

Hospitality Sector

06 July 2020

Long road ahead for recovery

Nationwide lockdown was imposed by the Indian government from 25th March 2020 to 31st May 2020, post which certain economic activities were permitted to commence in a phased manner. Hotels were allowed to begin operations from 8th June 2020. However, there were many difficulties in the smooth operations post 8th June 2020 as well. Certain state governments decided to extend the lockdown and insecurity among people regarding inter-state travel kept domestic tourism subdued during 1QFY21. The emergence of digital meeting platforms restricted corporate travels even post lifting of the lockdown. Restrictions on dining at hotels and restaurants still continue, thereby reducing demand for the F&B segment of the hospitality companies. Only in-room dining, take aways and delivery orders currently constitute F&B revenues for the hotel companies.

During the period of lockdown, demand from long haul guests, medical staff and quarantined guests kept the occupancy rolling in certain hotels. Most of the demand was price regulated. A large portion of the hotels remained shut during the first two months of 1QFY21.

We expect RevPar for 1QFY21 to decline in the range of 67% to 82% for Indian Hotels Company Ltd (IHCL), Chalet Hotels Ltd (Chalet) and Lemon Tree Hotels Ltd (LTHL). We have retained Buy rating on IHCL and LTHL with TP of Rs107 and Rs25, respectively. We have retained Accumulate rating on Chalet with TP of Rs157.

IHCL: In the investor's presentation for 4QFY20, the company had reported that 50% of its hotels across portfolio were closed/acting as active quarantine centers as on 31st May 2020.

We expect the 1QFY21 RevPar for IHCL to decline by 71% YoY due to an expected 25% YoY decline in ARR and average occupancy of 25%. We expect the employee benefit cost and other expenses (comprising power & fuel costs) to decline by 55% and 62% YoY, respectively in 1QFY21. Revenue is expected to decline by 65% YoY and EBITDA margin for 1QFY21 is expected at 7%. The sharp decline in EBITDA margin by 999bps YoY is because of high operating leverage for IHCL.

Chalet: In the investor's presentation for 4QFY20, the company had reported that total revenues declined by 87% and 86% YoY during April 2020 and May 2020, respectively.

We expect the 1QFY21 RevPar for Chalet to decline by 82% YoY due to an expected 60% YoY decline in ARR and average occupancy of 30%. We expect the employee benefit cost to decline by 62% YoY in 1QFY21. Revenue is expected to decline by 81% YoY and EBITDA margin for 1QFY21 is expected at 6%.

LTHL: In the investor's presentation for 4QFY20, the company had reported that during April 2020 and May 2020, only 66% and 78% of the owned/leased rooms were operational, respectively. Also, during April 2020 and May 2020 the occupancy stood at 33.4% and 39.6% of the operational inventory, respectively.

We have assumed 80% of the owned/leased rooms and 40% of the managed rooms to be operational during 1QFY21. We have assumed occupancy of 40% of the operational inventory and assumed 36% YoY decline in ARR in 1QFY21. We expect the 1QFY21 RevPar for LTHL to decline by 67% YoY. Revenue is expected to decline by 68% YoY and EBITDA margin for 1QFY21 is expected at 8%.

The company had also mentioned about salary cuts taken at leadership levels (min 50%), reduction in power & fuel expenses and renegotiation of lease rentals, annual maintenance contracts, IT contracts etc. to get waiver for 1Q/H1FY21. Thus, assuming reduction in contractual labor and salary cuts during the quarter, we have assumed 53% YoY reduction in employee expenses. Since the hotels were operating at sub optimal levels and also owing to reduction in power rates by certain state governments, we have assumed 61% YoY decline in the power cost. We also expect other expenses to decline by 51% YoY because of reduction in AMC and other charges.

We maintain Buy on IHCL and LTHL and Accumulate on Chalet: We have retained Buy rating on IHCL and LTHL with TP of Rs107 and Rs25, respectively. We have retained Accumulate rating on Chalet with TP of Rs157.

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(Rsmn)	Rating	TP	CMP	Sales			EBITDA			EBITDA margin (%)			PAT		
				Company	(Rs)	(Rs)	1QFY21E	YoY (%)	QoQ (%)	1QFY21E	YoY (%)	QoQ (%)	1QFY21E	4QFY20	1QFY20
Indian Hotels	Buy	107	80.25	3,571	(65.0)	(66.4)	251	(85.6)	(87.9)	7.0	19.6	17.0	(872)	N/A	N/A
Lemon Tree Hotels	Buy	25	23.65	448	(68.2)	(74.5)	35	(92.3)	(94.6)	7.7	36.3	31.8	(557)	N/A	N/A
Chalet Hotels	Acc	157	130.75	456	(81.0)	(80.0)	28	(96.5)	(95.6)	6.2	27.8	33.1	(441)	N/A	N/A
Grand total/avg.				4,475	(71.4)	(73.6)	313	(91.4)	(92.7)	7.0	27.9	27.3	(1,870)	N/A	N/A

Source: Nirmal Bang Institutional Equities Research

Exhibit 1: RevPar Comparison:

Company	1QFY20 (Rs)	1QFY21E (Rs)	YoY Change (%)
Indian Hotels Company Limited	3,824*	1,103	(71.2)
Chalet Hotels Limited	6,070	1,087	(82.1)
Lemon Tree Hotels Limited	3,102	1,033	(66.7)

Source: Company, Nirmal Bang Institutional Equities Research

*Note: Average RevPar for owned and managed international and domestic properties.

Exhibit 2: Operational metrics for first two months of 1QFY21 as reported by the companies:

Lemon Tree Hotels Limited	Apr-20*	Apr-19*	YoY (%)	May-20*	May-19*	YoY (%)	1QFY21E	1QFY20	YoY (%)
Occupancy (%)	21.9%	75.0%	-	30.9%	75.3%	-	40.0%	77.5%	-
ARR (Rs)	2,881	3,985	-27.7%	2,625	3,947	-33.5%	2,581	4,002	-35.5%
RevPar (Rs)	631	2,990	-78.9%	812	2,974	-72.7%	1,033	3,102	-66.7%
Revenues(Rs mn)	108	456	-76.3%	135	462	-70.8%	448	1,409	-68.2%
Expenses	107	255	-58.1%	113	265	-57.4%	414	962	-57.0%
Chalet Hotels Limited	Apr-20#	Apr-19#	YoY (%)	May-20#	May-19#	YoY (%)	1QFY21E	1QFY20	YoY (%)
Total Revenues	92	685	-86.6%	99	728	-86.4%	456	2,403	-81.0%

Source: Company, Nirmal Bang Institutional Equities Research

*Note: Operational parameters for owned/leased rooms as reported by the company in the investor's presentation for 4QFY20.

#Note: Total Revenues for hotel assets in MMR, Bengaluru and Hyderabad region as reported by the company in the investor's presentation for 4QFY20.

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