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India | Equity Research | Sector Update

Hotels

Strong end to another stellar year, demand outlook remains positive

According to HVS Anarock, Mar'24 was another strong month for hotel industry; we note industry RevPAR of INR 5,248 was 10% above Mar'23 levels with ARR's being 8% higher YoY while occupancies were also up 200bps YoY at 63-65%. Along the expected lines, demand was bolstered by MICE and weddings. As per our channel checks, forward hotel rates between May-Jul'24 pan-India are up 7-8% YoY. While FY24 (Apr'23-Mar'24) was a stellar year with industry RevPAR growth at 14% and with various industry estimates pegging industry supply CAGR at 5-6% over FY24-28E vs demand CAGR at ~10%, we expect high single digit ARR CAGR of 7-9% across hotels over FY24-26E with occupancies rising 100-200bps each in FY25E and FY26E. Reiterate **HOLD** on Indian Hotels, **ADD** on Lemon Tree Hotels and **BUY** on Chalet Hotels.

ARR growth drives industry RevPAR growth

In line with the overall trend seen since Apr'22, hotel industry RevPAR growth continues to be driven by higher ARR's. Mar'24 industry RevPAR was up 10% YoY to INR 6,497 with ARR's rising 8% YoY to INR 8,200 and occupancy up 200bps YoY to 65%. In Mar'24, Mumbai, New Delhi and Goa markets continued to sustain ARR's of over INR 11,000, indicating robust demand in these markets. As per our channel checks, forward hotel rates between May-Jul'24 pan-India are up 7-8% YoY.

Medium-term demand outlook remains positive

While FY24 (Apr'23-Mar'24) was a stellar year with industry RevPAR growth at 14% and with various industry estimates pegging industry supply CAGR at 5-6% over FY24-28E vs demand CAGR at ~10%, we expect high single digit ARR CAGR of 7-9% across hotels over FY24-26E with occupancies rising 100-200bps each in FY25E and FY26E. Going forward, new asset additions/completions remain the key for companies to deliver EBITDA CAGR of 15-20% over FY24-26E. We expect management contracts to remain the preferred choice of expansion for most hotel companies (over 80% of incremental room addition over FY24-28E) with pure asset owners looking to either acquire operational hotels or utilise the existing land banks to drive growth.

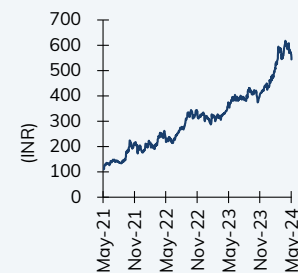
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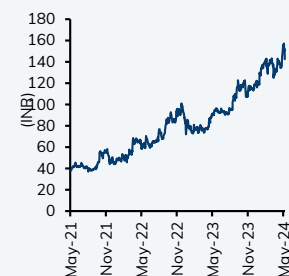
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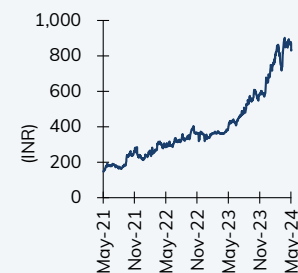
Indian Hotels Co. Ltd. (HOLD)



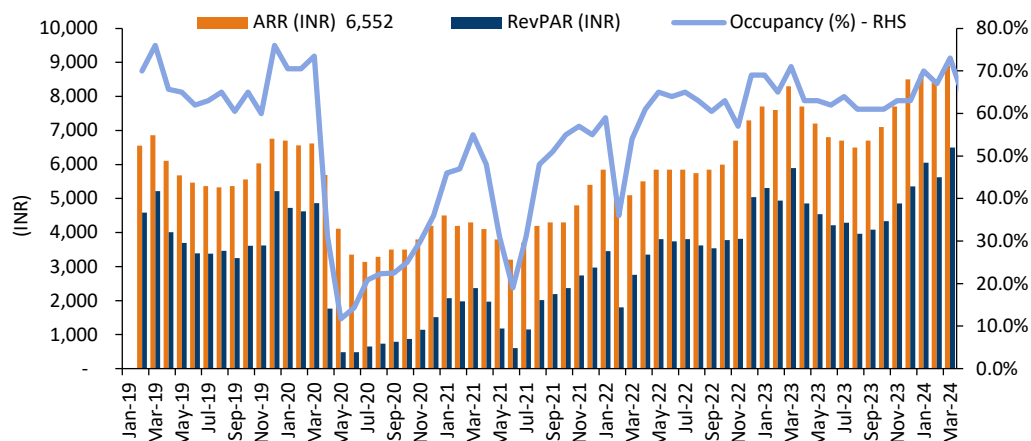
Lemon Tree (ADD)



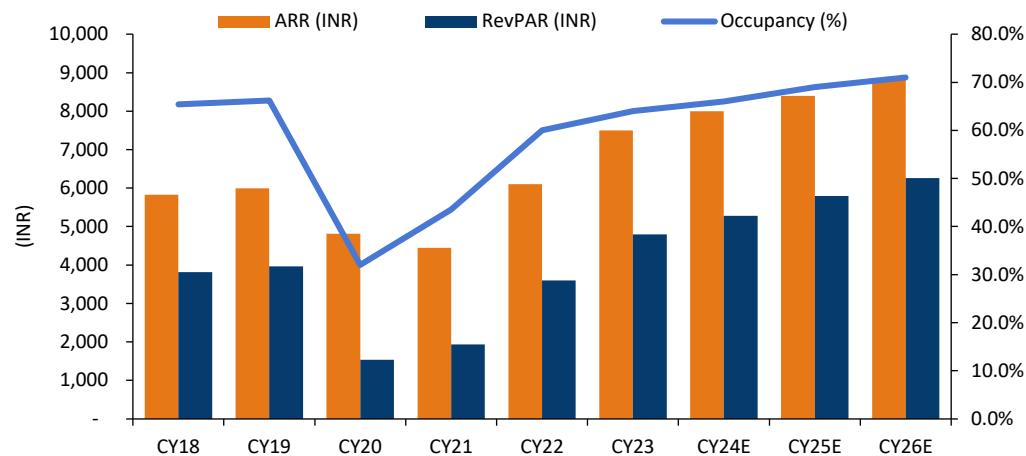
Chalet Hotels (BUY)



Source: Bloomberg

Exhibit 1: Industry ARR/occupancy trends from Jan'19 to Mar'24

Source: I-Sec research, HVS Anarock

Exhibit 2: Industry RevPAR to grow at 10% CAGR over CY23-25E

Source: I-Sec research, HVS Anarock

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