

Lukewarm quarter, but post-covid recovery play!

- Lemon Tree Hotels (LTH) Q2FY21 was weak with 69/83% revenue and EBITDA decline YoY led by pandemic. But, LTH is a potential 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 with its superior positioning in ~Rs 4-4.5k ARR bracket in mid-market segment, high-dependency on domestic clients (~85%) and room revenues (~75%) is well-poised for recovery.
- LTH steep price correction 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. We have trimmed our FY21/22/23E EBITDA by 29/24/4% to factor in the delay in the recovery of the hospitality business. BUY with TP of Rs 37 @ 20x Dec-22E EV/EBITDA. Lack of revival in business travel is a key structural risks.

Pandemic takes a toll on hospitality industry

LTH Q2FY21 was soft on revenues with 69% decline YoY (75% for L2L properties). EBITDA declined by 83% YoY. QoQ improvement was marginal as demand from retail clients were at steep discount and was off-set by covid related business that subsided during the quarter. LT's focus on rationalization costs is appreciable. This is likely to benefit in the longer-term and is a structural positive. Employee costs declined by 61/19% YoY/QoQ as hotels were closed with lower occupancy potential or one of the multiple hotels from similar locality. Other expenses too declined by 60% YoY but was up 34% QoQ. Other income was higher on account of lease rental concessions.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	476	1,528	(68.8)	407	17.0
Total Expense	393	1,043	(62.3)	363	8.2
EBITDA	83	484	(82.8)	44	90.6
Depreciation	270	196	38.1	271	(0.3)
EBIT	(187)	289	(164.8)	(227)	(17.7)
Other Income	60	9	547.0	31	92.9
Interest	463	325	42.7	469	(1.1)
EBT	(590)	(27)	2103.1	(665)	(11.2)
Tax	(61)	1	(10662.6)	(71)	(13.9)
RPAT	(372)	(22)	1627.1	(419)	(11.3)
APAT	(372)	(22)	1627.1	(419)	(11.3)
			(bps)		(bps)
Gross Margin (%)	93.2	91.3	191	94.3	(104)
EBITDA Margin (%)	17.5	31.7	(1425)	10.7	674
NPM (%)	(78.1)	(1.4)	(7666)	(103.0)	2490
Tax Rate (%)	10.4	(2.2)	1254	10.7	(33)
EBIT Margin (%)	(39.3)	18.9	(5820)	(55.9)	1659

CMP	Rs 28
Target / Upside	Rs 37 / 31%
NIFTY	12,461

Scrip Details

Equity / FV	Rs 7,903mn / Rs 10
Market Cap	Rs 22bn
	USD 300mn
52-week High/Low	Rs 65/ 14
Avg. Volume (no)	14,64,070
Bloom Code	LEMONTRE IN

Price Performance	1M	3M	12M
Absolute (%)	2	15	(52)
Rel to NIFTY (%)	(3)	4	(58)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	31.2	31.2	31.1
MF/Banks/FIs	17.1	17.0	16.3
FIIIs	23.5	18.2	18.5
Public / Others	28.2	33.4	34.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	(14.6)	(30.5)	(519.9)
EV/EBITDA	92.1	23.0	14.7
ROE (%)	(20.4)	(11.5)	(0.7)
RoACE (%)	(0.5)	3.2	5.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	2,734	6,312	8,007
EBITDA	462	1,998	3,226
PAT	(1,523)	(727)	(43)
EPS (Rs.)	(1.9)	(0.9)	(0.1)

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Key takeaways from conference call

Demand recovery

- There is still uncertainty around the peak cases in India. Green shoots are visible from certain segments. Leisure has seen a great pick-up. Even airline crew business has picked up.

Business travel update

- At present, retail business is primarily driven by staycation and SME business. Retail prices are still very subdued. Pricing is what is driving this segment.
- There is a discrepancy in performance with Ginger due to the Ginger's cheaper pricing. If company drops prices they will also see its performance improve.
- Corporate business is being driven by online. At present, online rates are lower than corporate. Generally, in winter, online rates are higher than corporate rate. This year it is different.
- Q3FY21 should mark the revival of retail business. Corporate business will start reviving from Q4FY21.

City wise trend

- In certain T2/T3 cities business is back to pre covid level. Chandigarh is close to 100% driven by SME Segment.
- **Udaipur:** Business in October has been less than earlier and has been impacted due to the Farmer related protest. November is looking very strong. ARR is currently at INR8-10K
- Leisure destinations like Goa, Udaipur, Rishikesh have been doing well.

Long Term Industry Trends

- As per the company, ~6% of total demand will disappear (based on: 30% business which is large corporates and 20% of that will permanently disappear). However, SME business will not be impacted.
- Also, there is structural impairment in supply. Company expects 15% destruction in total supply.
- From Q4FY21, it will take ~3-4 quarters for Corporate Travel demand to come back to pre covid.

Q2FY21

- Operational inventory dropped in September as certain hotels in Gurgaon, Bangalore which were only open for Covid business. Once that business subsided, these hotels were shut
- Also, employee cost has fallen QoQ driven by hotels being closed when not required
- In Q1FY21, company's Staff:Room ratio was at 0.5x. Traditionally it was 1.0x. At present, LTH has 2700 staff. At full stabilization, company will require this at 0.75-0.8x.

Debt & Liquidity

- Company has pending payment of Rs 450mn for remaining part of the year
- It has received Rs 1.75bn from APG (strategic partner) as bridge funding for 30 months. LTH can draw down further Rs 1.25bn if required.
- Company will take a call on rights issue by the end of this quarter st performance. It is having an enabling resolution to raise Rs 1.5bn.

Exhibit 1: Actual vs. Estimates

(Rs Mn)	Actual	Estimate	% Variance	Remarks
Revenue (Rs Mn)	476	574	(17.1)	LT's revenue was lower than estimated on account of pandemic and consequent lower occupancies and ARR.
EBITDA (Rs Mn)	83	85	(2.8)	Yet, EBITDA and APAT were in-line led by better costs management
EBITDA Margin (%)	17.5	14.9	257 bps	
PAT (Rs Mn)	(372)	(371)	0.1	

Source: DART, Company

Exhibit 2: Change in estimates

(Rs Mn)	FY21E			FY22E			FY23E			Remarks
	New	Previous	% Chg	New	Previous	% Chg	New	Previous	% Chg	
Revenue	2,734	3,576	(23.5)	6,312	7,029	(10.2)	8,007	8,094	(1.1)	We trim our estimates primafacie for FY21/22 to factor delayed recovery
EBITDA	462	653	(29.2)	1,998	2,622	(23.8)	3,226	3,347	(3.6)	
EBITDA Margin (%)	16.9	18.3	(135 bps)	31.7	37.3	(565 bps)	40.3	41.4	(107 bps)	
PAT	(1,523)	(1,489)	2.3	(727)	(379)	91.9	(43)	1	(4,372.0)	

Source: Company, DART

Exhibit 3: Consolidated Quarterly Financials

Rs Mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Chg YoY (%)	Chg QoQ (%)
Revenue	1,409	1,528	1,996	1,761	407	476	(68.8)	17.0
Cost of F&B	124	132	167	146	23	32	(75.7)	38.4
Employee costs	337	366	421	429	178	143	(61.0)	(19.6)
Other expenses	501	544	596	547	162	218	(60.0)	34.4
Total Operating Cost	962	1,043	1,184	1,122	363	393	(62.3)	8.2
EBITDA	448	484	812	639	44	83	(82.8)	90.6
D&A	172	196	227	277	271	270	38.1	(0.3)
Finance Cost (net)	300	325	452	487	469	463	42.7	(1.1)
Other Income	13	9	32	4	31	60	546.9	92.9
Share of profit/(loss) of an associate	(2)	(3)	(8)	(13)	(12)	(7)	141.0	(44.6)
PBT	(14)	(30)	156	(135)	(677)	(597)	NA	NA
Tax	7	1	46	56	(71)	(61)	NA	NA
PAT	(21)	(30)	111	(190)	(606)	(536)	NA	NA
Minority Interest	(4)	(9)	(11)	(11)	(187)	(164)	NA	NA
APAT	(17)	(22)	122	(179)	(419)	(372)	NA	NA

Source: DART, Company

Exhibit 4: Margin Analysis

% of Net revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
RM Costs	49.5	49.7	47.9	47.3	49.1	53.3
Gross Profit	50.5	50.3	52.1	52.7	50.9	46.7
Employee cost	7.6	6.0	7.8	8.6	9.0	22.7
Other Exps	32.4	28.3	32.1	28.9	32.6	42.8
Total Operating Exps	40.0	34.3	39.8	37.5	41.6	65.5
EBITDA	10.5	16.1	12.3	15.2	9.3	(18.9)
PBT	6.5	12.5	7.4	9.7	3.8	(30.0)
RPAT	4.2	8.0	7.4	7.3	2.9	(22.5)
APAT	4.2	9.0	6.1	7.3	2.9	(22.5)
Tax as % of PBT	36.0	35.5	1.3	24.4	24.7	24.8

Source: DART, Company

Exhibit 5: Key assumptions table

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	2,981	3,784	4,163
Occupancy (%)	-	-	-	-	77	76	76	71	39	66	73
RevPAR (Rs)	-	-	-	-	2,648	2,955	3,190	3,093	1,162	2,494	3,035
Room Revenue (Rs Mn)	1,437	1,450	1,867	2,411	2,717	3,345	3,880	4,760	2,238	4,697	5,685
Non-Room Rev (Rs Mn)	711	767	1,037	1,268	1,404	1,498	1,624	1,935	497	1,615	2,322
Total Revenue (Rs Mn)	2,148	2,217	2,904	3,680	4,121	4,843	5,504	6,694	2,734	6,312	8,007
Operating expenses	1,773	1,984	2,397	2,668	2,956	3,481	3,817	4,311	2,272	4,314	4,782
EBITDA (Rs Mn)	375	233	507	1,012	1,165	1,361	1,688	2,383	462	1,998	3,226
EBITDA margin (%)	17.4	10.5	17.5	27.5	28.3	28.1	30.7	35.6	16.9	31.7	40.3
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	(31.1)	27.0	10.0
Occupancy (%)						(1.2)	0.5	(6.3)	(45.5)	69.1	10.6
RevPAR (Rs)						11.6	8.0	(3.0)	(62.4)	114.7	21.7
Room Revenue (Rs Mn)		0.9	28.8	29.2	12.7	23.1	16.0	22.7	(53.0)	109.9	21.0
Non-Room Rev (Rs Mn)		8.0	35.1	22.3	10.7	6.7	8.4	19.1	(74.3)	225.2	43.8
Total Revenue (Rs Mn)		3.2	31.0	26.7	12.0	17.5	13.7	21.6	(59.2)	130.8	26.9
Operating expenses		11.9	20.8	11.3	10.8	17.8	9.6	13.0	(47.3)	89.9	10.9
EBITDA (Rs Mn)		(37.7)	117.3	99.5	15.1	16.9	24.0	41.2	(80.6)	332.2	61.4
EBITDA margin (%)		(692)	694	1,003	77	(15)	255	494	(1,870)	1,475	863

Source: DART, Company

Exhibit 6: Valuation summary

Particulars	Consolidated (100%)			Proportionate Ownership (75%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
EBITDA (Rs Mn)	462	1,998	3,226	347	1,499	2,419
(-) IndAS116 EBITDA contribution (Rs Mn)	352	378	407	264	284	305
Core EBITDA (Rs Mn)	110	1,620	2,819	83	1,215	2,114
Multiple (x)	20	20	20	20	20	20
Enterprise Value (Rs Mn)	2,206	32,394	56,378	1,654	24,295	42,283
Net debt (Rs Mn)	20,989	21,692	25,165	14,692	15,185	17,616
(-) IndAS 116 debt (Rs Mn)	4,850	4,729	4,610	3,637	3,546	3,458
(-) 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)	12,998	11,467	13,684	8,699	7,516	9,005
Equity Value (Rs Mn)	(10,793)	20,927	42,693	(7,045)	16,780	33,278
O/s shares (Mn)	790	790	790	790	790	790
Value per share (Rs)	(14)	26	54	(9)	21	42
CMP (Rs)	28	28	28	28	28	28
Upside/Downside (%)	(149)	(5)	93	(132)	(24)	50

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	6,694	2,734	6,312	8,007
Total Expense	4,311	2,272	4,314	4,782
COGS	570	213	552	701
Employees Cost	1,553	936	1,676	1,818
Other expenses	2,188	1,123	2,086	2,263
EBIDTA	2,383	462	1,998	3,226
Depreciation	872	1,089	1,106	1,122
EBIT	1,512	(627)	893	2,103
Interest	1,565	1,892	2,109	2,284
Other Income	58	112	96	106
Exc. / E.O. items	0	0	0	0
EBT	5	(2,407)	(1,120)	(74)
Tax	109	(342)	(205)	(16)
RPAT	(69)	(1,523)	(727)	(43)
Minority Interest	(35)	(542)	(187)	(15)
Profit/Loss share of associates	0	0	0	0
APAT	(69)	(1,523)	(727)	(43)

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	8,426	8,239	8,224
Reserves & Surplus	327	(1,227)	(1,976)	(2,036)
Net Worth	8,230	6,676	5,927	5,868
Total Debt	19,983	21,560	24,633	25,591
Net Deferred Tax Liability	24	28	32	37
Total Capital Employed	35,455	36,689	38,831	39,719

Applications of Funds

Net Block	30,148	30,893	30,517	30,498
CWIP	1,896	3,141	5,497	6,871
Investments	3,992	2,757	3,058	3,360
Current Assets, Loans & Advances	1,592	2,032	2,106	1,572
Inventories	82	90	99	109
Receivables	503	307	717	803
Cash and Bank Balances	452	1,208	942	359
Loans and Advances	0	0	0	1
Other Current Assets	555	426	347	300
Less: Current Liabilities & Provisions	2,173	2,134	2,347	2,582
Payables	420	462	508	559
Other Current Liabilities	1,753	1,671	1,838	2,022
	<i>sub total</i>			
Net Current Assets	(581)	(101)	(241)	(1,009)
Total Assets	35,455	36,689	38,831	39,719

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	91.5	92.2	91.3	91.3
EBIDTA Margin	35.6	16.9	31.7	40.3
EBIT Margin	22.6	(22.9)	14.1	26.3
Tax rate	2220.8	14.2	18.3	22.2
Net Profit Margin	(1.0)	(55.7)	(11.5)	(0.5)
(B) As Percentage of Net Sales (%)				
COGS	8.5	7.8	8.8	8.8
Employee	23.2	34.2	26.5	22.7
Other	32.7	41.1	33.0	28.3
(C) Measure of Financial Status				
Gross Debt / Equity	2.4	3.2	4.2	4.4
Interest Coverage	1.0	(0.3)	0.4	0.9
Inventory days	4	12	6	5
Debtors days	27	41	41	37
Average Cost of Debt	9.9	9.1	9.1	9.1
Payable days	23	62	29	25
Working Capital days	(32)	(14)	(14)	(46)
FA T/O	0.2	0.1	0.2	0.3
(D) Measures of Investment				
AEPS (Rs)	(0.1)	(1.9)	(0.9)	(0.1)
CEPS (Rs)	1.0	(0.5)	0.5	1.4
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	10.4	8.4	7.5	7.4
RoANW (%)	(0.8)	(20.4)	(11.5)	(0.7)
RoACE (%)	4.8	(0.5)	3.2	5.7
RoAIC (%)	5.1	(1.8)	2.4	5.4
(E) Valuation Ratios				
CMP (Rs)	28	28	28	28
P/E	(323.2)	(14.6)	(30.5)	(519.9)
Mcap (Rs Mn)	22,208	22,208	22,208	22,208
MCap/ Sales	3.3	8.1	3.5	2.8
EV	41,739	42,560	45,898	47,440
EV/Sales	6.2	15.6	7.3	5.9
EV/EBITDA	17.5	92.1	23.0	14.7
P/BV	2.7	3.3	3.7	3.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	21.6	(59.2)	130.8	26.9
EBITDA	41.2	(80.6)	332.2	61.4
EBIT	31.9	(141.4)	(242.4)	135.7
PBT	(98.9)	(49246.4)	(53.5)	(93.4)
APAT	(113.2)	2117.1	(52.3)	(94.1)
EPS	(113.2)	2117.1	(52.3)	(94.1)

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,032	1,081	2,077	3,427
CFI	(11,452)	(1,729)	(3,285)	(2,669)
CFF	9,272	1,404	943	(1,342)
FCFF	(8,299)	(1,999)	(1,008)	950
Opening Cash	601	452	1,208	942
Closing Cash	452	1,208	942	359

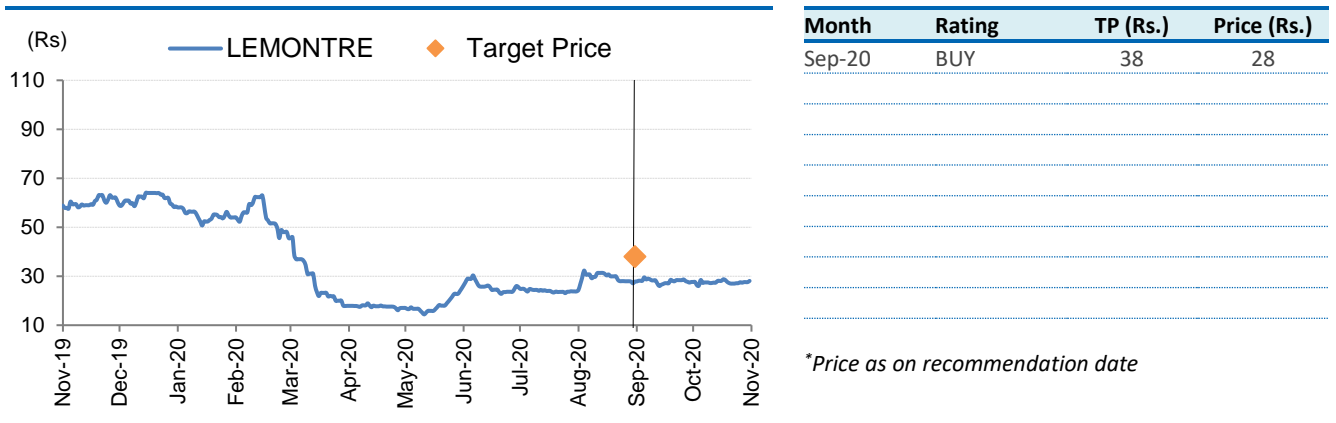
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



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