

Hotels

Momentum in room rates to sustain in H2FY24

Sector Report

▶ Sector-specific monthly notes ▶ December 4, 2023

NIFTY 50: 20,268

Data released by HVS Anarock for October 2023 indicates a pick-up in occupancy of +6 percentage points (pp) YoY and +2pp MoM, aided by the Cricket World Cup. New Delhi, Mumbai, Pune, and Hyderabad witnessed over 20% YoY improvement in ADR along with increased occupancy of over +5pp YoY. A similar strength in trend was observed in domestic air travel passengers in India, which was up 11% YoY in Oct-23. Foreign Tourist Arrival (FTA) was up 18% YoY in Sep-23, though it is still below pre-COVID levels by ~16% YTD CY23, indicating scope for further improvement. We see continued strength in average hotel rates in Q3/Q4FY24 for three hotel companies under our coverage. Given favorable demand-supply dynamics over the long term, we reiterate our ADD rating on our hotel names, i.e., Indian Hotels Co. Ltd. (IHCL), Lemon Tree Hotels (LTH), and Chalet Hotels.

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Upward trajectory in average rates continues amid strength in demand

HVS Anarock has released its Oct-23 data for hospitality. The occupancy rate has further increased +6pp YoY and +2pp MoM. National hotel occupancy rates for October 2023 exceeded pre-pandemic levels by 1-3pp, aided by ICC Men's Cricket World Cup. The Cricket World Cup, in particular, improved hotel occupancy in various markets hosting the matches. Occupancy was up 10-15pp YoY in Kolkata and New Delhi. Average rates in key markets hosting the cricket matches witnessed a YoY increase ranging from 15% to 33%. New Delhi, Mumbai, Pune, and Hyderabad witnessed an improvement of over 20% YoY in ADR along with increased occupancy of over +5pp YoY. Goa witnessed a YoY increase in average rates by 1-3% only due to the Cricket World Cup. ADR grew 15% YoY in Oct-2023 (+8% MoM) on average, indicating continued strong demand in the sector. As a result, RevPAR was up 27% YoY in Oct-2023 (+12% MoM) on average. We expect this trend to continue in H2FY24, aided by high seasonal demand and marriages.

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

Domestic air travel passengers in India were up 11% YoY in Oct-2023 at 12.6mn, 3% above pre-pandemic Oct-2019 numbers, which is positive for the hospitality sector. FTA is picking up on a YoY basis. FTA increased 18% YoY in Sep-2023 and rose 23% YoY in Aug-2023. However, FTA in India, as of YTD CY23, still stands below pre-COVID levels by ~16%. Even though FTA has lagged pre-COVID levels, strength in domestic demand (aided by rising spending on leisure and weddings) has helped the hotels maintain elevated occupancy over the past two years in India. **We see continued strength in average hotel rates in Q3/Q4FY24** for three hotel companies under our coverage, as per the room rates available on company websites. We expect room rates to pick up further in Q4FY24 for most hotels, as business-related occupancy picks up. Chalet is witnessing an uptick in ARR for Mumbai in Q3 and the trend will continue in Q4.

Rating, Target Price and Valuation

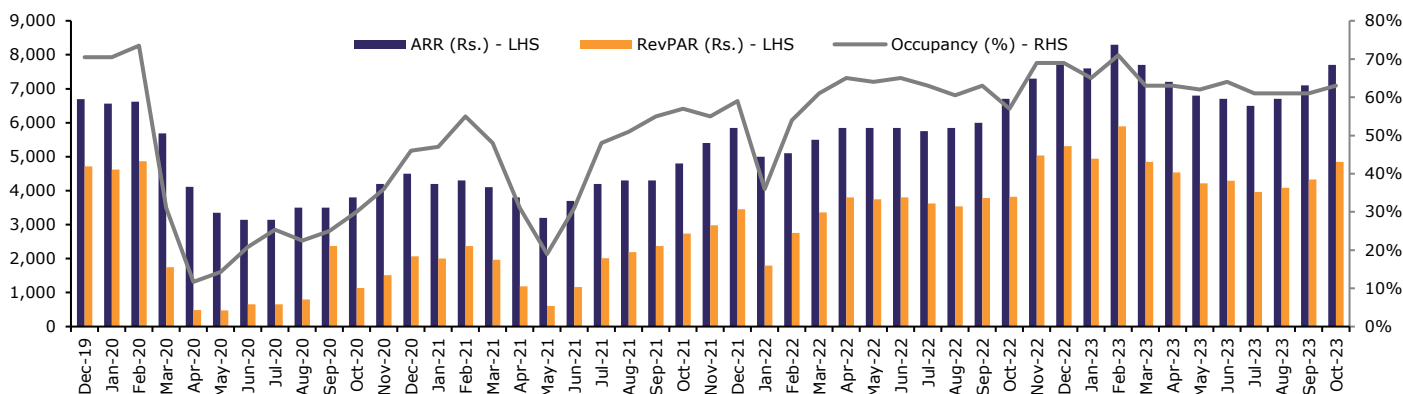
	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA (x)		RoE (%)	
					FY24	FY25	FY24	FY25
Chalet Hotels	Add	585	620	6	24.9	17.7	15.5	18.4
Indian Hotels	Add	426	455	7	26.9	22.7	15.7	16.5
Lemon Tree Hotels	Add	113	130	15	19.5	12.7	17.7	24.3

Source: Company, Emkay Research

Oct-23 was another strong month for hotels

As per HVS Anarock, Oct-23 was another strong month for the Indian hotel industry with the industry's RevPAR increasing ~27% YoY, benefitting from continued strength in the hospitality industry and aided by additional demand from the Cricket World Cup. There can be some headwinds in the form of wars and fear from the rise in China's respiratory illness. However, 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 elevated 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 1: Hotel industry's trend



Source: HVS Anarock, Emkay Research

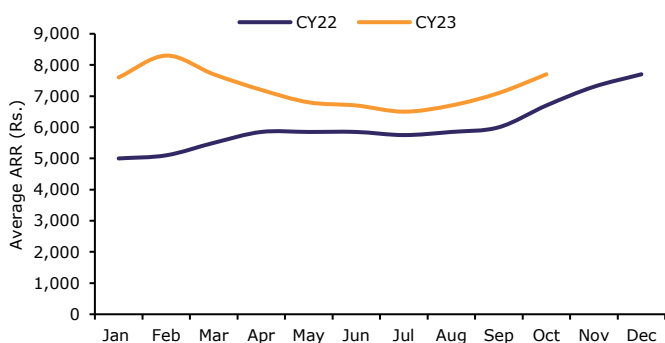
Exhibit 2: Industry trends as per HVS Anarock

	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			5,038			69%		
Dec	7,700			5,314			69%		

Source: HVS Anarock

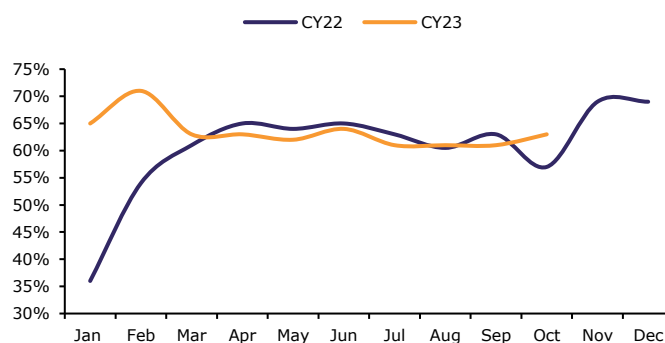
*PP = Percentage point

Exhibit 3: Avg. ARR above CY22 levels; ARR to increase further

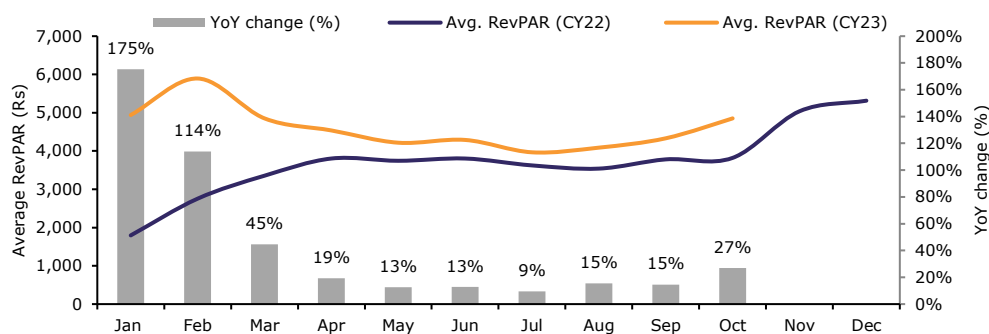


Source: HVS Anarock

Exhibit 4: Occupancy to improve in November and



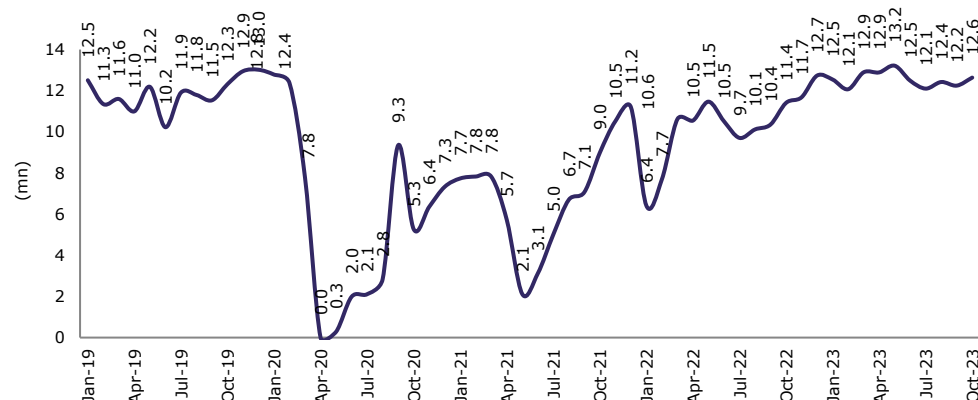
Source: HVS Anarock

Exhibit 5: RevPAR is up 27% YoY supported by the Cricket World Cup

Source: Company, Emkay Research

Domestic air travel remains strong

Domestic air travel continues to exhibit strength with the number of passengers increasing 11% YoY in Oct-2023 to 12.6mn. This is 3% above pre-pandemic Oct-2019 numbers. For Jan-Oct 2023, air passenger travel increased 27% YoY and rose 8% vs. Jan-Oct 2019 (pre-pandemic).

Exhibit 6: Domestic air travel continues to exhibit strength

Source: DGCA

Exhibit 7: Domestic air passengers (mn)

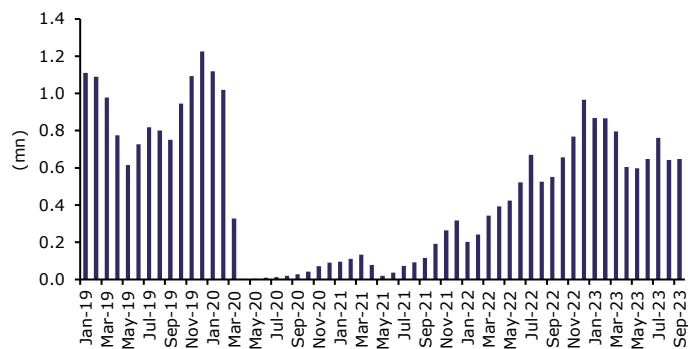
	CY19	CY22	CY23	CY23 vs. CY22	CY23 vs. CY19
Jan	12.5	6.4	12.5	96%	0%
Feb	11.3	7.7	12.1	57%	6%
Mar	11.6	10.6	12.9	21%	11%
Apr	11.0	10.5	12.9	22%	17%
May	12.2	11.5	13.2	15%	8%
Jun	10.2	10.5	12.5	19%	22%
Jul	11.9	9.7	12.1	25%	2%
Aug	11.8	10.1	12.4	23%	5%
Sep	11.5	10.4	12.2	18%	6%
Oct	12.3	11.4	12.6	11%	3%
YTD*	116.4	98.8	125.5	27%	8%

Source: DGCA, Emkay Research *Year till date data

FTA in India still below pre-COVID levels

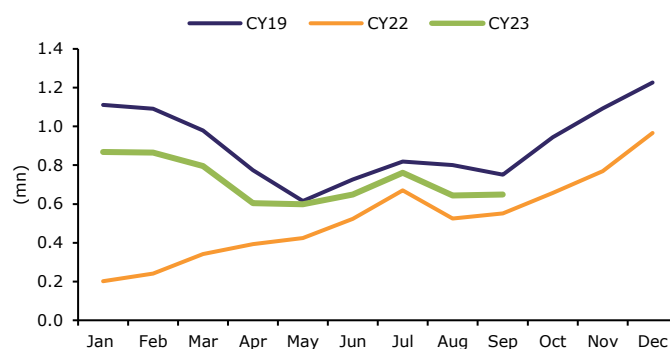
FTA in India, as of YTD CY23, still stands below pre-COVID levels by ~16%. However, tourist arrival is picking up on a YoY basis. FTA increased 18% YoY in Sep-23 and was up 23% YoY in Aug-23. We expect FTA to pick up further with the start of the tourist season from Oct-23. We see the pick-up in FTA to be positive for our covered hotels, as higher FTA will help increase the occupancy further.

Exhibit 8: FTA still lower than pre-COVID levels



Source: MoT, Emkay Research

Exhibit 9: FTA to pick up at year-end



Source: MoT, Emkay Research

Exhibit 10: 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%
YTD total	7.67	3.87	6.43	66%	-16%

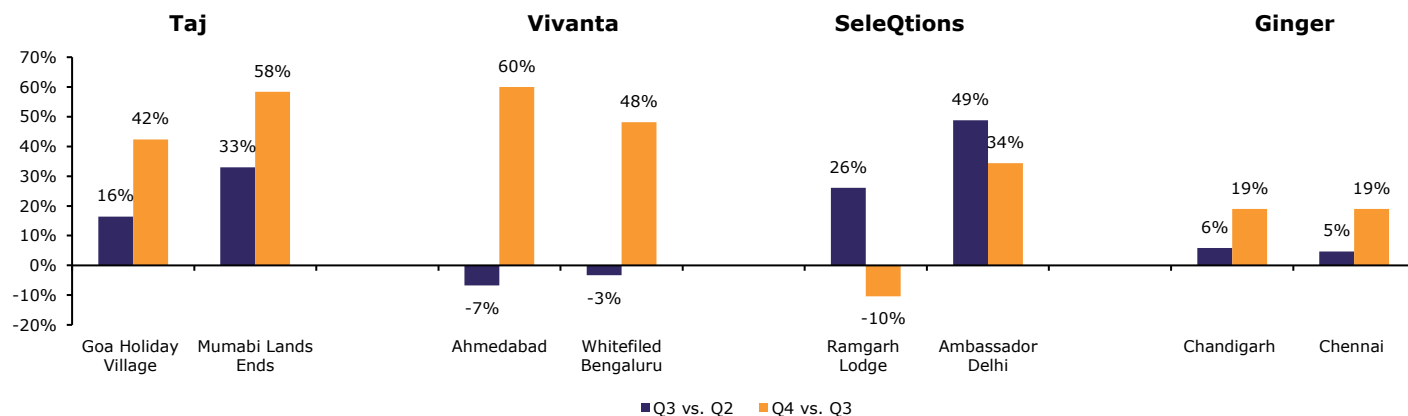
Source: MoT, Emkay Research

Continued strength in hotel rates is expected in Q3 and Q4

Hotel rates of the three hotel companies under our coverage indicate continued strength in ARR on a QoQ basis (as we do not have data for YoY comparison). This is as per the room rates available on company websites.

- **Indian Hotel:** We expect further improvement for Taj and SeleQtions rates QoQ in Q3 and Q4. Although rates of Vivanta and Ginger are going soft QoQ in Q3, ARR is expected to pick up in Q4 on a QoQ basis.

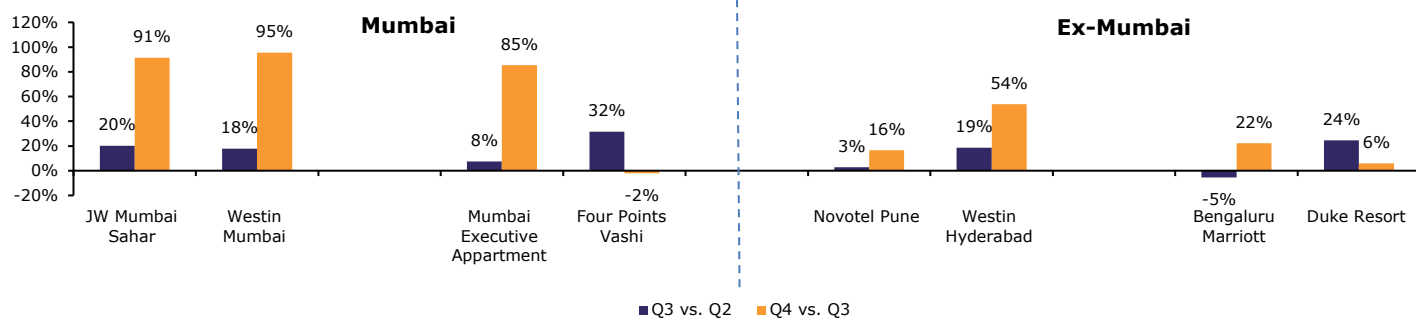
Exhibit 11: Indian Hotels ARR change QoQ (%) – Taj and SeleQtions rates are going strong



Source: Company website, Emkay Research

- **Chalet Hotel:** Chalet is witnessing an uptick in ARR for Mumbai in Q3, and the trend will continue in Q4. Non-Mumbai region was soft QoQ in Q3 but will pick up further 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, on the other hand, is expected to witness a slowdown in Q4 post pickup in Q3 (Lonavala), as the holiday season gets over.

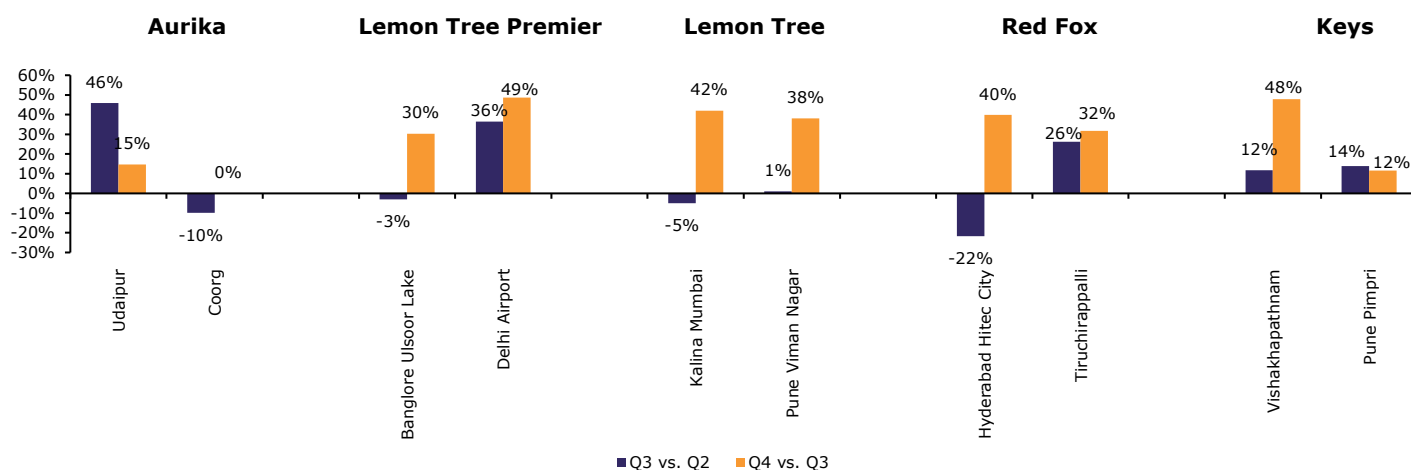
Exhibit 12: Chalet Hotels' ARR change QoQ (%) – Strength in Mumbai ARR to continue



Source: Company website, Emkay Research

- **Lemon Tree:** Aurika (Udaipur) and Keys are seeing improvement in ARR in Q3 with the start of the holiday season. Lemon Tree's room rate is expected to increase in Q4 across different categories, as travel for business picks up in Q4.

Exhibit 13: Lemon Tree ARR change QoQ (%) – ARR to pick up further QoQ in Q4



Source: Company website, Emkay Research

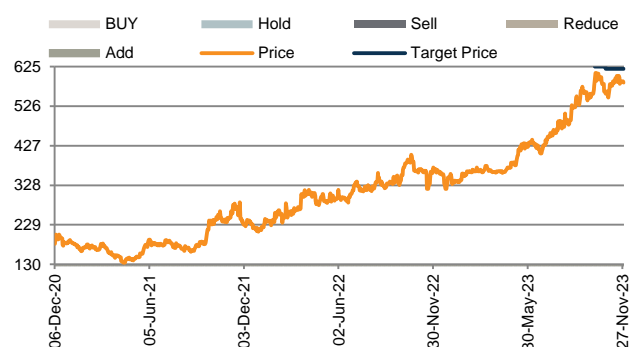
CHALET HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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

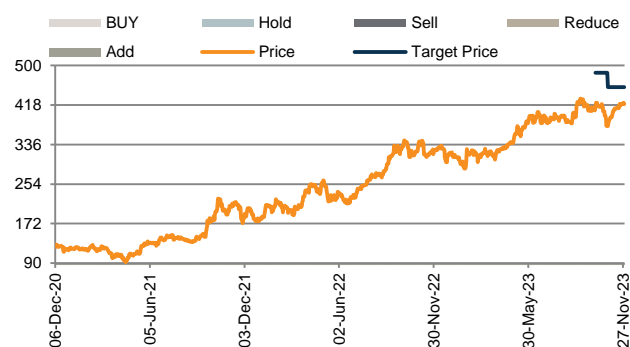
INDIAN HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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

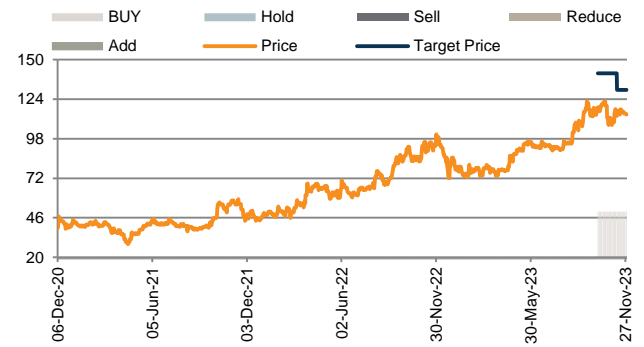
LEMON TREE HOTELS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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