

Lemon Tree Hotels (LEMTRE)

CMP: ₹ 40

Target: ₹ 55 (38%)

Target Period: 12 months

BUY

August 14, 2021

Impacted by second wave; hopeful of faster recovery

About the stock: Promoted by Patanjali Keswani, Lemon Tree (LTHL) is the largest hotel chain in the mid-priced segment in India. It operates 8,300 rooms in 84 hotels across 52 destinations in India and abroad under brands like Aurika (premium), Lemon Tree premier, Lemon Tree (midscale), RedFox (economy) and Keys.

- The favourable location of its properties in prominent business and tourist districts supports revenue growth prospects and reduces concentration risk
- Post completion of expansion, LTHL will be operating ~10,400 rooms in 105 hotels across 64 destinations, in India and abroad by FY24E

Q1FY22 Results: Lemon Tree reported weak Q1FY22 results due to lockdown.

- Revenues declined 55.7% QoQ to ₹ 42.2 crore
- Stringent cost control helped to maintain EBITDA positive, albeit marginally
- Net loss of ₹ 59.8 crore was attributable to higher interest & depreciation charge

What should investors do? The company remains a key branded player in the high growing mid-scale segment.

- We retain BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 55 on an SOTP basis i.e. 23x FY23E EV/EBITDA.

Key triggers for future price performance:

- Performance likely to improve sharply from H2FY22E onwards with opening up of the economy
- Well positioned to capture the unorganised market share due to likely 15-18% reduction in the room supply in the wake of ongoing stress along with rising preference towards branded players
- The company's large asset base, strategic partnership and financial flexibility would continue to support liquidity profile if further need arises

Alternate Stock Idea: Apart from Lemon Tree, in our hotels coverage we like Oriental Hotels.

- Key player in South India with a premium room portfolio of 820 rooms
- Maintain BUY with a target price of ₹ 55/share



Particulars

Particulars	Amount
Market Capitalization (₹ crore)	3161
Debt (FY21) (₹ crore)	1642
Cash & Investment (FY21) (₹ crore)	142
EV (₹ crore)	4661
52 week H/L	₹ 49/22
Equity Capital (FY21) (₹ crore)	789
Face Value	₹ 10

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	31.05	25.88	25.88	25.88
FII	18.50	22.50	22.83	22.16
DII	16.26	15.75	15.34	14.20
Others	34.19	35.87	35.95	37.76

Price Chart



Recent Event & Key risks

- Any further imposition of restrictions on travel could further delay the recovery
- Companies adopting WFH policy could impact the business segment room demand

Research Analyst

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Sales	484.3	549.5	669.4	251.7	-19.6	462.3	706.1	67.5
EBITDA	136.2	168.8	238.3	61.3	-23.4	159.6	265.8	108.3
EBITDA (%)	28.1	30.7	35.6	24.3		34.5	37.6	
PAT	14.6	56.4	-13.1	-186.5	PL	-91.8	-9.7	NA
EPS (₹)	0.2	0.7	-0.2	-2.4		-1.2	-0.1	
EV/EBITDA	30.4	25.5	19.8	76.1		29.8	18.3	
RoNW	1.8	6.7	-1.5	-21.4		-10.5	-1.2	
RoCE	4.6	5.5	5.5	-0.7		2.1	4.9	

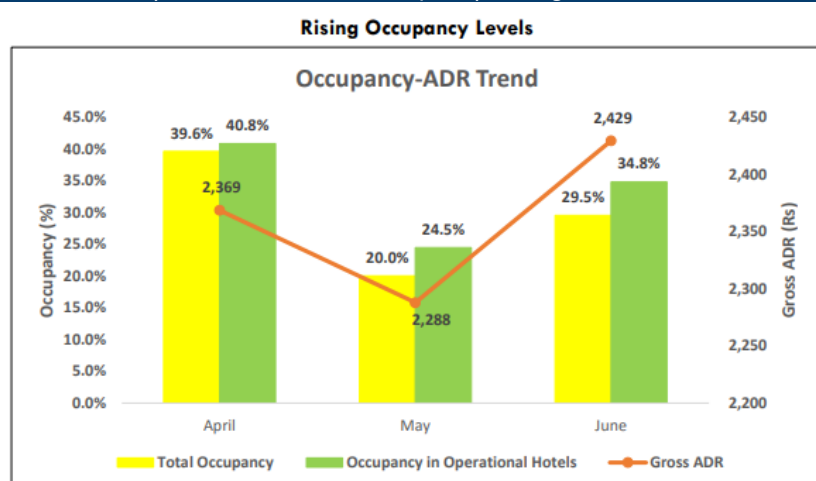
Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Weak performance due to lockdown impact

- Impacted by lockdown, revenues for the quarter fell 55.7% QoQ to ₹ 42.2 crore (vs. I-direct estimate: ₹ 64.7 crore). On a YoY basis, revenues were up only 3.7% with a 10.1% YoY decline in room rates to ₹ 2362/room
- Occupancy levels on full inventory improved marginally by 73 bps YoY to 29.6% while it was down 2619bps from 55.8% in Q4FY21
- Current operational inventory as of June 30, 2021 comprised 84 hotels with 8309 rooms, out of which 4517 are owned, 675 leased and 3117 managed rooms
- Total expenses were at ₹ 42.2 crore in Q1FY22, up 16.2% YoY as the company had maintained higher operating inventory levels in anticipation of a fast recovery

Exhibit 1: Monthly trend in ARR and occupancy during Q1FY22



Source: Company, ICICI Direct Research

Q1FY22 Earnings Conference Call highlights

- The lower room rates are attributable to the change in the customer mix on a YoY basis as the vast majority of business last year was fixed rate with limited expenses last year compared to higher share of tradition business this year that led to a fall in room rates along with higher expenses on a YoY basis
- **With easing of Covid cases, the company is hopeful of getting back to pre-Covid levels by Q4FY22E**
- The Bengaluru and Gurugram market has seen large supply of rooms over the past two to three years and is also dependent on demand from the IT segment, which is yet to recover fully
- Staff to room ratio is expected to stabilise at 0.75:1 per room, going forward, vs. staff to room ratio of 1:1 that was prevailing before Covid
- The company plans to add 738 rooms (669 rooms in Mumbai, 69 rooms in Shimla) over the next three years with a total capex of ₹ 1006 crore. LTHL has already spent ₹ 381 crore till date with the balance to be incurred in a staggered manner with major spend to be done in FY23E
- The gross debt increased by ₹ 58 crore during Q1FY22

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	42.2	64.7	40.7	3.7	95.1	-55.7	Occupancy on full inventory dropped from 55.8% in Q4FY21 to 29.6% in Q1FY22 due to Covid. On a YoY basis, it was up marginally by 73 bps while ARR was down 10% YoY
Other Incomes	4.1	5.0	4.9	-15.9	3.3	26.0	
Raw Material Expenses	3.2	5.2	2.3	37.9	6.9	-53.9	
Employee Expenses	17.4	16.7	17.8	-2.0	22.6	-22.8	
Other expenses	21.6	24.4	16.2	33.4	37.1	-41.7	
Total expenses	42.2	46.3	36.3	16.4	66.6	-36.6	
EBITDA	-0.1	18.4	4.4	-101.8	28.5	-100.3	Stringent cost control measures kept EBITDA positive for the quarter
EBITDA Margin (%)	-0.2%	28.4%	10.7%	-1094 bps	30.0%	-3019 bps	
Interest	45.2	44.6	48.7	-7.2	44.5	1.5	
Depreciation	26.2	26.4	27.1	-3.4	26.1	0.2	
PBT	-67.3	-47.6	-66.5	1.2	-38.8	73.3	
Total Tax	-7.5	-15.5	-7.1	5.9	-14.2	-46.8	
Reported PAT	-59.8	-32.2	-60.5	-1.2	-26.7	123.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	467.2	462.3	-1.1	706.1	706.1	0.0	
EBITDA	165.4	159.6	-3.5	265.8	265.8	0.0	
EBITDA Margin (%)	35.4	34.5	-88 bps	37.6	37.6	0 bps	
PAT	-86.7	-91.8	5.9	-9.7	-9.7	NA	
EPS (₹)	-1.1	-1.2	5.9	-1.2	-0.1	NA	

Source: Company, ICICI Direct Research

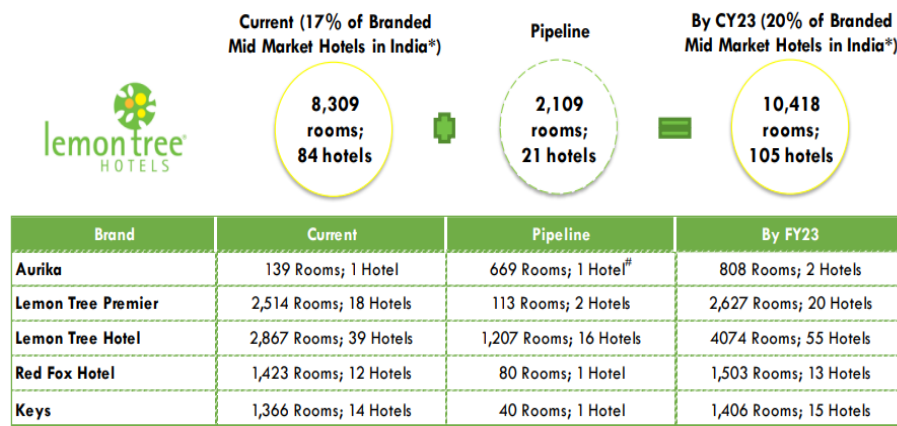
Story in charts

Exhibit 4: Upcoming owned/leased hotels (excluding management contracts)

Particulars	Number of rooms	Ownership (%)	Expected
End of FY19	3570		
Addition during the year:			
LTP, Mumbai	303	58	
LTP, Kolkata	142	58	
RFH, Chandigarh	102	Leased	
Aurika, Udaipur	139	58	
Total addition (Ex-Keys)	686		
Keys Hotels Inventory	936		
End of FY20	5192		
End of FY21	5192		
Future Additions			
LT Mountain Resort, Shimla	69	100	NA
Aurika Mumbai	669	58	End of CY23
Total (Owned/Leased) post Expansion	5930		

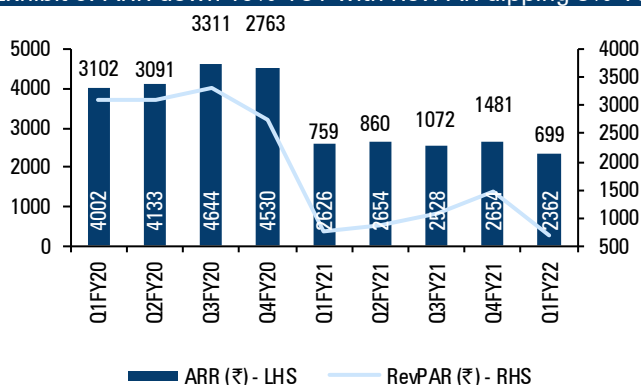
Source: Company, ICICI Direct Research

Exhibit 5: Total room portfolio (including managed) to grow at 12% CAGR in FY21-23E



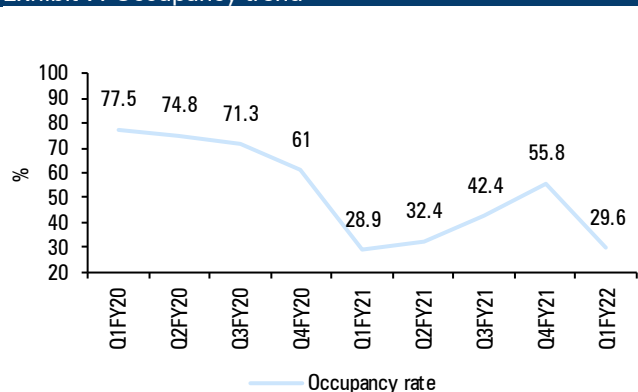
Source: Company, ICICI Direct Research

Exhibit 6: ARR down 10% YoY with RevPAR dipping 8% YoY



Source: Company, ICICI Direct Research

Exhibit 7: Occupancy trend



Source: Company, ICICI Direct Research

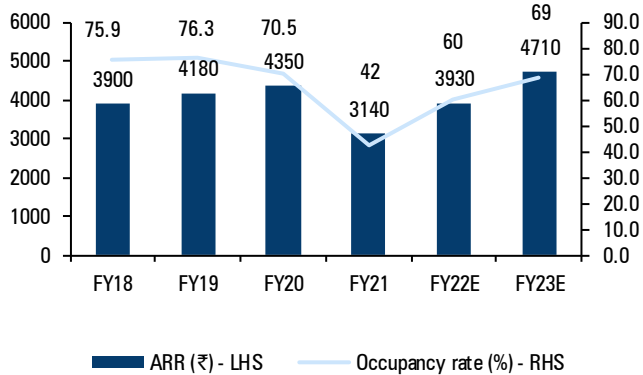
Exhibit 8: Key performance parameters

Parameters	Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	By Brand (#Rooms)	Q1 FY22	Q1 FY21	Change (bps)	Q1 FY22	Q1 FY21	Change (%)	Q1 FY22	Q1 FY21	Change (%)	Q1 FY22	Q1 FY21
Aurika (139)	3.81%	HNO	-	8,754	HNO	-	-0.21	HNO	-	-29.90%	HNO	-
Lemon Tree Premier (1,603)	45.74%	39.92%	582	2,480	3,257	-23.84%	0.26	0.50	-48.52%	20.51%	38.94%	-1,843
Lemon Tree Hotels (1562)	24.02%	27.53%	-350	2,527	2,467	2.41%	0.02	0.07	-71.67%	2.61%	9.15%	-655
Red Fox Hotels (952)	25.74%	23.06%	268	2,075	2,095	-0.94%	0.06	0.06	15.28%	11.70%	12.02%	-32
Keys Hotels (936)	19.15%	22.49%	-335	1,737	1,588	9.39%	-0.02	0.02	-	-3.90%	3.46%	-

Parameters	Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	By City (#Rooms)	Q1 FY22	Q1 FY21	Change (bps)	Q1 FY22	Q1 FY21	Change (%)	Q1 FY22	Q1 FY21	Change (%)	Q1 FY22	Q1 FY21
Delhi (636)	38.42%	39.33%	-91	2,298	3,210	-28.39%	0.04	0.44	-91.65%	3.63%	34.50%	-3087
Gurugram (529)	23.96%	24.54%	-58	2,775	2,983	-6.97%	0.03	0.08	-61.49%	3.57%	9.69%	-612
Hyderabad (663)	42.08%	35.80%	628	2,084	3,259	-36.05%	0.27	0.57	-51.49%	28.72%	49.28%	-2056
Bengaluru (874)	18.62%	37.60%	-1,898	2,000	1,873	6.81%	-0.07	0.14	-	-16.44%	17.71%	-
Mumbai (303)	72.02%	38.06%	3396	2,615	3,766	-30.56%	0.69	0.55	27.15%	37.92%	40.27%	-235

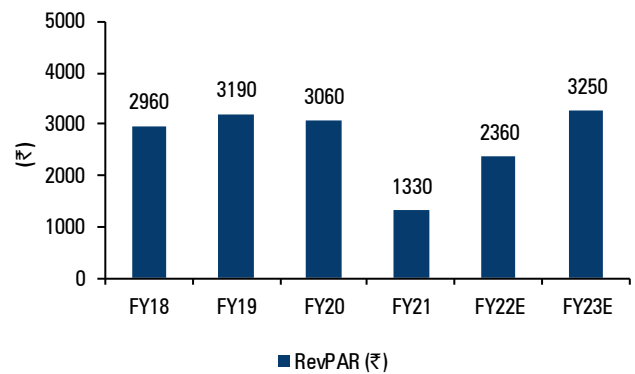
Source: Company, ICICI Direct Research

Exhibit 9: ARR to recover from H2FY22E



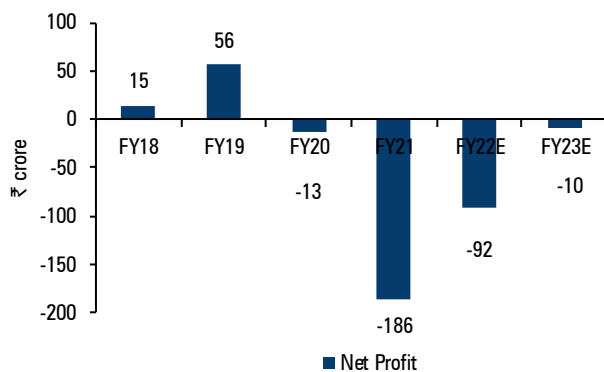
Source: Company, ICICI Direct Research

Exhibit 11: RevPAR to gradually improve from FY22E with pick-up in demand



Source: Company, ICICI Direct Research

Exhibit 10: Net loss to narrow down sharply in next two years



Source: Company, ICICI Direct Research

While net loss is expected to cross ₹ 186 crore in FY21, we expect net loss of only ₹ 10 crore by FY23E

Performance set to improve sharply from H2FY22E onwards...

As the economy is now coming out of the pandemic induced pain, the company is also gradually moving to its full functionality. Although an improvement would be visible in the tourist destinations first, a recovery in the corporate travel would take at least five to six months due to the ongoing work from home policy. We model occupancy of 60%, 69% and ARR of ₹ 3925, ₹ 5405 in FY22E, FY23E, respectively. LTHL has taken measures to curtail costs, by taking salary cuts, re-negotiating contracts, reducing repairs costs, reduction in power costs, ad, etc. While some of these measures are sustainable, we model EBITDA margins of 34.5%, 37.6% in FY22E, FY23E, respectively vs. 35.6% in FY20. However, at the PAT level, the company would take a couple of years to break even owing to higher financing and depreciation costs.

Stable liquidity buffer with no further likely dilution

LTHL being in a capex mode has high debt on its book. To cope with the Covid induced crisis it raised money (₹ 175 crore) from APG in FY21. Now, with improved demand visibility and lower debt repayment schedule (₹ 115 crore for FY22 and ₹ 140 crore for FY23E), we believe the company is now in a better position to manage the liquidity without any dilution further.

Valuation & Outlook

The ongoing crisis is expected to lead to ~15% of room inventory reduction, which augurs well for the company in the long run. Further, with improved demand visibility, we expect a faster recovery in the demand. We maintain our BUY rating with an unchanged target price of ₹ 55 per share (SOTP based valuation).

Exhibit 12: Valuation matrix

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		7176
Net Debt FY23E (₹ crore)		1726
Lemon Tree Group Equity value (₹ crore)		5450
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	2744
Fleur Hotels Equity Value (₹ crore)	(B)	2706
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	1570
Lemon Tree Value (₹ crore)		4314
Number of shares (Crore)		79
Target Price (₹)		55

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	669.4	251.7	462.3	706.1
Growth (%)	22%	-62%	84%	53%
Raw Material Expenses	57.0	17.8	38.8	59.3
Employee Expenses	155.3	70.4	102.1	148.0
Other Exp	218.8	102.2	161.8	233.0
Total Operating Expenditure	431.1	190.4	302.7	440.3
EBITDA	238.3	61.3	159.6	265.8
Growth (%)	41.2%	-74.3%	160.4%	66.5%
Depreciation	87.2	107.6	110.3	112.5
Interest	161.6	190.4	197.1	195.9
Other Income	10.9	22.0	24.0	26.0
PBT	0.5	-214.7	-123.8	-16.6
Others	0.0	0.0	0.0	0.0
Total Tax	10.9	-32.2	-31.2	-5.5
Reported PAT	-10.4	-182.5	-92.6	-11.1
Adjusted PAT	-13.1	-186.5	-91.8	-9.7
Growth (%)	-1.2	13.3	-0.5	-0.9
Adjusted EPS (₹)	-0.2	-2.4	-1.2	-0.1

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	790.3	790.4	790.2	790.2
Reserve and Surplus	32.7	127.1	44.5	35.8
Total Shareholders fun	823.0	917.6	834.8	826.1
Total Debt	1596.0	1641.9	1848.5	1938.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	721.8	617.4	608.2	607.2
Total Liabilities	3459.9	3518.5	3585.3	3682.4
Assets				
Gross PPE	2941.3	2967.8	3017.8	3067.8
Less: Acc Depreciation	289.5	397.1	507.4	619.9
Net PPE	2651.8	2570.8	2510.5	2448.0
Investment Property	2.4	2.3	2.5	2.5
CWIP	189.6	241.8	316.8	491.8
Total Fixed Assets	2843.7	2814.9	2829.7	2942.2
Intangibles	119.4	114.6	114.6	114.6
Investments	59.7	69.9	50.0	50.0
Inventory	8.2	7.2	13.3	15.0
Debtors	50.3	30.8	50.9	67.0
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	55.5	50.1	82.9	75.0
Cash	40.8	141.2	217.0	212.6
Total Current Assets	159.2	230.3	399.1	404.6
Creditors	42.0	78.8	81.3	93.0
Provisions & Others	115.7	89.2	125.8	131.6
Total Current Liabilities	302.8	296.3	342.1	349.6
Net Current Assets	-143.6	-66.0	57.0	55.0
Others Assets	580.7	585.1	534.0	520.5
Application of Funds	3459.9	3518.5	3585.3	3682.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-13	-186	-92	-10
Add: Depreciation	87	108	110	113
(Inc)/dec in W/cap	47	29	-93	-10
Others	520	152	198	194
CF from operating activities	640	103	123	287
(Inc)/dec in Other Non-Curr Assets	0	0	0	0
(Inc)/dec in Fixed Assets	-783	-74	-125	-225
Others	-349	18	44	13
CF from investing activities	-1131	-56	-81	-212
Issue/(Buy back) of Shares	1	0	0	0
Inc/(dec) in loan funds	400	46	207	90
Dividend paid & dividend tax	0	0	0	0
Others	99	8	-173	-170
CF from financing activities	500	54	33	-80
Net Cash flow	9	100	76	-4
Opening Cash	31	41	141	217
Closing Cash	41	141	217	213

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	-0.2	-2.4	-1.2	-0.1
Cash EPS	0.9	-1.0	0.2	1.3
BV	10.4	11.6	10.6	10.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.5	1.8	2.7	2.7
Operating Ratios (%)				
EBITDA Margin	35.6	24.3	34.5	37.6
EBIT Margin	24.2	-9.7	15.9	25.4
PAT Margin	-2.0	-74.1	-19.9	-1.4
Inventory days	3.9	11.2	8.1	7.3
Debtor days	36.7	58.8	32.3	30.5
Creditor days	37.6	87.6	63.2	45.0
Return Ratios (%)				
RoE	-1.5	-21.4	-10.5	-1.2
RoCE	5.5	-0.7	2.1	4.9
RoIC	8.1	5.4	5.6	6.5
Valuation Ratios (x)				
P/E	NM	NM	NM	NM
EV / EBITDA	19.8	76.1	29.8	18.3
EV / Net Sales	7.0	18.5	10.3	6.9
Market Cap / Sales	4.7	12.6	6.8	4.5
Price to Book Value	3.8	3.4	3.8	3.8
Solvency Ratios				
Debt/EBITDA	6.7	26.8	11.6	7.3
Debt / Equity	1.0	1.1	1.3	1.4
Current Ratio	0.5	0.8	1.2	1.2
Quick Ratio	0.5	0.8	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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