September 8, 2022

Good times ahead; reiterate positive outlook…

FY23 began on a strong note for the hotel sector in terms of growth and margin expansion. With the full re-opening, corporate demand and MICE segment also joined the growth bandwagon in Q1FY23 while leisure continued to perform well. This, in turn, helped hotel players to raise room tariffs without disturbing demand. In Q1FY23, average room rates were reported to be even higher by 20-25% vs. pre-Covid levels. This led to sharp revenue growth of over 24% vs. pre-Covid levels. Hence, the change in strategy from occupancy led growth during pre-Covid era to ARR led growth was clearly visible in the current quarter. Further, major hotel players utilised the long 18-24 months of the pandemic phase to structurally realign their cost base and become leaner in terms of costs. The reported EBITDA margin of 30.3% for Q1FY23 is one of the highest ever reported so far in the past 10 years. In terms of seasonality of the hotel business, Q1 and Q2 (April-September) are the weak season for the hotel sector while Q3 and Q4 combined together (October-March) generate over 60% of total revenue. However, looking at the strong performance in the seasonally weak quarter, H2FY23 (i.e. peak season) is now looking more promising. This season will also have an advantage of influx of foreign tourists who generally visit India for long haul vacation. So far, they have not participated meaningfully in the current business performance. Hence, given this strong tailwind, we expect room tariffs to inch up further and support strong occupancy as well. Overall, we expect **"Occupancy + ARR led"** growth during H2 that would also support further margin expansion, in our view.

Reduced fixed overheads to aid in healthy margin expansion

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 18-month long pandemic phase, hotel players structurally realigned their cost base to become leaner in terms of cost. Hence, we expect over 12-15% reduction in operating costs from pre-Covid levels, which would help companies to scale up margins compared to pre-Covid levels.

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

In our coverage universe, Indian Hotels and EIH are both 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. Though Lemon Tree Hotels has high leverage vs. peers, it has strong potential to grow faster compared to other large players supported by strong institutional backing for liquidity support.

Our preference in tourism space

Given the strong growth momentum expected in all segments of tourism (i.e. premium & midscale hotels including air travel, etc), we prefer leaders across these segments. Our top picks include 1) **Indian Hotels** – Having a large presence in luxury and mid-scale hotel segment across India and international destinations, 2) **EIH** – Premium luxury hotel player having a strong presence in key gateway cities like Delhi and Mumbai (~67% revenue share), which will now benefit from influx of foreign tourist arrivals, 3) **Lemon Tree Hotels** – Branded quality player in the mid-scale segment having high growth potential. It is also expanding its presence in the select premium segment in the domestic market, 4) **Easy Trip Planners** – Best proxy to play air travel recovery given its low cost and negative working capital characteristics along with strong balance-sheet. The company is also expanding into non-air segment like online bus and hotel booking that are high margin businesses.

Sector View: Positive

Top Picks in Tourism space

Company	Rating	CMP (₹)	Old TP (₹)	New TP (₹)	Upside (%)
Indian Hotels	BUY	309	330	365	18
EIH	BUY	195	185	240	23
Easy Trip Planners	BUY	397	490	505	27
Lemon Tree Hotels	BUY	76	95	110	45

Key risks to our call

- Any further stringent lockdown on likely fourth or fifth wave may hamper business
- Higher inflation/talent crunch to remain key concern, going ahead

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Top bets in Tourism Coverage Universe

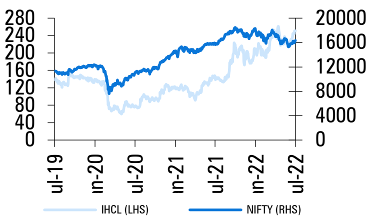
Indian Hotels (INDHOT)

With a room inventory of 20,581 rooms, Indian Hotels occupies a diversified position in the hotel industry through brands such as Taj, Vivanta, SeleQtions and Ginger brands. The company also has a select presence in the luxury segment in the US, UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties.

- Opening doors fully to foreign tourists (FTAs) from March 2022 to provide further fillip to leisure & business hotel room demand from H2FY23 onwards
- Expect revenue CAGR of 40.9% during FY22-24E. Margins seen at over 32% in FY24E, which has potential to further expand by ~100 bps thereafter

Along with the improved outlook, the company is also focusing on driving more efficiencies through cost optimisation. We remain positive on the company and reiterate our **BUY** rating with a target price of ₹ 365 (i.e.26x FY24E EV/EBITDA).

Price Chart



Particulars

Particular	Amount
Market Cap	₹ 43890 crore
Debt (FY22)	₹ 1985 crore
Cash (FY22)	₹ 1188 crore
EV	₹ 44687 crore
52 week H/L	311/143
Equity capital	₹ 142 crore

Exhibit 1: Financial summary

	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Yeaar CAGR (%)
Net Sales	4,512	4,463	1,575	3,056	(12.2)	5,376	6,066	40.9
EBITDA	830	968	(362)	405	(21.3)	1,707	1,985	121.4
EBITDA (%)	18.4	21.7	(23.0)	13.2		31.7	32.7	
Net Profit	287	354	(720)	(248)	PL	857	1,027	LP
EPS (₹)	2.0	2.2	(6.0)	(1.8)		6.1	7.2	
EV/EBITDA	55.7	48.1	(130.9)	110.4		25.9	21.7	
RoNW	6.6	7.4	(23.3)	(3.7)		11.0	11.8	
RoCE	7.4	7.0	(6.2)	1.3		12.1	14.0	
ROE	6.6	7.4	(23.3)	(3.7)		11.0	11.8	

Source: Company, ICICI Direct Research

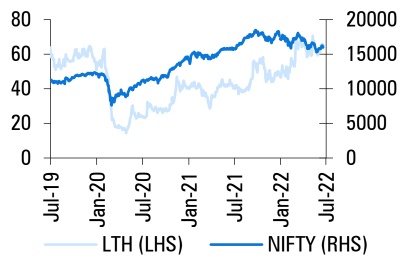
Lemon Tree Hotels (LEMTRE)

Promoted by Patanjali Keswani, Lemon Tree (LTHL) is the largest hotel chain in the mid-priced segment in India. It operates 8,489 rooms in 87 hotels across 54 destinations in India and abroad under brands like Aurika (premium), Lemon Tree premier, Lemon Tree (midscale), RedFox (economy) and Keys.

- The favourable location of its properties in prominent business and tourist districts supports revenue growth prospects and reduces concentration risk
- Post completion of expansions, LTHL will be operating ~10,462 rooms in 105 hotels across 64 destinations, in India and abroad by FY24E

The company's large asset base, strategic partnership and financial flexibility would continue to support its liquidity profile if further need arises. We retain **BUY** rating on this stock with an SOTP based TP of ₹ 110/share i.e. at 28x FY24E EV/EBITDA.

Price Chart



Particulars

Particulars	Amount
Market Cap (₹ crore)	6006
Debt (FY22) (₹ crore)	1642
Cash (FY22) (₹ crore)	142
EV (₹ crore)	7506
52 week H/L	₹ 71/36

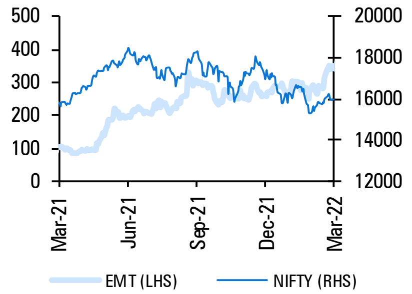
Exhibit 2: Financial summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Sales	549.5	669.4	251.7	402.2	-9.9	802.0	955.7	54.1
EBITDA	168.8	238.3	61.3	118.7	-11.1	385.2	461.6	97.2
EBITDA (%)	30.7	35.6	24.3	29.5		48.0	48.3	
PAT after MI	52.9	-9.5	-127.0	-87.4	PL	55.8	94.2	LP
EPS (₹)	0.7	-0.1	-1.6	-1.1		0.7	1.2	
EV/EBITDA	42.3	31.7	122.5	64.4		19.7	16.5	
RoNW	6.7	-1.5	-21.4	-15.7		10.5	15.5	
RoCE	5.5	5.5	-0.7	1.0		8.3	9.5	

Source: Company, ICICI Direct Research

Easy Trip Planners (EASTRI)

Price Chart



Particulars

Particulars	₹ crore
Market Capitalization	8626
Total Debt (FY22)	50
Cash (FY22)	133
EV (₹ crore)	8544
52 week High/Low	₹ 476/191
Equity Capital	43.5

Easy Trip Planners or EaseMyTrip.com (EMT) is the fastest growing and profitable company in the online travel portal in India. The company offers a comprehensive range of travel-related products and services for end-to-end travel solutions, including airline tickets, hotels and holiday packages.

- Gross booking revenue (GBR) for FY22 was at ₹ 3716 crore. Airline tickets accounted for 94.0% of revenues (pre-Covid levels) while hotels contributed 5.4% of revenues

- Now, with full resumption, we expect GBR to grow at 39% CAGR during FY22-24E. Lean cost model and no convenience fee strategy remain key pillars supporting such rapid, profitable growth

- Further benefits would accrue from high margin segments like hotels and bus booking

We like EMT for its user friendly platform, unique travel offerings, low cost business model and healthy b/s. Considering strong growth potential of this technology platform in travel, we maintain our **BUY** recommendation with a target price of ₹ 505/share, valuing at 46x FY24E EPS (i.e. implied PEG ratio of 0.9x).

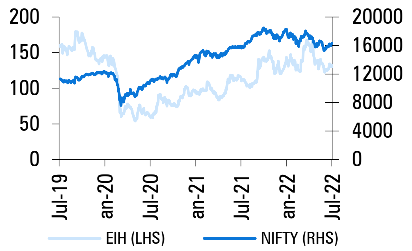
Exhibit 3: Financial summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Gross operating revenues*	205	286	198	400	24.9	671	754	37.2
EBITDA	25	31	75	132	74.6	241	303	51.3
EBITDA (%)	12.1	10.7	38.0	33.1		36.0	40.2	
Net Profit	24	33	61	106	64.0	186	235	48.8
EPS	1.9	1.5	2.8	4.9		8.6	10.8	
P/E	213.6	261.4	140.4	81.4		46.4	36.8	
RoNW	35.3	32.6	37.7	44.9		47.8	41.2	
RoCE	36.0	33.6	36.0	37.7		44.4	40.9	

Source: Company, ICICI Direct Research

EIH Ltd (EIHLIM)

Price Chart



Particulars

Particulars	Amount
Market Cap (₹ Crore)	12,194.3
Debt (FY22) (₹ Crore)	507.4
Cash & Bank (FY22) (₹ crore)	253.5
EV (₹ Crore)	12,448.3
52 week H/L	197 / 104
Equity capital (₹ crore)	125.1
Face value	₹ 2

EIH Ltd is the flagship company of the Oberoi group that manages 33 hotels (~11 owned and 22 under management contract) with room inventory of ~4512 rooms. The company operates hotels under the brands Oberoi - super luxury brand, Trident-five-star brand and Maidens (heritage). EIH also provides catering/kitchen services to airlines, operates restaurants/lounges at airports and is also into air charter and car hire services.

- Opening doors fully to foreign tourists (FTAs) to provide further fillip to leisure and business hotel room demand from FY23 onwards

- Expect business to recover to pre-Covid levels (vs. ~97% projected earlier) with EBITDA surpassing pre-Covid levels in FY23E; margins are seen reaching close to 28% by FY24E;

The recent venture into premium café business is expected to lead to potential value unlocking of F&B segment in the long run. Strong b/s would support the growth.

Given the company's strong b/s, strategic premium room portfolio, we remain positive on the stock with a revised TP of ₹ 240/share (i.e. at 28.5x FY24E EV/EBITDA).

Exhibit 4: Financial summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Net Sales	1811	1596	497	1034	-17.0	1591	1812	32.3
EBITDA	406	290	-292	15	-66.6	421	505	478.7
EBITDA (%)	22.4	18.2	-58.7	1.5		26.4	27.9	
PAT	194	163	-377	-59	-167.0	248	287	LP
EPS (₹)	3.1	2.6	-6.0	-0.9		4.0	4.6	
EV/EBITDA	30.8	43.4	-42.7	825.0		29.1	23.7	
D/E	0.2	0.2	0.2	0.2		0.1	0.1	
RoNW (%)	6.5	5.2	-12.2	-1.9		7.8	8.6	
RoCE (%)	9.6	5.7	-9.9	-1.5		9.9	12.4	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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