Hotels enjoying revival could make investors’ stay lucrative

After dealing with excess supply, lower occupancy and room rates, hotels companies are expected to record superior revenue growth for the next two to three fiscals as key operational variables show improvement in recent quarters.

There are several key variables, which indicate that the business cycle in hotels industry is changing and the industry is entering a phase, which could enhance revenues growth for hotels. It must be noted that business cycles in hotels industry stay for at least four years once key revenue-enhancing variables fall in place.

It is estimated that the industry’s occupancy rates have surpassed 65 per cent. This is after a gap of nine years. This occupancy rate is nearer to the peak occupancy rate of 71.8 per cent in 2008. Besides this, premium hotels such as Indian Hotels, EIH and others have been able to increase their room rates. It is estimated in the December 2017 quarter itself, premium hotels have been able to increase their room rates in the range of 9-15 per cent.

In addition to this, today, the demand-supply gap in the industry has narrowed considerably. In the past ten years ending 2017, the supply of rooms grew at a Compounded Annual Growth Rate (CAGR) of 13 per cent while demand grew at a CAGR of 12.4 per cent points out global hospitality consultancy firm Horwath HTL. Quite favourably, between FY17 and FY21, according to Horwath HTL, the demand for rooms is expected to rise at a CAGR of 12.4 per cent.

Premium hotels such as Indian Hotels, whose strength is its presence in almost all categories and EIH, which has lean balance sheet, are likely to be key beneficiaries. A key strategy these hotels are following is asset light model where they would not be owning assets and instead manage them. The company has said that 60 per cent of its assets will not be owned by it by 2022. This provides cushion to their balance sheet.