

Passing through rough weather; maintain HOLD

Lemon Tree's (LTH) business was severely affected by lockdown in Q1FY21. Revenues fell 71.1% YoY to ₹ 40.7 crore (vs. I-direct estimate: ₹ 43.7 crore) as only 71% of its inventory was operational. Occupancy in operational hotels was at 40.4%, leading to average occupancy of 28.9% for the quarter. Average room rates were also down 34.4% YoY to ₹ 2626/room. Key demand segments for business were Indians returning from abroad, global IT majors for their business continuity and on duty doctors & paramedical staffs. Total expenses were at ₹ 36.3 crore in Q1FY21, down 62.2% YoY vs. ₹ 96.2 crore in Q1FY20. EBITDA fell 90.2% YoY from ₹ 44.8 crore in Q1FY20 to ₹ 4.4 crore in Q1FY21 (vs. I-direct estimated EBITDA loss of ₹ 3.9 crore). Resultant EBITDA margin was at 10.7% vs. 31.8% reported last year. With a sharp increase in interest costs (up 57.5% YoY to ₹ 48.7 crore), net loss was at ₹ 60.5 crore (vs. I-direct estimated net loss of ₹ 50.2 crore).

Recovery to get longer; cost control remains key for survival

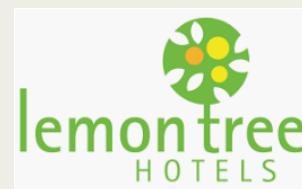
Business & leisure travel are not expected to normalise for a few quarters. Currently, business in lockdowns is coming from rooms occupied by quarantine or corporate guests, doctors, healthcare workers. Although some improvement would be visible QoQ with gradual unlocking of economy, a meaningful recovery would take at least 12-15 months. We model occupancy of 46%, 60% & ARR of ₹ 4180, ₹ 4510 in FY21E, FY22E, respectively. LTH has taken measures to curtail costs, by taking salary cuts, re-negotiating contracts, reducing repairs costs, reducing power costs, ad, etc. These would support falling profit due to lower occupancies. We model EBITDA margin of 34.4%, 43.1% in FY21E, FY22E, EBITDA of ₹ 127 crore, ₹ 276 crore in FY21E, FY22E respectively. However, at PAT level, LTH would take couple of years to breakeven due to higher financing, depreciation cost.

Breather on liquidity front with latest fund raise from APG

LTH being on a capex mode has high debt on its book. A prolonged crisis would have put questions on LTH's survival. It has recently raised money (₹ 175 crore) from APG in the first tranche. With an option of raising further ₹ 125 crore from APG, board's approval of raising ₹ 150 crore through rights issue, it can shore up its liquidity buffer to over ~₹ 500 crore. This would provide visibility for the next two years in the worst case scenario. However, capital infusion implies significant dilution, considering current price levels.

Valuation & Outlook

The outlook would remain challenging with recoveries not expected before FY22E. LTH's management expects the ongoing crisis to lead to 15-20% of room inventory getting wiped out, auguring well for the company in the long run. However, near term challenges w.r.t. weak industry dynamics, high D/E and expected equity dilution compel us to maintain **HOLD** rating with revised target price ₹ 26/share (SOTP based valuation).



Stock Data

Particulars	Amount
Market Capitalization (₹ crore)	2023
Debt (FY20) (₹ crore)	1596
Cash & Investment (FY20) (₹ crore)	45
EV (₹ crore)	3574
52 week H/L	₹ 75/14
Equity Capital (FY20) (₹ crore)	789
Face Value	₹ 10

Key Highlights

- Occupancy levels down to 29% for Q1FY21. Room rates also fell sharply by 34%
- Raised money (₹ 175 crore) from APG in first tranche through CCPS
- With an option of raising further ₹ 125 crore from APG, board's approval of raising ₹ 150 crore through rights issue, it can shore-up its liquidity buffer to over ~₹ 500 crore
- Maintain HOLD with target price of ₹ 26 (earlier ₹ 24)

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Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR
Sales	484	550	669	370	640	-2.2%
EBITDA	136	169	238	127	276	7.6%
EBITDA (%)	28.1	30.7	35.6	34.4	43.1	
PAT	15	56	-13	-132	-15	NA
EPS (₹)	0.2	0.7	-0.2	-1.7	-0.2	
EV/EBITDA	21.5	18.2	14.7	28.7	13.5	
RoNW	1.8	6.7	-1.5	-17.3	-2.1	
RoCE	4.6	5.5	5.5	0.8	5.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	40.7	43.7	140.9	-71.1	176.1	-76.9	Occupancies down from 77% to 29% YoY. Average room rates also fell sharply by 34% YoY to ₹2,626. Operational inventories, however, were up 41% YoY
Other Incomes	4.9	0.5	2.1	131.3	1.2	327.3	
Raw Material Expenses	2.3	5.2	12.4	-81.2	14.6	-84.1	
Employee Expenses	17.8	15.0	33.7	-47.3	42.9	-58.6	
Other expenses	16.2	27.3	50.1	-67.6	54.7	-70.4	
Total expenses	36.3	47.6	96.2	-62.3	112.2	-67.7	
EBITDA	4.4	-3.9	44.8	-90.2	63.9	-93.2	
EBITDA Margin (%)	10.7%	0.0%	31.8%	2101 bps	36.3%	2556 bps	
Interest	48.7	45.3	30.9	57.5	49.5	-1.6	
Depreciation	27.1	20.3	17.2	57.8	27.7	-2.3	
PBT	-66.5	-69.0	-1.2	5,513.5	-12.1	448.1	
Total Tax	-7.1	-23.8	0.7	-1,106.6	5.6	-228.1	
Reported PAT	-60.5	-50.2	-2.1	2,779.3	-19.0	218.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Total Revenue	510.6	369.9	-27.6	685.9	640.1	-6.7
EBITDA	164.2	127.4	-22.4	272.4	276.0	1.3
EBITDA Margin (%)	32.2	34.4	228 bps	39.7	43.1	340 bps
PAT	-100.6	-131.7	NA	-9.4	-14.6	NA
EPS (₹)	-1.3	-1.7	NA	-0.1	-0.2	NA

Source: Company, ICICI Direct Research

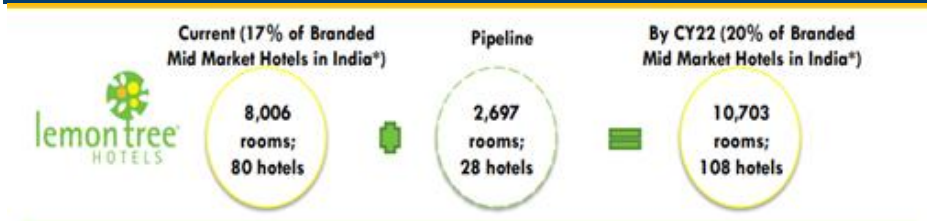
Story in charts

Exhibit 3: Upcoming owned/leased hotels

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		
Additions			
LT Mountain Resort, Shimla	69	100	NA
LT Lake Resort, Kerala	10	100	NA
Aurika Mumbai	669	58	End of CY22
Total (Owned/Leased) post Expansion	5940		

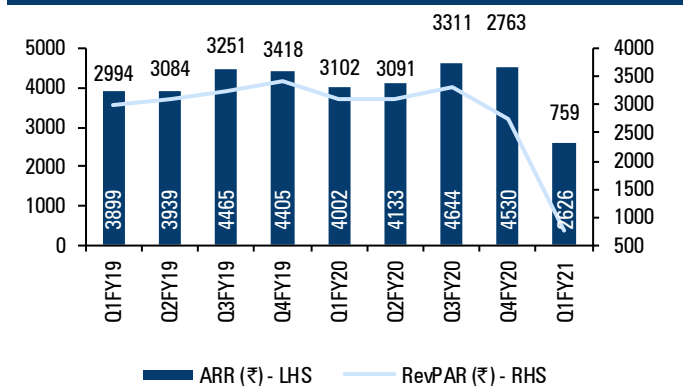
Source: Company, ICICI Direct Research

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



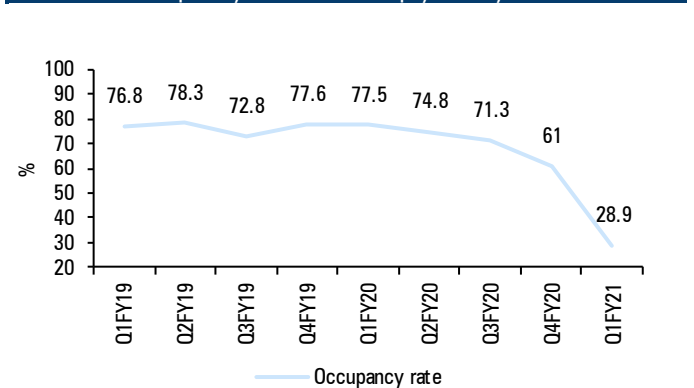
Source: Company, ICICI Direct Research

Exhibit 5: ARR down 34% YoY while RevPAR dipped 75% YoY



Source: Company, ICICI Direct Research

Exhibit 6: Occupancy declined sharply led by virus outbreak



Source: Company, ICICI Direct Research

Exhibit 7: Key performance parameters

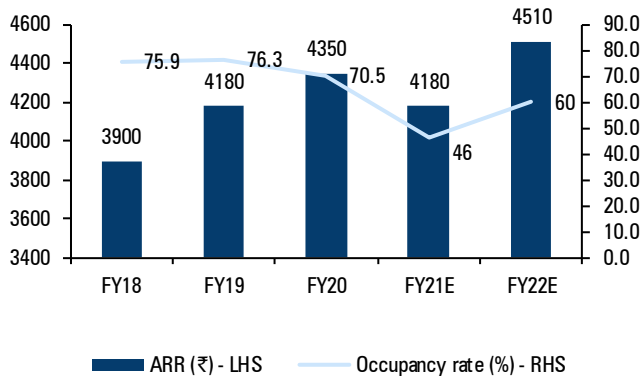
Consolidated Profit & Loss Statement Breakup – Q1 FY21

Rs. Cr	Same Hotels			New Hotels ¹	Total without Keys Hotels			Keys Hotels	Total		
	Q1FY20	Q1FY21	YoY Change	Q1FY21	Q1FY20	Q1FY21	YoY Change	Q1FY21	Q1FY20	Q1FY21	YoY Change
Inventory	3,672	3,672	0.0%	584	3,672	4,256	15.9%	936	3,672	5,192	41.4%
ARR	4,002	2,699	-32.5%	3,521	4,002	2,795	-30.1%	1,587	4,002	2,626	-34.4%
Occupancy	77.5%	31.0%	(4,653)	25.8%	77.5%	30.3%	(4,725)	22.5%	77.5%	28.9%	(4,865)
RevPAR	3,103	837	-73.0%	909	3,103	847	-72.7%	357	3,103	759	-75.6%
Revenue from Operations	140.9	31.3	-77.8%	5.1	140.9	36.4	-74.2%	4.3	140.9	40.7	-71.1%
Other Income	1.3	1.7	36.4%	0.0	1.3	1.7	38.0%	1.4	1.3	3.1	147.2%
Total expenses	96.2	27.8	-71.1%	3.9	96.2	31.7	-67.1%	4.6	96.2	36.3	-62.2%
EBITDA	46.0	5.3	-88.5%	1.2	46.0	6.5	-86.0%	1.0	46.0	7.5	-83.8%
EBITDA margin (%)	32.4%	16.0%	(1,638)	23.1%	32.4%	16.9%	(1,543)	18.0%	32.4%	17.1%	(1,529)
PBT	(1.4)	(41.2)	NA	(19.1)	(1.4)	(60.3)	NA	(7.4)	(1.4)	(67.7)	NA

Note : New Hotels include: Lemon Tree Premier Mumbai, Lemon Tree Premier Kolkata & Aurika Udaipur

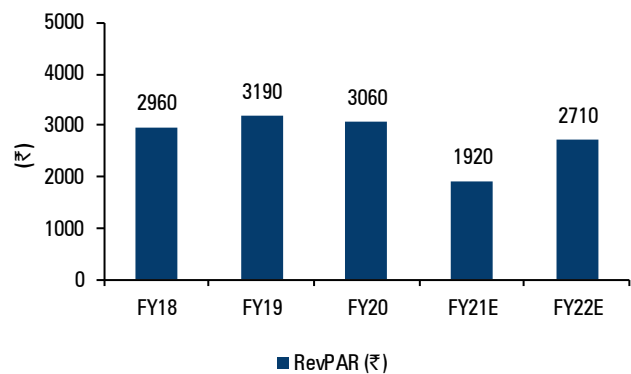
Source: Company, ICICI Direct Research

Exhibit 8: ARR to recover only from FY22E



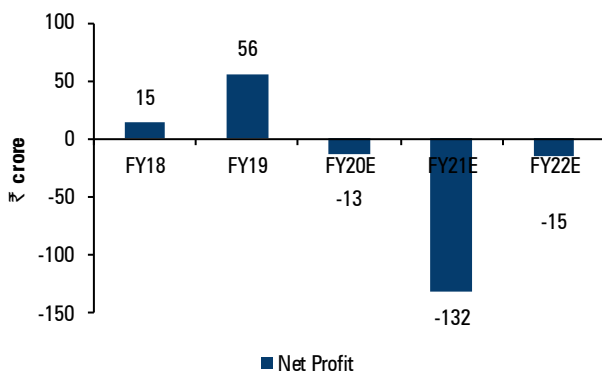
Source: Company, ICICI Direct Research

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

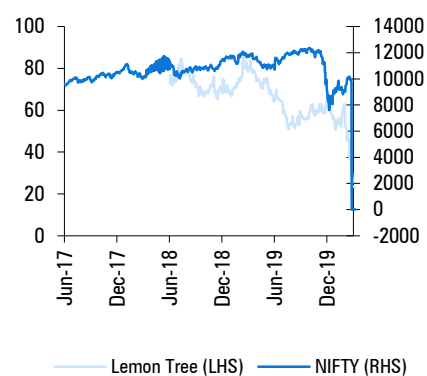
While net loss may cross over ₹ 132 crore in FY21E, we expect cash loss of ₹ 71 crore at PBT levels taking conservative scenario

Exhibit 11: Valuation matrix

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		4416
Net Debt FY22E (₹ crore)		1829
Lemon Tree Group Equity value (₹ crore)		2587
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	1380
Fleur Hotels Equity Value (₹ crore)	(B)	1207
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	700
Lemon Tree Value (₹ crore)		2080
Number of shares (Crore)		79
Target Price (₹)		26

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
Total operating Income	549.5	669.4	369.9	640.1
Growth (%)	13%	22%	-45%	73%
Raw Material Expenses	49.8	57.0	29.1	53.2
Employee Expenses	120.5	155.3	93.2	114.6
Other Exp	210.4	218.8	120.2	196.3
Total Operating Expenditure	380.7	431.1	242.5	364.1
EBITDA	168.8	238.3	127.4	276.0
Growth (%)	23.9%	41.2%	-46.6%	116.7%
Depreciation	54.1	87.2	104.7	107.0
Interest	84.7	161.6	202.6	196.5
Other Income	14.5	10.9	4.0	6.0
PBT	44.5	0.5	-175.9	-21.5
Others	0.0	0.0	0.0	0.0
Total Tax	-11.1	10.9	-44.3	-5.4
Reported PAT	55.6	-10.4	-131.7	-16.1
Adjusted PAT	56.4	-13.1	-131.7	-14.6
Growth (%)	2.9	-1.2	9.1	-0.9
Adjusted EPS (₹)	0.7	-0.2	-1.7	-0.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	56	-13	-132	-15
Add: Depreciation	54	87	105	107
(Inc)/dec in Current Assets	-48	47	15	-39
Inc/(dec) in CL and Provisions	70	353	-49	-6
CF from operating activities	178	640	132	238
(Inc)/dec in Other Non-Curr Assets	0	0	0	0
(Inc)/dec in Fixed Assets	-303	-783	-195	-177
Others	14	-349	72	44
CF from investing activities	-289	-1131	-123	-133
Issue/(Buy back) of Shares	3	1	0	0
Inc/(dec) in loan funds	185	400	185	78
Dividend paid & dividend tax	0	0	0	0
Others	-66	99	-199	-191
CF from financing activities	122	500	-14	-113
Net Cash flow	10	9	-4	-7
Opening Cash	21	31	41	37
Closing Cash	31	41	37	30

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	789.3	790.3	790.2	790.2
Reserve and Surplus	85.7	32.7	-87.1	-100.3
Total Shareholders fund	875.0	823.0	703.1	690.0
Total Debt	1195.6	1596.0	1780.9	1858.9
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	432.2	721.8	709.9	708.5
Total Liabilities	2479.9	3459.9	3437.5	3512.9
Assets				
Gross PPE	1791.8	2941.3	2991.3	3056.3
Less: Acc Depreciation	202.4	289.5	394.2	501.2
Net PPE	1589.4	2651.8	2597.1	2555.1
Investment Property	2.4	2.4	2.5	2.5
CWIP	663.9	189.6	334.0	446.0
Total Fixed Assets	2255.7	2843.7	2933.6	3003.6
Intangibles	11.9	119.4	119.4	119.4
Investments	52.5	59.7	50.0	50.0
Inventory	6.0	8.2	4.5	7.9
Debtors	84.4	50.3	35.9	56.3
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	46.1	55.5	27.5	43.0
Cash	31.4	40.8	36.9	29.9
Total Current Assets	196.6	159.2	139.8	172.1
Creditors	95.8	42.0	34.9	50.0
Provisions & Others	135.3	115.7	114.5	133.8
Total Current Liabilities	291.9	302.8	329.3	311.8
Net Current Assets	-95.4	-143.6	-189.5	-139.7
Others Assets	255.1	580.7	524.0	479.6
Application of Funds	2479.9	3459.9	3437.5	3512.9

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	0.7	-0.2	-1.7	-0.2
Cash EPS	1.4	0.9	-0.3	1.2
BV	11.1	10.4	8.9	8.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.4	0.5	0.5	0.4
Operating Ratios (%)				
EBITDA Margin	30.7	35.6	34.4	43.1
EBIT Margin	23.5	24.2	7.2	27.3
PAT Margin	10.3	-2.0	-35.6	-2.3
Inventory days	3.8	3.9	6.3	3.5
Debtor days	45.5	36.7	42.5	26.3
Creditor days	58.8	37.6	37.9	24.2
Return Ratios (%)				
RoE	6.7	-1.5	-17.3	-2.1
RoCE	5.5	5.5	0.8	5.0
RoIC	4.2	8.1	6.3	7.7
Valuation Ratios (x)				
P/E	35.8	NM	NM	NM
EV / EBITDA	18.7	15.0	29.3	13.8
EV / Net Sales	5.7	5.3	10.1	6.0
Market Cap / Sales	3.7	3.0	5.5	3.2
Price to Book Value	2.3	2.5	2.9	2.9
Solvency Ratios				
Debt/EBITDA	7.1	6.7	14.0	6.7
Debt / Equity	0.9	1.0	1.3	1.3
Current Ratio	0.7	0.5	0.4	0.6
Quick Ratio	0.7	0.5	0.4	0.5

Source: Company, ICICI Direct Research

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Sell: < -15%



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