

Lemon Tree Hotels

BUY

Another strong quarterly performance

Summary

Lemon Tree Hotels Ltd.'s (LTH) Q4FY23 result was broadly in-line with our estimates on key parameters. Robust growth in RevPAR and prudent cost management led to impressive earnings growth in Q4FY23. Our interaction with the management suggests that demand dynamics to remain healthy in near term and demand-supply mismatch will favour the domestic hospitality industry. LTH has lined up inventory addition on management contract which will support margin improvement. Net sales increased by 111% YoY to Rs2,527mn, while EBITDA came in at Rs1,399mn, a robust growth of 549% YoY. The company reported net profit of Rs440mn compared to net loss of Rs247mn in Q4FY22. We have broadly maintained our earnings estimates for FY24E/FY25E. Maintain BUY with a TP of Rs110, assigning 15x EV/EBITDA to FY25E.

Key Highlights and Investment Rationale

- **Yet another impressive quarter:** LTH continued its outperformance in Q4FY23 as it reported both YoY /QoQ improvement in ARR and occupancies. Gross ARR improved by 1.5% QoQ to Rs5,824, while occupancy was up by 600bps over Q3FY23 to 73.6%. In Q4FY23 company signed 9 new hotels under management/franchisee agreement which will add 538 rooms to total inventory. The company has charted a 5 year growth plan wherein they intend to take total room inventory to 20,000 plus in 300 plus hotels by CY28.
- **On a strong growth trajectory, BUY with a TP of Rs110:** We continue to remain positive on mid-segment of domestic hospitality business and believe that strong operational performance will continue for organized players like LTH. We believe LTH will benefit from healthy demand in leisure travel, pick up in corporate travel and MICE and demand-supply mismatch in near term bodes well for overall earnings growth of the industry. BUY with a TP of Rs110.

TP	Rs110			Key Stock Data		
CMP	Rs94			Bloomberg / Reuters LEMONTRE IN/LEMO.BO		
Potential upside/downside	17%		Sector		Hotels	
Previous Rating	BUY		Shares o/s (mn)		792	
Price Performance (%)			Market cap. (Rs mn)		74,582	
	-1m	-3m	-12m	3-m daily avg Trd value(Rs mn)		51.2
Absolute	6.9	19.5	43.0	52-week high / low		Rs103 / 58
Rel to Sensex	4.7	14.4	30.2	Sensex / Nifty		62,429 / 18,488
V/s Consensus			Shareholding Pattern (%)			
EPS (Rs)	FY24E	FY25E	Promoters	23.6		
IDBI Capital	2.1	3.4	FII	24.5		
Consensus	1.9	3.3	DII	10.2		
% difference	8.9	4.4	Public	41.7		

	(Rs mn)				
Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	2,517	4,022	8,750	10,457	12,653
Change (yoY, %)	(62)	60	118	20	21
EBITDA	613	1,186	4,476	5,385	6,706
Change (yoY, %)	(75)	94	277	20	25
EBITDA Margin(%)	24.3	29.5	51.2	51.5	53.0
Adj.PAT	(2,460)	(1,873)	1,665	1,668	2,719
EPS (Rs)	(3.1)	(2.4)	2.1	2.1	3.4
Change (yoY, %)	1,789.2	(23.8)	(188.9)	0.2	63.0
PE(x)	(30.2)	(39.7)	44.6	44.5	27.3
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	144.6	76.5	20.4	17.0	13.1
RoE (%)	(25.8)	(21.4)	19.8	17.8	23.5
RoCE (%)	(1.3)	0.4	9.9	10.6	13.1

Source: IDBI Capital Research

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Concall Highlights:

- Management guided that FY23 was the best year for Lemon Tree hotels. As anticipated in line with the initial guidance, company has doubled total revenue compared FY22 and have maintained more than 50% EBITDA margin for the full year.
- In Q4, company focused on building up occupancy which increased by 604bps Vs Q3FY23 and by 1259bps vs Q4FY20.
- RevPAR increased by 11% to Rs4,287 Vs Q3FY23 and gross ARR stood at Rs.5824 which increased by 2% vs Q3FY23.
- Management highlighted that during Q4 company signed 9 new management and franchise contracts which adds 538 new rooms to company pipeline.
- Operational inventory comprised 88 Hotels with 8,382 rooms & pipeline comprised 42 hotels with 3,285 rooms.
- Management guided that hotels are under development – Aurika, Mumbai International Airport (expected opening date CY23) and Lemon Tree mountain resort, Shimla. Estimated project cost is Rs1,006cr and total capex already incurred is Rs575cr.
- Gross debt stood at Rs17,460mn and average cost of borrowings stood 9.90% while weighted average cost of borrowings for full year was 8.38%.
- Company is focusing on investing significantly in renovating the hotels, especially Keys portfolio. This will increase operating expenses by further 2 to 2.5% on revenue basis but will position their hotels to capture better pricing and demand.

Exhibit 1: Financial snapshot

Particulars (mn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Total revenues	2,526	2,335	8.2	1,195	111.3
Total expenditure	1,127	1,071	5.3	980	15.0
EBIDTA	1,399	1,265	10.6	215.4	549.6
<i>EBIDTA margin(%)</i>	55.4	54.2	120bps	18.0	3740bps
Depreciation	235	236	(0.1)	265	(11.3)
Interest cost	452	445	1.5	424	6.5
Other income	20	6	264.3	76	(73.3)
exceptional Item	-	-	-	-	-
PBT	733	590	24.2	(398)	-
Tax	143	106	35.2	(3)	-
Adj. Net Profit	589	484	21.8	(395)	-
Share of Associates	1	2	(45.5)	3	(58.6)
Minority Interest	(150)	(87)		146	-
Rep. PAT	441	400	10.4	(247)	-
Adj. EPS (INR)	0.6	0.5	10.4	(0.3)	-

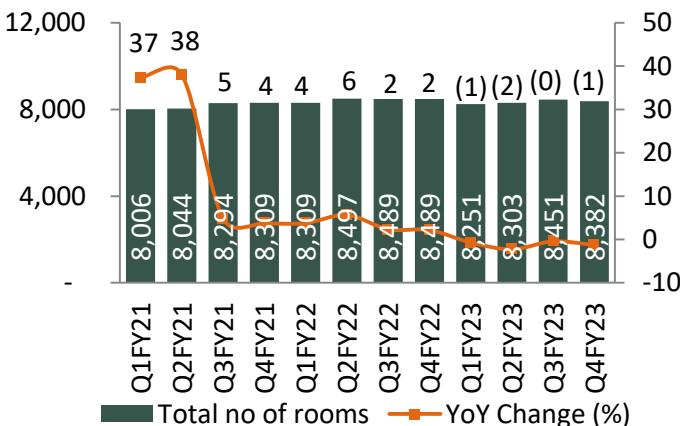
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (mn)	Q4FY23A	Q4FY23E	Variance (%)
Net Sales	2,526	2,381	6
EBITDA	1,399	1,273	9.9
<i>EBITDA Margin</i>	55.4	53.5	190bps
Net Profit	441	443	(0.5)
EPS Rs	0.56	0.6	(0.5)

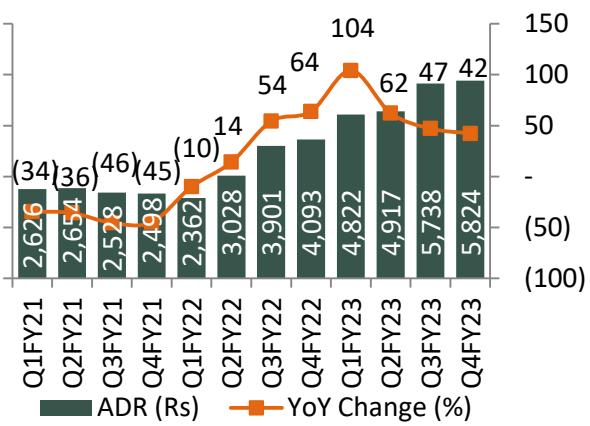
Source: Company; IDBI Capital Research

Exhibit 3: Total no of rooms and YoY change



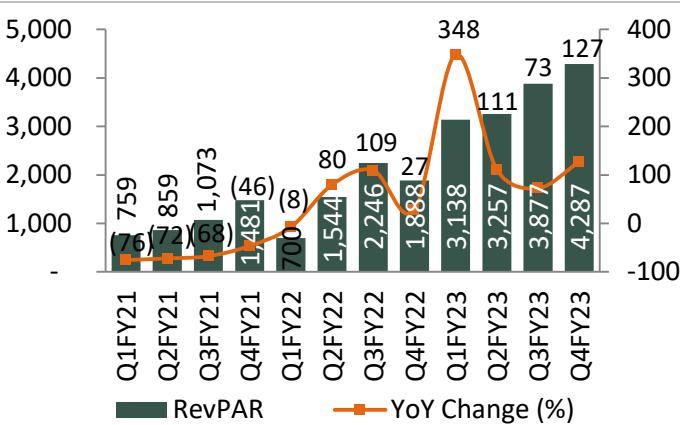
Source: Company, IDBI Capital Research

Exhibit 4: ADR trend



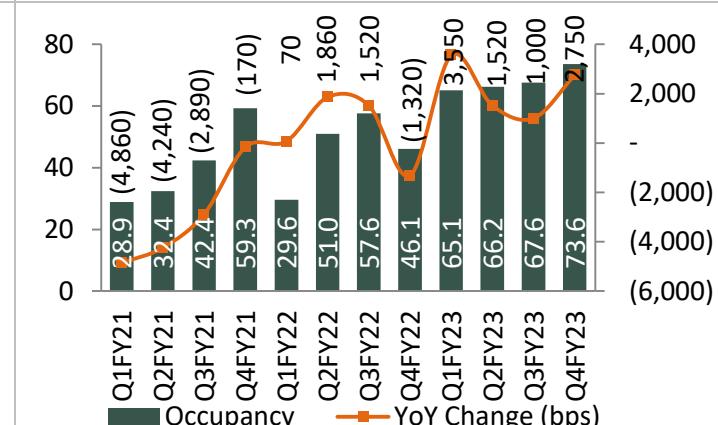
Source: Company, IDBI Capital Research

Exhibit 5: RevPAR trend



Source: Company, IDBI Capital Research

Exhibit 6: Occupancy trend



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	6,694	2,517	4,022	8,750	10,457	12,653
<i>Change (yoY, %)</i>	21.8	(62.4)	59.8	117.5	19.5	21.0
Operating expenses	(4,260)	(1,904)	(2,836)	(4,274)	(5,072)	(5,947)
EBITDA	2,434	613	1,186	4,476	5,385	6,706
<i>Change (yoY, %)</i>	44.2	-74.8	93.6	277.3	20.3	24.5
<i>Margin (%)</i>	36.4	24.3	29.5	51.2	51.5	53.0
Depreciation	(922)	(1,076)	(1,044)	(966)	(1,383)	(1,463)
EBIT	1,512	(463)	143	3,510	4,003	5,244
Interest paid	(1,565)	(1,817)	(1,740)	(1,772)	(1,739)	(1,577)
Other income	58	133	140	36	32	32
Pre-tax profit	5	(2,147)	(1,457)	1,774	2,297	3,699
Tax	(109)	322	72	(377)	(578)	(931)
<i>Effective tax rate (%)</i>	2,131.4	15.0	5.0	21.3	25.2	25.2
Minority Interest	(26.6)	(634.7)	(488.9)	268.5	(50.0)	(49.0)
Net profit	(130)	(2,460)	(1,873)	1,665	1,668	2,719
Exceptional items	-	-	-	-	-	-
Adjusted net profit	(130)	(2,460)	(1,873)	1,665	1,668	2,719
<i>Change (yoY, %)</i>	(124.6)	1,789.5	(23.8)	(188.9)	0.2	63.0
EPS	(0.2)	(3.1)	(2.4)	2.1	2.1	3.4
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-	-

Balance Sheet							(Rs mn)
Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E	
Shareholders' funds	9,889	9,176	8,313	8,537	10,206	12,925	
Share capital	7,903	7,904	7,908	7,916	7,916	7,916	
Reserves & surplus	1,986	1,272	404	621	2,290	5,009	
Total Debt	15,112	15,739	16,987	17,457	19,317	17,517	
Other liabilities	4,619	4,708	4,268	4,289	4,331	4,417	
Curr Liab & prov	2,448	2,388	1,108	1,443	1,489	1,548	
Current liabilities	2,382	2,310	884	1,362	1,403	1,460	
Provisions	67	78	224	81	85	88	
Total liabilities	22,180	22,835	22,362	23,189	25,137	23,482	
Total equity & liabilities	37,627	38,185	36,351	37,323	40,990	42,103	
Net fixed assets	34,967	34,337	33,460	34,377	35,822	34,601	
Investments	152	74	114	73	77	82	
Other non-curr assets	483	1,472	1,521	1,519	1,823	2,042	
Current assets	2,025	2,302	1,255	1,353	3,267	5,378	
Inventories	82	72	81	105	118	136	
Sundry Debtors	503	308	291	560	661	793	
Cash and Bank	408	1,411	543	275	2,034	3,941	
Loans and advances	640	50	4	3	3	3	
Total assets	37,627	38,185	36,351	37,323	40,990	42,103	

Cash Flow Statement							(Rs mn)
Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E	
Pre-tax profit	5	(2,147)	(1,457)	1,774	2,297	3,699	
Depreciation	922	1,076	1,044	966	1,383	1,463	
Tax paid	95	359	55	(361)	(578)	(931)	
Chg in working capital	351	734	(1,226)	43	(68)	(90)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	1,373	21	(1,583)	2,422	3,033	4,140	
Capital expenditure	(13,237)	(446)	(167)	(1,883)	(2,827)	(241)	
Chg in investments	222	78	(40)	41	(4)	(5)	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(13,015)	(368)	(207)	(1,842)	(2,831)	(246)	
Equity raised/(repaid)	10	1	4	8	0	0	
Debt raised/(repaid)	3,753	627	1,247	471	1,860	(1,800)	
Dividend (incl. tax)	-	-	-	-	-	-	
Chg in minorities	1,210	(20)	(986)	189	-	-	
Other financing activities	6,763	742	657	(1,516)	(302)	(187)	
Cash flow from financing (c)	11,736	1,351	922	(848)	1,558	(1,987)	
Net chg in cash (a+b+c)	94	1,003	(869)	(268)	1,759	1,907	

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	11.7	10.8	9.7	10.0	12.1	15.6
Adj EPS (Rs)	(0.2)	(3.1)	(2.4)	2.1	2.1	3.4
Adj EPS growth (%)	(124.6)	1,789.2	(23.8)	(188.9)	0.2	63.0
EBITDA margin (%)	36.4	24.3	29.5	51.2	51.5	53.0
Pre-tax margin (%)	0.1	(85.3)	(36.2)	20.3	22.0	29.2
Net Debt/Equity (x)	1.5	1.6	2.0	2.0	1.7	1.1
ROCE (%)	5.1	(1.3)	0.4	9.9	10.6	13.1
ROE (%)	(1.4)	(25.8)	(21.4)	19.8	17.8	23.5
DuPont Analysis						
Asset turnover (x)	0.2	0.1	0.1	0.2	0.3	0.3
Leverage factor (x)	3.5	4.0	4.3	4.4	4.2	3.6
Net margin (%)	(1.9)	(97.7)	(46.6)	19.0	16.0	21.5
Working Capital & Liquidity ratio						
Inventory days	4	10	7	4	4	4
Receivable days	27	45	26	23	23	23
Payable days	72	151	75	57	49	43

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	(570.6)	(30.2)	(39.7)	44.6	44.5	27.3
Price/Book value (x)	8.0	8.7	9.7	9.4	7.8	6.0
EV/Net sales (x)	13.3	35.2	22.6	10.5	8.8	6.9
EV/EBITDA (x)	36.6	144.6	76.5	20.4	17.0	13.1
Dividend Yield (%)	-	-	-	-	-	-

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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