

Higher interest cost weighs on profitability...

Lemon Tree reported a weak set of Q2FY21 numbers amid the ongoing pandemic environment. However, the company managed to report EBITDA though at negligible level due to stringent cost control measures initiated during the quarter. Revenues for the quarter fell 68.8% YoY to ₹ 47.6 crore (vs. I-direct estimate of ₹ 52 crore) as only 86% of the company's inventory was operational. Occupancy in operational hotels was at 37.3% leading to average occupancy of 32.4% for the quarter (down 4240 bps YoY, up 347 bps QoQ). Average room rates were also down 35.6% YoY to ₹ 2,654/room (up 1.1% QoQ). Total expenses were at ₹ 39.3 crore in Q2FY21, down 62.3% YoY, up 8.3% QoQ. Sharp reduction in employee costs (down 61% YoY to ₹ 14.3 crore) and other cost (down 60% YoY to ₹12.2) kept cost lower during the quarter leading to company reporting EBITDA of ₹ 8.3 crore (I-direct estimate: ₹ 7.7 crore). With a sharp increase in interest costs (up 41% YoY to ₹ 49.7 crore), the company reported a net loss of ₹ 53.6 crore (vs. I-direct estimated net loss of ₹ 56.2 crore).

Stringent cost control remains key for survival

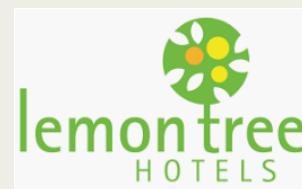
With re-opening of state borders, the company saw a recovery in demand. Operating inventory also increased from 71.5% in Q1 to 86.8% in Q2. This led to 17.1% QoQ growth in revenues for the quarter. Although some improvement would be visible, going forward, with gradual unlocking of economy meaningful recoveries will take at least 12-15 months. We model occupancy of 43%, 60% and ARR of ₹ 3580, ₹ 4210 in FY21E, FY22E, respectively. LTH has taken measures to curtail costs, by taking salary cuts, re-negotiating contracts, reducing repairs costs, reduction in power costs, ad, etc. These would support in narrowing down losses owing to lower business. We model EBITDA margins of 20%, 35.6% in FY21E, FY22E and EBITDA of ₹ 46 crore and ₹ 183 crore in FY21E and FY22E, respectively. However, at the PAT level, the company would take a couple of years to breakeven owing to higher financing costs and depreciation costs.

Breather on liquidity front with fund raise from APG

LTH, being on 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, which would provide visibility for next two years in the worst case scenario. However, capital infusion implies significant dilution, considering current price levels.

Valuation & Outlook

The ongoing crisis is expected to lead to ~15% room inventory reduction, auguring well for LTH in the long run. However, near term challenges with respect to weak industry dynamics and high D/E remain key concern for the company. Hence, we maintain our **HOLD** rating with a revised target price of ₹ 32/share (SOTP based valuation).



Stock Data

Particulars	Amount
Market Capitalization (₹ crore)	2213
Debt (FY20) (₹ crore)	1596
Cash & Investment (FY20) (₹ crore)	45
EV (₹ crore)	3764
52 week H/L	₹ 75/14
Equity Capital (FY20) (₹ crore)	789
Face Value	₹ 10

Key Highlights

- Reported average occupancy of 32.4% for the quarter (down 4240 bps YoY, up 347 bps QoQ)
- Average room rates also down 35.6% YoY to ₹ 2,654/room (up 1.1% QoQ)
- Net debt repayment liability for FY21E only ₹ 45 crore
- With option of raising further ₹ 125 crore from APG, board's approval of raising ₹ 150 crore through rights issue. It can shore up liquidity buffer to over ~₹ 500 crore
- Maintain HOLD rating with revised target of ₹32

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR
Sales	484	550	669	233	513	-12.4%
EBITDA	136	169	238	46	183	-12.5%
EBITDA (%)	28.1	30.7	35.6	20.0	35.6	
PAT	15	56	-13	-194	-91	NA
EPS (₹)	0.2	0.7	-0.2	-2.5	-1.2	
EV/EBITDA	23.4	19.8	15.8	85.4	22.6	
RoNW	1.8	6.7	-1.5	-26.5	-15.1	
RoCE	4.6	5.5	5.5	-1.6	2.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	47.6	52.0	152.8	-68.8	40.7	17.1	Occupancies improve QoQ to 32.4% in Q2 vs. 28.9% in Q1 though it was down 4240 bps YoY. ARR improved marginally by 1% QoQ. However, it was also down 36% YoY
Other Incomes	9.4	5.5	3.7	151.9	4.9	90.6	
Raw Material Expenses	3.2	3.0	13.2	-75.7	2.3	38.8	
Employee Expenses	14.3	21.6	36.6	-61.0	17.8	-19.6	
Other expenses	21.8	19.8	54.4	-60.0	16.2	34.4	
Total expenses	39.3	44.3	104.3	-62.3	36.3	8.3	
EBITDA	8.3	7.7	48.4	-82.8	4.4	90.2	Stringent cost control measures keep EBITDA positive for quarter
EBITDA Margin (%)	17.5%	14.8%	31.7%	1425 bps	10.7%	671 bps	
Interest	49.7	49.3	35.3	40.9	48.7	2.1	
Depreciation	27.0	28.3	19.6	38.1	27.1	-0.3	Higher debt leads to spike in interest cost during quarter
PBT	-59.0	-64.4	-2.7	2,103.2	-66.5	-11.2	
Total Tax	-6.2	-9.7	0.1	####	-7.1	-13.6	
Reported PAT	-53.6	-56.2	-3.0	1,677.4	-60.5	-11.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	310.6	232.6	-25.1	640.1	513.5	-19.8	
EBITDA	64.2	46.4	-27.7	276.0	182.6	-33.8	
EBITDA Margin (%)	20.7	20.0	-72 bps	43.1	35.6	-756 bps	
PAT	-150.6	-194.5	NA	-24.6	-91.4	NA	
EPS (₹)	-1.9	-2.5	NA	-0.3	-1.2	NA	

Source: Company, ICICI Direct Research

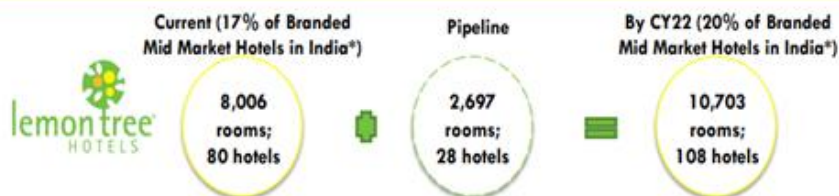
Story in charts

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		

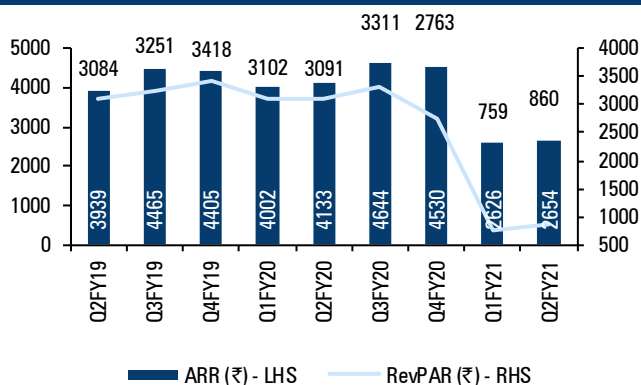
Source: Company, ICICI Direct Research

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



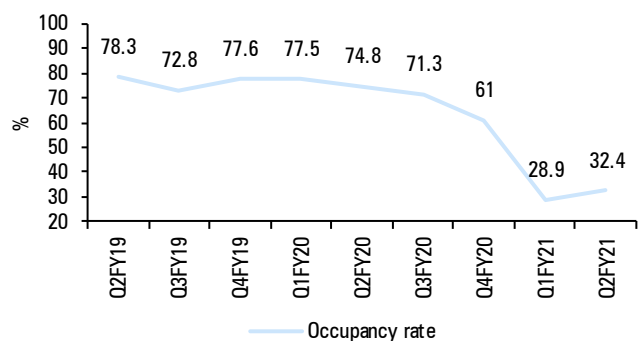
Source: Company, ICICI Direct Research

Exhibit 5: ARR down 36% YoY with RevPAR down 72% YoY



Source: Company, ICICI Direct Research

Exhibit 6: Occupancy declines sharply due to ongoing pandemic environment



Source: Company, ICICI Direct Research

Exhibit 7: Key performance parameters

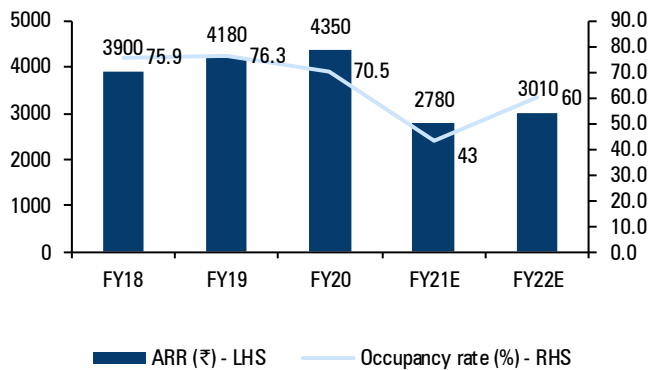
Operational Performance by Brands & Region – Q2 FY20 vs. Q2 FY21



Parameters	Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin		
	Q2 FY20	Q2 FY21	Change (bps)	Q2 FY20	Q2 FY21	Change (%)	Q2 FY20	Q2 FY21	Change (%)	Q2 FY20	Q2 FY21	Change (bps)
By Brand (#Rooms)												
Lemon Tree Premier (1,461)	75.4%	48.6%	(2,687)	5,069	2,850	-43.8%	2.0	0.6	-70.7%	42.5%	39.4%	(196)
Lemon Tree Hotels (1562)	72.7%	26.6%	(4,611)	3,948	2,498	-36.7%	1.2	0.1	-91.7%	34.5%	13.7%	(2,086)
Red Fox Hotels (850)	77.0%	29.9%	(4,710)	3,014	2,296	-23.8%	1.0	0.1	-94.5%	41.6%	8.7%	(3,291)
By Region (#Rooms)												
Delhi (636)	86.0%	58.5%	(2,751)	4,312	2,921	-32.3%	1.7	0.6	-64.8%	38.6%	35.5%	(306)
Gurugram (529)	77.9%	24.7%	(5,314)	4,078	2,987	-26.7%	1.2	0.1	-90.1%	30.9%	13.8%	(1,712)
Hyderabad (663)	83.7%	33.5%	(5,018)	4,239	2,175	-49.3%	2.2	0.2	-91.3%	51.0%	24.9%	(2,609)
Bengaluru (493)	80.1%	23.7%	(5,631)	4,370	1,643	-62.4%	2.0	0.1	-96.3%	47.5%	17.7%	(2,986)
Mumbai (303)	50.3%	48.6%	(173)	6,219	3,789	-39.1%	1.3	0.9	-31.8%	36.5%	48.1%	1,153

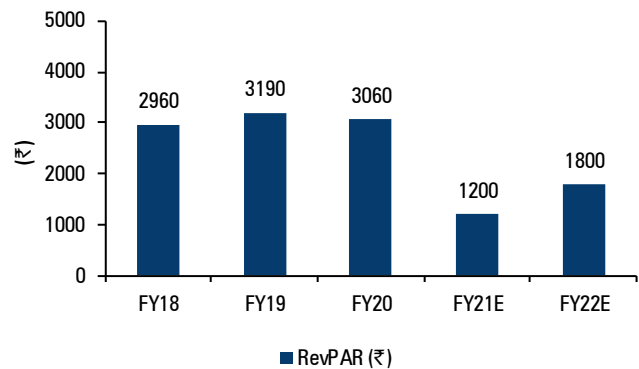
Source: Company, ICICI Direct Research

Exhibit 8: ARR to recover only from FY22E



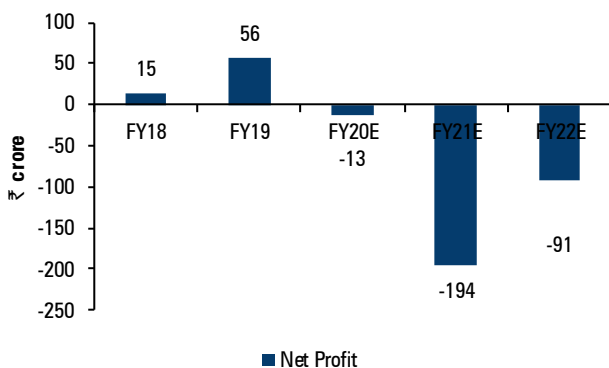
Source: Company, ICICI Direct Research

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



While net loss to cross over ₹ 194 crore in FY21E, We expect cash loss of ₹ 155 crore at PBT levels taking conservative scenario

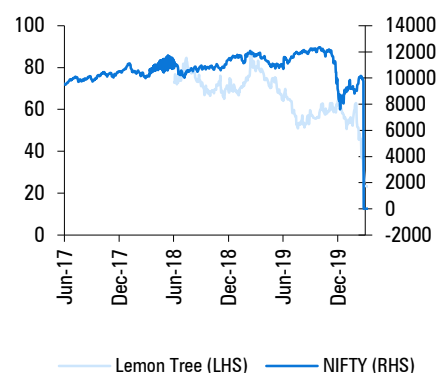
Source: Company, ICICI Direct Research

Exhibit 11: Valuation matrix

Target valuations		Amount
Lemon Tree Group Enterprise value (₹ crore)		4565
Net Debt FY22E (₹ crore)		1952
Lemon Tree Group Equity value (₹ crore)		2612
Lemon Tree Equity Value - Standalone (₹ crore)	(A)	2324
Fleur Hotels Equity Value (₹ crore)	(B)	288
Fleur Hotels Equity Value - 58% Lemon Tree share (₹ crore)	(C)	167
Lemon Tree Value (₹ crore)	(A) + (C)	2491
Number of shares (Crore)		79
Target Price (₹)		32

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	232.6	513.5
Growth (%)	13%	22%	-65%	121%
Raw Material Expenses	49.8	57.0	18.2	42.6
Employee Expenses	120.5	155.3	93.2	121.2
Other Exp	210.4	218.8	74.9	167.2
Total Operating Expenditure	380.7	431.1	186.2	330.9
EBITDA	168.8	238.3	46.4	182.6
Growth (%)	23.9%	41.2%	-80.5%	293.4%
Depreciation	54.1	87.2	104.7	107.0
Interest	84.7	161.6	205.6	205.7
Other Income	14.5	10.9	4.0	6.0
PBT	44.5	0.5	-259.9	-124.1
Others	0.0	0.0	0.0	0.0
Total Tax	-11.1	10.9	-65.4	-31.2
Reported PAT	55.6	-10.4	-194.5	-92.9
Adjusted PAT	56.4	-13.1	-194.5	-91.4
Growth (%)	2.9	-1.2	13.9	-0.5
Adjusted EPS (₹)	0.7	-0.2	-2.5	-1.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	56	-13	-194	-91
Add: Depreciation	54	87	105	107
(Inc)/dec in Current Assets	-48	47	41	-43
Inc/(dec) in CL and Provisions	70	353	-54	-6
CF from operating activities	178	640	94	166
(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	235	148
Dividend paid & dividend tax	0	0	0	0
Others	-66	99	-202	-200
CF from financing activities	122	500	33	-52
Net Cash flow	10	9	4	-19
Opening Cash	21	31	41	45
Closing Cash	31	41	45	26

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	-144.3	-226.5
Total Shareholders fun	875.0	823.0	645.9	563.7
Total Debt	1195.6	1596.0	1830.9	1978.9
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	432.2	721.8	704.3	695.1
Total Liabilities	2479.9	3459.9	3424.7	3493.3
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	2.8	6.3
Debtors	84.4	50.3	22.4	45.0
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	46.1	55.5	17.1	34.4
Cash	31.4	40.8	45.0	26.4
Total Current Assets	196.6	159.2	122.4	147.1
Creditors	95.8	42.0	32.0	46.8
Provisions & Others	135.3	115.7	112.8	131.6
Total Current Liabilities	291.9	302.8	324.7	306.4
Net Current Assets	-95.4	-143.6	-202.3	-159.3
Others Assets	255.1	580.7	524.0	479.6
Application of Funds	2479.9	3459.9	3424.7	3493.3

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	-2.5	-1.2
Cash EPS	1.4	0.9	-1.1	0.2
BV	11.1	10.4	8.2	7.1
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.4	0.5	0.6	0.3
Operating Ratios (%)				
EBITDA Margin	30.7	35.6	20.0	35.6
EBIT Margin	23.5	24.2	-23.3	15.9
PAT Margin	10.3	-2.0	-83.6	-17.8
Inventory days	3.8	3.9	8.7	3.2
Debtor days	45.5	36.7	57.0	24.0
Creditor days	58.8	37.6	58.0	28.0
Return Ratios (%)				
RoE	6.7	-1.5	-26.5	-15.1
RoCE	5.5	5.5	-1.6	2.4
RoIC	4.2	8.1	5.6	7.0
Valuation Ratios (x)				
P/E	39.2	NM	NM	NM
EV / EBITDA	19.8	15.8	85.4	22.6
EV / Net Sales	6.1	5.6	17.0	8.0
Market Cap / Sales	4.0	3.3	9.5	4.3
Price to Book Value	2.5	2.7	3.4	3.9
Solvency Ratios				
Debt/EBITDA	7.1	6.7	39.4	10.8
Debt / Equity	0.9	1.0	1.4	1.6
Current Ratio	0.7	0.5	0.4	0.5
Quick Ratio	0.7	0.5	0.4	0.5

Source: Company, ICICI Direct Research

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