

## Decent performance in challenging year...

The performance of Lemon Tree Hotels (LTH) improved sharply during Q4FY21 vs. Q3. Revenues grew 39.1% QoQ to ₹ 95.1 crore (vs. I-direct estimate: ₹ 64.5 crore), also backed by improved demand for weddings, staycations and social events. Concerted focus on costs across verticals led to a drop of 40.7% YoY in total expenditure to ₹ 66.6 crore (up 37.8% QoQ). EBITDA margin was at 30% vs. 29.4% in Q3FY21 and 36.3% last year. However, with higher interest (₹ 44.5 crore), depreciation (₹ 26.1 crore), net loss was at ₹ 26.7 crore (vs. I-direct estimate: net loss ₹ 45.4 crore). Gross debt at FY21 was at ₹ 1,685 crore with average cost of borrowings at 8.3% (down 130 bps YoY). Overall, the company closed FY21 with an EBITDA of ₹ 61 crore despite sharp drop in revenues and also managed liquidity well even after aggressive room additions done just before the Covid era. Going ahead, as Covid cases subside and with increased vaccination drive in coming months, we expect the demand environment to improve. Moreover, with rising consumer inclination for hygiene and safety, there would be a structural shift towards a preference for branded hotel players. Lemon Tree being the branded player in mid-scale and premium space is likely to be the major beneficiary of this structural revival, going forward.

## Performance set to improve sharply from H2FY22E onwards...

As the economy is now coming out of pandemic induced pain, LTH is also gradually moving to its full functionality with operational inventory rising from 71.5% in Q1 to 86.8% in Q2, 91.2% in Q3, 93.4% in Q4. Although improvement is getting visible in tourist destinations, a recovery in corporate travel may take at least five to six months due to ongoing work from home policy. We model occupancy of 60%, 69% and ARR of ₹ 3930, ₹ 4710 in FY22E, FY23E, respectively. LTH has taken measures to curtail costs, by taking salary cuts, re-negotiating contracts, reducing repairs costs, reduction in power costs, ad, etc. With some of these measures being sustainable, we model EBITDA margin of 34.5%, 37.6% in FY22E, FY23E, respectively, vs. 35.6% in FY20. However, at PAT level, LTH would take a couple of years to break even due to higher financing and depreciation costs.

## Stable liquidity buffer with no further likely dilution

LTH being on 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 further dilution.

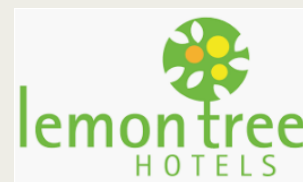
## Valuation & Outlook

The ongoing crisis is expected to lead to ~15% room inventory reduction, which augurs well for the company in the long run. Further, with improved demand visibility, we expect faster recovery in the demand. We change our rating from HOLD to **BUY** and revise our target price to ₹ 55 per share (SOTP based valuation, earlier TP ₹ 44/share).

### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR
Sales	550	669	252	462	706	67.5%
EBITDA	169	238	61	160	266	108.3%
EBITDA (%)	30.7	35.6	24.3	34.5	37.6	
PAT	56	-13	-186	-92	-10	NA
EPS (₹)	0.7	-0.2	-2.4	-1.2	-0.1	
EV/EBITDA	26.4	20.4	78.6	31.7	19.4	
RoNW	6.7	-1.5	-21.4	-10.5	-1.2	
RoCE	5.5	5.5	-0.7	2.1	4.9	

Source: Company, ICICI Direct Research



### Stock Data

Particulars	Amount
Market Capitalization (₹ crore)	3319
Debt (FY21) (₹ crore)	1642
Cash & Investment (FY21) (₹ crore)	142
EV (₹ crore)	4819
52 week H/L	₹ 49/22
Equity Capital (FY21) (₹ crore)	789
Face Value	₹ 10

### Key Highlights

- Reported average occupancy of 56% vs. 42.4% in Q3 and 32.4% in Q2
- Average room rates were down 1.2% QoQ to ₹2498/room (down 44.9% YoY)
- Total capital expenditure incurred till date is ₹ 370 crore vs. estimated project cost of ₹1006 crore for next three years
- Changed rating from HOLD to BUY with revised target price of ₹ 55 (earlier ₹44)

### Key Risks to our call

- Any further imposition of restriction on travel (domestic + International) could delay recovery in tourist destinations
- Companies adopting work from home policy beyond FY21 could impact the demand in business hotel segment

### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	95.1	64.5	176.1	-46.0	68.4	39.1	Occupancy on full inventory improved from 42.4% in Q3 FY21 to 56% in Q4 FY21 led by improved along with improved demand from weddings, staycations and social events
Other Incomes	3.3	5.0	1.2	185.1	4.4	-24.4	
Raw Material Expenses	6.9	5.1	14.6	-52.5	5.4	29.6	
Employee Expenses	22.6	15.6	42.9	-47.4	15.8	42.8	
Other expenses	37.1	24.1	54.7	-32.2	27.1	36.6	
Total expenses	66.6	44.8	112.2	-40.7	48.3	37.8	
EBITDA	28.5	19.7	63.9	-55.4	20.1	42.0	Stringent cost control measures kept EBITDA positive for the quarter
EBITDA Margin (%)	30.0%	30.5%	36.3%	-630 bps	29.4%	63 bps	
Interest	44.5	48.2	49.5	-10.0	47.5	-6.3	The average cost of borrowings has reduced 130bps YoY to 8.3%
Depreciation	26.1	27.3	27.7	-5.9	27.3	-4.5	
PBT	-38.8	-50.8	-12.1	220.1	-50.4	-23.0	
Total Tax	-14.2	-6.4	5.6	-354.8	-4.8	196.9	
Reported PAT	-26.7	-45.4	-19.0	40.5	-45.7	-41.5	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	503.5	462.3	-8.2	NA	706.1	NA	
EBITDA	192.9	159.6	-17.3	NA	263.8	NA	
EBITDA Margin (%)	38.3	34.5	-379 bps	NA	37.4	NA	
PAT	-68.7	-91.8	NA	NA	-11.0	NA	
EPS (₹)	-0.9	-1.2	NA	NA	-1.2	NA	

Source: Company, ICICI Direct Research

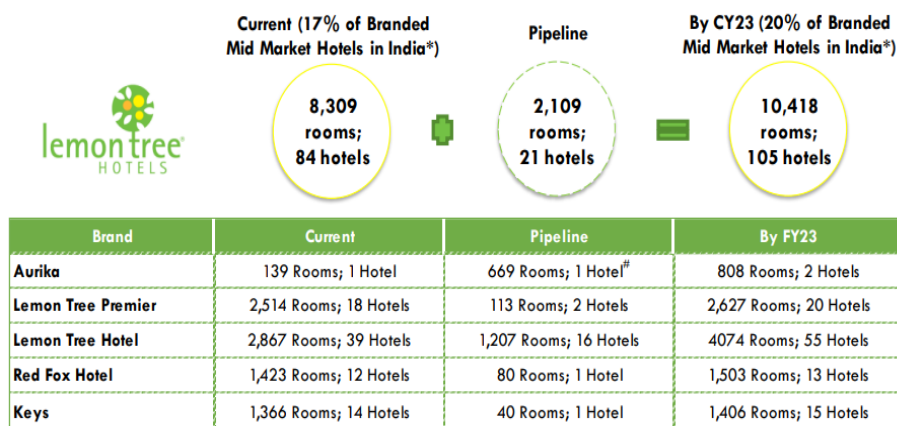
### Story in charts

Exhibit 3: Upcoming owned/leased hotels (excluding management contracts)

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>End of FY21</b>	<b>5192</b>		
<b>Future Additions</b>			
LT Mountain Resort, Shimla	69	100	NA
Aurika Mumbai	669	58	End of CY23
<b>Total (Owned/Leased) post Expansion</b>	<b>5930</b>		

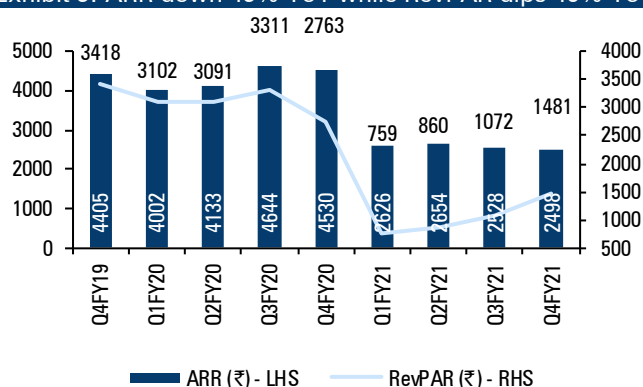
Source: Company, ICICI Direct Research

Exhibit 4: Total room portfolio (including managed) expected to grow at 12% CAGR in FY21-23E



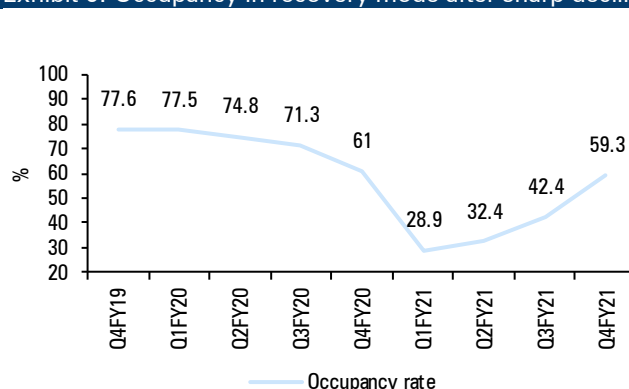
Source: Company, ICICI Direct Research

Exhibit 5: ARR down 45% YoY while RevPAR dips 46% YoY



Source: Company, ICICI Direct Research

Exhibit 6: Occupancy in recovery mode after sharp decline



Source: Company, ICICI Direct Research

Exhibit 7: Key performance parameters

Operational Performance by Brands & Region – Q4 FY20 vs. Q4 FY21 (On Full inventory basis)



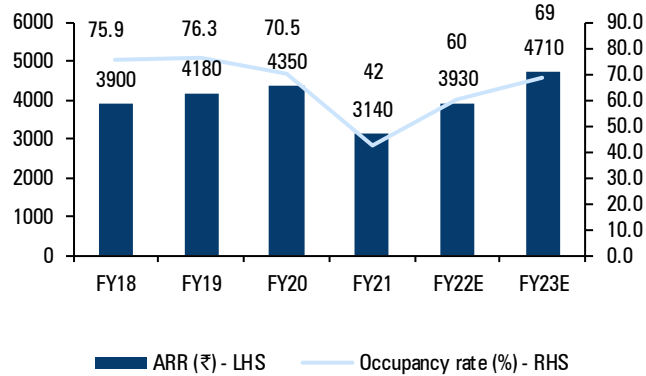
Parameters	Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	By Brand (#Rooms)	Q4 FY20	Q4 FY21	Change (bps)	Q4 FY20	Q4 FY21	Change (%)	Q4 FY20	Q4 FY21	Change (%)	Q4 FY20	Q4 FY21
Aurika (139)	29.41%	45.11%	1,570	14,041	10,195	-27.40%	2.2	3.8	72.74%	40.47%	61.70%	2,123
Lemon Tree Premier (1,603)	63.36%	71.71%	834	5,683	2,624	-53.83%	2.0	0.6	-70.16%	48.08%	28.26%	-1,993
Lemon Tree Hotels (1562)	65.61%	56.81%	-881	4,455	2,791	-37.37%	1.5	0.6	-56.82%	41.40%	34.31%	-708
Red Fox Hotels (952)	62.62%	50.78%	-1,184	3,504	1,984	-43.38%	1.0	0.6	-43.81%	43.38%	51.97%	858
Keys Hotels (936)	52.39%	52.97%	58	2,751	1,209	-56.05%	0.3	0.2	-30.25%	14.08%	22.74%	866

Parameters	Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	By City (#Rooms)	Q4 FY20	Q4 FY21	Change (bps)	Q4 FY20	Q4 FY21	Change (%)	Q4 FY20	Q4 FY21	Change (%)	Q4 FY20	Q4 FY21
Delhi (636)	72.13%	74.45%	231	5,169	2,382	-53.91%	2.0	0.6	-67.69%	44.22%	29.86%	-1,465
Gurugram (529)	64.61%	51.33%	-1,328	4,537	2,091	-53.92%	1.5	0.3	-80.35%	40.49%	20.29%	-2,020
Hyderabad (663)	64.28%	56.95%	-734	4,780	2,228	-53.40%	1.9	0.5	-72.67%	52.56%	35.76%	-1,681
Bengaluru (874)	57.08%	49.21%	-787	3,941	1,567	-60.23%	0.8	0.1	-85.30%	30.74%	13.68%	-1,706
Mumbai (303)	59.43%	80.82%	2,139	6,800	2,892	-57.47%	2.5	1.0	-59.55%	56.90%	41.87%	-1,503

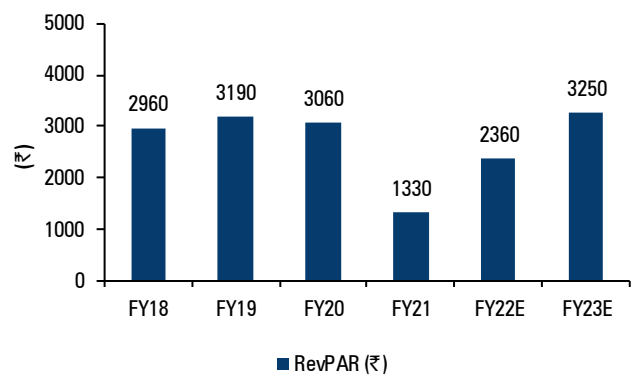
Source: Company, ICICI Direct Research

Exhibit 8: ARR to recover from H2FY22E



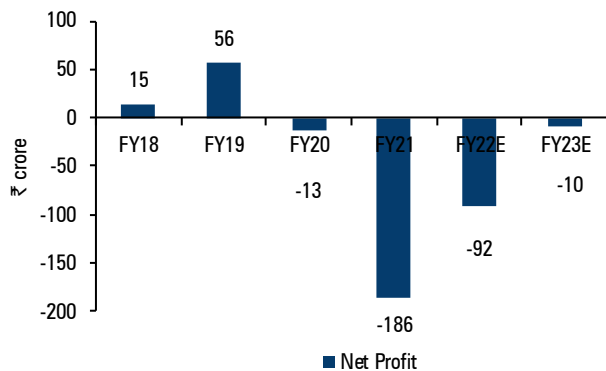
Source: Company, ICICI Direct Research

Exhibit 10: RevPAR to gradually improve from FY22E with pick-up in demand



Source: Company, ICICI Direct Research

Exhibit 9: Net loss to narrow down sharply in next two years



Source: Company, ICICI Direct Research

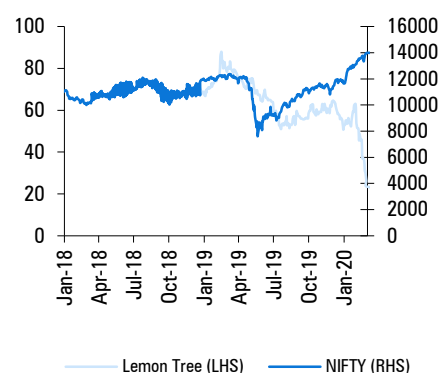
While net loss to crossed ₹ 186 crore in FY21, we expect net loss of only ₹ 10 crore by FY23E

Exhibit 11: Valuation matrix

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		7442
Net Debt FY23E (₹ crore)		1870
<b>Lemon Tree Group Equity value (₹ crore)</b>		<b>5572</b>
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	2744
Fleur Hotels Equity Value (₹ crore)	(B)	2828
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	1640
<b>Lemon Tree Value (₹ crore)</b>		<b>4384</b>
Number of shares (Crore)		79
<b>Target Price (₹)</b>		<b>55</b>

Source: Company, ICICI Direct Research

Exhibit 12: Price performance



Source: Bloomberg, Company, ICICI Direct Research

## Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating income</b>	<b>669.4</b>	<b>251.7</b>	<b>462.3</b>	<b>706.1</b>
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
<b>EBITDA</b>	<b>238.3</b>	<b>61.3</b>	<b>159.6</b>	<b>265.8</b>
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
<b>PBT</b>	<b>0.5</b>	<b>-214.7</b>	<b>-123.8</b>	<b>-16.6</b>
Others	0.0	0.0	0.0	0.0
Total Tax	10.9	-32.2	-31.2	-5.5
<b>Reported PAT</b>	<b>-10.4</b>	<b>-182.5</b>	<b>-92.6</b>	<b>-11.1</b>
<b>Adjusted PAT</b>	<b>-13.1</b>	<b>-186.5</b>	<b>-91.8</b>	<b>-9.7</b>
Growth (%)	-1.2	13.3	-0.5	-0.9
<b>Adjusted EPS (₹)</b>	<b>-0.2</b>	<b>-2.4</b>	<b>-1.2</b>	<b>-0.1</b>

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
<b>CF from operating activities</b>	<b>640</b>	<b>103</b>	<b>123</b>	<b>287</b>
(Inc)/dec in Other Non-Curr Assets	0	0	0	0
(Inc)/dec in Fixed Assets	-783	-74	-269	-225
Others	-349	18	44	13
<b>CF from investing activities</b>	<b>-1131</b>	<b>-56</b>	<b>-225</b>	<b>-212</b>
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
<b>CF from financing activities</b>	<b>500</b>	<b>54</b>	<b>33</b>	<b>-80</b>
Net Cash flow	9	100	-68	-4
Opening Cash	31	41	141	73
<b>Closing Cash</b>	<b>41</b>	<b>141</b>	<b>73</b>	<b>68</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	790.3	790.4	790.2	790.2
Reserve and Surplus	32.7	127.1	44.5	35.8
<b>Total Shareholders fun</b>	<b>823.0</b>	<b>917.6</b>	<b>834.8</b>	<b>826.1</b>
<b>Total Debt</b>	<b>1596.0</b>	<b>1641.9</b>	<b>1848.5</b>	<b>1938.5</b>
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	721.8	617.4	608.2	607.2
<b>Total Liabilities</b>	<b>3459.9</b>	<b>3518.5</b>	<b>3585.3</b>	<b>3682.4</b>
<b>Assets</b>				
Gross PPE	2941.3	2967.8	3032.8	3082.8
Less: Acc Depreciation	289.5	397.1	507.4	619.9
Net PPE	2651.8	2570.8	2525.5	2463.0
Investment Property	2.4	2.3	2.5	2.5
CWIP	189.6	241.8	446.0	621.0
<b>Total Fixed Assets</b>	<b>2843.7</b>	<b>2814.9</b>	<b>2974.0</b>	<b>3086.5</b>
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	72.8	68.4
Total Current Assets	159.2	230.3	254.9	260.4
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
<b>Net Current Assets</b>	<b>-143.6</b>	<b>-66.0</b>	<b>-87.2</b>	<b>-89.2</b>
Others Assets	580.7	585.1	534.0	520.5
<b>Application of Funds</b>	<b>3459.9</b>	<b>3518.5</b>	<b>3585.3</b>	<b>3682.4</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
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	0.9	0.9
<b>Operating Ratios (%)</b>				
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
<b>Return Ratios (%)</b>				
RoE	-1.5	-21.4	-10.5	-1.2
RoCE	5.5	-0.7	2.1	4.9
RoIC	8.1	5.4	5.7	6.8
<b>Valuation Ratios (x)</b>				
P/E	NM	NM	NM	NM
EV / EBITDA	20.4	78.6	31.7	19.4
EV / Net Sales	7.3	19.1	10.9	7.3
Market Cap / Sales	5.0	13.2	7.2	4.7
Price to Book Value	4.0	3.6	4.0	4.0
<b>Solvency Ratios</b>				
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	0.7	0.7
Quick Ratio	0.5	0.8	0.7	0.7

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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