

Lemon Tree Hotels (LEMTRE)

CMP: ₹ 52

Target: ₹ 65 (25%)

Target Period: 12 months

BUY

October 26, 2021

Strong retail demand; corporate travel to recover soon...

About the stock: Promoted by Patanjali Keswani, Lemon Tree is the largest hotel chain in the mid-priced segment in India. It operates 8,497 rooms in 87 hotels across 54 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 ~10,462 rooms in 105 hotels across 64 destinations, in India and abroad by FY24E

Q2FY22 Results: Business reached 62% of pre-Covid levels during Q2FY22.

- Revenues were up 103.6% YoY, 130% QoQ to ₹ 96.9 crore
- EBITDA was at ₹ 33.9 crore (i.e. 70% of pre-Covid levels) vs. I-direct estimate of ₹ 28 crore
- Net loss of ₹ 33.2 crore remained in-line with our estimates due to tax adjustments

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

- We retain BUY rating on this stock.

Target Price and Valuation: We value the stock at ₹ 65 on an SOTP basis i.e. 30.0x FY23E EV/EBITDA

Key triggers for future price performance:

- Performance likely to improve sharply from Q4FY22E onwards with a pick-up in corporate travel
- Well positioned to capture the unorganised market share due to likely 15-18% reduction in room supply in the wake of ongoing stress. Also, rising cost of land and input to slow down the launch of new hotel projects
- Mumbai hotel property to get commissioned by end of 2023
- Company's large asset base, strategic partnership and financial flexibility to continue to support liquidity profile if further need arises

Alternate Stock Idea: Besides Lemon Tree, in hotels coverage we like Oriental Hotels.

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



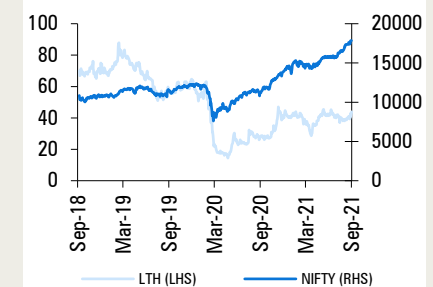
Particulars

Particulars	Amount
Market Capitalization (₹ crore)	4110
Debt (FY21) (₹ crore)	1642
Cash & Investment (FY21) (₹ crore)	142
EV (₹ crore)	5609
52 week H/L	₹ 58/27
Equity Capital (FY21) (₹ crore)	789
Face Value	₹ 10

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	25.88	25.88	25.88	25.88
FII	22.50	22.83	22.16	20.11
DII	15.75	15.34	14.20	14.09
Others	35.87	35.95	37.76	39.92

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

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Key Financial Summary

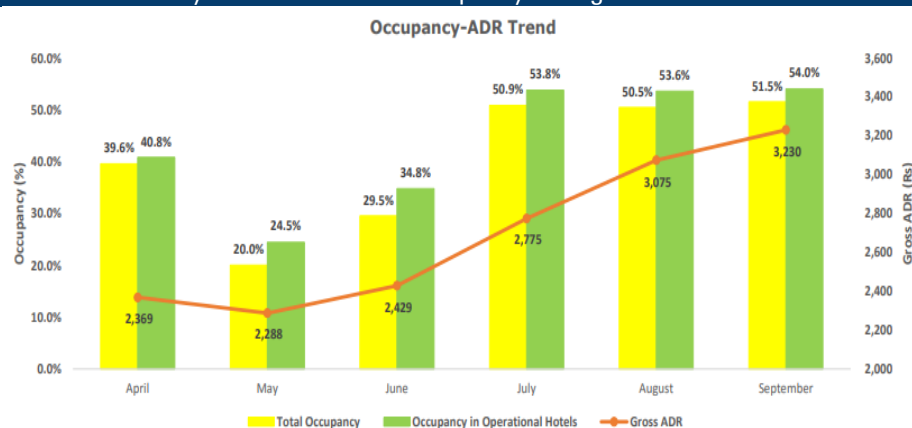
Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Sales	484.3	549.5	669.4	251.7	-19.6	464.8	711.4	68.1
EBITDA	136.2	168.8	238.3	61.3	-23.4	161.0	268.9	109.5
EBITDA (%)	28.1	30.7	35.6	24.3		34.6	37.8	
PAT	14.6	56.4	-13.1	-186.5	PL	-90.8	-7.6	NA
EPS (₹)	0.2	0.7	-0.2	-2.4		-1.1	-0.1	
EV/EBITDA	37.4	31.1	23.7	91.5		35.4	21.6	
RoNW	1.8	6.7	-1.5	-21.4		-10.4	-0.9	
RoCE	4.6	5.5	5.5	-0.7		2.1	5.0	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Moving back to the growth path

- Revenue in Q2FY22 reached 63% of pre-Covid levels. It was up 103.6% YoY, 130% QoQ to ₹ 96.9 crore (vs. I-direct estimate: ₹ 97.5 crore). Beat in EBITDA was led by better margins i.e. at 35% vs. I-direct estimate of 28%
- Occupancy levels on full inventory improved marginally 73 bps YoY to 29.6% while they were down 2619 bps from 55.8% in Q4FY21. Occupancy levels were at 51% vs. 29.6% in Q2FY21 and 32.4% in Q1FY22 while ARR were up 14.1% YoY, 28.2% QoQ to ₹ 3028/room. This led to RevPAR growth of 79.7% YoY, 120.6% QoQ to ₹ 1,544/room
- Mumbai, Delhi & Hyderabad reported occupancy levels of 78%, 64% and 61% vs. 49%, 58% and 34%, respectively, in the same period last year. Occupancy levels at IT hubs like Bengaluru, Gurugram remained lower at 33% & 40%, respectively
- Higher interest (₹ 46.3 crore) and depreciation (₹ 26.3 crore) led to a net loss of ₹ 33.2 crore for the quarter. Current gross debt is at ₹ 1700 crore

Exhibit 1: Monthly trend in ARR and occupancy during H1FY22



Source: Company, ICICI Direct Research

Q2FY22 Earnings Conference Call highlights

- Revenue recovery was a little bit slower as demand in Kerala, Gurugram and Bengaluru remained lower due to extended lockdown in Kerala, lower pick-up in the corporate demand vs. leisure segment due to continuance of WFH policy by corporates
- Revenue reached 62% of pre-Covid levels led by strong rebound in retail demand. Corporate demand reached 50% of pre-Covid levels
- With easing down of Covid cases, the company is hopeful of getting back to pre-Covid levels by Q4FY22E.** Large corporates plan to resume offices post Diwali and would see further pick-up from January 2022 onwards assuming no third wave
- Retail & other demand was ~1700/room nights. Pre-Covid it reached ~1500/room nights in Q2 and is now hovering around ~1800/room nights. Corporate demand was 1500/room nights and reached 650/room nights in Q2 and now at 800/room nights
- The company expects retail demand to cover the demand loss from corporate demand
- The current cost of building a new hotel room has increased to ₹ 1 crore vs. ₹ 50 lakh earlier. These would moderate new launches in the hotel space
- The company plans to add 738 rooms (669 rooms in Mumbai, 69 rooms in Shimla) over the next 2 years with a total capex of ₹ 1006 crore. LTHL has already spent ₹ 388 crore (up ₹ 6 crore QoQ). The balance is to be incurred in a staggered manner with major spend to be done in FY23E

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Net Sales	96.9	97.5	47.6	103.6	42.2	129.9	Occupancy levels were at 51% vs. 29.6% in Q2FY21 and 32.4% in Q1FY22 while ARR's were up 14.1% YoY, 28.2% QoQ to ₹ 3028/room. This led to RevPAR growth of 79.7% YoY, 120.6% QoQ to ₹1,544/room
Other Incomes	3.6	4.5	9.4	-61.6	4.1	-12.9	
Raw Material Expenses	6.5	7.4	3.2	101.2	3.2	102.5	
Employee Expenses	23.1	22.1	14.3	61.7	17.4	32.6	
Other expenses	33.5	40.0	21.8	53.6	21.6	54.8	
Total expenses	63.0	69.5	39.3	60.4	42.2	49.2	
EBITDA	33.9	28.0	8.3	307.6	-0.1	-42,444.3	
EBITDA Margin (%)	35.0%	28.7%	17.5%	1750 bps	-0.2%	3515 bps	
Interest	46.3	46.5	49.7	-6.9	45.2	2.4	
Depreciation	26.3	27.8	27.0	-2.8	26.2	0.3	
PBT	-35.1	-41.8	-59.0	-40.6	-67.3	-47.9	
Total Tax	-1.4	-10.5	-6.2	-76.7	-7.5	-81.0	
Reported PAT	-33.2	-31.4	-53.6	-38.1	-59.8	-44.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	467.2	464.8	-0.5	706.1	711.4	0.7	
EBITDA	159.6	161.0	0.9	265.8	268.9	1.2	
EBITDA Margin (%)	34.2	34.6	48 bps	37.6	37.8	16 bps	
PAT	-86.7	-90.8	4.7	-9.7	-7.6	NA	
EPS (₹)	-1.1	-1.1	4.7	-1.2	-0.1	NA	

Source: Company, ICICI Direct Research

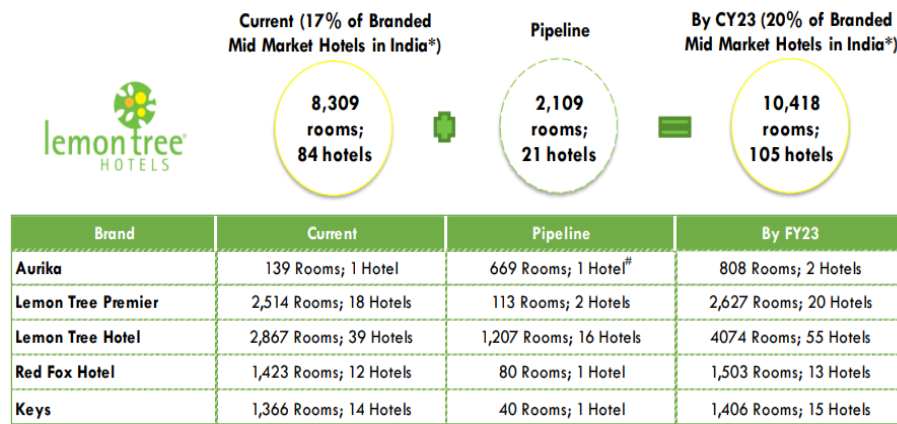
Story in charts

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		

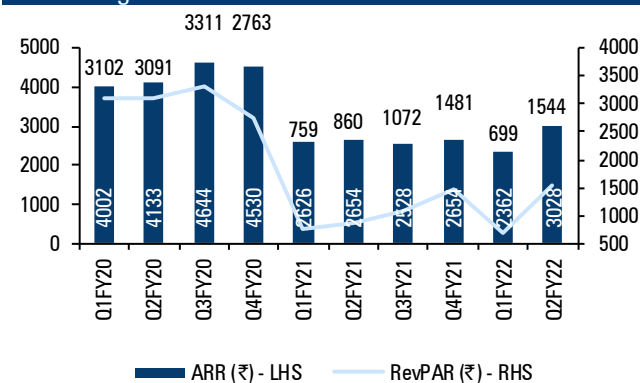
Source: Company, ICICI Direct Research

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



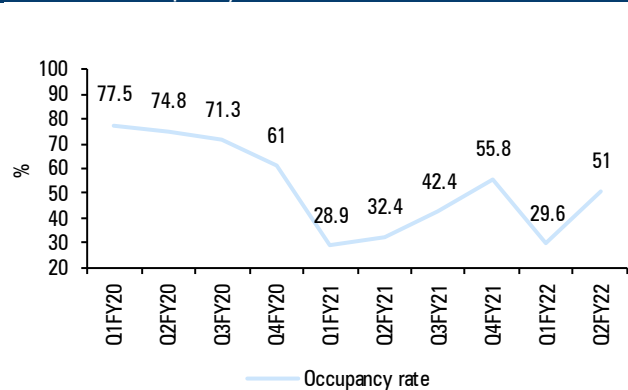
Source: Company, ICICI Direct Research

Exhibit 6: ARR reached 73% of pre-Covid levels; RevPAR at 50% during Q2FY22



Source: Company, ICICI Direct Research

Exhibit 7: Occupancy trend



Source: Company, ICICI Direct Research

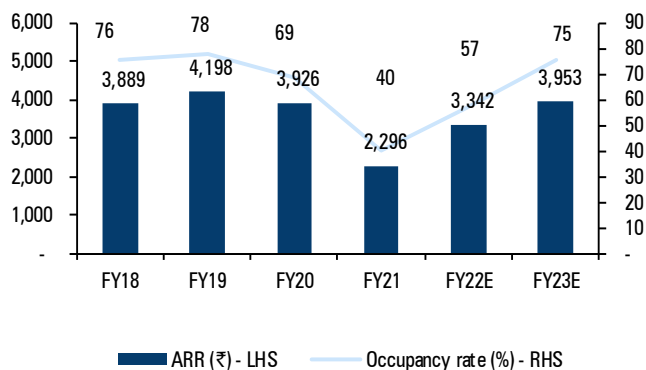
Exhibit 8: Key performance parameters

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	Q2 FY22	Q2 FY21	Change (bps)	Q2 FY22	Q2 FY21	Change (bps)	Q2 FY22	Q2 FY21	Change (%)	Q2 FY22	Q2 FY21	Change (%)	Q2 FY22	Q2 FY21	Change (bps)
By Brand (#Rooms)															
Aurika Hotels & Resorts (139)	5601	1481	278%	54%	19%	3467	10,430	7,780	34%	3.91	0.56	601%	61%	34%	2,659
Lemon Tree Premier (1,603)	2086	1320	58%	65%	46%	1,856	3,212	2,846	13%	1.04	0.53	94%	43%	39%	386
Lemon Tree Hotels (1562)	1467	665	121%	50%	27%	2,379	2,910	2,498	17%	0.65	0.10	532%	36%	14%	2263
Red Fox by Lemon Tree Hotels (952)	1080	687	57%	49%	30%	1,889	2,213	2,296	-4%	0.40	0.06	601%	34%	9%	2,529
Keys by Lemon Tree Hotels (936)	611	475	29%	30%	22%	736	2,053	2,122	-3%	0.17	0.08	108%	23%	14%	865

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	Q2 FY22	Q2 FY21	Change (bps)	Q2 FY22	Q2 FY21	Change (bps)	Q2 FY22	Q2 FY21	Change (%)	Q2 FY22	Q2 FY21	Change (%)	Q2 FY22	Q2 FY21	Change (bps)
By Region (#Rooms)															
Delhi (636)	1964	1708	15%	64%	58%	515	3,087	2,921	6%	0.87	0.61	43%	37%	36%	174
Gurugram (529)	1231	739	67%	40%	25%	1,569	3,044	2,987	2%	0.38	0.12	219%	24%	14%	969
Hyderabad (663)	1549	729	113%	61%	34%	2,773	2,530	2,175	16%	0.88	0.19	351%	48%	25%	2300
Bengaluru (874)	839	476	76%	33%	24%	906	2,558	2,006	28%	0.24	0.04	569%	24%	7%	1797
Mumbai (303)	2435	1841	32%	78%	49%	2982	3,105	3,789	-18%	1.12	0.86	30%	45%	48%	-262

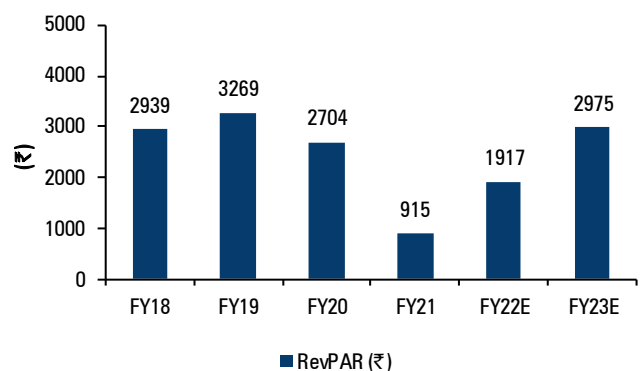
Source: Company, ICICI Direct Research

Exhibit 9: ARR to likely to cross pre-Covid levels by FY23E



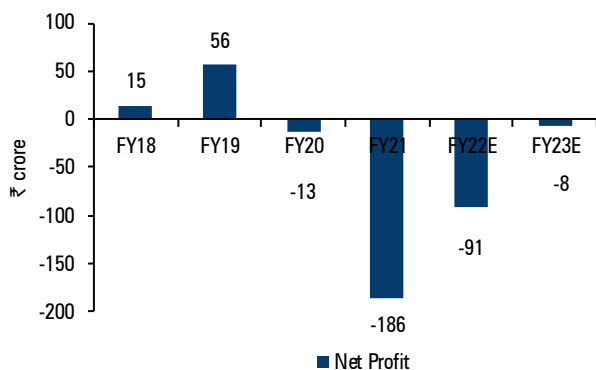
Source: Company, ICICI Direct Research

Exhibit 11: RevPAR to gradually improve from FY22E with pick-up in the 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 crossed ₹ 186 crore in FY21, We expect net loss of only ₹ 8 crore by FY23E

Performance set to improve sharply from H2FY22E onwards...

As the economy is now coming out of pandemic induced pain, the company is also gradually moving to its full functionality. Although improvement would be visible in tourist destinations first, recovery in corporate travel would take at least five to six months due to ongoing work from home policy. We model occupancy of 57%, 75% and ARR of ₹ 3,342, ₹ 3,953 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. While some of these measures are sustainable, we model EBITDA margins of 34.6%, 37.8% in FY22E, FY23E, respectively, vs 35.6% in FY20. However, at the PAT level, the company would take a couple of years to breakeven owing to higher financing costs and depreciation costs.

Stable liquidity buffer with no further likely dilution

LTH being on the 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 faster recovery in the demand. We maintain BUY rating with a revised target price of ₹ 64 per share (SOTP based valuation) (earlier TP ₹ 55/share).

Exhibit 12: Valuation matrix

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		8335
Net Debt FY23E (₹ crore)		1723
Lemon Tree Group Equity value (₹ crore)		6613
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	2954
Fleur Hotels Equity Value (₹ crore)	(B)	3658
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	2122
Lemon Tree Value (₹ crore)		5076
Number of shares (Crore)		79
Target Price (₹)		65

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	464.8	711.4
Growth (%)	22%	-62%	85%	53%
Raw Material Expenses	57.0	17.8	39.0	59.8
Employee Expenses	155.3	70.4	102.1	148.0
Other Exp	218.8	102.2	162.7	234.8
Total Operating Expenditure	431.1	190.4	303.8	442.5
EBITDA	238.3	61.3	161.0	268.9
Growth (%)	41.2%	-74.3%	162.7%	67.0%
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	-122.4	-13.5
Others	0.0	0.0	0.0	0.0
Total Tax	10.9	-32.2	-30.8	-4.5
Reported PAT	-10.4	-182.5	-91.6	-9.0
Adjusted PAT	-13.1	-186.5	-90.8	-7.6
Growth (%)	-1.2	13.3	-0.5	-0.9
Adjusted EPS (₹)	-0.2	-2.4	-1.1	-0.1

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-13	-186	-91	-8
Add: Depreciation	87	108	110	113
(Inc)/dec in W/cap	47	29	-94	-9
Others	520	152	198	194
CF from operating activities	640	103	124	290
(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	-2
Opening Cash	31	41	141	218
Closing Cash	41	141	218	216

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	45.5	38.6
Total Shareholders fun	823.0	917.6	835.7	828.9
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	608.3	607.6
Total Liabilities	3459.9	3518.5	3586.3	3685.5
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	51.2	67.0
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	55.5	50.1	83.3	75.0
Cash	40.8	141.2	217.5	215.7
Total Current Assets	159.2	230.3	400.4	407.7
Creditors	42.0	78.8	81.5	93.0
Provisions & Others	115.7	89.2	125.9	131.6
Total Current Liabilities	302.8	296.3	342.4	349.6
Net Current Assets	-143.6	-66.0	58.0	58.1
Others Assets	580.7	585.1	534.0	520.5
Application of Funds	3459.9	3518.5	3586.3	3685.5

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	-1.1	-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	2.8	2.7
Operating Ratios (%)				
EBITDA Margin	35.6	24.3	34.6	37.8
EBIT Margin	24.2	-9.7	16.1	25.6
PAT Margin	-2.0	-74.1	-19.5	-1.1
Inventory days	3.9	11.2	8.1	7.3
Debtor days	36.7	58.8	32.2	30.3
Creditor days	37.6	87.6	62.9	44.8
Return Ratios (%)				
RoE	-1.5	-21.4	-10.4	-0.9
RoCE	5.5	-0.7	2.1	5.0
RoIC	8.1	5.4	5.6	6.5
Valuation Ratios (x)				
P/E	NM	NM	NM	NM
EV / EBITDA	23.7	91.5	35.4	21.6
EV / Net Sales	8.5	22.3	12.3	8.1
Market Cap / Sales	6.1	16.3	8.8	5.8
Price to Book Value	5.0	4.5	4.9	5.0
Solvency Ratios				
Debt/EBITDA	6.7	26.8	11.5	7.2
Debt / Equity	1.0	1.1	1.3	1.3
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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