'Unlock' stocks may be headed for good times

Most signals are positive, and if sustained, businesses could see big rebound

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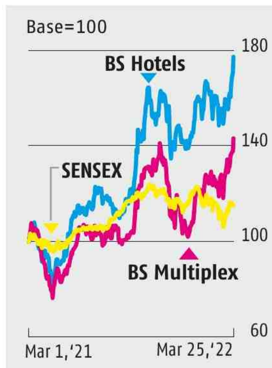
Higher vaccination rates, a relatively mild Omicron wave and the gradual revival of "business as usual" norms could make for a rebound in the hospitality industry, and in some segments of the entertainment industry. Balanced against that, high fuel costs are likely to feed in higher ticket costs, which could inhibit some discretionary travel and leisure activity.



Hotels, multiplexes, restaurants and associated sectors have been among the hardest hit by the pandemic and two years of social distancing. Discretionary spending has also dropped because of widespread unemployment.

However, there are signs that hotel occupancy is rising and one silver lining for hotels is that they appear to have gone through an enforced reduction of costs. In the case of listed hotels like Indian Hotels (IHCL), East India Hotels (EIH) and Lemon Tree these savings are likely to be permanent since the companies have redeployed their workforce to newly commissioned properties. There's a huge pipeline of rooms that are due to be commissioned or under-utilised, however, and they may have to wait for further normalisation before the top line fully recovers.

Nonetheless, there has been a strong revenue recovery for hotels. Assuming fast recovery continues, hotels should see comfortable double-digit growth in Ebitda (earnings before interest, taxes, depreciation, and amortisation) through the next two fiscals based on both a low base effect as well as significant cost-savings, which should be permanent.

The key risks against a fast recovery would include long delays in business travel resumption, delays in commissioning, etc. Specifically for EIH and Chalet, there is a concentration on Mumbai properties from where the bulk of revenue is garnered, and this could lead to additional risk.

Multiplexes such as PVR and Inox have also seen rising footfalls and the first quarter of financial year 2022-23 (Q1FY23) is expected to see footfall recover to pre-Covid levels or rise past that. Average spends per capita have improved and so has advertising income. Both PVR and Inox have decent balance sheets with low debt, which gives them headroom to expand or tide over a couple of bad quarters.

The signals out of IRCTC indicate that rail passenger travel volumes have also picked up, though they're still well below FY20 levels. Stores and fast-food chains (Jubilant, Sapphire Foods, Westlife) also show better volumes with net store additions. Titan's volume data also shows consistent sales recovery since Q2FY22. Commercial rentals may be improving with Phoenix Mills showing QoQ pickup in the last two quarters after a second wave dip in Q1FY22.

The unlock theme is still obviously speculative since it is difficult to say definitively that it is happening. But most signals seem to be positive. If it is indeed a reality and it is sustained, there could be a variety of hard-hit businesses that are due to outperform.

Lemon Tree hit a 52-week high on Friday as did Chalet Hotels, while Indian Hotels and EIH gained 7 per cent. So, there's obviously a strong move in terms of sentiment for the sector. PVR and Inox also hit 52-week highs. So did luggage-maker VIP Industries. This sort of concerted move is hard to ignore. There appears to be a consensus that these stocks are set for a good time.