



Lemon Tree Hotels

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Reward likely to outweigh risk!

We initiate coverage on Lemon Tree Hotels (LTH) as a post-covid recovery play. The worst phase for the hotel industry is likely behind. Revival may be gradual over 18-24 months to hit the historic 70-75% occupancies and Rs 4k+ ARR for LTH. But, operating performance to improve from hereon and cost rationalization benefits may be structural. Low-inventory supply and consolidation are likely to be other benefits.

LTH steep price correction of ~67% from all-time high provides an opportunity to BUY into a franchisee that is steadily expanding its addressable opportunities, promoters with superior execution track record reflected in industry leading growth, occupancies and lower capex-opex, healthy reporting and governance standards.

LTH is a leading hotel chain in mid-market segment (2.5 to 4-star) with healthy ~12% market share as of FY19. Market share is set to expand to ~20% by FY23E. Geographic diversification and improving mix of keys in demand dense higher ARR markets to drive strong growth. BUY with TP of Rs 38 @ 20x Sep-22E EV/EBITDA. Execution risks, stretch on balance sheet and promoter pledge are key concerns.

Steadily expanding the addressable opportunities

- Since IPO in Mar18, LTH has been witnessing rapid additions of new hotels under management contracts (MCs). LTH is also now tapping the international markets through MCs.
- LTH acquisition of Keys Hotels (~975 owned rooms and ~936 MCs) being leveraged buy-out with financing through sale and lease back of 'LTP Mumbai' is positive. Keys may be value accretive in medium-term.
- LTH key focus has been mid-market segment. To tap the luxury segment, LTH has launched new brand 'Aurika'. With this it would try to tap the ~40% (or 28k rooms) of the inventory in this segment.

Concerns over debt and management holding overdone

LTH steep share price correction seems to us on account of COVID, debt concerns and low promoter holding (31% of which 34% is pledged). The fall is not completely out of sync. But, LTH debt is largely back-ended with repayments of ~Rs 0.5bn in FY21 and Rs 1bn in FY22, out of debt of ~Rs 16bn. Funding of Rs 3bn from APG should help navigate these times.

LTH positioning to benefit it in the recovery cycle

At operating level, we believe LTH to be amongst the first to recover from the impact of COVID owing to its customers (80-85% domestic), price-points (Rs4-4.5k ARR range), revenue (~70% from room revenues) and geographic (primarily CBDs) mix of rooms vs. luxury segment.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,504	6,694	3,576	7,029	8,094
Growth(%)	13.7	21.6	(46.6)	96.6	15.1
EBITDA	1,688	2,383	653	2,622	3,347
OPM(%)	30.7	35.6	18.3	37.3	41.3
PAT	521	(69)	(1,489)	(379)	1
Growth(%)	272.0	(113.2)	2067.2	(74.5)	(100.3)
EPS(Rs.)	0.7	(0.1)	(1.9)	(0.5)	0.0
Growth(%)	272.0	(113.2)	2067.2	(74.5)	(100.3)
PER(x)	42.0	(318.2)	(14.7)	(57.6)	18040.2
ROANW(%)	6.2	(0.8)	(20.0)	(5.8)	0.0
ROACE(%)	5.6	4.8	0.0	4.6	6.1

CMP	Rs 28
Target / Upside	Rs 38 / 37%
BSE Sensex	38,220
NSE Nifty	11,278

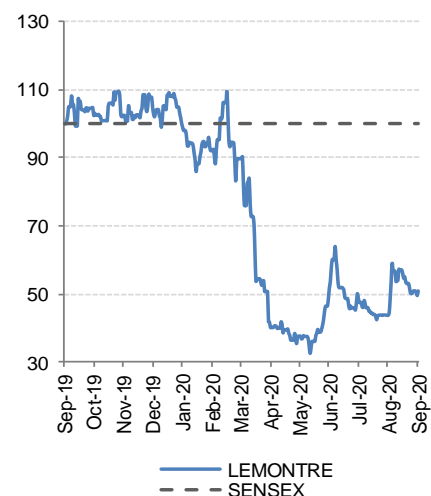
Script Details

Equity / FV	Rs 7,903mn / Rs 10
Market Cap	Rs 22bn
	US\$ 297mn
52-week High/Low	Rs 70/Rs 14
Avg. Volume (no)	3,683,820
NSE Symbol	LEMONTREE
Bloomberg Code	LEMONTRE IN

Shareholding Pattern Jun'20(%)

Promoters	31.2
MF/Banks/FIs	17.1
FII's	23.5
Public / Others	28.2

Lemon Tree Relative to Sensex



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Investment Thesis

- Post-Covid recovery play of revival in economic activity and thus travel and tourism industry.
- Mid-market (2-star to 4-star) segment an attractive play.
- LTH as a pioneer in mid-market segment to benefit on account of its positioning wrt customers, revenue mix and geographic footprint.
- Expansion in addressable opportunities to help drive the growth.

Catalyst

- Economic recovery coupled with revival in travel and tourism industry.

Company Background

Lemon Tree Hotels (LTH) is India's largest chain in the fast-growing mid-priced hotels sector. LTH opened its first hotel with 49 rooms in May 2004 and operates 81 hotels in 49 destinations with ~8,100 rooms (5,200 owned and balance on management contracts). LTH got listed in Apr-18 with IPO price of Rs 56. It was an OFS from existing PE investors.

Mr. Patanjali Keswani is the Founder, Chairman and MD of LTH. He has a bachelor's degree in electrical engineering from IIT, Delhi and Post graduate diploma from IIM-Calcutta. He was associated with Indian Hotels for 17 years before starting his own venture.

Risk

- A long-haul in the recovery of occupancies.
- Significantly higher net debt of Rs 16bn excluding lease liabilities may derail the company in absence of recovery.
- Low promoter holding of 31% of which 34% is pledged. Promoter's loan against shares is ~Rs 2.5bn vs. the current value of pledged holding at Rs 2.1bn. There has been no invocation of pledged shares. Promoter has made personal arrangement to meet the covenants but details and T&C of the same is not known.

Event

- LTH is likely to come-out with rights issue to strengthen the BS. LTH has already raised Rs 1.75bn from its long-term strategic partner Apollo Pensions Group and has support for additional Rs 1.25bn if required.
- Further LTH is also pursuing large management contracts opportunities in tie-up with fund house with a large portfolio of properties. This may necessitate a smaller skin in the game (equity holding). Rights issue may enable to tap this opportunity too.

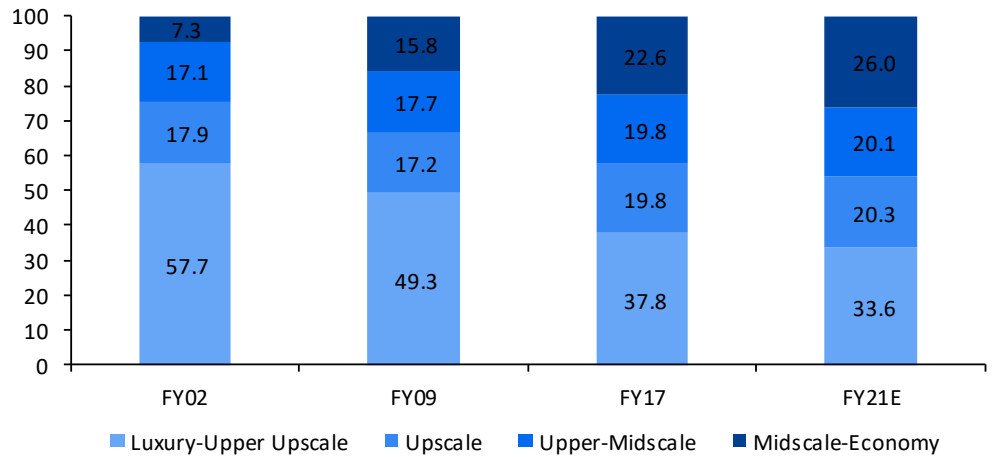
Assumptions

	FY20	FY21E	FY22E	FY23E
Rooms (No)	5,192	5,192	5,192	5,192
ADR (Rs)	4,327	3,748	4,010	4,210
Occupancy (%)	71%	38%	67%	72%
RevPAR (Rs)	3,093	1,434	2,697	3,043
Reven. (Rs Mn)	6,694	3,576	7,029	8,094
EBITDA (Rs Mn)	2,383	653	2,622	3,347
Margin (%)	35.6	18.3	37.3	41.3
Change YoY (%/bps)				
Rooms (No)	45.4	-	-	-
ADR (Rs)	3.5	(13.4)	7.0	5.0
Occupancy (%)	(6.3)	(46.5)	75.8	7.5
RevPAR (Rs)	(3.0)	(53.6)	88.1	12.8
Reven. (Rs Mn)	21.6	(46.6)	96.6	15.1
EBITDA (Rs Mn)	41.2	(72.6)	301.8	27.6
Margin (bps)	494	(1,735)	1,905	405

Mid-market segment: An attractive play

When LT commenced operations, supply of rooms in India’s hotel industry was an inverted pyramid (primarily at the top-end or luxury). Over the last two-decades the share of luxury hotel rooms has declined from ~58% to 36% whereas that of upper-midscale and midscale-economy segment share has rose from 24% to 46%.

Exhibit 1: India’s hotel room mix: mostly at the top-end

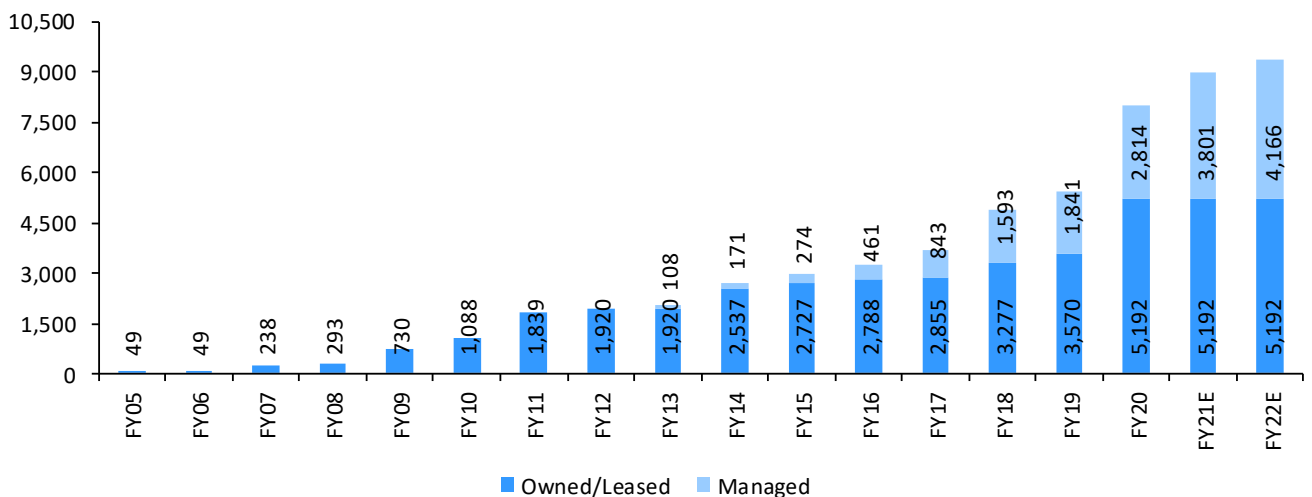


Source: DART, Company

LTH category-creator of the mid-market with superior growth trajectory

LTH has been a kind of a category creator in the branded midscale-economy segment. It’s key focus on the evolving needs of middle class Indians with rising income and purchasing power, offering them a high-quality value-for-money experience has been the driving factor.

Exhibit 2: LT’s room growth trajectory



Source: DART, Company

- LTH strong foot-hold in fastest growing mid-market segment makes it an attractive play. The demand-supply gap mismatch is likely to be the highest in the mid-market segment.

LT is a leading player in the mid-market segment with ~10% market share in room keys

Market share to expand to ~20% by FY23 as it opens the India's largest hotel in the busiest location of Mumbai

- **LTH enjoys ~12% market share in mid-market segment:** With ~15 years of operation, LT is already a leading mid-market player (category creator) with ~12% market share as of FY19.
- LTH currently operate about 8,006 rooms (5,192 owned/leased and 2,814 in management contracts) in India as of 30th June, 2020, with ~14% share of the mid-market (2-star to 4-star) which is about ~56k rooms. Mid-market is ~40% of the ~140k branded rooms.
- market share to expand to ~20% by FY23E: LTH market share is expected to expand to ~20% by FY23 end as it commences the largest hotel in India with 669 rooms (including conversion of commercial space into residential) in the busiest location of Mumbai. We have estimated the Mumbai property to contribute from FY24 only.
- LTH is one of the fastest growing companies. With strong pipeline, LT's market share will expand to ~20% by FY23E. **Room inventory to grow at ~14% CAGR.**
- **LTH is the largest chain in the mid-price segment:** LTH is the largest hotel chain in mid-priced hotel sector in India on the basis of controlling interest in owned and leased rooms.
- LT's positioning **in mid-market segment in demand-dense CBDs in Rs 3-5k ARR bracket make it well-poised to benefit from the demand recovery in a post pandemic world.**

Exhibit 3: LTH market share trajectory

	FY19	FY20	FY23E
Owned Leased	3,570	5,192	5,940
Managed	1,841	2,814	4,388
Total	5,411	8,006	10,328
Industry*	45,700	47,985	52,903
Market share (%)	11.8	16.7	19.5

Source: DART, Company, * Mid-scale and economy segment

LTH: Best in class execution

LT's superior execution through standardized operations, focus on service differentiation, value for money pricing leads to higher occupancies (RevPAR), costs and capital efficiencies.

Four brands to address the varied customer segments

LTH based on understanding of Indian consumers has created three hotel brands to address the evolving nature of the middle-class Indian guest's needs. Compared to other consumption themes, the middle-class Indian consumer is rapidly evolving especially the millennials with expanding disposable income and this category is highly aspirational and reflects a very large percentage of LT customers viz. ~80%.

- **LTH key brands are:**
 - **'Lemon Tree Premiere'** is upper-midscale hotel and comparable to a 3/4-star.
 - **'Lemon Tree Hotels'** is mid-scale (3-star) hotel.
 - **'Red Fox'** is economy brand which is targeted at the price conscious customer and is comparable to a 2-star hotel.

- Acquisition of **Keys Hotel** allow LTH to tap the large unorganized segment in the economy space. This is besides strategic benefit of brand, cities and market share expansion. LTH has acquired Keys Hotels for an EV of Rs 6.1bn. Keys Hotel has 936 owned/leased rooms and 975 rooms under management contracts. Keys operate under three brands viz. Keys Prima, Keys Select and Keys Lite comparable to LTP, LTH and Red Fox brands respectively.
- **'Aurika'** is the new-brand launched by LTH to tap the Upper-upscale and Upscale segment.

Exhibit 4: Hotel industry's inventory by segment and LT's brand positioning

Segment	Inventory	LT Positioning	Competitors
Luxury and Upper Upscale	50,000	-	Taj, Oberoi, Marriott, ITC, Hyatt, Leela
Upscale	28,000	Aurika	Trident, Vivanta by Taj, Holiday Inn, Lalit, Welcome, Courtyard by Marriott
Mid-Market	45,700	LTP/LTH/RFX	Ginger, Fortune, Holiday Inn Express, Fairfield by Marriott
Economy	17,000	-	
Unbranded Standalone	2,50,000	LTP/LTH/RFX	
	17,00,000	Keys Prima/Select/Lite	

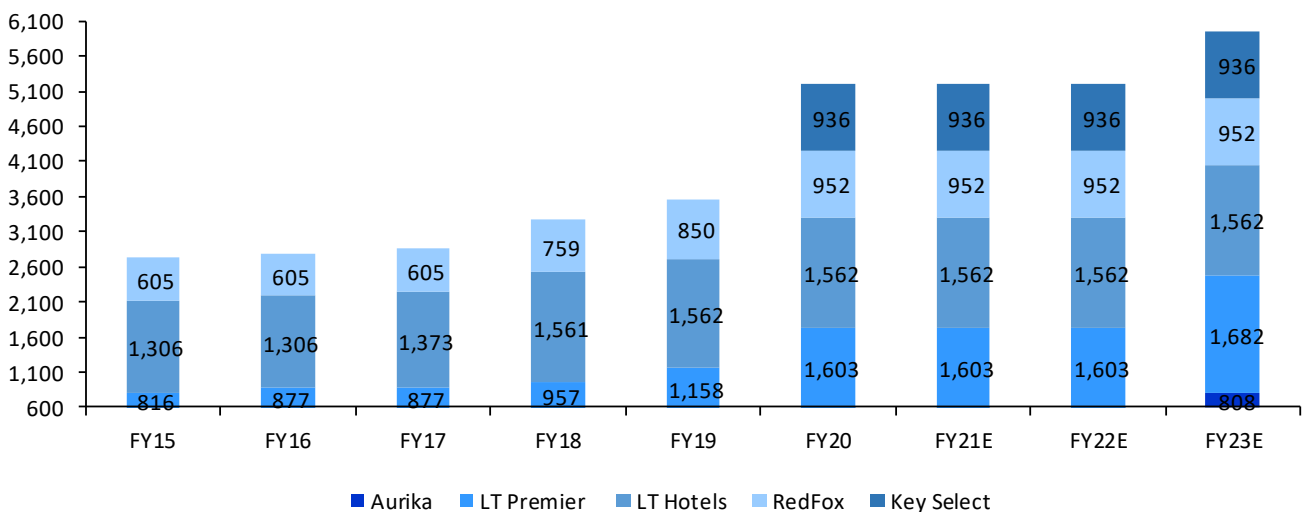
Source: DART, Company

LTH owned room's mix shift to 'Premium portfolio' to be key growth driver

LTH incremental rooms addition of ~785 rooms viz. ~22% of inventory excluding Keys acquisition (in Mumbai, Pune, Kolkata and Udaipur) had been in the premium segment. All these properties were added in FY19 and FY20. These locations are demand-dense higher ARR market with 1.5x revenue and 2x EBITDA potential of LTH current average.

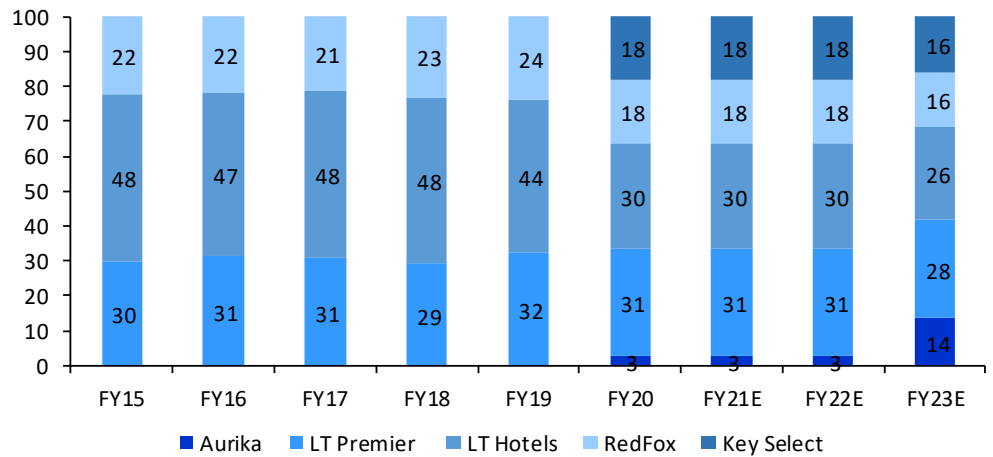
But, on account of Covid, LTH aggressive expansion in premium-segment is likely to be a drag in the short-term. Lemon Tree generally takes 2-3 years to ramp-up the occupancies followed by ARR spike. However, this is likely to get delayed by a 12-24 months on account of pandemic and its after-shock on travel and tourism industry.

Exhibit 5: LTH owned room's portfolio across brands



Source: DART, Company

Exhibit 6: LTH owned room's mix to shift to 'Premium portfolio'

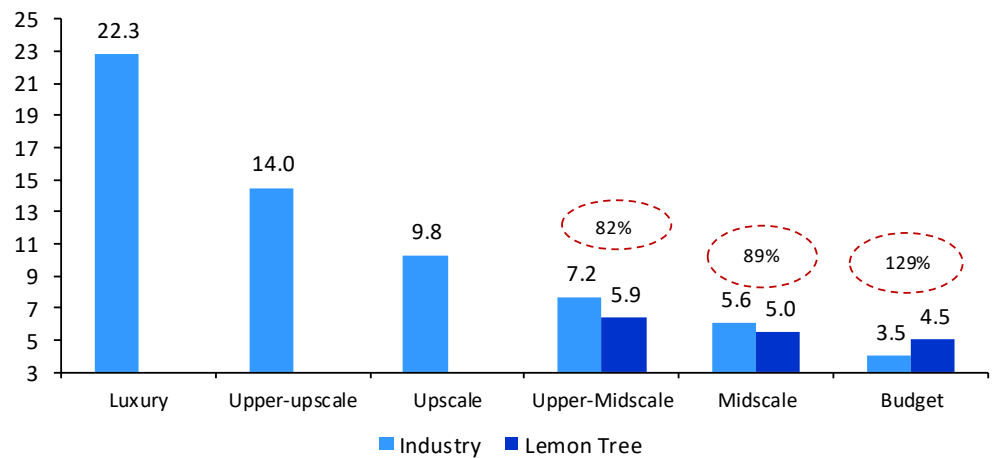


Source: DART, Company

Development cost per room – lower than industry average

- LTH average development cost per room is lower than industry average except in budget segment. However, budget segment being highly fragmented space, LTH cost per room is higher as it ensures a slightly more premium look, feel and much more product coherence than existing players.

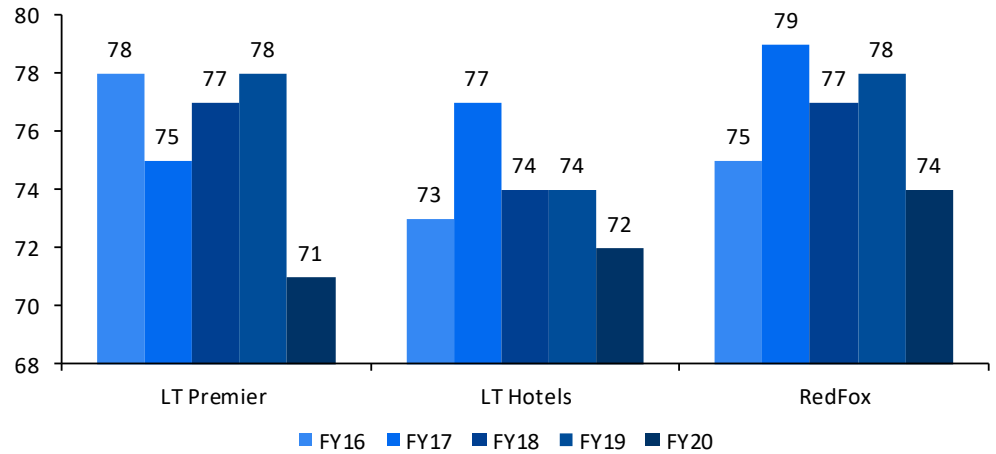
Exhibit 7: Average development costs per room (Rs Mn)



Source: DART, Company; HVS (India – 2016 Hotel Development Cost Survey)

Brand-wise operating performance

Exhibit 8: LTH segment-wise occupancy trend

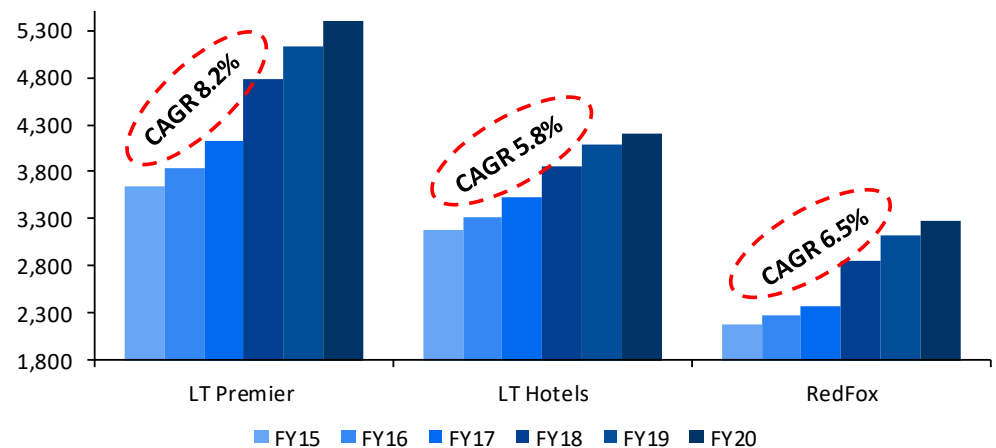


Source: DART, Company

LTH occupancy ratio has been 500-700bps higher than industry average

Decline in occupancy in FY20 is owing to new room additions and weak Q4FY20 led by Covid

Exhibit 9: LTH segment-wise ARR



Source: DART, Company

Significant increase in opex in FY19 per room/day has been on account of steep upward revision in minimum wages in certain states

Exhibit 10: Opex/Room/Day for Adult Hotels – A lean structure

Brands/Hotel	No of Rooms	FY15	FY16	FY17	FY18	FY19	CAGR
LTH Group	2,727	1,827	1,955	1,981	2,096	2,266	5.5
LTP	816	2,026	2,352	2,327	2,460	2,690	7.3
LTH	1,306	2,080	2,012	2,098	2,196	2,338	3.0
RFX	605	1,184	1,299	1,260	1,386	1,538	6.8

Source: DART, Company

Hotels are prima-facie a low ROCE business (viz. ~10-12% at portfolio level). These we believe is prima-facie on account of lower ARR (and in general rental yields for commercial and especially residential real estates), higher capex/room, higher service standards that boosts the opex, FOMO effect wrt occupancies.

Gradually over a period of time, we expect this factors to reverse leading to improved return ratios of Hoteliers. Yet hotel companies in India command higher EV/EBITDA multiple. This is partly on account of increasing occupancies (pre-Covid), institutionalization of occupancies and on account of built-in exit multiple for sale/sale and lease back of properties.

In the above backdrop, LTH has been generating a reasonable ROCE's for its matured portfolio of hotels. Hotels under management contract

Exhibit 11: Segment-wise FY19 actual performance

Segment	Inventory	EBITDAR/ room (Rs Mn)	Hotel level EBITDAR (Rs Mn)	Investment /room (Rs Mn)	Pre-tax ROCE (%)
LT Premier (Adult)	957	1.02	976	5.9	17.3
LT Hotels (Adult)	1,340	0.61	817	5	12.2
Red Fox Hotels (Adult)	605	0.58	351	4.5	12.9
New Owned/Leased Hotels	668	0.23	154		
Managed Hotels (Fees)	1,739	0.07	122		
	5,309	0.46	2,420		

Source: DART, Company

Exhibit 12: Aggregate operating performance of 4 hotels opened in FY14 and FY15

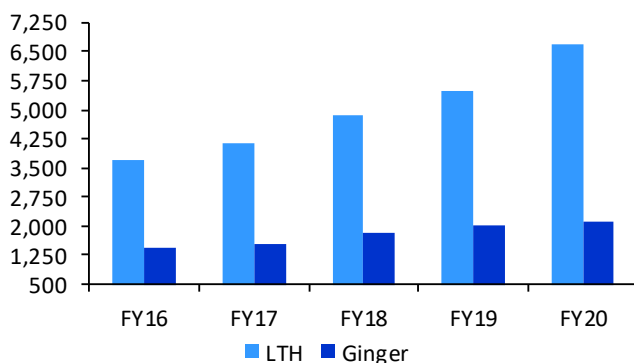
	FY15	FY16	FY17	FY18	FY19	CAGR (%)
Aggregate of 4 hotels	Infant	Toddler	Toddler	Adult	Adult	
Rooms (Nos)	472	807	807	807	807	
Occupancy (%)	69.6	76.7	77.8	80.6	85.3	
ARR (Rs)	2,622	2,945	3,130	3,627	4,545	14.7
RevPAR (Rs)	1,825	2,259	2,435	2,923	3,877	20.7
EBITDA/Room (Rs Mn)	0.22	0.49	0.6	0.74	0.88	41.4
EBITDA Margin (%)	20	40.3	43.5	46.7	47.8	
LT's focus		Occupancy		ARR	RevPAR	

Source: DART, Company

Lemon Tree vs. Ginger

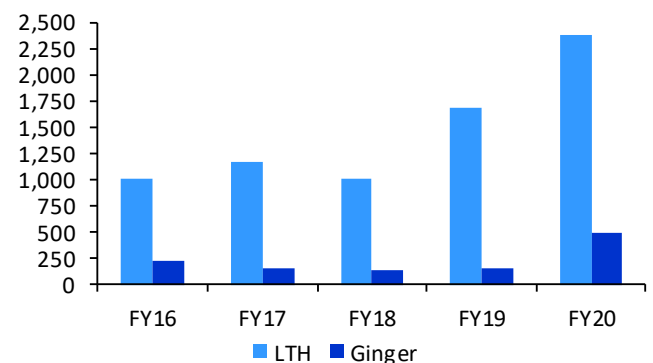
Both Lemon Tree and Ginger started with their first hotel in FY05 in mid-market segment. Lemon Tree positioned itself as a marginally pricey brand (Rs 2500-4500) with better proposition and value for money offering. Ginger's positioning similar to other group brands (Tata Indicom, Nano) was of being cheapest (Rs 1000-2000) without breakfast/other amenities. Ginger with ~3,500 rooms portfolio vs. 3,600 for Lemon Tree trailed the later significantly. Ginger is now re-positioning itself as a lean-luxury player with standardized bed and breakfast (not their earlier) offering with a better look and feel. It is spending ~Rs 7-8lac/room. The above is indicative of well-thought out strategy, superior positioning and execution of LTH.

Exhibit 13: LTH revenue is ~3x of Ginger



Source: Company, DART

Exhibit 14: LTH EBITDA is ~4.5x of Ginger



Source: Company, DART

Hotels inherently are low ROCE business but capital structure (2:1 Debt:Equity) boost ROE as hotels mature

2/3rd of LTH portfolio is in demand-dense higher ARR markets (or CBDs)

As the economy recovers and travel rebounds these cities are likely to be the first to comeback. LTH is thus likely to benefit from this recovery.

Exhibit 15: LTH owned/leased properties: City-wise number of rooms and mix %

City	Room Count					Room Mix (%)				
	Aurika/ LTP	LTH	Key Select	Red Fox	Total	Aurika / Premier	LTH	Key Select	Red Fox	Total
Existing										
Gurugram (NCR)	224	153	381	154	912	4.3	2.9	7.3	3	17.6
Hyderabad	267	274	-	121	662	5.1	5.3	-	2.3	12.8
New Delhi (NCR)	280	-	-	301	581	5.4	-	-	5.8	11.2
Bengaluru	188	305	-	-	493	3.6	5.9	-	-	9.5
Mumbai	303	-	-	-	303	5.8	-	-	-	5.8
Pune	199	-	101	-	300	3.8	-	1.9	-	5.8
Dehradun	-	-	101	91	192	-	-	1.9	1.8	3.7
Jaipur	-	-	-	183	183	-	-	-	3.5	3.5
Chandigarh	-	81	-	102	183	-	1.6	-	2	3.5
Alleppey (Kerala)	-	28	151	-	179	-	0.5	2.9	-	3.4
Ghaziabad (NCR)	-	55	95	-	150	-	1.1	1.8	-	2.9
Kolkata	142	-	-	-	142	2.7	-	-	-	2.7
Bandhavgarh	-	34	107	-	141	-	0.7	2.1	-	2.7
Udaipur	139	-	-	-	139	2.7	-	-	-	2.7
Pune	-	124	-	-	124	-	2.4	-	-	2.4
Chennai	-	108	-	-	108	-	2.1	-	-	2.1
Aurangabad	-	102	-	-	102	-	2	-	-	2
Indore	-	100	-	-	100	-	1.9	-	-	1.9
Ahmedabad	-	99	-	-	99	-	1.9	-	-	1.9
Goa	-	99	-	-	99	-	1.9	-	-	1.9
Sub Total	1,742	1,562	936	952	5,192	33.6	30.1	18	18.3	100
Upcoming										
Mumbai	669	10	-	-	679					
Shimla	-	69	-	-	69					
Alleppey (Kerala)	-	10	-	-	10					
Sub Total	669	89	-	-	748					
Total	2,411	1,651	936	952	5,940					

Source: DART, Company

Financial overview

LTH superior execution to tap the millennial customers be it for business or leisure segment should enable it to regain the occupancies over 12-18 months. Economic recovery would be a key variable. This should be followed by growth in the ARR.

Shift to digital (virtual mode) for meetings and events by Corporates could be a structural risk. We believe there is lower probability of the same but would remain watchful of it.

Exhibit 16: Key Assumptions

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E*
Rooms (No)	1,920	2,537	2,727	2,822	3,019	3,277	3,570	5,192	5,192	5,192	5,192
ADR (Rs)	-	-	-	-	3,449	3,896	4,180	4,327	3,748	4,010	4,210
Occupancy (%)	-	-	-	-	77%	76%	76%	71%	38%	67%	72%
RevPAR (Rs)	-	-	-	-	2,648	2,955	3,190	3,093	1,434	2,697	3,043
Room Revenue (Rs Mn)	1,437	1,450	1,867	2,411	2,717	3,345	3,880	4,760	2,772	5,096	5,747
Non-Room Rev (Rs Mn)	711	767	1,037	1,268	1,404	1,498	1,624	1,935	804	1,933	2,347
Total Revenue (Rs Mn)	2,148	2,217	2,904	3,680	4,121	4,843	5,504	6,694	3,576	7,029	8,094
Operating expenses	1,773	1,984	2,397	2,668	2,956	3,481	3,817	4,311	2,923	4,408	4,747
EBITDA (Rs Mn)	375	233	507	1,012	1,165	1,361	1,688	2,383	653	2,622	3,347
EBITDA margin (%)	17.4	10.5	17.5	27.5	28.3	28.1	30.7	35.6	18.3	37.3	41.3
Change YoY (%/bps)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY22E
Rooms (No)		32.1	7.5	3.5	7.0	8.5	8.9	45.4	-	-	-
ADR (Rs)						13.0	7.3	3.5	(13.4)	7.0	5.0
Occupancy (%)						(1.2)	0.5	(6.3)	(46.5)	75.8	7.5
RevPAR (Rs)						11.6	8.0	(3.0)	(53.6)	88.1	12.8
Room Revenue (Rs Mn)		0.9	28.8	29.2	12.7	23.1	16.0	22.7	(41.8)	83.9	12.8
Non-Room Rev (Rs Mn)		8.0	35.1	22.3	10.7	6.7	8.4	19.1	(58.5)	140.6	21.4
Total Revenue (Rs Mn)		3.2	31.0	26.7	12.0	17.5	13.7	21.6	(46.6)	96.6	15.1
Operating expenses		11.9	20.8	11.3	10.8	17.8	9.6	13.0	(32.2)	50.8	7.7
EBITDA (Rs Mn)		(37.7)	117.3	99.5	15.1	16.9	24.0	41.2	(72.6)	301.8	27.6
EBITDA margin (%)		(692)	694	1,003	77	(15)	255	494	(1,735)	1,905	405

Source: DART, Company * We have assumed LTH largest property of Mumbai Airport (670 rooms) to be operational only from FY24E vs. management guidance of 2HFY22 earlier

Debt profile, funding options and utilization

- LTH high debt (including that of Keys Hotels acquired in Oct'19) of ~Rs 16bn as of Jun'20 is one of the key investor concerns. LTH debt is largely back-ended with principal repayments of <Rs 0.5bn in FY21 and Rs 1bn in FY22.
- A significant portion viz. 1/3rd of LT's debt is towards assets which have just been operationalized viz. Pune, Mumbai, Kolkata and Udaipur.

Exhibit 17: LTH debt profile at end of Q1FY20 (Hotel Type)

Particulars	Adult	Toddler	Infant	Under Construction	Total
Rooms	2,727	653	292	1,332	5,004
% of Total	54.5	13.0	5.8	26.6	100.0
Debt (Rs Mn)	7,500	1,120	1,200	2,840	12,660
% of Total	59.2	8.8	9.5	22.4	100.0

Source: DART, Company

- LTH has generally been raising debt towards the completion of the project (~6 months prior) to avoid the project delays and cost overruns especially of IDC (interest during construction period). Duration of the loans are typically for a 15-year term with majority of the principal repayment falling due in the last four years of the tenure.

Exhibit 18: LTH typical debt terms

Tenure	Interest	Approx. Principal Repayment	Remarks
First 3 years	Yes	0%	Moratorium
4-7 years	Yes	10-15%	
8-11 years	Yes	25-30%	Ballooned repayment
Final 4 years	Yes	55-65%	

Source: DART, Company

APG – a strong strategic partner

- LTH has already raised Rs 1.75bn from its strategic/financial partner APG (Apollo Pensions Group) at 0% ROI for 30 months' period. At end of tenure, this may be converted into equity in subsidiary company Fleur and LT to maintain its holding (58%) will move properties from standalone to this subsidiary. APG has under-written to provide additional funding of Rs 1.25bn. APG has been a long-term partner with LTH and has provided funding support multiple times (8-9) in 10 years.
- For reference, APG holds 15% stake in LTH and 42% in Fleur Hotels, subsidiary of Lemon Tree that owns ~70% of properties.
- APG's approach to valuing Lemon Tree has also been fair proving beneficial to LT and its minority shareholders. It is visible from its support towards the acquisition of Keys Hotels.

Transaction overview:

- APG paid Rs 3.6bn for 42% equity stake in LT Mumbai and Keys Hotel.
- Thus equity value = Rs 8.57bn (360/42%).
- Debt of Mumbai Hotel = Rs 2.3bn. LT's investment in property upto FY18 was Rs 2.43bn (and debt Rs 1.5bn) and till launch in Jun-19 Rs 3.2bn (with debt of Rs 2.3bn).
- Debt of Keys Hotel = Rs 1.84bn. EV of Rs 6.05bn less cash from APG in equity form of Rs 3.6bn and from LT equity Rs 0.61bn.
- Thus total EV = Rs 8.57bn + Rs 2.3bn + Rs 1.84bn = Rs 12.71bn
- EV of Keys Hotel = 6.05bn
- **Thus EV of Mumbai Hotel = Rs 12.71- Rs 6.05bn = Rs 6.66bn for capital employed of Rs 3.2bn.**
- **Debt of Mumbai hotel Rs 2.30bn; Thus equity value Rs 4.36bn.**
- Alternatively, Rs 8.57bn equity value for LT Mumbai + Keys, LT share @ 58% = Rs 4.97bn less Rs 0.61bn cash for Keys.
- Thus Rs 4.36bn is the equity value of Mumbai.
- **Rights issue:** In addition to above, LTH is also envisaging rights issue. This we believe is to strengthen the BS. LTH is also close to signing a term-sheet with a large fund to manage their hotel properties with some skin in the game. This could potentially add another growth lever to the company.

Corporate Structure

- Lemon Tree has four major subsidiaries. Three of these (Fleur, Begonia and Nightingale) are asset owing with Apollo Pensions Group (APG) viz. world's third largest Dutch based Pension fund.
- APG also holds 15% in Lemon Tree directly. APG invested in Lemon Tree and Fleur in 2012 and in Begonia in 2015.

Exhibit 19: Entity-wise Owned/leased keys ownership

Particulars	LT Standalone	Fleur	Begonia	Nightingale	Consolidated
Ownership (A)	100.0%	58.0%	74.1%	57.5%	
Operational Keys (Owned hotels)					
- Aurika	-	139	-	-	139
- LT Premier	330	1,273	-	-	1,603
- LT Hotels	830	477	65	190	1,562
- Red Fox	707	245	-	-	952
- Keys Select	-	936	-	-	936
Sub total	1,867	3,070	65	190	5,192
Upcoming Keys					
- Aurika	-	669	-	-	669
- LT Hotels	79	-	-	-	79
Sub total	79	669	-	-	748
Consolidated Keys					
- Aurika	-	139	-	-	139
- LT Premier	330	1,942	-	-	2,272
- LT Hotels	909	477	65	190	1,641
- Red Fox	707	245	-	-	952
- Keys Select	-	936	-	-	936
Total (A)	1,946	3,739	65	190	5,940
Consolidated Keys (Mix %)					
- Aurika	-	669	-	-	669
- LT Premier	14.5	85.5	-	-	100.0
- LT Hotels	55.4	29.1	4.0	11.6	100.0
- Red Fox	74.3	25.7	-	-	100.0
- Red Fox	-	100.0	-	-	100.0
Total (B)	32.8	62.9	1.1	3.2	100.0
LT Effective Holding (%) (A * B)	32.8	36.5	0.8	1.8	71.9

Source: DART, Company

Valuation Snapshot

- Hotel companies despite lower ROCE's and cash flows had commanded premium valuations (viz. ~20x EV/EBITDA). This we believe was primarily on account of notable trends that were evolving in the Indian Hospitality sector that is likely to provide attractive opportunities for long term investors. Some of this includes formalization of industry with increasing supply of institutional capital, demand outpacing supply, improving customer mix, narrowing of gap between lean and peak seasons, government focus on travel and tourism specially to drive up foreign exchange earnings, reduction in GST, increasing focus on management contracts and costs rationalization initiatives. Another factor of rich valuations is also the imbibed asset value / replacement costs and potential terminal value of sale or sale and lease back of assets.
- Led by LTH strong brand presence in the mid-market segment, high growth trajectory, superior execution, management quality and governance; we value it at 20x Sep-22E EV/EBITDA (10% premium to Indian Hotels). Our TP for LTH is Rs 38.
- LTH effective ownership in the portfolio of keys will be ~72%. However, since the majority of expansion in the 'LT Premier' hotels is in the premium destinations would reside in subsidiary 'Fleur' which would contribute a significant portion of incremental growth.
- Thus, LTH effective share in revenue/EBITDA would be less than 72% (closer to 65-70%). However since, LTH would also earn management fees (3-5%) from these hotels towards brand and sales and marketing etc; we are assuming the proportionate ownership at 75%.

Exhibit 20: Valuation summary

Particulars	Consolidated (100%)			Proportionate Ownership (75%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
EBITDA (Rs Mn)	653	2,622	3,347	489	1,966	2,510
(-) IndAS116 EBITDA contribution (Rs Mn)	352	378	407	264	284	305
Core EBITDA (Rs Mn)	301	2,243	2,940	225	1,683	2,205
Multiple (x)	20	20	20	20	20	20
Enterprise Value (Rs Mn)	6,011	44,869	58,796	4,509	33,652	44,097
Net debt (Rs Mn)	20,989	22,921	24,974	14,692	16,045	17,482
(-) IndAS 116 debt (Rs Mn)	4,503	4,391	4,281	3,378	3,293	3,211
(-) Debt for u/c assets/CWIP (Rs Mn)	3,141	5,497	6,871	2,356	4,122	5,153
Core Net debt (Rs Mn)	13,345	13,034	13,822	8,959	8,629	9,118
Equity Value (Rs Mn)	(7,333)	31,836	44,974	(4,451)	25,023	34,979
O/s shares (Mn)	786	786	786	786	786	786
Value per share (Rs)	(9)	40	57	(6)	32	44
CMP (Rs)	28	28	28	28	28	28
Upside/Downside (%)	-133%	45%	104%	-120%	14%	59%

Source: DART, Company

Hotel businesses earning including of LTH are highly sensitive on ARR which in turn is also a function of occupancy levels

Sensitivity of EBITDA to Occupancy and ARR

+ / (-) 1%	Occupancy	ARR
EBITDA	1.3%	1.9%
TP	2.2%	3.9%

Annexures

Exhibit 21: LTH portfolio of room including month/year of opening

Year of Opening	Month of Opening	Category	Location	Rooms
FY05	May-04	LTH	Gurugram (NCR)	49
FY07	Dec-06	LTH	Goa	65
FY07	Mar-07	LTH	Pune	124
FY08	Oct-07	LTH	Kaushambi/Ghaziabad (NCR)	55
FY09	Oct-08	LTH	Aurangabad	102
FY09	Nov-08	LTH	Alleppey (Kerala)	28
FY09	Nov-08	LTH	Ahmedabad	99
FY09	Nov-08	LTH	Indore	100
FY09	Feb-09	LTH	Chennai	108
FY10	Nov-09	LTH	Bengaluru	175
FY10	Nov-09	RFX	Jaipur	183
FY11	Jul-10	RFX	New Delhi (NCR)	94
FY11	Jul-10	LTP	Gurugram (NCR)	81
FY11	Jan-11	LTP	Bengaluru	188
FY11	Jan-11	RFX	Hyderabad	121
FY11	Jan-11	LTP	Hyderabad	267
FY12	Mar-12	LTH	Chandigarh	81
FY14	Aug-13	LTH	Bengaluru	130
FY14	Dec-13	RFX	New Delhi (NCR)	207
FY14	Dec-13	LTP	New Delhi (NCR)	280
FY15	Nov-14	LTH	Hyderabad	190
FY16	Feb-16	LTP	Gurugram (NCR)	61
FY17	Aug-16	RFX	Chandigarh	102
FY17	Sep-16	LTH	Goa	34
FY17	Oct-16	LTH	Bandhavgarh, MP	33
FY18	Apr-17	LTH	Gurugram (NCR)	104
FY18	Apr-17	LTP	Gurugram (NCR)	80
FY18	May-17	RFX	Gurugram (NCR)	154
FY18	Mar-18	LTH	Hyderabad	85
FY19	Sep-18	RFX	Dehradun	91
FY19	Dec-18	LTP	Pune	201
FY20	Jun-19	LTP	Mumbai	303
FY20	Oct-19	Aurika	Udaipur	139
FY20	Oct-19	LTP	Kolkata	142

~20% of the portfolio in demand dense high-ARR market is less than 3 years' old

Source: DART, Company

Exhibit 22: Shareholding Pattern

(%)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Promoters*	30.8	30.9	30.9	30.9	31.2	31.2	31.2	31.2
FIs & Local MFs	9.0	8.4	9.0	10.3	18.6	17.1	17.1	17.1
FPIs	13.9	13.8	13.6	14.1	20.4	23.8	23.5	18.2
Public & Others	46.3	47.0	46.6	44.7	29.8	27.8	28.2	33.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: DART, BSE; 33.8% of Promoters holding is pledged

Exhibit 23: More than 1% holders

	Q3FY20	Q4FY20	Q1FY21
FIs & Local MFs			
SBI Large and Midcap Fund	8.5	8.5	8.5
Franklin India Equity Advantage Fund	4.3	4.4	4.4
Sundaram Small Cap Fund	2.7	3.0	3.0
Nippon India Small Cap Fund	1.1	1.1	1.1
Sub total	16.6	17.0	17.0
FPIs			
WF Asia Reconnaissance Fund	3.0	4.5	6.4
Vaneck Emerging Markets Fund	2.4	2.7	2.7
Zaaba Pan Asia Master Fund	2.4	2.5	2.5
Aberdeen	1.8	1.5	-
Kuwait Investment Authority	1.5	1.5	-
Sub total	11.2	12.6	11.5
Others			
APG Strategic Real Estate Pool	15.0	15.0	15.0
RJ Corp Limited	4.1	4.1	4.1
Sub total	19.1	19.1	19.1
Total	46.9	48.7	47.6

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	6,694	3,576	7,029	8,094
Total Expense	4,311	2,923	4,408	4,747
COGS	570	293	615	708
Employees Cost	1,553	1,239	1,764	1,878
Other expenses	2,188	1,391	2,029	2,161
EBIDTA	2,383	653	2,622	3,347
Depreciation	872	1,095	1,106	1,122
EBIT	1,512	(443)	1,516	2,224
Interest	1,565	1,951	2,155	2,284
Other Income	58	62	42	46
Exc. / E.O. items	0	0	0	0
EBT	5	(2,332)	(597)	(14)
Tax	109	(377)	(114)	(8)
RPAT	(69)	(1,489)	(379)	1
Minority Interest	(35)	(466)	(104)	(7)
Profit/Loss share of associates	0	0	0	0
APAT	(69)	(1,489)	(379)	1

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	7,903	7,903	7,903	7,903
Minority Interest	7,218	6,752	6,648	6,641
Reserves & Surplus	327	(1,207)	(1,622)	(1,651)
Net Worth	8,230	6,696	6,281	6,253
Total Debt	19,983	22,129	24,111	24,106
Net Deferred Tax Liability	24	28	32	37
Total Capital Employed	35,455	35,605	37,072	37,036

Applications of Funds

Net Block	30,148	28,776	27,776	27,080
CWIP	1,896	3,141	5,497	6,871
Investments	3,992	4,214	4,441	4,675
Current Assets, Loans & Advances	1,592	1,864	1,987	1,302
Inventories	82	90	99	109
Receivables	503	402	798	812
Cash and Bank Balances	452	804	895	263
Loans and Advances	0	1	0	1
Other Current Assets	555	567	194	117
Less: Current Liabilities & Provisions	2,173	2,390	2,629	2,892
Payables	420	462	508	559
Other Current Liabilities	1,753	1,928	2,121	2,333
	<i>sub total</i>			
Net Current Assets	(581)	(526)	(642)	(1,590)
Total Assets	35,455	35,605	37,072	37,036

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	91.5	91.8	91.3	91.3
EBIDTA Margin	35.6	18.3	37.3	41.3
EBIT Margin	22.6	(12.4)	21.6	27.5
Tax rate	2220.8	16.2	19.1	57.0
Net Profit Margin	(1.0)	(41.6)	(5.4)	0.0
(B) As Percentage of Net Sales (%)				
COGS	8.5	8.2	8.8	8.8
Employee	23.2	34.7	25.1	23.2
Other	32.7	38.9	28.9	26.7
(C) Measure of Financial Status				
Gross Debt / Equity	2.4	3.3	3.8	3.9
Interest Coverage	1.0	(0.2)	0.7	1.0
Inventory days	4	9	5	5
Debtors days	27	41	41	37
Average Cost of Debt	9.9	9.3	9.3	9.5
Payable days	23	47	26	25
Working Capital days	(32)	(54)	(33)	(72)
FA T/O	0.2	0.1	0.3	0.3
(D) Measures of Investment				
AEPS (Rs)	(0.1)	(1.9)	(0.5)	0.0
CEPS (Rs)	1.0	(0.5)	0.9	1.4
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	10.5	8.5	8.0	8.0
RoANW (%)	(0.8)	(20.0)	(5.8)	0.0
RoACE (%)	4.8	0.0	4.6	6.1
RoAIC (%)	5.1	(1.3)	4.3	6.1
(E) Valuation Ratios				
CMP (Rs)	28	28	28	28
P/E	(318.2)	(14.7)	(57.6)	18040.2
Mcap (Rs Mn)	21,861	21,861	21,861	21,861
MCap/ Sales	3.3	6.1	3.1	2.7
EV	41,392	43,185	45,078	45,704
EV/Sales	6.2	12.1	6.4	5.6
EV/EBITDA	17.4	66.2	17.2	13.7
P/BV	2.7	3.3	3.5	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	21.6	(46.6)	96.6	15.1
EBITDA	41.2	(72.6)	301.8	27.6
EBIT	31.9	(129.3)	(442.4)	46.7
PBT	(98.9)	(47702.4)	(74.4)	(97.7)
APAT	(113.2)	2067.2	(74.5)	(100.3)
EPS	(113.2)	2067.2	(74.5)	(100.3)
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,032	1,327	2,942	3,670
CFI	(11,452)	(1,125)	(2,643)	(1,983)
CFE	9,272	150	(209)	(2,319)
FCFF	(8,299)	358	481	1,870
Opening Cash	601	452	804	895
Closing Cash	452	804	895	263

E – Estimates

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DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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Member: BSE Limited and National Stock Exchange of India Limited.

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