

November 11, 2023

Q2FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	140		140	
Sales (Rs.m)	10,900	13,224	10,978	13,225
% Chng.	(0.7)	(0.0)		
EBITDA (Rs.m)	5,295	6,746	5,345	6,746
% Chng.	(0.9)	(0.0)		
EPS (Rs.)	1.9	2.9	1.9	2.8
% Chng.	(1.5)	0.3		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	8,750	10,900	13,224	14,670
EBITDA (Rs. m)	4,476	5,295	6,746	7,652
Margin (%)	51.2	48.6	51.0	52.2
PAT (Rs. m)	1,146	1,517	2,256	2,889
EPS (Rs.)	1.4	1.9	2.9	3.6
Gr. (%)	(230.9)	32.4	48.7	28.1
DPS (Rs.)	-	-	0.1	0.4
Yield (%)	-	-	0.1	0.3
RoE (%)	13.6	16.3	20.3	21.4
RoCE (%)	13.7	15.8	19.6	22.6
EV/Sales (x)	12.2	9.7	7.7	6.7
EV/EBITDA (x)	23.8	19.9	15.1	12.8
PE (x)	78.1	59.0	39.7	31.0
P/BV (x)	10.5	8.9	7.3	6.1

Key Data **LEMO.BO | LEMONTRE IN**

52-W High / Low	Rs.127 / Rs.70
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.90bn / \$ 1,075m
Shares Outstanding	792m
3M Avg. Daily Value	Rs.1004.69m

Shareholding Pattern (%)

Promoter's	23.28
Foreign	24.82
Domestic Institution	13.41
Public & Others	38.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	24.4	27.2
Relative	(2.5)	18.7	18.8

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Stuti Beria

stutiberia@plindia.com | 91-22-66322246

Lemon Tree Hotels (LEMONTRE IN)

Rating: BUY | CMP: Rs113 | TP: Rs140

Aurika begins operations; performance eyed

Quick Pointers:

- Aurika, Mumbai begins operations on 05th Oct 2023.

Lemon Tree's operational performance was marginally weaker with EBITDA margin of 44.8% (PLe 47.4%) due to higher renovation and pre-operative expenses pertaining to operationalization of Aurika, Mumbai. In October, Aurika operated 100 rooms and by end of 3QFY24, 200 rooms are expected to be operational and the hotel is expected to turn EBITDA positive. We expect Aurika, Mumbai to report revenues of Rs2.4bn/Rs2.7bn with EBITDA margin of 55%/60% in FY25E/FY26E respectively. Backed by opening of this new hotel and addition of 4,808 managed rooms we expect revenue/PAT CAGR of 19%/36% over FY23-FY26E. We broadly maintain our estimates and value Lemon Tree on SOTP basis. The standalone business is valued at 21x FY26E EBITDA while Fleur, an asset owning subsidiary with 59% stake, is valued at 22x FY26E EBITDA to arrive at a per share value of Rs140. Retain 'BUY'.

Revenue up 15.5% YoY: Revenue increased 15.5% YoY to Rs2,272mn (PLe Rs2,307mn) as against Rs1,967mn in 2QFY23 and Rs2,223mn in 1QFY24. ARR increased 7.1% YoY to Rs5,268. RevPAR grew 15.9% YoY to Rs3,775 while occupancy stood at 72%.

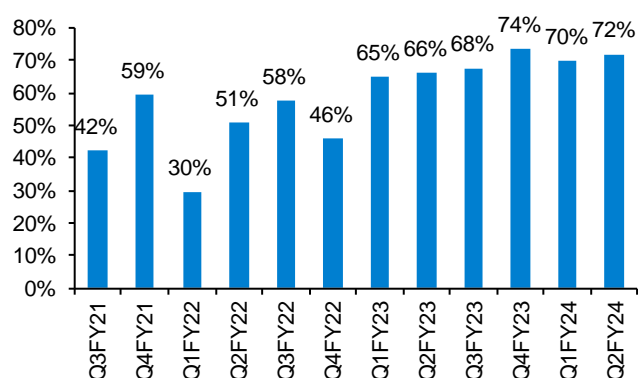
EBITDA margin at 44.8%: EBITDA increased 8.8% YoY to Rs1,019mn (PLe Rs1,094mn) with a margin of 44.8% (PLe 47.4%) as compared to 47.6%/47.0% in 2QFY23/1QFY24 respectively. Margin contraction on YoY basis was led by increase in renovation cost and pre-operative expenses of Aurika, Mumbai. PAT after MI increased 35.1% YoY to Rs226mn (PLe Rs268mn) with a margin of 10.0% (PLe 11.6%) as against 8.5%/10.6% in 2QFY23/1QFY24 respectively.

Con-call highlights: 1) Bookings from Lemon Tree's own portal increased to 7% due to revamping of website and introduction of loyalty program. 2) Power & fuel cost is expected to be at 7.5% of revenues. 3) Aurika, Mumbai to turn EBITDA positive from 3QFY24. 4) In October, Aurika, Mumbai operated 100 rooms which is 15% occupancy; however, ARR was low due to low retail traffic. By the end of 3QFY24, management expects to operate 200 rooms at an ARR of Rs8,500. ARR is low as most of the business initially will come from airline sector but pricing is expected to improve as share of corporate and retail increases in future. 5) Debt increased to Rs19bn in 1HFY24 due to buyback of CCPS from APG to ensure Lemon Tree's stake remains intact in Fleur. 6) Renovation capex is pegged at Rs500mn/Rs1,000mn for FY24E/FY25E respectively. 7) Rs300mn has already been invested in construction of Lemon Tree Mountain Resort, Shimla, and an additional capex of Rs200-250mn will be spent on the same. 8) For 2QFY24, there was a one off expense of Rs44mn, of which Rs14mn was pertaining to pre-operative expense towards Aurika, and Rs30mn was spent on renovations. 9) Employee costs were higher sequentially due to new hires and larger bonus payments. 10) Employee cost for Aurika stood at Rs40mn for 2QFY24. 11) By FY26, ~70% of the portfolio will be managed/franchised.

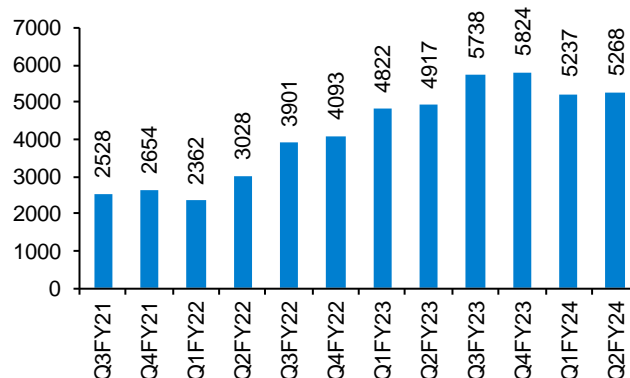
Exhibit 1: 2QFY24 Result Overview – Consolidated (Rs mn)

Y/e March	2QFY24	2QFY23	YoY gr.	1QFY24	QoQ gr.	1HFY24	1HFY23	YoY gr.
Net sales	2,272	1,967	15.5%	2,223	2.2%	4,495	3,888	15.6%
Cost of F&B consumed	132	123	7.3%	124	6.1%	256	239	7.3%
<i>As a % of sales</i>	<i>5.8%</i>	<i>6.2%</i>		<i>5.6%</i>		<i>5.7%</i>	<i>6.1%</i>	
Employee Cost	463	361	28.4%	426	8.7%	889	706	25.9%
<i>As a % of sales</i>	<i>20.4%</i>	<i>18.3%</i>		<i>19.2%</i>		<i>19.8%</i>	<i>18.2%</i>	
Power Oil and Fuel	191	181	5.5%	193	-0.9%	384	361	6.3%
<i>As a % of sales</i>	<i>8.4%</i>	<i>9.2%</i>		<i>8.7%</i>		<i>8.5%</i>	<i>9.3%</i>	
Other Expenses	467	366	27.6%	435	7.6%	902	770	17.2%
<i>As a % of sales</i>	<i>20.6%</i>	<i>18.6%</i>		<i>19.6%</i>		<i>20.1%</i>	<i>19.8%</i>	
EBITDA	1,019	936	8.8%	1,045	-2.5%	2,064	1,812	13.9%
<i>EBITDA margin</i>	<i>44.8%</i>	<i>47.6%</i>		<i>47.0%</i>		<i>45.9%</i>	<i>46.6%</i>	
Depreciation	226	250	-9.7%	228	-0.8%	454	495	-8.3%
EBIT	793	686	15.5%	817	-3.0%	1,610	1,317	22.2%
<i>EBIT margin</i>	<i>34.9%</i>	<i>34.9%</i>		<i>36.8%</i>		<i>35.8%</i>	<i>33.9%</i>	
Interest cost	473	446	6.2%	481	-1.7%	955	875	9.1%
Other income	29	7	306.5%	24	24.3%	53	10	443.4%
PBT	348	247	40.9%	359	-3.0%	707	451	56.7%
Exceptional items/Share of JVs	2	2	-19.3%	3	-36.3%	5	5	-1.7%
PBT (ater exceptional items/ Share of JVs)	350	250	40.3%	362	-3.3%	713	457	56.0%
Tax expenses	86	56	54.2%	87	-0.5%	173	127	36.2%
<i>Tax rate</i>	<i>24.7%</i>	<i>22.5%</i>		<i>24.0%</i>		<i>24.3%</i>	<i>27.9%</i>	
PAT	264	194	36.3%	275	-4.1%	539	329	63.7%
<i>PAT margin</i>	<i>11.6%</i>	<i>9.8%</i>		<i>12.4%</i>		<i>12.0%</i>	<i>8.5%</i>	
Noncontrolling interest	37	26	44.6%	41	-8.0%	78	23	237.9%
Other comprehensive income (OCI)	0	1	-48.8%	0	8.6%	1	2	-58.3%
PAT inclusive of OCI	264	194	35.9%	276	-4.1%	540	331	63.0%
EPS (Rs)	0.3	0.2	35.0%	0.3	-3.5%	0.6	0.4	49.3%

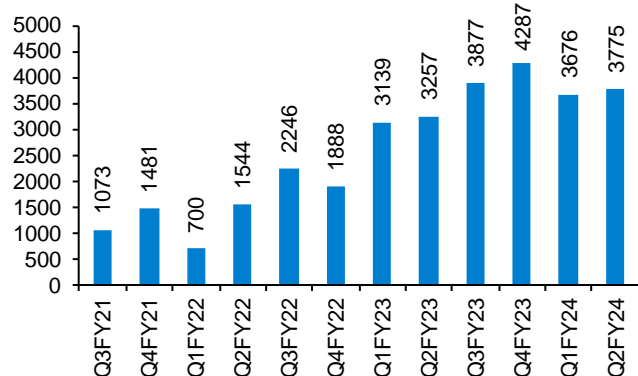
Source: Company, PL

Exhibit 2: Occupancy levels at 72% for 2QFY24


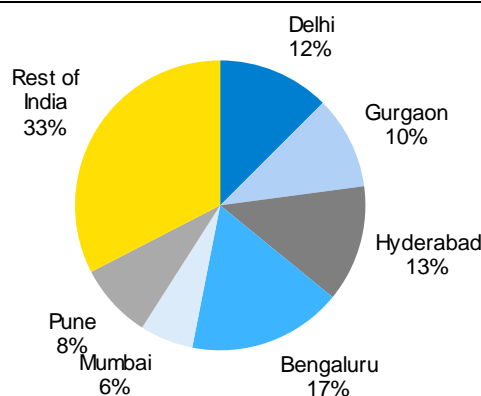
Source: Company, PL

Exhibit 3: ARR stood at Rs5,268 in 2QFY24 (In Rs)


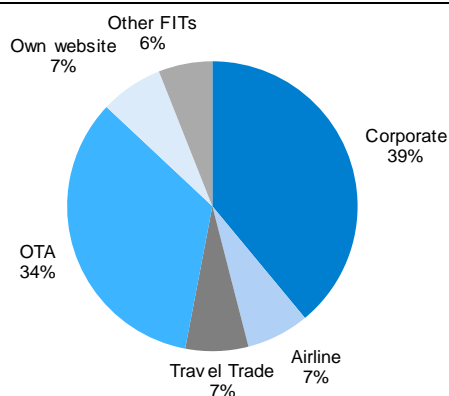
Source: Company, PL

Exhibit 4: RevPAR for 2QFY24 was at Rs3,775 (In Rs)


Source: Company, PL

Exhibit 5: Bengaluru forms 17% of LTHL's room portfolio


Source: Company, PL

Exhibit 6: Market segment breakdown for 2QFY24


Source: Company, PL

Exhibit 7: Operational & pipeline portfolio breakup as of 2QFY24

Particulars	Operational rooms	Pipeline rooms
Aurika Hotels & Resorts	194	911
Lemon Tree Premier	2,514	479
Lemon Tree Hotels	3,349	2,461
Red Fox by Lemon Tree Hotels	1,290	-
Keys Prima by Lemon Tree Hotels	82	-
Keys Select by Lemon Tree Hotels	1,223	88
Keys Lite by Lemon Tree Hotels	108	153
Total	8,760	4,092

Source: Company, PL

Exhibit 8: SOTP Valuation

(Rs mn)	FY26E
LT standalone EV	52,241
Fleur's stake adjusted EV	67,032
Total EV	1,19,273
Less: Debt	13,207
Add: Cash	4,760
Equity value	1,10,826
No of shares	792
SOTP per share (Rs)	140

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	8,750	10,900	13,224	14,670
YoY gr. (%)	117.5	24.6	21.3	10.9
Cost of Goods Sold	499	630	732	799
Gross Profit	8,251	10,270	12,492	13,871
Margin (%)	94.3	94.2	94.5	94.6
Employee Cost	1,497	1,834	2,006	2,152
Other Expenses	2,278	3,141	3,740	4,067
EBITDA	4,476	5,295	6,746	7,652
YoY gr. (%)	277.2	18.3	27.4	13.4
Margin (%)	51.2	48.6	51.0	52.2
Depreciation and Amortization	966	1,076	1,328	1,354
EBIT	3,510	4,219	5,418	6,298
Margin (%)	40.1	38.7	41.0	42.9
Net Interest	1,772	1,798	1,581	1,334
Other Income	36	87	79	103
Profit Before Tax	1,774	2,508	3,916	5,067
Margin (%)	20.3	23.0	29.6	34.5
Total Tax	377	627	979	1,267
Effective tax rate (%)	21.3	25.0	25.0	25.0
Profit after tax	1,397	1,881	2,937	3,800
Minority interest	260	364	681	911
Share Profit from Associate	9	-	-	-
Adjusted PAT	1,146	1,517	2,256	2,889
YoY gr. (%)	(231.0)	32.4	48.7	28.1
Margin (%)	13.1	13.9	17.1	19.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,146	1,517	2,256	2,889
YoY gr. (%)	(231.0)	32.4	48.7	28.1
Margin (%)	13.1	13.9	17.1	19.7
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	1,147	1,517	2,256	2,889
Equity Shares O/s (m)	792	792	792	792
EPS (Rs)	1.4	1.9	2.9	3.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	36,128	43,059	44,299	45,139
Tangibles	35,822	42,683	43,853	44,623
Intangibles	306	376	446	516
Acc: Dep / Amortization	7,506	8,582	9,910	11,264
Tangibles	7,263	8,242	9,451	10,683
Intangibles	243	340	459	581
Net fixed assets	28,622	34,477	34,389	33,875
Tangibles	28,559	34,441	34,402	33,940
Intangibles	64	37	(13)	(65)
Capital Work In Progress	4,822	131	131	131
Goodwill	951	951	951	951
Non-Current Investments	859	1,037	1,117	1,234
Net Deferred tax assets	329	392	450	455
Other Non-Current Assets	344	381	463	557
Current Assets				
Investments	10	10	10	10
Inventories	105	131	159	176
Trade receivables	560	687	833	924
Cash & Bank Balance	275	1,675	3,101	4,819
Other Current Assets	375	458	542	601
Total Assets	37,323	40,429	42,264	43,866
Equity				
Equity Share Capital	7,916	7,916	7,916	7,916
Other Equity	621	2,138	4,281	6,882
Total Networkth	8,537	10,054	12,197	14,798
Non-Current Liabilities				
Long Term borrowings	15,174	15,174	13,674	11,674
Provisions	25	33	40	44
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,283	2,283	1,983	1,533
Trade payables	668	1,045	1,449	1,648
Other current liabilities	750	894	1,062	1,159
Total Equity & Liabilities	37,323	40,429	42,264	43,866

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,782	2,508	3,916	5,067
Add. Depreciation	966	1,076	1,328	1,354
Add. Interest	1,773	1,798	1,581	1,334
Less Financial Other Income	36	87	79	103
Add. Other	(63)	-	-	-
Op. profit before WC changes	4,459	5,382	6,825	7,755
Net Changes-WC	(403)	195	213	52
Direct tax	(207)	(627)	(979)	(1,267)
Net cash from Op. activities	3,849	4,586	5,379	5,628
Capital expenditures	(1,618)	(2,000)	(1,000)	(600)
Interest / Dividend Income	57	-	-	-
Others	(42)	(424)	(354)	(379)
Net Cash from Inv. activities	(2,832)	(2,442)	(1,366)	(986)
Issue of share cap. / premium	17	-	-	-
Debt changes	471	-	(1,800)	(2,450)
Dividend paid	-	-	(113)	(289)
Interest paid	(1,432)	(1,798)	(1,581)	(1,334)
Others	(379)	1,049	898	1,143
Net cash from Fin. activities	(1,323)	(749)	(2,597)	(2,930)
Net change in cash	(306)	1,395	1,416	1,712
Free Cash Flow	2,228	2,586	4,379	5,028

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	1.4	1.9	2.9	3.6
CEPS	2.7	3.3	4.5	5.4
BVPS	10.8	12.7	15.4	18.7
FCF	2.8	3.3	5.5	6.4
DPS	-	-	0.1	0.4
Return Ratio(%)				
RoCE	13.7	15.8	19.6	22.6
ROIC	12.0	13.1	16.0	17.4
RoE	13.6	16.3	20.3	21.4
Balance Sheet				
Net Debt : Equity (x)	2.0	1.6	1.0	0.6
Net Working Capital (Days)	0	(8)	(13)	(14)
Valuation(x)				
PER	78.1	59.0	39.7	31.0
P/B	10.5	8.9	7.3	6.1
P/CEPS	42.4	34.5	25.0	21.1
EV/EBITDA	23.8	19.9	15.1	12.8
EV/Sales	12.2	9.7	7.7	6.7
Dividend Yield (%)	-	-	0.1	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	2,335	2,527	2,223	2,272
YoY gr. (%)	62.6	111.4	15.7	15.5
Raw Material Expenses	298	289	317	323
Gross Profit	2,038	2,238	1,905	1,949
Margin (%)	87.2	88.6	85.7	85.8
EBITDA	1,265	1,399	1,045	1,019
YoY gr. (%)	99.8	548.0	19.3	8.8
Margin (%)	54.2	55.4	47.0	44.8
Depreciation / Depletion	236	235	228	226
EBIT	1,029	1,164	817	793
Margin (%)	44.1	46.0	36.8	34.9
Net Interest	445	452	481	473
Other Income	6	20	24	29
Profit before Tax	590	732	359	348
Margin (%)	25.3	29.0	16.2	15.3
Total Tax	106	143	87	86
Effective tax rate (%)	18.0	19.6	24.2	24.8
Profit after Tax	484	589	272	262
Minority interest	86	150	41	37
Share Profit from Associates	2	1	3	2
Adjusted PAT	400	440	235	226
YoY gr. (%)	(2,233.7)	(278.6)	69.4	35.1
Margin (%)	17.1	17.4	10.6	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	400	440	235	226
YoY gr. (%)	(2,233.7)	(278.6)	69.4	35.1
Margin (%)	17.1	17.4	10.6	10.0
Other Comprehensive Income	1	(1)	-	-
Total Comprehensive Income	401	438	235	227
Avg. Shares O/s (m)	792	792	792	792
EPS (Rs)	0.5	0.6	0.3	0.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	BUY	140	119
2	07-Sep-23	BUY	140	109

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	650	560
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	709	677
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,816	2,509
6	Lemon Tree Hotels	BUY	140	119
7	Music Broadcast	Hold	18	11
8	Navneet Education	BUY	195	140
9	Nazara Technologies	Hold	840	820
10	PVR Inox	BUY	1,984	1,745
11	S Chand and Company	BUY	338	280
12	Safari Industries (India)	BUY	4,752	4,232
13	V.I.P. Industries	Hold	689	613
14	Zee Entertainment Enterprises	BUY	314	263

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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