

3 October 2022

Lemon Tree Hotels

Growth story intact; maintaining a Buy

We expect Lemon Tree Hotels' Q2 FY23 to be on similar lines as in Q1, as it sees demand rising. International travel returning would further benefit it in coming months. Lemon Tree is set to open its largest hotel, Aurika (669 rooms), Mumbai (MIAL) by end-CY23 (construction on track) ~13% of its current inventory. Therefore we incorporate Aurika, MIAL, and introduce our FY25 estimates, anticipating the company to report revenue/EBITDA CAGRs of 47%/71% over FY22-FY25. Hence, factoring in the above we raise our TP to Rs110 (from Rs85 earlier), valuing the stock at 18x FY25e EV/EBITDA from 20x FY24 EBITDA.

We expect Aurika MIAL to contribute ~21% of FY25 EBITDA. The Mumbai market has always been strong and resilient in occupancy and ARR over the last 6-8 years. From FY14 to FY20 its average occupancy was ~74% beating the likes of Goa and Delhi. It even enjoyed one of the highest ARR in India (~Rs7,900 over the past 6-8 years). Company already has one 303-room Lemon Tree Premiere property near Andheri East in Mumbai, (currently doing more than 75% occupancy and over with Rs7,500 ARR). We expect Rs2.4bn revenue from Aurika, MIAL in FY25 (assuming 65% occupancy and Rs12,000 ARR) with margins of over 50%, bringing ~19%/~21% to the company's revenue/EBITDA in FY25.

Looking to be debt free in the next 4-5 years. In Mar'22, Lemon Tree had Rs16.4bn net debt, which we believe has peaked. It has yet to incur ~Rs5bn capex for its pipeline, the bulk for the MIAL property. After this, it is not now looking at any further capex other than on routine renovation. It aims to repay debt over the next five years. It generated FCF of Rs677m in FY22 and we expect it generate cumulative FCF of ~Rs7.3bn over FY23-FY25 which should help it become net debt free over the next 5 years.

Risk: A slow-down in the economy would curtail demand, Vulnerable to external factors: terrorist attacks, epidemics, further delay in opening the Aurika MIAL property etc.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	2,517	4,022	8,092	9,184	12,756
Net profit (Rs m)	-1,271	-874	758	1,019	2,337
EPS (Rs)	-1.6	-1.1	1.0	1.3	3.0
P/E (x)	-53.8	-78.3	90.3	67.1	29.3
EV / EBITDA (x)	138.3	71.4	23.2	19.9	14.3
P/BV (x)	7.5	8.2	7.5	6.8	5.5
RoE (%)	-19.2	-15.8	9.3	13.8	23.4
RoCE (%)	-1.5	0.4	8.3	9.7	16.0
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	1.0	1.2	1.1	1.1	0.8

Source: Company, Anand Rathi Research

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Rating: Buy

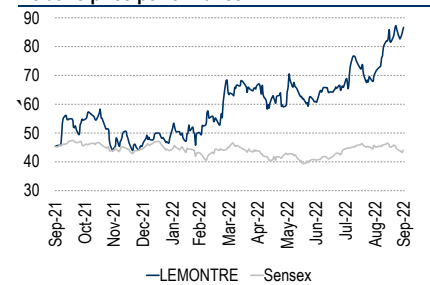
Target Price: Rs.110

Share Price: Rs.87

Key data	LEMONTRE IN / LEMO.BO
52-week high / low	Rs89 / 42
Sensex / Nifty	57427 / 17094
3-m average volume	\$6.8m
Market cap	Rs69bn / \$845.3m
Shares outstanding	792m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	23.9	24.0	25.9
- of which, Pledged	14.7	23.2	29.4
Free float	76.1	76.0	74.1
- Foreign institutions	27.9	28.7	22.8
- Domestic institutions	11.0	12.0	13.3
- Public	37.2	35.3	19.6

Relative price performance



Source: Bloomberg

Shobit Singhal
Research Analyst

Pranay Shah
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	2,517.2	4,022.4	8,091.6	9,184.0	12,755.8
Growth (%)	-62	60	101	13	39
No of rooms-owned/leased	5,192.0	5,192.0	5,192.0	5,192.0	5,861.0
Direct costs	1,105.8	1,616.8	2,330.5	2,636.8	3,646.7
Gross profit	1,411.4	2,405.6	5,761.1	6,547.2	9,109.1
Gross margins %	56.1	59.8	71.2	71.3	71.4
SG&A	799	1,218	2,102	2,288	3,175
EBITDA	613	1,187	3,659	4,259	5,934
EBITDA margins (%)	24.3	29.5	45.2	46.4	46.5
- Depreciation	1,076	1,043	1,080	1,158	1,221
Other income	220	210	150	150	150
Interest expenses	1,905	1,809	1,784	1,699	1,304
PBT	-2,147	-1,456	946	1,552	3,559
Effective tax rates (%)	15%	5%	15%	15%	26%
+ Associates / (Minorities)	555	510	-46	-300	-300
Net income	-1,271	-874	758	1,019	2,337
WANS	790	791	791	791	791
FDEPS (Rs / sh)	-1.6	-1.1	1.0	1.3	3.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	-2,147	-1,456	946	1,552	3,559
+ Non-cash items	2,786	2,798	2,713	2,707	2,375
Oper. prof. before WC	638	1,342	3,659	4,259	5,934
- Incr. / (Decr.) in WC	-324	27	115	89	158
Others incl. taxes	-96	17	142	233	922
Operating cash-flow	410	1,353	3,633	4,115	5,170
- Capex (tang. + intang.)	-704	-675	-2,000	-2,500	-1,100
Free cash-flow	-294	677	1,633	1,615	4,070
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	2	8	-0	0	0
+ Debt raised	596	134	-	-	-2,500
- Fin investments	49	221	262	8	8
- Misc. (CFI + CFF)	747	-1,468	-1,418	-1,841	-1,446
Net cash-flow	1,003	-869	-47	-234	116

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

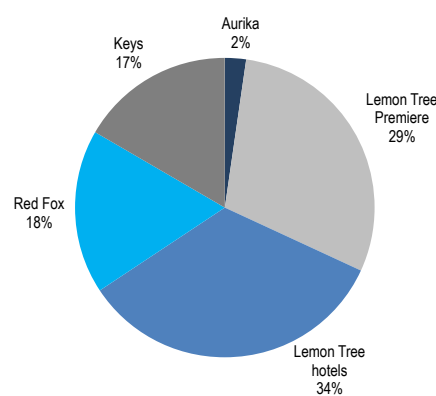
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	7,904	7,908	7,908	7,908	7,908
Net worth	9,176	8,312	9,070	10,090	12,427
Debt (incl. pref. shares.)	16,853	16,986	16,986	16,986	14,486
Minority interest	6,174	5,676	5,676	5,676	5,676
DTL / (Assets)	4,709	4,339	4,339	4,339	4,339
Capital employed	36,911	35,315	36,073	37,092	36,929
Net tangible assets	30,768	29,395	30,315	31,657	31,535
Net intangible assets	195	147	147	147	147
Goodwill	951	951	951	951	951
CWIP (tang. & intang.)	2,441	2,986	2,986	2,986	2,986
Investments (strategic)	-	-	-	-	-
Investments (financial)	55	96	96	96	96
Current assets (excl. cash)	2,326	2,233	2,504	2,591	2,874
Cash	1,411	543	496	262	378
Current liabilities	1,237	1,036	1,422	1,597	2,039
Working capital	1,089	1,197	1,082	993	835
Capital deployed	36,911	35,315	36,073	37,092	36,929

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	-53.8	-78.3	90.3	67.1	29.3
EV / EBITDA (x)	138.3	71.4	23.2	19.9	14.3
EV / Sales (x)	33.7	21.1	10.5	9.2	6.6
P/B (x)	7.5	8.2	7.5	6.8	5.5
RoE (%)	-19.2	-15.8	9.3	13.8	23.4
RoCE (%) - after tax	-1.5	0.4	8.3	9.7	16.0
RoIC (%) - after tax	-1.5	0.4	8.4	9.8	16.2
DPS (Rs / sh)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	1.0	1.2	1.1	1.1	0.8
Receivables (days)	45	26	25	25	25
Inventory (days)	10.5	7.4	4.0	4.0	4.0
Payables (days)	151	75	80	85	85
CFO : EBITDA %	66.9	114.0	99.3	96.6	87.1

Source: Company, Anand Rathi Research

Fig 6 – Percent of rooms, segment-wise, FY22



Source: Company

We expect Aurika MIAL to bring ~21% to EBITDA in FY25

In Q1 FY23 Lemon Tree had 84 hotels (~8,251 rooms) in India, its own and operated. The hotels are located across India, in metropolises, including the NCR, Bengaluru, Hyderabad and Chennai, as well as in tier-II cities such as Pune, Jaipur, Ahmedabad, Chandigarh, Indore and Aurangabad. At present the hotels are highly concentrated in three cities (the NCR, Bengaluru and Hyderabad), and account for ~40% of its owned and leased hotels. The company has 86% of its owned and leased hotels at business destinations and only 14% at leisure sites.

We expect some diversification over the next two years as the company is set to open its largest hotel, Aurika (669 rooms), Mumbai (MIAL) by end-CY23 (construction on track), ~13% of its current rooms and 11.4% of its eventual owned rooms. The Mumbai market has been strong and resilient in occupancy and ARR in the last 6-8 years. From FY14 to FY20 its average occupancy was ~74%, beating the likes of Goa and Delhi. It even enjoyed one the highest ARR in India (~Rs7,900 over the last 6-8 years). Company has one 303-room Lemon Tree Premiere property near Andheri East in Mumbai, (currently doing more than 75% occupancy and over with Rs7,500 ARR). We expect Rs2.4bn revenue from Aurika, Mumbai (MIAL) in FY25 (assuming 65% occupancy and Rs12,000 ARR) with margins of over 50%, contributing ~21% to EBITDA in FY25.

Fig 7 – Lemon Tree is set to open its largest hotel, Aurika (669 rooms), Mumbai (MIAL) by end-CY23



Source: Company

Fig 8 – Aurika, MIAL property revenue working

Aurika, MIAL	FY25e
No. of available rooms	669
No. of hotels	1
ADR (Rs)	12,000
Average Occupancy	65%
Rev PAR (Rs)	7,800
Revenue from room rentals (Rs m)	1,905
F&B revenue (30% of room rental, Rs m)	571
Total revenue expected from MIAL property (Rs m)	2,476

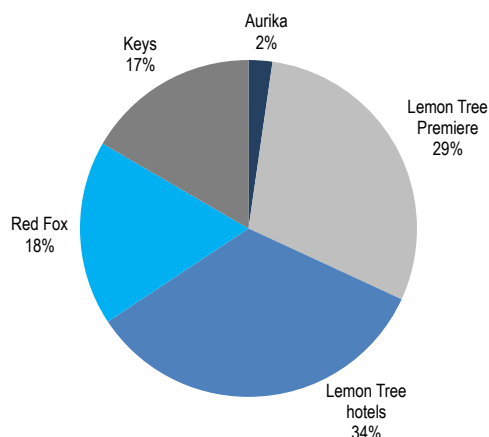
Source: Anand Rathi Research

Fig 9 – Lemon Tree hotels and rooms

	FY22	Pipeline	By FY25	% growth
Hotels	87	22	109	25
Owned rooms	4,517	738	5,255	16
Leased rooms	675	0	675	0
Managed rooms	3,297	1,441	4,738	44
Total rooms	8,489	2,179	10,668	26

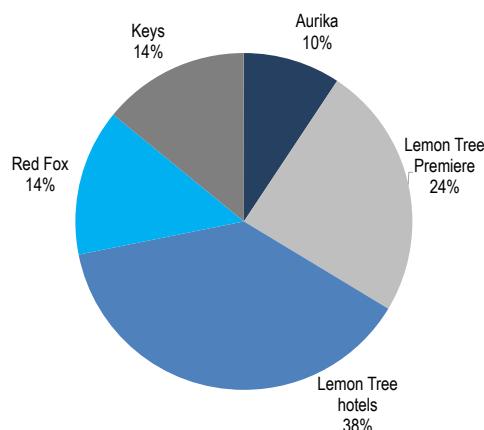
Source: Company, Anand Rathi Research

Fig 10 – LTH, by brands – FY22



Source: Company, Anand Rathi Research

Fig 11 – LTH, by brands – FY25



Source: Company, Anand Rathi Research

Fig 12 – The Mumbai market has been strong and resilient in occupancy and ARR in the last 6-8 years

	Industry Occupancy (%)												
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Business hotels													
Bengaluru	53.2	58.4	56.6	55.6	57.7	58.1	65.7	65.9	68.3	65.1	67.5	27.5	41.2
Chennai	62.1	67.2	65.7	60.0	55.4	58.9	62.7	64.8	63.0	64.6	64.5	36.1	51.0
Delhi & NCR	68.3	68.7	63.8	61.7	60.9	61.7	66.7	69.4	70.5	72.5	73.2	40.8	57.3
Hyderabad	53.3	57.1	54.0	49.3	51.7	57.1	59.3	63.7	66.3	69.9	70.3	33.7	52.5
Kolkata	67.5	68.3	70.0	71.5	70.2	67.8	69.3	70.9	70.2	69.8	66.7	30.2	50.9
Mumbai	62.5	62.4	63.7	63.7	67.2	71.8	73.7	74.4	75.5	77.1	76.6	42.9	59.8
Pune	50.9	46.7	51.3	58.2	57.4	61.3	65.6	64.1	68.2	69.9	66.7	27.9	41.1
Leisure hotels													
Ahmedabad	58.2	54.3	59.9	53.7	52.7	53.9	55.6	61.1	63.8	63.3	64.8	33.1	57.7
Goa	65.1	67.7	68.5	68.9	68.7	69.7	70.2	71.3	70.0	71.8	67.7	37.0	55.9
Jaipur	57.3	57.7	55.2	54.7	54.3	54.5	60.8	64.4	67.6	68.3	66.2	33.9	49.9

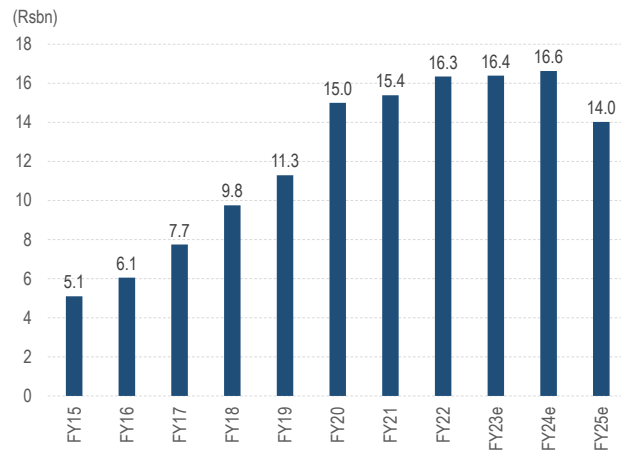
	Industry ARR (Rs)												
	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Business hotels													
Bengaluru	6,597	6,776	6,293	5,960	5,379	5,368	5,392	5,598	5,823	6,434	6,707	4,704	4,101
Chennai	5,710	5,632	5,524	5,440	5,050	4,825	4,767	4,761	4,863	5,174	5,148	3,597	3,919
Delhi & NCR	8,834	8,634	8,174	7,387	6,941	6,568	6,211	6,292	6,649	7,063	7,186	4,764	5,228
Hyderabad	5,146	5,173	5,026	4,854	4,556	4,535	4,741	4,880	4,924	5,377	5,654	3,979	4,102
Kolkata	6,087	6,408	6,049	6,093	5,739	5,734	5,607	5,814	5,904	5,830	5,934	4,258	4,330
Mumbai	8,428	8,194	8,210	7,820	7,355	7,473	7,611	7,942	8,066	8,376	8,487	5,270	5,153
Pune	5,810	4,949	4,163	3,861	3,908	3,846	3,922	4,195	4,484	4,943	5,070	4,179	3,846
Leisure hotels													
Ahmedabad	4,540	4,285	3,917	3,904	3,734	3,753	3,884	3,897	4,158	4,625	4,273	3,399	3,048
Goa	5,613	6,056	6,162	6,513	6,692	6,819	7,020	7,538	7,920	8,207	8,260	7,379	8,756
Jaipur	4,539	4,718	4,727	4,843	4,743	4,743	4,721	4,787	5,051	5,347	5,500	4,277	5,043

Source: Hotelivate report, 2022

Looking to be debt free in the next 4-5 years

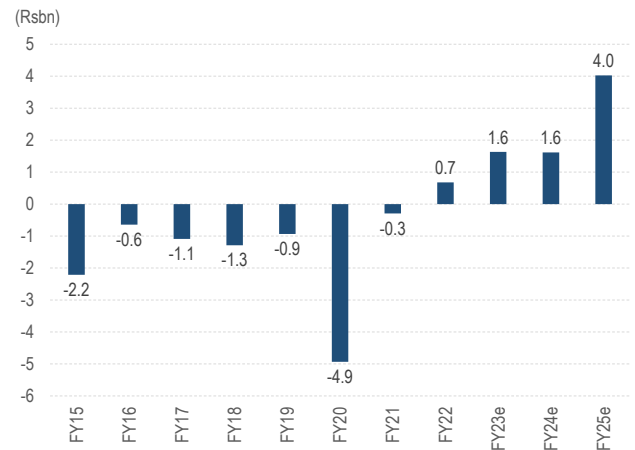
In Mar'22, Lemon Tree had Rs16.4bn net debt, which we believe has peaked. It has yet to incur ~Rs5bn capex for its pipeline, the bulk for the MIAL property. After this, it is not looking at any further expenses other than on routine renovation. It aims to repay debt over the next five years. It generated FCF of Rs677m in FY22 and we expect it to generate cumulative FCF of ~Rs7.3bn over FY23-FY25 which should help it become net debt free over the next five years.

Fig 13 – Net debt to be steady



Source: Company, Anand Rathi Research

Fig 14 – FCF to improve from now



Source: Company, Anand Rathi Research

Fig 15 – Peer comparison

Particulars (Rs m)	Revenue (Rs m)				Revenue growth, y/y (%)				EBITDA (Rs m)				EBITDA margins (%)			
	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21
Indian Hotels (consolidated)	41,036	45,120	44,631	15,752	2.1	10.0	-1.1	-64.7	6,703	8,297	9,675	-3,628	16.3	18.4	21.7	-23.0
EIH	15,988	18,108	15,963	4,971	4.6	13.3	-11.8	-68.9	2,527	4,059	2,903	-2,896	15.8	22.4	18.2	-58.3
Lemon Tree	4,843	5,495	6,694	2,517	17.5	13.5	21.8	-62.4	1,362	1,688	2,434	613	28.1	30.7	36.4	24.3
Chalet Hotels	7,955	9,872	9,811	2,944	16.9	24.1	-0.6	-70.0	2,447	3,192	3,366	71	30.8	32.3	34.3	2.4

Source: Company, Anand Rathi Research

Fig 16 – Hotel companies, a comparison

Particulars (Rs m)	Revenue (Rs m)			Revenue growth y/y (%)			EBITDA (Rs m)			EBITDA margins (%)			EV / EBITDA		
	FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY22	FY23e	FY24e
Indian Hotels (consolidated)	30,562	47,029	57,252	94.0	53.9	21.7	4,048	12,269	16,558	13.2	26.1	28.9	97.8	26.6	22.0
Lemon Tree Hotels	4,022	8,092	9,184	60	101	13	1,187	3,659	4,259	29.5	45.2	46.4	70.1	22.7	19.5
Chalet Hotels *	5,078	9,582	12,924	72.7	88.7	34.9	985	3,537	5,571	19.4	36.9	43.1	84.8	23.6	16.1

Source: Company, Anand Rathi Research Note * Bloomberg estimates

Fig 17 – Net debt of hotel companies

(Rs bn)	FY17	FY18	FY19	FY20	FY21	FY22
Indian Hotels (consolidated)	31.5	18.9	19.3	18.6	31.1	(1.05)
EIH	3.5	3.6	4.4	4.1	2.5	2.7
Lemon Tree Hotels	7.8	9.8	11.3	15.4	14.5	16.3
Chalet Hotels	NA	27.0	14.5	16.6	18.7	22.3

Source: Company, Anand Rathi Research Note: Net debt excludes lease liabilities

Valuation

The leader in the fastest-growing category in Indian hospitality, Lemon Tree had 84 hotels in Q1 FY23 (~8,251 rooms, its own and operated). It is set to benefit from its work in brand building, cost efficiency, judicious geographic expansion and price-point mixes. Its strategy of relentless expansion and its asset-light model augurs well for the long term. With demand revival in corporate travel and large events & conferences, Lemon Tree with 86% of its hotels at business destinations is poised to benefit.

We expect Lemon Tree Hotels' Q2 FY23 to be on similar lines as in Q1, as it sees demand rising. International travel returning would further benefit it in coming months. Lemon Tree is set to open its largest hotel, Aurika (669 rooms), Mumbai (MIAL) by end-CY23 (construction on track) ~13% of its current inventory. Therefore we incorporate Aurika, MIAL, and introduce our FY25 estimates, anticipating the company to report revenue/EBITDA CAGRs of 47%/71% over FY22-FY25. Hence, factoring in the above, we raise our TP to Rs110 (from Rs85 earlier), valuing the stock at 18x FY25e EV/EBITDA from 20x FY24e EBITDA.

Fig 18 – EV/EBITDA band



Source: Bloomberg, Anand Rathi Research

Risks

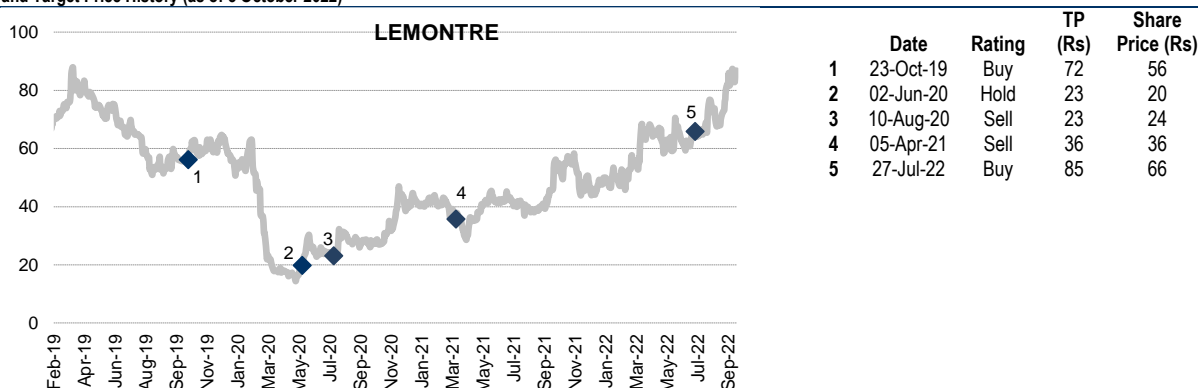
- Slowdown in the economy would slash demand.
- Vulnerable to external factors: terrorist attacks, epidemics.
- Further delay in opening of the Aurika MIAL property, etc.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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