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Sharp recovery expected in Q1FY23E...

After passing through hiccups in the previous quarter due to omicron wave-III, the industry is likely to witness a sharp recovery in Q1FY23E aided by leisure/transient travel, wedding season and strong revival from business segment. As per the latest DGCA data, domestic air traffic has now reached ~94% of pre-Covid levels based on last three months (April-June) data despite higher air-fares. Hotel booking data also suggests strong buoyancy in the demand with hotel booking for March-June crossing pre-pandemic levels led by wedding seasons, vacations and IPL matches. Hence, from Q1FY22E perspective, we expect occupancy levels improve to ~75% while average room rates are likely to remain higher by 10% QoQ to ₹ 8300/room for the premium segment. Overall, we expect revenue of our coverage universe to increase ~224% YoY, 20% QoQ to ₹ 1510 crore. Apart from expectation of better performance in Q1FY23E, we expect FY23E to stay strong for the sector supported by full resumption of the economy and also opening-up of international borders for foreign tourists. 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. This would aid in healthy margin expansion.

Reduced fixed overheads to aid in margin expansion

A majority of the hotel industry's costs 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 realigned their cost base to become leaner in terms of cost. Hence, we expect over 9% reduction in operating costs from pre-Covid levels during Q1FY23E, which would help the companies to improve margins. During the quarter, we expect our coverage universe to report EBITDA margin of 24.4% vs. loss reported last year and 16.0% OPM reported last quarter.

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

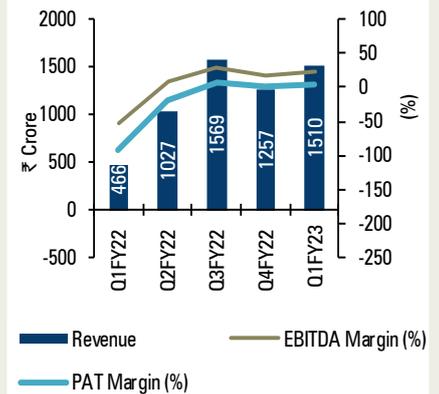
In our coverage universe, Indian Hotels & EIH both are best placed on the B/S front. The fund raising of ₹ 4000 crore and ₹ 350 crore by IHCL and EIH respectively has strengthened their b/s further. This would help them to further gain market share. Lemon Tree Hotels, being on a capex mode, is highly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

Exhibit 1: Estimates for Q1FY23E: (Hotels)

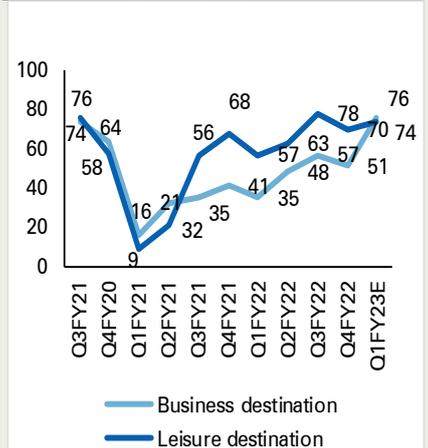
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
	₹ Crore											
EIH	317.1	299.8	19.4	63.7	LP	200.8	25.4	LP	LP			
Indian Hotel	1,040.6	202.0	19.3	247.7	LP	55.8	67.3	LP	-9.3			
Lemon Tree Hotels	152.2	261.1	27.3	56.8	LP	163.0	-6.3	NA	NA			
Total	1,510.0	224.0	20.1	368.3	LP	82.5	86.4	-120.1	214.7			

Source: Company, ICICI Direct Research

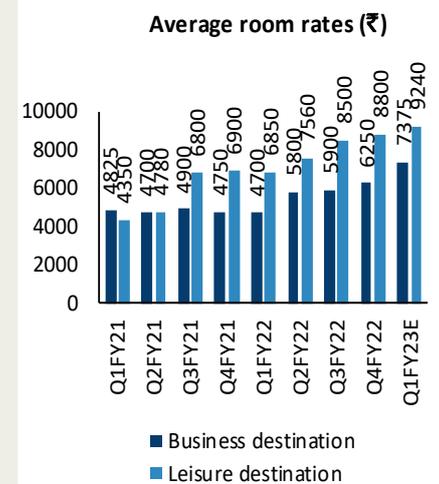
Topline & Profitability (Coverage Universe)



Trend in average occupancy levels (%)



Trend in average room rates (In ₹)



Top Picks

EIH
Lemon Tree Hotels

Research Analysts

Rashesh Shah
rashesh.shah@icicisecurities.com

Company specific view

Company	Remarks
Indian Hotels	We expect a strong recovery in revenue from domestic leisure hotel business on a YoY basis. Occupancy levels and ARR in the domestic segment to improve to 76% and ₹ 8750/room vs. 67% and ₹ 8250/room reported in Q4FY22. Overall, we expect 19.3% QoQ growth in revenues and EBITDA of ₹ 257.7 crore. However, net profit growth would be lower on a QoQ basis due to tax adjustments and exceptional income, which was reported in Q4
EIH	We expect revenue of EIH to also improve ~300% YoY, 19.4% QoQ led by strong revival in the business locations aided by IPL matches and MICE segment. We expect the company to report EBITDA margin of over 20% due to strong growth in the revenues. PAT is expected at ₹ 25.4 crore
LemonTree	Being a pure mid-scale segment domestic hotel player, we expect revenue growth of 27.3% QoQ (highest among peers). Expect EBITDA margin of over 37% (highest among peers) due to stringent cost controls. Net losses to narrow down sharply to ₹ 6.3 crore vs net loss of ₹ 39.4 crore last quarter

Source: Company, ICICI Direct Research

Exhibit 2: Valuation matrix (Hotels)

Sector/Company	CMP (₹)	TP (₹)	Upside		M Cap (₹ Cr)	P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)	
			(%)	Rating		FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22
Indian Hotel (INDHOT)	246	290	17.9	BUY	34942	NA	NA	80	NA	88	38	-9.7	0.0	5.8	-19.7	-3.5
EIH (EIH)	136	185	36.0	BUY	8505	31	-30	580	NA	NA	580	5.7	-9.9	-1.5	5.7	-9.9
Lemon Tree Hotels (LEMTRE)	66	78	18.2	BUY	5216	NA	NA	NA	13	12	10	4.6	5.5	5.5	1.8	6.7
Easy Trip Planners	391	490	25.3	BUY	8496	138	80	46	110	64	34	36.0	37.7	44.4	37.7	44.9

Source: ICICIdirect.com Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**



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