TRAVEL, LEISURE AND HOSPITALITY

Time for Covid balm

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The Covid pandemic has had an uneven impact across sectors. Some, like IT and Metals, benefited disproportionately after an initial hit. Some companies in consumer discretionary and non-discretionary had a quick bounce-back. And then there are service sectors that have borne the brunt of it and yet to see normalcy – travel, leisure and hospitality. The impact has been severe. According to the Federation of Hotel and Restaurant Associations of India (FHRAI), around 30 per cent of hotels and restaurants in the country have had to shut down permanently during the first two waves of the pandemic. Similarly, in the case of the airline industry, according to a statement by the government, the pandemic-related restrictions resulted in a loss of around ₹19,500 crore in FY21 for the industry. While there has been some rebound in FY22, this has not been linear, with multiple disruptions. Hence if there are industries requiring special attention and a boost in the current Budget, travel, leisure and hospitality is amongst those.

One of the key demands of the hospitality industry is for the government to accord infrastructure status for hotels. If done, this will bring with it benefits of attracting more investments and access to better and longer-dated funding options-.Besides this, the hotel and restaurant associations have expectations relating to GST, like rationalisation of GST rates between independent restaurants and those situated inside hotels, and allowing input tax credits for certain expenditures. However, it is unclear whether these will be touched upon in the Budget.The airline industry has expectations for reduction of indirect taxes, which currently amount to 21 per cent of revenue, without much input credits. Another expectation is to reduce central excise taxes on fuel to 5 per cent from 11 per cent.The Budget, hopefully, must have measures that induce citizens to spend specifically in these sectors. While a general tax cut might be an impetus, targeted measures that induce people to spend on these sectors will be better.

Having said thus, it needs to be noted that listed companies in this sector have already priced in some recovery. Take the case of largest hotel company by market cap - Indian Hotels, the stock is currently trading more than 30 per cent above its March 2019 (pre-Covid year) levels, although the company's revenue is expected to recover to FY 2019 levels only by FY 2023 (Bloomberg consensus). During the same time, company's net debt has increased by around 140 per cent.In the case of airline company Interglobe Aviation too, the share price is around 30 per cent above March 2019 levels despite pandemic impact. . Between FY19 and FY22, company has moved from a net cash company to a net debt company. Stocks of quick service restaurants too have had a good run on the bourses. At the same time increase in debt levels for some of these companies is reflective of the stress that the pandemic has caused. The stocks, however, are pricing in a strong recovery over FY23. Thus from fundamental point of view, stimulus measures are required to support these expectations of investors.

Key expectations

- Targeted measures to induce consumers to spend more
- Infrastructure status for hotel industry
- Reduction in fuel taxes for airlines