

## Virus disrupts travel; Maintain HOLD

Lemon Tree Hotels' (LTH) revenues for Q4FY20 increased 17% YoY to ₹ 176.1 crore (I-direct estimate: ₹ 150 crore) driven by a 45% YoY higher room inventory. Occupancy was down 1660bps YoY to 61%. Higher ARR from new properties was offset by lower ARR of Keys' properties. Thus overall ARR saw a 2.8% YoY growth to ₹ 4,530. EBITDA stood at ₹ 63.9 crore (I-direct estimate: ₹ 53.3 crore) with EBITDA margins of 36.3% (I-direct estimate: 35%). On a comparable basis, EBITDA increased 12% YoY to ₹ 55 crore and EBITDA margins contracted 127bps YoY to 31.2% in Q4FY20. EBITDA growth did not flow to PAT due to higher finance cost and depreciation (IndAS Adjustments). Net loss for the quarter stood at ₹ 19 crore (Adjusted net loss: ₹ 15.7 crore) against a profit of ₹ 33.7 crore YoY.

## Performance to remain weak as industry braces for a rough ride

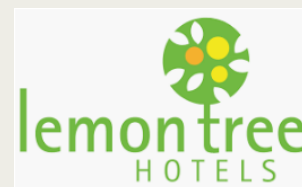
Tourism was the first sector that took a hit due to outbreak of the pandemic and is expect to be among the last to recover. Business in April was down 76% YoY and 70% YoY in May. Business and Leisure travel are not expected to normalize for few quarters. Occupancies in the lockdown came from rooms occupied by quarantine or corporate guests, doctors and healthcare workers. We model occupancy of 52%/63% and ARR of ₹4080/₹4410 in FY21E/FY22E. LTH has taken measures to curtail costs, by taking salary cuts, re-negotiating contracts, reducing repairs costs, reduction in power costs, advertisement etc. These would support the falling profits owing to lower occupancies. We model EBITDA margins of 32.3%/39.7% in FY21E/FY22E and EBITDA of ₹164 crore and ₹ 272 crore in FY21E and FY22E respectively. However, on the PAT level, the company would take a couple of years to breakeven owing to higher financing costs and depreciation costs.

## Fresh equity infusion – a much needed breather

LTH being on the capex mode has significant debt on its book. A prolonged crisis would have put questions on the LTH's survival. It recently received board's approval to infuse ₹ 450 crore into the LTH group which would meet the cash requirement (gap) to fulfil expenses/debt obligation and capex. Further, the company had also opted for moratorium to conserve. Also LTH has postponed its capex for the Mumbai property and would be reduce discretionary spends to minimal. Cash conservation measures combined with fresh capital infusion would enable the company to survive (however capital infusion implies significant dilution, considering current price levels).

## Valuation & Outlook

Outlook remains grim as the hotel industry grapples with after effects of the virus on tourism. LTH's management expects the ongoing crisis to lead to 15-20% of room inventory getting wiped out, which would augur well for companies like LTH with a strong brand recognition and presence. Weak industry dynamics, heavily indebted B/S and capital infusion at lower prices (leading to significant dilution) compel us to maintain a HOLD rating. On an SOTP basis, we value the company at ₹ 24 per share.



### Stock Data

Particulars	Amount
Market Capitalization (₹ crore)	1565
Debt (FY20) (₹ crore)	1596
Cash & Investment (FY20) (₹ crore)	45
EV (₹ crore)	3116
52 week H/L	₹ 75/14
Equity Capital (FY20) (₹ crore)	789
Face Value	₹ 10

### Key Highlights

- Company focussing on reduction in cost. Opted for moratorium, to conserve cash
- Company estimates cash requirement of ₹ 235-270 crore over the next two years to meet debt obligations, capex and fund certain operational expenses.
- Board approved ₹ 150 crore equity infusion in LTH and ₹ 300 crore equity infusion in Fleur Hotels by APG group (LTH holds 58% stake in Fleur hotels)
- Maintain HOLD with target of ₹24 (Earlier ₹ 25)

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### Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR
Sales	484	550	669	511	686	1.2%
EBITDA	136	169	238	164	272	6.9%
EBITDA (%)	28.1	30.7	35.6	32.2	39.7	
PAT	15	56	-13	-101	-9	-15.1%
EPS (₹)	0.2	0.7	-0.2	-1.3	-0.1	
EV/EBITDA	18.7	16.0	13.1	19.6	12.0	
RoNW	1.8	6.7	-1.5	-12.9	-1.3	
RoCE	4.6	5.5	5.5	1.9	5.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	176.1	150.0	150.5	17.0	199.6	-11.8	Revenues were up mainly due to 45.5% YoY increase in the operational inventory. Occupancies declined sharply to 65% vs 77% LY
Other Incomes	1.2	2.0	4.0	-71.2	3.9	-70.1	
Raw Material Expenses	14.6	13.5	13.4	9.1	16.7	-12.7	
Employee Expenses	42.9	36.0	31.9	34.6	42.1	1.9	
Other expenses	54.7	49.5	56.4	-3.0	59.6	-8.3	
Total expenses	112.2	99.0	101.6	10.4	118.4	-5.3	
EBITDA	63.9	53.3	48.9	30.7	81.2	-21.3	
EBITDA Margin (%)	36.3%	35.0%	32.5%	381 bps	40.7%	-437 bps	
Interest	49.5	44.0	23.8	107.9	45.9	7.9	
Depreciation	27.7	22.5	14.3	93.7	22.7	22.2	
PBT	-12.1	-11.2	14.8	-181.9	16.5	-173.6	
Total Tax	5.6	-3.1	-19.4	-128.6	4.6	22.0	
Reported PAT	-19.0	-9.1	33.7	-156.5	11.1	-271.6	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	601.0	510.6	-15.0	763.0	685.9	-10.1	
EBITDA	170.0	164.2	-3.4	298.0	272.4	-8.6	
EBITDA Margin (%)	28.3	32.2	387 bps	39.1	39.7	66 bps	EBITDA margins to expand due to Ind-AS adjustments
PAT	-58.0	-100.6	NA	36.0	-9.4	NA	PAT growth to be lower on account of higher depreciation and interest charge
EPS (₹)	-0.7	-1.3	NA	0.5	-0.1	NA	

Source: Company, ICICI Direct Research

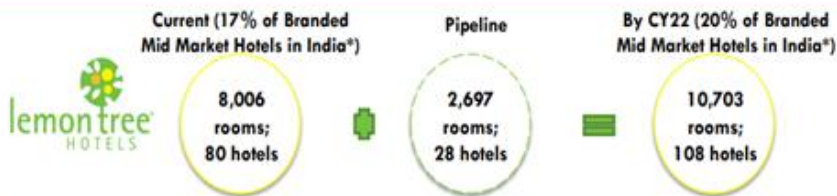
## Story in charts

Exhibit 3: Upcoming owned/leased hotels

Particulars	Number of rooms	Ownership (%)	Expected
<b>End of FY19</b>	<b>3570</b>		
<b>Addition during the year:</b>			
LTP, Mumbai	303	58	
LTP, Kolkata	142	58	
RFH, Chandigarh	102	Leased	
Aurika, Udaipur	139	58	
<b>Total addition (Ex-Keys)</b>	<b>686</b>		
<b>Keys Hotels Inventory</b>	<b>936</b>		
<b>End of FY20</b>	<b>5192</b>		
<b>Additions</b>			
LT Mountain Resort, Shimla	69	100	NA
LT Lake Resort, Kerala	10	100	NA
Aurika Mumbai	669	58	End of CY22
<b>Total (Owned/Leased) post Expansion</b>	<b>5940</b>		

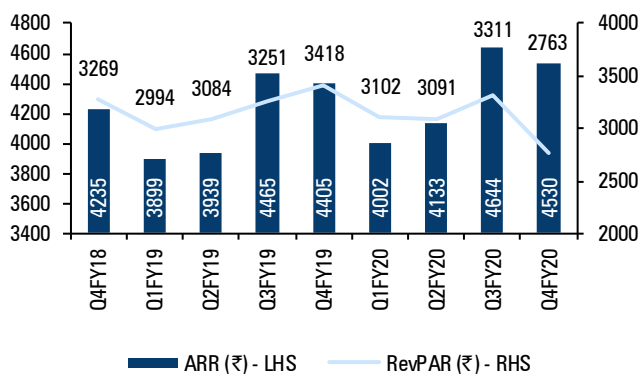
Source: Company, ICICI Direct Research

Exhibit 4: Total room portfolio (incl managed) to grow at 10% CAGR over FY20-23E



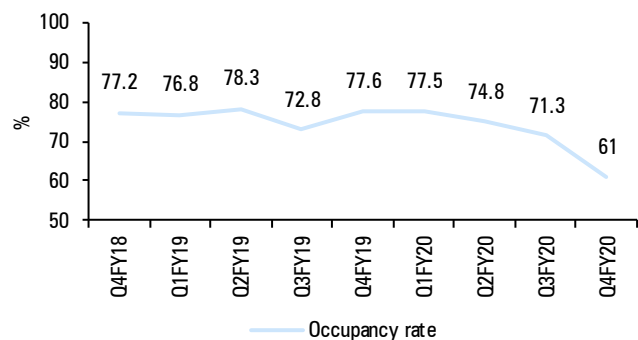
Source: Company, ICICI Direct Research

Exhibit 5: ARR up 2.8% YoY while RevPAR dipped 19% YoY



Source: Company, ICICI Direct Research

Exhibit 6: Occupancy declined sharply led by virus outbreak



Source: Company, ICICI Direct Research

Exhibit 7: ARR up 10.2% YoY with opening of upper-midscale (LTP Mumbai, Kolkata) and upscale properties (Aurika, Udaipur)



Consolidated Profit & Loss Statement Breakup – Q4 FY20

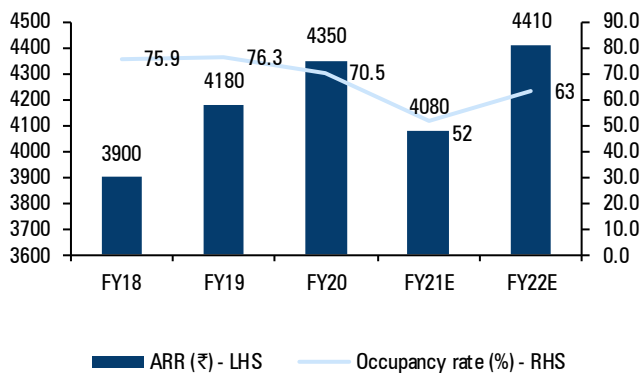
Rs. Cr	Same Hotels			New Hotels <sup>1</sup>	Total without Keys Hotels			Keys Hotels	Total		
	Q4FY19	Q4FY20	YoY Change	Q4FY20	Q4FY19	Q4FY20	YoY Change	Q4FY20	Q4FY19	Q4FY20	YoY Change
Inventory	3,570	3,570	0.0%	686	3,570	4,256	19.2%	936	3,570	5,192	45.4%
ARR	4,405	4,604	4.5%	6,467	4,405	4,856	10.2%	2,751	4,405	4,530	2.8%
Occupancy	77.6%	64.9%	(1,266)	52.6%	77.6%	62.9%	(1,464)	52.4%	77.6%	61.0%	(1,653)
RevPAR	3,416	2,988	-12.5%	3,404	3,416	3,055	-10.6%	1,441	3,416	2,764	-19.1%
<b>Revenue from Operations</b>	<b>150.5</b>	<b>132.0</b>	<b>-12.3%</b>	<b>26.7</b>	<b>150.5</b>	<b>158.7</b>	<b>5.4%</b>	<b>17.5</b>	<b>150.5</b>	<b>176.1</b>	<b>17.0%</b>
Total expenses	101.6	94.0	-7.5%	14.2	101.6	108.2	6.5%	12.9	101.6	121.1	19.2%
<b>EBITDA</b>	<b>48.9</b>	<b>38.0</b>	<b>-22.4%</b>	<b>12.4</b>	<b>48.9</b>	<b>50.4</b>	<b>3.0%</b>	<b>4.6</b>	<b>48.9</b>	<b>55.0</b>	<b>12.4%</b>
EBITDA margin (%)	32.5%	28.8%	(372)	46.6%	32.5%	31.8%	(72)	26.3%	32.5%	31.2%	(127)
<b>PBT</b>	<b>14.3</b>	<b>(0.0)</b>	<b>-100.2%</b>	<b>(6.1)</b>	<b>14.3</b>	<b>(6.1)</b>	<b>-143.0%</b>	<b>(2.8)</b>	<b>14.3</b>	<b>(8.9)</b>	<b>-162.7%</b>

Notes

1) New Hotels include: Red Fox Hotel Chandigarh, Lemon Tree Premier Mumbai, Lemon Tree Premier Kolkata & Aurika Udaipur

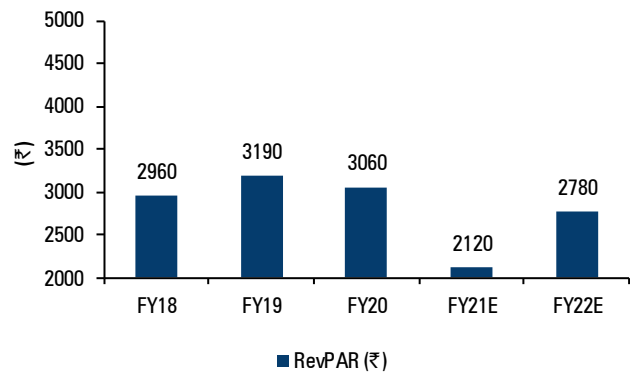
Source: Company, ICICI Direct Research

Exhibit 8: ARR to recover only from FY22E



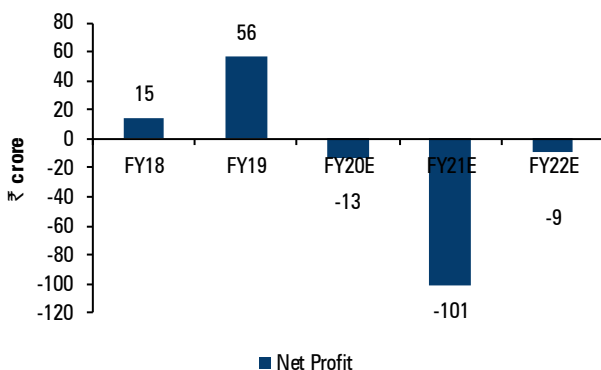
Source: Company, ICICI Direct Research

Exhibit 10: RevPAR to take big hit led by sharp fall in occupancy in FY21E; To gradually improve from FY22E



Source: Company, ICICI Direct Research

Exhibit 9: Net loss to widen further in FY21E



Source: Company, ICICI Direct Research

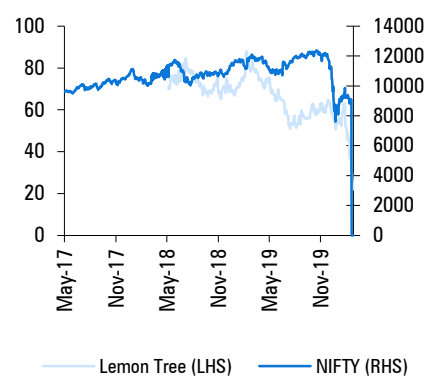
While net loss to cross over ₹100 crore in FY21E, We expect cash loss to remain at ₹35 crore at PBT levels taking conservative scenario

**Exhibit 11: Valuation matrix**

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		4086
Net Debt FY22E (₹ crore)		1730
<b>Lemon Tree Group Equity value (₹ crore)</b>		<b>2356</b>
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	1275
Fleur Hotels Equity Value (₹ crore)	(B)	1081
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	627
<b>Lemon Tree Value (₹ crore)</b>		<b>1902</b>
Number of shares (Crore)		79
<b>Target Price (₹)</b>		<b>24</b>

Source: Company, ICICI Direct Research

**Exhibit 12: Price performance vs. Nifty**



Source: Bloomberg, Company, ICICI Direct Research

## Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>	<b>549.5</b>	<b>669.4</b>	<b>510.6</b>	<b>685.9</b>
Growth (%)	13%	22%	-24%	34%
Raw Material Expenses	49.8	57.0	40.4	57.0
Employee Expenses	120.5	155.3	124.3	139.2
Other Exp	210.4	218.8	181.8	217.3
Total Operating Expenditure	380.7	431.1	346.4	413.5
<b>EBITDA</b>	<b>168.8</b>	<b>238.3</b>	<b>164.2</b>	<b>272.4</b>
Growth (%)	23.9%	41.2%	-31.1%	65.9%
Depreciation	54.1	87.2	103.5	104.7
Interest	84.7	161.6	199.1	188.3
Other Income	14.5	10.9	4.0	6.0
<b>PBT</b>	<b>44.5</b>	<b>0.5</b>	<b>-134.4</b>	<b>-14.6</b>
Others	0.0	0.0	0.0	0.0
Total Tax	-11.1	10.9	-33.8	-3.7
<b>Reported PAT</b>	<b>55.6</b>	<b>-10.4</b>	<b>-100.6</b>	<b>-10.9</b>
<b>Adjusted PAT</b>	<b>56.4</b>	<b>-13.1</b>	<b>-100.6</b>	<b>-9.4</b>
Growth (%)	2.9	-1.2	6.7	-0.9
<b>Adjusted EPS (₹)</b>	<b>0.7</b>	<b>-0.2</b>	<b>-1.3</b>	<b>-0.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	56	-13	-101	-9
Add: Depreciation	54	87	103	105
(Inc)/dec in Current Assets	-48	47	-11	-21
Inc/(dec) in CL and Provisions	70	353	-41	-5
<b>CF from operating activities</b>	<b>178</b>	<b>640</b>	<b>141</b>	<b>252</b>
(Inc)/dec in Other Non-Curr Assets	0	0	0	0
(Inc)/dec in Fixed Assets	-303	-783	-160	-147
Others	14	-349	72	44
<b>CF from investing activities</b>	<b>-289</b>	<b>-1131</b>	<b>-88</b>	<b>-103</b>
Issue/(Buy back) of Shares	3	1	0	0
Inc/(dec) in loan funds	185	400	127	41
Dividend paid & dividend tax	0	0	0	0
Others	-66	99	-195	-182
<b>CF from financing activities</b>	<b>122</b>	<b>500</b>	<b>-68</b>	<b>-141</b>
Net Cash flow	10	9	-15	8
Opening Cash	21	31	41	26
<b>Closing Cash</b>	<b>31</b>	<b>41</b>	<b>26</b>	<b>34</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	789.3	790.3	790.2	790.2
Reserve and Surplus	85.7	32.7	-58.8	-67.3
<b>Total Shareholders fun</b>	<b>875.0</b>	<b>823.0</b>	<b>731.4</b>	<b>722.9</b>
<b>Total Debt</b>	<b>1195.6</b>	<b>1596.0</b>	<b>1722.9</b>	<b>1763.9</b>
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	432.2	721.8	712.7	711.8
<b>Total Liabilities</b>	<b>2479.9</b>	<b>3459.9</b>	<b>3418.6</b>	<b>3454.2</b>
<b>Assets</b>				
Gross PPE	1791.8	2941.3	2956.3	2991.3
Less: Acc Depreciation	202.4	289.5	393.0	497.7
Net PPE	1589.4	2651.8	2563.3	2493.6
Investment Property	2.4	2.4	2.5	2.5
CWIP	663.9	189.6	334.0	446.0
<b>Total Fixed Assets</b>	<b>2255.7</b>	<b>2843.7</b>	<b>2899.8</b>	<b>2942.1</b>
Intangibles	11.9	119.4	119.4	119.4
Investments	52.5	59.7	50.0	50.0
Inventory	6.0	8.2	6.3	8.4
Debtors	84.4	50.3	49.8	60.3
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	46.1	55.5	38.1	46.1
Cash	31.4	40.8	26.0	34.0
Total Current Assets	196.6	159.2	155.2	183.9
Creditors	95.8	42.0	40.2	55.3
Provisions & Others	135.3	115.7	117.6	137.5
Total Current Liabilities	291.9	302.8	329.9	320.8
<b>Net Current Assets</b>	<b>-95.4</b>	<b>-143.6</b>	<b>-174.6</b>	<b>-136.9</b>
Others Assets	255.1	580.7	524.0	479.6
<b>Application of Funds</b>	<b>2479.9</b>	<b>3459.9</b>	<b>3418.6</b>	<b>3454.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
Adjusted EPS	0.7	-0.2	-1.3	-0.1
Cash EPS	1.4	0.9	0.0	1.2
BV	11.1	10.4	9.3	9.1
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.4	0.5	0.3	0.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	30.7	35.6	32.2	39.7
EBIT Margin	23.5	24.2	12.7	25.3
PAT Margin	10.3	-2.0	-19.7	-1.4
Inventory days	3.8	3.9	5.2	3.9
Debtor days	45.5	36.7	35.8	29.3
Creditor days	58.8	37.6	29.4	25.4
<b>Return Ratios (%)</b>				
RoE	6.7	-1.5	-12.9	-1.3
RoCE	5.5	5.5	1.9	5.1
RoIC	4.2	8.1	6.6	7.5
<b>Valuation Ratios (x)</b>				
P/E	27.7	NM	NM	NM
EV / EBITDA	16.0	13.1	19.6	12.0
EV / Net Sales	4.9	4.7	6.3	4.8
Market Cap / Sales	2.8	2.3	3.1	2.3
Price to Book Value	1.8	1.9	2.1	2.2
<b>Solvency Ratios</b>				
Debt/EBITDA	7.1	6.7	10.5	6.5
Debt / Equity	1.4	1.9	2.4	2.4
Current Ratio	0.7	0.5	0.5	0.6
Quick Ratio	0.7	0.5	0.5	0.5

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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