

Lemon Tree Hotels

BUY

Strong quarterly performance, encouraging outlook

Summary

Lemon Tree Hotels Ltd.'s (LTH) reported yet another strong quarterly performance and the result was broadly in-line with our estimates on net sales/EBITDA front, while PAT was a beat. The management reiterated focus to remain on renovation of existing hotels (wherever required) in order to garner higher ARR. New inventory addition through management contract is gaining traction as the company signed 12 new management and franchise contracts which added 667 new rooms in Q4FY24. We anticipate robust inventory addition through management contract/franchisee to drive sustainable margin improvement in mid-long term. Further, Aurika Mumbai's robust performance would boost the earnings in near term. We upgrade the stock to BUY with a revised TP of Rs162 (earlier Rs156), assigning 17x EV/EBITDA to FY26E.

Key Highlights and Investment Rationale

- **Another strong quarter on key parameters:** LTH's Q4FY24 was the best ever Q4 performance on key parameters. Revenue came in at Rs3,273mn, higher by 29.5% YoY, while EBITDA stood at Rs1,715mn, increased by 22.6% YoY. PAT was at Rs840mn, up by 42.3% YoY. The company reported Gross ARR of Rs6,605 which increased by 13% YoY and occupancy was marginally down by 163 bps YoY at 72%. This translated into a RevPAR of Rs4,754 which increased by 11% YoY.
- **Stellar performance to continue, BUY with a TP of Rs162:** We continue to like LTH amongst the mid-scale hotels segment given its scale of operations and opening of Aurika, Mumbai, which will further boost the earnings. With renovation of existing hotels under LTH and Keys, we expect ADR to get a substantial push in mid-term. Further, the managements' robust outlook on inventory addition and balance sheet strengthening through debt repayment is encouraging. BUY with a TP of Rs162.

TP	Rs162
CMP	Rs141
Potential upside/downside	15%
Previous Rating	HOLD

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(9.2)	(0.5)	51.7
Rel to Sensex	(12.7)	(4.1)	29.4

V/s Consensus		
EPS (Rs)	FY25E	FY26E
IDBI Capital	3.3	4.5
Consensus	3.4	4.6
% difference	(3.9)	(1.6)

Key Stock Data	
Bloomberg / Reuters	LEMONTRE IN/LEMO.BO
Sector	Hotels
Shares o/s (mn)	792
Market cap. (Rs mn)	111,390
3-m daily avg Trd value(Rs mn)	35.1
52-week high / low	Rs158 / 90
Sensex / Nifty	76,469 / 23,264

Shareholding Pattern (%)	
Promoters	22.9
FII	27.1
DII	15.1
Public	34.9

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,022	8,750	10,711	13,975	15,792
Change (yoy, %)	60	118	22	30	13
EBITDA	1,186	4,476	5,232	7,089	8,194
Change (yoy, %)	94	277	17	35	16
EBITDA Margin(%)	29.5	51.2	48.8	50.7	51.9
Adj.PAT	(1,884)	1,656	1,485	2,607	3,568
EPS (Rs)	(2)	2	2	3.3	4.5
Change (yoy, %)	(22.2)	(187.9)	29.6	76	37
PE(x)	(59.0)	97.0	74.8	42.6	31.2
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	107.6	28.7	24.7	17.9	15.0
RoE (%)	(21.5)	13.6	16.3	23.8	25.4
RoCE (%)	0.4	9.9	11	15.1	17.4

Source: IDBI Capital Research

Archana Gude

archana.gude@idbicaapital.com
+91-22-4069 1938

Sarthak Awasthi

sarthak.awasthi@idbicapital.com
+91-22-4069 1839

Concall Highlights:**Industry**

- Industry to witness ~5-12% price hikes going forward.
- Luxury hotel operators witnessing higher growth compared to mid-market; expecting such growth to follow through in mid-market

Operating Performance:

- Lemon Tree recorded a Gross ARR of Rs6,605 which increased by 13% YoY.
- Occupancy also decreased by 163 bps YoY and increased by 605 bps QoQ to 72%. This translated into a RevPAR of Rs4,754 which increased by 11% YoY and by 14% QoQ.
- The Net EBITDA margin for the company in Q4FY24 stood at 52.9% which decreased by 278bps vs Q4FY23 and increased by 415bps vs Q3FY24 mainly owing to planned increase in renovation expenses above that spent in Q3FY23 and pre-operative expenses of Aurika, Mumbai Sky City.
- Cash Profit stood at Rs117Cr in Q4FY24 which increased by 42% from Rs83Cr in Q4FY23 and 52% as compared to Rs77Cr in Q3FY24.
- During the quarter, the company signed 12 new management & franchise contracts which added 667 new rooms to the pipeline. As of 31st March, 24, their operational inventory comprised 104 hotels with 9,863 rooms and the pipeline comprised 62 hotels with 4,156 rooms.
- Fees from management & franchised contracts for 3rd party owned hotels stood at Rs41Cr in Q4FY24 up 48% YoY. Total management fees were up 57% YoY at Rs29Cr compared to Rs17Cr in Q4FY23.
- Hotel level revenue from the owned portfolio increased by 28% YoY on a same store basis while, the Network Revenue for Lemon Tree increased by 38% YoY.

CAPEX

- Company is focusing on investing significantly in renovating the hotels, especially in the near future, and has guided the renovation expenses for FY25 at Rs100Cr each for FY25.

Hyderabad region

- In Hyderabad, out of ~660 rooms, ~80-90 rooms shut due to ongoing renovation; planning shutdown of ~10-15% inventory in both H1 and H2 FY25 due to ongoing renovation.

Bengaluru region

- Out of total Whitefield inventory of ~350 rooms, ~250 rooms operating in Q4FY24
- In Lemon Tree Electronic City, out ~300 rooms, ~30-40 rooms shut in Q4FY24; expecting pickup in Q3FY25 due to recovery in IT sector hiring

Debt

- The company's total debt for H1FY24 stood at Rs1,889 Cr owing to borrowing against Aurika, Mumbai Sky City.
- The company expects to be debt free by the end of FY29.

Portfolio Addition

- The company is targeting more than 15,000 keys till FY29 under managed and franchised rooms. Also, the company is targeting to reach the total inventory of more than 20,000 Keys till FY29.
- During the quarter, the company signed 12 new management & franchise contracts which added 667 new rooms to the pipeline.

Management Guidance

- The company has guided 15% top line growth for the next 2 years led by better ARR, occupancy or management contract business.
- The company expects robust growth in FY25. Also, Q2FY25 to be better than Q1FY25.
- The Company aiming to reduce crew rooms from current ~13% to ~8-10% levels of total room inventory.
- The company expects three price hikes in near-term period – Oct'25, Jan'26 and Oct'26; Keys rate to grow to ~Rs 4,500+, Red Fox ~Rs 5,000+, Lemon Tree ~Rs 7,000+ and Aurika ~ Rs 10,000+

Exhibit 1: Financial snapshot

Particulars (mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Total revenues	3,273	2,902	12.8	2,527	29.5
Total expenditure	1,558	1,490	4.6	1,128	38.2
EBIDTA	1,715	1,412	21.4	1,399	22.6
EBIDTA margin (%)	52.4	48.7	372bps	55.4	-297bps
Depreciation	334	333	0.2	235	42.0
Interest cost	528	534	(1.2)	452	16.8
Other income	39	7	464.0	20	88.6
PBT	892	552	61.6	732	21.8
Tax	50	118	(57.2)	143	(64.9)
Adj. Net Profit	842	434	93.7	589	42.9
Exceptional Item	-	-	-	1	(100.0)
Minority Interest	(2)	3	-	-	-
Rep. PAT	840	438	91.8	590	42.3
Adj. EPS (INR)	1.1	0.6	91.8	0.7	42.3

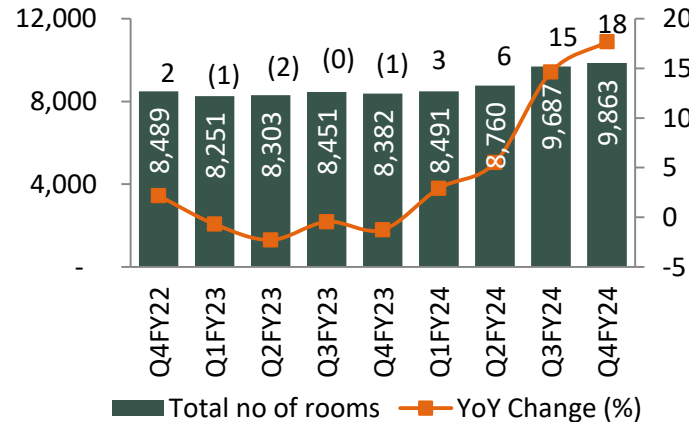
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (mn)	Q4FY24A	Q4FY24E	Variance (%)
Net Sales	3,273	3,237	1.1
EBITDA	1,715	1,586	8.1
<i>EBITDA Margin</i>	<i>52.4</i>	<i>49.0</i>	<i>339bps</i>
Net Profit	840	511	64.4
EPS Rs.	1.1	0.6	64.4

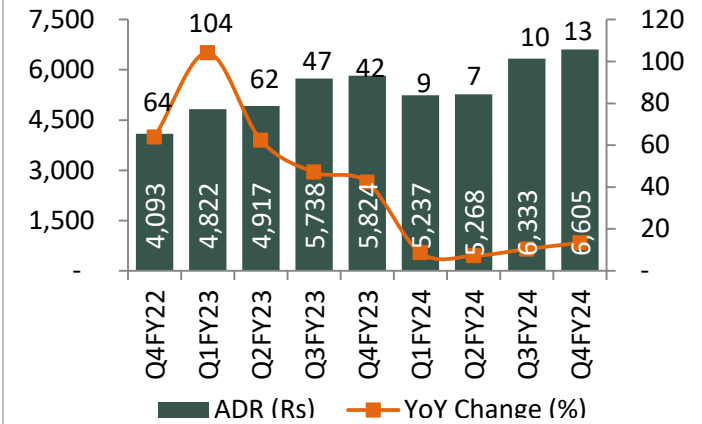
Source: Company; IDBI Capital Research

Exhibit 3: Total no of rooms and YoY change



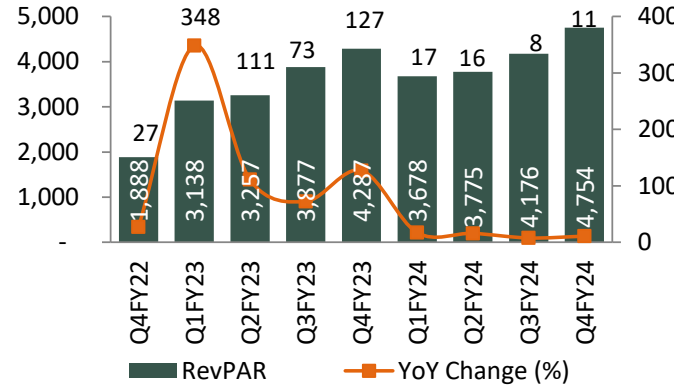
Source: Company, IDBI Capital Research

Exhibit 4: ADR trend



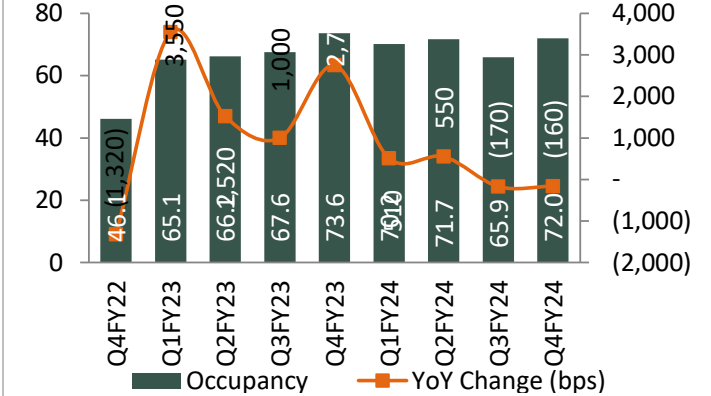
Source: Company, IDBI Capital Research

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	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	2,517	4,022	8,750	10,711	13,975	15,792
<i>Change (yoy, %)</i>	<i>(62.4)</i>	<i>60</i>	<i>118</i>	<i>22</i>	<i>30</i>	<i>13</i>
Operating expenses	(1,904)	(2,836)	(4,274)	(5,479)	(6,886)	(7,598)
EBITDA	613	1,186	4,476	5,232	7,089	8,194
<i>Change (yoy, %)</i>	<i>-74.8</i>	<i>94</i>	<i>277</i>	<i>17</i>	<i>35</i>	<i>16</i>
<i>Margin (%)</i>	<i>24.3</i>	<i>29.5</i>	<i>51.2</i>	<i>48.8</i>	<i>50.7</i>	<i>51.9</i>
Depreciation	(1,076)	(1,044)	(966)	(1,121)	(1,180)	(1,210)
EBIT	(463)	143	3,510	4,111	5,909	6,985
Interest paid	(1,817)	(1,740)	(1,772)	(2,016)	(2,053)	(1,848)
Other income	133	140	36	56	59	62
Pre-tax profit	(2,147)	(1,457)	1,774	2,151	3,916	5,199
Tax	322	72	(377)	(341)	(986)	(1,309)
<i>Effective tax rate (%)</i>	<i>15.0</i>	<i>5.0</i>	<i>21.3</i>	<i>15.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	554.8	509.7	(251.1)	(325.2)	(323.0)	(323.0)
Net profit	(1,271)	(875)	1,146	1,485	2,607	3,568
Exceptional items	-	-	-	-	-	-
Adjusted net profit	(1,271)	(875)	1,146	1,485	2,607	3,568
<i>Change (yoy, %)</i>	<i>1,550.3</i>	<i>(31)</i>	<i>(231)</i>	<i>30</i>	<i>76</i>	<i>37</i>
EPS	(1.6)	(1.1)	1.4	1.9	3.3	4.5
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout (%)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	9,176	8,313	8,537	9,669	12,276	15,844
Share capital	7,904	7,908	7,916	7,918	7,918	7,918
Reserves & surplus	1,272	404	621	1,750	4,358	7,925
Total Debt	15,739	16,987	17,457	18,891	17,108	15,397
Other liabilities	4,708	4,268	4,289	4,476	4,565	4,700
Curr Liab & prov	2,388	1,108	1,443	1,499	1,555	1,644
Current liabilities	2,310	884	1,362	1,407	1,460	1,545
Provisions	78	224	81	92	95	100
Total liabilities	22,835	22,362	23,189	24,866	23,228	21,742
Total equity & liabilities	38,185	36,351	37,323	40,331	41,623	44,027
Net fixed assets	28,131	28,041	29,196	31,391	31,087	30,853
Investments	74	114	73	151	194	258
Other non-curr assets	7,679	6,940	6,701	6,814	7,001	7,175
Current assets	2,302	1,255	1,353	1,974	3,341	5,740
Inventories	72	81	105	138	159	188
Sundry Debtors	308	291	560	715	858	1,012
Cash and Bank	1,411	543	275	537	1,670	3,789
Loans and advances	510	340	414	584	654	752
Total assets	38,185	36,351	37,323	40,331	41,623	44,027

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	(2,147)	(1,457)	1,774	2,151	3,916	5,199
Depreciation	1,076	1,044	966	1,121	1,180	1,210
Tax paid	359	55	(361)	(324)	(986)	(1,309)
Chg in working capital	734	(1,226)	43	(131)	(107)	(94)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	21	(1,583)	2,422	2,817	4,002	5,006
Capital expenditure	(792)	(954)	(2,121)	(3,317)	(876)	(975)
Chg in investments	78	(40)	41	(78)	(43)	(64)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(714)	(994)	(2,080)	(3,395)	(919)	(1,040)
Equity raised/(repaid)	1	4	8	2	0	0
Debt raised/(repaid)	627	1,247	471	1,434	(1,783)	(1,711)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	20	(997)	180	(127)	-	-
Other financing activities	1,048	1,455	(1,269)	(469)	(168)	(137)
Cash flow from financing (c)	1,697	1,709	(610)	841	(1,951)	(1,848)
Net chg in cash (a+b+c)	1,003	(868)	(268)	263	1,133	2,119

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	10.8	10	10	11	15	19
Adj EPS (Rs)	-3.1	-2.4	2.1	1.9	3.3	4.5
Adj EPS growth (%)	1,758.5	-22	-188	30	76	37
EBITDA margin (%)	24.3	29.5	51.2	48.8	50.7	51.9
Pre-tax margin (%)	-85.3	-36.2	20.3	20.1	28.0	32.9
Net Debt/Equity (x)	1.6	2.0	2.0	1.9	1.3	0.7
ROCE (%)	-1.3	0	10	11	15	17
ROE (%)	-25.4	-22	20	16	24	25

DuPont Analysis

Asset turnover (x)	0.1	0.1	0.2	0.3	0.3	0.4
Leverage factor (x)	4.0	4.3	4.4	4.3	3.7	3.0
Net margin (%)	-96.1	-46.8	18.9	13.9	18.7	22.6

Working Capital & Liquidity ratio

Inventory days	10	7	4	5	4	4
Receivable days	45	26	23	24	22	23
Payable days	151	75	57	57	47	45

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	-87.5	-127.0	97.0	74.8	42.6	31.2
Price/Book value (x)	13.0	14.5	14.0	12.3	9.5	7.3
EV/Net sales (x)	49.8	31.7	14.7	12.1	9.1	7.8
EV/EBITDA (x)	204.7	107.6	28.7	24.7	17.9	15.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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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**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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