4.7
Chalet	24.8	31.0	27.0	16.0	42.0	15.0	5.0	19.0	(8.0)	2.0	6.0
Lemon Tree	0.7	18.6	15.2	(9.9)	35.5	15.2	10.0	27.5	5.1	5.5	(1.7)
RevPAR (Rs)											
IHCL	1,992	4,683	7,558	6,172	8,023	7,681	11,144	12,636	9,428	9,840	13,918
Chalet	1,252	2,161	3,035	2,973	5,794	5,650	6,640	8,363	7,182	7,034	7,838
Lemon Tree	699	1,544	2,247	1,887	3,139	3,255	3,879	4,286	3,678	3,775	4,176
RevPAR YoY growth (%)											
IHCL	101%	167%	92%	27%	303%	64%	47%	105%	18%	28%	25%
Chalet	35%	115%	130%	85%	363%	161%	119%	181%	24%	24%	18%
Lemon Tree	-8%	80%	110%	27%	349%	111%	73%	127%	17%	16%	8%

Source: Company

Exhibit 44: Hotels – Financial detail

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue (Rs mn)											
IHCL	3,446	7,284	11,112	8,721	12,661	12,326	16,858	16,254	14,664	14,332	19,638
Chalet	695	1,123	1,642	1,480	2,530	2,478	2,897	3,379	3,108	3,145	3,737
Lemon Tree	422	969	1,437	1,195	1,920	1,967	2,335	2,527	2,223	2,272	2,887
Revenue growth – YoY (%)											
IHCL	140%	184%	98%	42%	267%	69%	52%	86%	16%	16%	16%
Chalet	32%	91%	93%	51%	264%	121%	76%	128%	23%	27%	29%
Lemon Tree	4%	104%	110%	26%	356%	103%	63%	111%	16%	15%	24%
EBITDA (Rs mn)											
IHCL	(1,488)	728	3,218	1,590	3,779	2,940	5,972	5,355	4,102	3,548	7,324
Chalet	(86)	188	404	314	1,019	851	1,135	1,524	1,098	1,260	1,660
Lemon Tree	(1)	339	633	368	924	936	1,265	1,399	1,045	1,019	1,397
YoY change (%)											
IHCL	-44%	-148%	-2022%	123%	-354%	304%	86%	237%	9%	21%	23%
Chalet	42%	-929%	288%	1352%	-1289%	353%	181%	385%	8%	48%	46%
Lemon Tree	-102%	308%	215%	29%	-117620%	176%	100%	280%	13%	9%	10%
EBITDA Margin (%)											
IHCL	(43.2)	10.0	29.0	18.2	29.8	23.9	35.4	32.9	28.0	24.8	37.3
Chalet	(12.3)	16.7	24.6	21.2	40.3	34.3	39.2	45.1	35.3	40.0	44.4
Lemon Tree	(0.2)	34.9	44.1	30.8	48.1	47.6	54.2	55.4	47.0	44.8	48.4
YoY chg. in margin (bps)											
IHCL	14,202	6,857	3,194	664	7,304	1,385	647	1,471	(187)	90	187
Chalet	(87)	2,056	1,238	1,902	5,259	1,762	1,454	2,386	(494)	571	525
Lemon Tree	(1,090)	1,750	1,469	82	4,829	1,265	1,010	2,454	(108)	(276)	(575)
Employee cost as a share of revenue (%)											
IHCL	72.2	38.3	28.1	35.6	28.4	30.5	25.2	26.0	29.2	30.7	23.9
Chalet	32.9	21.1	15.9	18.6	13.2	15.0	13.6	12.2	15.0	15.1	13.1
Lemon Tree	41.3	23.8	19.5	24.1	18.0	18.3	16.3	16.2	19.2	20.4	17.0
Other cost as a share of revenue (%)											
IHCL	62.9	43.1	34.2	38.3	33.5	37.3	31.1	33.4	34.9	36.7	31.0
Chalet	51.1	41.6	40.9	42.5	32.8	36.6	33.5	31.4	37.4	34.0	31.8
Lemon Tree	51.3	34.5	29.7	38.0	27.9	27.8	23.9	23.3	28.2	29.0	28.9
RM cost as a share of revenue (%)											
IHCL	8.1	8.6	8.8	7.9	8.2	8.4	8.3	7.7	7.9	7.8	7.8
Chalet	10.7	15.5	17.2	16.2	13.0	13.2	13.0	10.6	11.6	10.2	10.1
Lemon Tree	7.6	6.7	6.8	7.0	6.0	6.2	5.6	5.1	5.6	5.8	5.8

Source: Company, Emkay Research

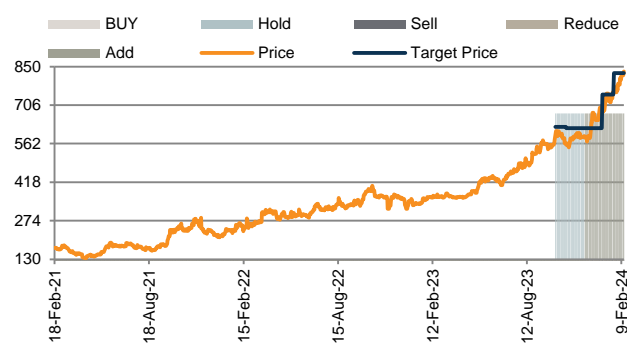
CHALET HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Jan-24	762	825	Add	Santosh Sinha
03-Jan-24	678	745	Add	Santosh Sinha
04-Dec-23	579	620	Add	Santosh Sinha
30-Nov-23	590	620	Add	Santosh Sinha
26-Oct-23	557	620	Hold	Santosh Sinha
05-Oct-23	593	625	Hold	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

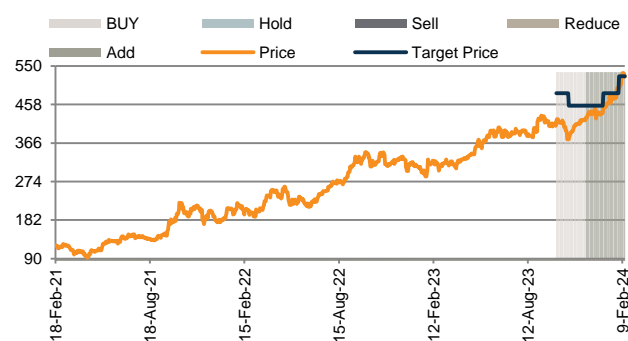
INDIAN HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Feb-24	500	525	Add	Santosh Sinha
03-Jan-24	451	485	Add	Santosh Sinha
04-Dec-23	434	455	Add	Santosh Sinha
30-Nov-23	422	455	Add	Santosh Sinha
29-Oct-23	375	455	Buy	Santosh Sinha
05-Oct-23	418	485	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

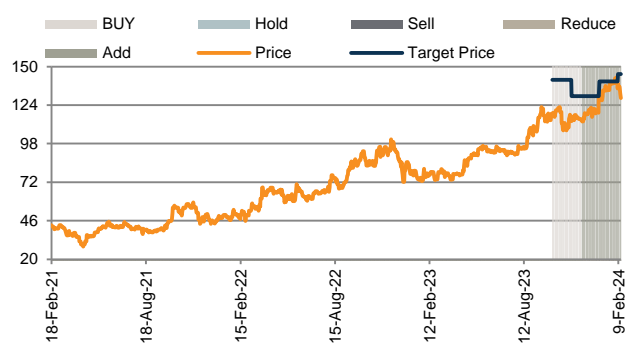
LEMON TREE HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Feb-24	138	145	Add	Santosh Sinha
03-Jan-24	129	140	Add	Santosh Sinha
04-Dec-23	116	130	Add	Santosh Sinha
30-Nov-23	114	130	Add	Santosh Sinha
11-Nov-23	113	130	Buy	Santosh Sinha
05-Oct-23	118	141	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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