April 9, 2022

# Q4 to witness temporary blip; demand outlook continues to remain strong…

After passing through initial hiccups in the first 20 days of Q4 due to Omicron (third wave), the industry witnessed a sharp recovery in demand aided by leisure/transient travel, wedding season as well as pick-up in business travel. As per the DGCA data, domestic air traffic declined ~27% sequentially in the first two months due to restrictions. However, it improved significantly by 46% MoM in March 2022 with full resumption of economy. Hence, from a Q4FY22E perspective, we expect occupancy levels to drop 580 bps QoQ 61% (or down 11%) while average room rates may improve 5% QoQ to ₹ 7525/room as March witnessed a sharp ~15-17% increase in room rate supported by strong pent-up demand. Overall, we expect revenue of our coverage universe to drop 5.5% QoQ to ₹ 1482 crore. This minor blip in revenue is temporary as forward hotel booking data suggests strong buoyancy in the demand with hotel booking for March-May crossing pre-pandemic levels led by wedding season, vacations and IPL matches. Also, opening of international borders for foreign tourists from March 27, 2022 onwards would further fuel growth from H1FY23E onwards. In terms of rooms supply, we expect launch of new hotel projects to get delayed due to higher land and input costs that would augur well for the existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature.

## Reduced fixed overheads to help keep losses under check

A majority of costs of the hotel industry are fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. Due to long 18 months of pandemic phase, hotel players have structurally re-aligned their cost base to become leaner in terms of cost. Hence, we expect over 23% reduction in operating costs from pre-Covid levels during Q4FY22E, which would help companies to improve margins. During the quarter, we expect our coverage universe to report EBITDA margin of 28.5% vs. 8.1% reported last year and 28.9% reported last quarter.

## Strong promoter/institutional backing to help branded players gain further market share

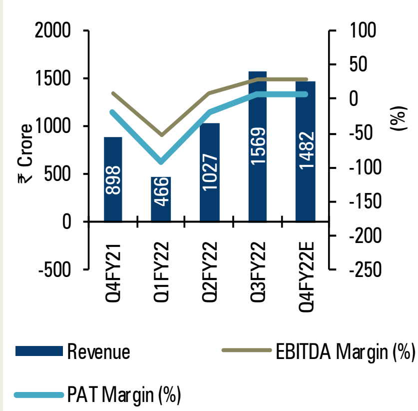
In our coverage universe, Indian Hotels and EIH both are best placed on the b/s front. The fund raising of ₹ 4000 crore and ₹ 350 crore by IHCL and EIH, respectively, has strengthened their b/s further. This would help them to further gain the market share. Lemon Tree Hotels, being on a capex mode, is highly levered vs. peers. However, it also has strong institutional backing for liquidity support.

Exhibit 1: Estimates for Q4FY22E: (Hotels) (₹ Crore)

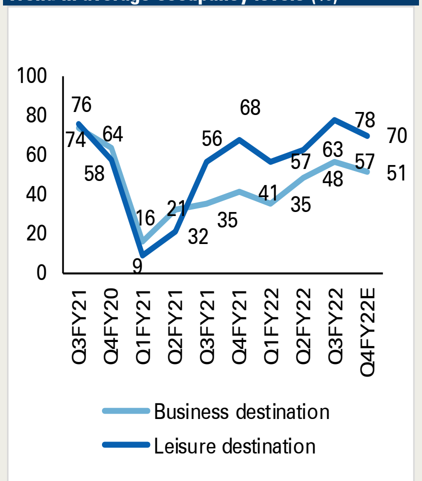
| Company | Revenue | Change (%) | | EBITDA | Change (%) | | PAT | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Q4FY22E | YoY | QoQ | Q4FY22E | YoY | QoQ | Q4FY22E | YoY | QoQ |
| EIH | 296.1 | 57.6 | -5.8 | 65.9 | LP | -3.6 | 31.6 | LP | -3.1 |
| Indian Hotel | 1,050.0 | 70.7 | -5.5 | 298.5 | 318.6 | -7.2 | 91.2 | LP | 20.0 |
| Lemon Tree Hotels | 136.1 | 43.2 | -5.2 | 58.0 | 103.2 | -8.4 | -11.6 | NA | NA |
| **Total** | **1,482.2** | **65.1** | **-5.5** | **422.3** | **477.4** | **-6.9** | **111.2** | **-160.4** | **7.9** |

*Source: Company, ICICI Direct Research*

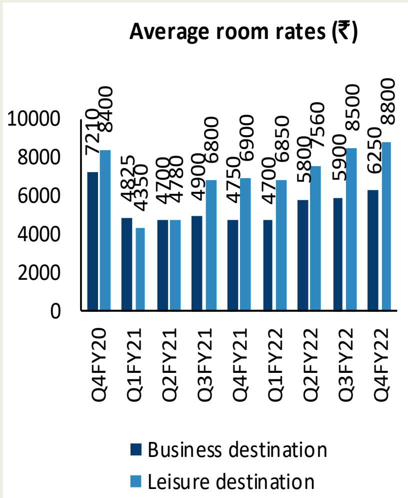
**Topline & Profitability (Coverage Universe)**




**Trend in average occupancy levels (%)**




**Trend in average room rates (In ₹)**




**Top Picks**

EIH

**Research Analysts**

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Company specific view

| Company | Remarks |
|---|---|
| Indian Hotels | We expect strong recovery in revenue from domestic leisure hotel business on YoY basis. Occupancy levels and ARRs in the domestic segment are expected to improve to 68% and ₹ 7550/room vs. 58% and ₹ 6250/room, respectively, reported in Q4FY21. Overall, we expect 70.7% YoY growth in revenues and EBITDA of ₹ 298.5 crore for Q4FY22E. Net profit is expected at ₹ 91.2 crore vs. loss of ₹ 91.3 crore reported last year |
| EIH | We expect revenue of EIH to also improve 57.6% YoY. Despite higher presence in the business locations and being a domestic premium player, which is yet to witness full recovery, we expect the company to report EBITDA margin of over 22% due to strong traction in the domestic leisure segment. PAT is expected at ₹ 31.6 crore |
| LemonTree | Being a pure mid-scale segment domestic hotel player, we expect revenue growth of.43.2% YoY. Expect EBITDA margin of over 42% (highest among peers) due to stringent cost controls..Net losses to narrow down to ₹ 11.6 crore vs. net loss of ₹ 24.7 crore last year |

*Source: Company, ICICI Direct Research*

Exhibit 2: Valuation matrix (Hotels)

| Sector/Company | CMP | | M Cap | EPS | | | P/E (X) | | | EV/EBITDA | | | ROCE (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (₹) | Rating | (₹ Cr) | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY22E |
| Indian Hotel (INDHOT) | 195 | BUY | 26284 | -6.1 | -4.1 | 2.5 | NA | NA | 88 | NA | 185 | 28 | -9.8 | -3.2 | 7.9 | -19.7 | -15.4 | 8.7 |
| EIH (EIH) | 133 | BUY | 8317 | -6.0 | -0.6 | 3.5 | -29 | 261 | 22 | NA | NA | 22 | -9.9 | -0.9 | 8.6 | -9.9 | -0.9 | 8.6 |
| Lemon Tree Hotels | 48 | BUY | 3794 | -2.4 | -1.1 | -0.1 | NM | NM | NM | 86 | 33 | 20 | -0.7 | 2.1 | 5.0 | -21.4 | -10.4 | -0.9 |

*Source: ICICIdirect.com Research*

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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