

Lemon Tree Hotels

HOLD

In-line quarter, healthy earnings growth to continue

Summary

Lemon Tree Hotels Ltd.'s (LTH) Q3FY24 was yet another strong quarterly performance and the result was broadly in-line with our estimates on key parameters. Aurika, Mumbai opened on October 5, 2023 and initial response has been impressive. Further, 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 9 new management and franchise contracts which added 621 new rooms to its pipeline in . We anticipate robust inventory addition through management contract/franchisee to drive sustainable margin improvement in mid-long term. We introduce FY26E and maintain HOLD with a revised TP of Rs156 (earlier Rs129), assigning 17x EV/EBITDA to FY26E.

Key Highlights and Investment Rationale

- Healthy RevPAR growth continued:** LTH's Q3FY24 was the best ever Q3 performance on key parameters. Revenue came in at Rs2,887mn, higher by 23.6% YoY, while EBITDA stood at Rs1,397mn, increased by 10.5% YoY. PAT was at Rs434mn, down by 10.5% YoY. The company reported Gross ARR of Rs6,333 which increased by 10.4% YoY and occupancy was marginally down by 163 bps YoY at 65.9%. This translated into a RevPAR of Rs4,176 which increased by 7.7% YoY.
- Robust earnings growth on the cards, HOLD with a TP of Rs156:** 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. HOLD with a TP of Rs156.

TP	Rs156
CMP	Rs138
Potential upside/downside	13%
Previous Rating	HOLD

Price Performance (%)			
	-1m	-3m	-12m
Absolute	6.8	18.8	77.1
Rel to Sensex	7.6	8.8	58.6

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	1	3	5
Consensus	2	4	5
% difference	(52.7)	(16.1)	10.2

Key Stock Data	
Bloomberg / Reuters	LEMONTRE IN/LEMO.BO
Sector	Hotels
Shares o/s (mn)	792
Market cap. (Rs mn)	109,449
3-m daily avg Trd value(Rs mn)	75.0
52-week high / low	Rs146 / 73
Sensex / Nifty	71,428 / 21,718

Shareholding Pattern (%)	
Promoters	23.2
FII	22.8
DII	14.8
Public	39.2

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,022	8,750	10,587	12,917	15,758
Change (yoy, %)	60	118	21	22	22
EBITDA	1,186	4,476	5,044	6,266	7,770
Change (yoy, %)	94	277	13	24	24
EBITDA Margin(%)	29.5	51.2	47.6	48.5	49.3
Adj.PAT	(1,884)	1,656	1,038	2,649	4,127
EPS (Rs)	(2)	2	1	3	5
Change (yoy, %)	(22.2)	(187.9)	(37.4)	155	56
PE(x)	(57.9)	65.8	105.1	41.2	26.4
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	105.8	28.2	25.2	19.6	15.2
RoE (%)	(21.5)	19.7	11.5	24.3	28.9
RoCE (%)	0.4	9.9	10	12.4	17.2

Source: IDBI Capital Research

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Concall Highlights:

- Revenue, EBITDA and Net sales stood at Rs2909mn, Rs1419mn and Rs438mn, which was higher by 24%, 12% and 10% respectively on a YoY basis.
- Q2FY24 has been the best ever Q2 performance in terms of Gross ARR, Revenue, EBITDA, PBT and PAT for Lemon Tree Hotels.
- Lemon Tree recorded a Gross ARR of Rs6,333 which increased by 10% YoY.
- Occupancy also decreased by 163 bps YoY and by 572 bps QoQ to 66%. This translated into a RevPAR of Rs4,176 which increased by 8% YoY and by 11% QoQ.
- The Net EBITDA margin for the company in Q3FY24 stood at 49% which decreased by 547bps YoY and increased 325bps QoQ mainly owing to planned increase in renovation expenses above that spent in Q3FY23 and deflationary impact of Aurika, Mumbai Skycity which opened on 5th October,2023 and is not yet stable.
- The renovation expense for the portfolio increased by Rs550mn YoY and Rs480mn QoQ which translated into a reduction in EBITDA Margin by 2 percentage points (PP).
- Whereas, the Keys portfolio EBITDA margin decreased by 9 PP QoQ due to an increase in renovation expenses of Rs180mn over the previous quarter.
- Cash Profit stood at Rs771mn in Q3FY24 which was up 3% as compared to the previous quarter.
- Fees from management & franchised contracts for 3rd party owned hotels stood at Rs149mn in Q3FY24 up 52% from Rs98mn YoY. Total management fees for Lemon Tree including fees from Fleur Hotels were up 25% YoY at Rs323mn compared to Rs258mn in the previous quarter
- Hotel led revenue from the owned portfolio increased by 18% YoY to Rs7050mn on a same store basis while, the Managed and Franchised hotels for Lemon Tree increased by 19% YoY to Rs4230mn for 9MFY24.
- As of 31st December 2023, their operational inventory comprised 100 hotels with 9,687 rooms and the pipeline comprised 55 hotels with 3,746 rooms.

- The occupancy at Aurika, Mumbai stood at 40% for Q3FY24 and is already at 60% for Q4FY24.
- The debt for the quarter stood at Rs9500mn and management guides a significant reduction in debt to EBITDA ratio in the coming 3 years.
- During the quarter, the company signed 9 new management & franchise contracts which added 621 new rooms to the pipeline and operationalized 6 hotels which added 967 rooms to the portfolio.
- The resort under development in Shimla which will be 100% owned and has 69 keys with a Rs270mn investment incurred will be under the brand name Aurika.
- As for opening of inventory in pipeline of managed & franchised contracts are 9 hotels for FY24, 21 hotels for FY25, 13 hotels for FY26, 6 hotels for FY27 and 5 hotels yet to be announced which total rooms in the pipeline as 3,677.
- The management's focus on cost optimization led to an expansion in EBITDA Margin.
- Employee benefit cost increased to 17% of the total revenue up by 55bps from last quarter.
- With renovation expenses and employee payroll costs consisting significantly higher as compared to same quarter previous year accounted for an increase of 2.4% of the revenue for the quarter.
- Company is focusing on investing significantly in renovating the hotels, especially in the near future, and has guided the capital expenditure expenses for FY25 at Rs1000mn and Rs500mn for FY26.
- With the renovation expenses for FY24 already at Rs400mn. As of today there are 300 rooms undergoing renovation from the inventory.
- Total capital expenditure for specifically renovation incurred for 9MFY24 is Rs400mn.
- With no major capital expenditure plans in the near future, the management has guided focus on strengthening the balance sheet and by starting next year reducing the debt which will peak by the end of FY24.
- The management is highly optimistic about robust ARR growth moving ahead.
- The management anticipates a 20% increase in revenue contribution from Aurika, Mumbai alone.

Exhibit 1: Financial snapshot

Particulars (mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Total revenues	2,887	2,272	27.1	2,335	23.6
Total expenditure	1,490	1,253	18.9	1,071	39.1
EBIDTA	1,397	1,019	37.2	1,265	10.5
EBIDTA margin (%)	48.4	44.8	357bps	54.2	-575bps
Depreciation	333	226	47.5	236	41.5
Interest cost	534	473	12.7	460	16.0
Other income	22	29	(25.5)	21	4.6
PBT	552	348	58.4	590	(6.4)
Tax	118	86	35.9	106	10.7
Adj. Net Profit	434	262	65.9	484	(10.2)
Exceptional Item	-	-	-	2	(100.0)
Minority Interest	3	2	-	-	-
Rep. PAT	438	264	66.0	486	(9.9)
Adj. EPS (INR)	0.6	0.3	66.0	0.6	(9.9)

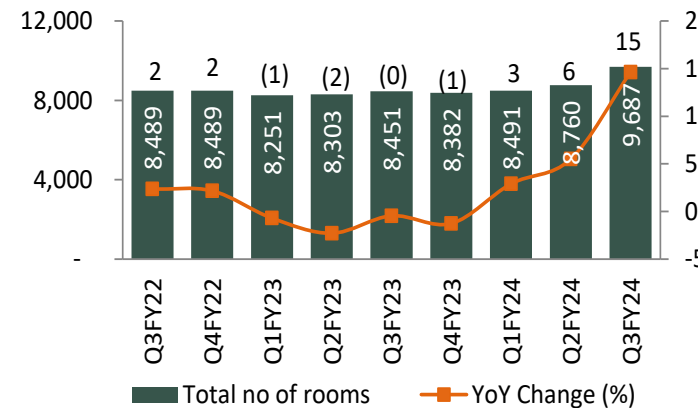
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (mn)	Q3FY24A	Q3FY24E	Variance (%)
Net Sales	2,887	2,723	6.0
EBITDA	1,397	1,279	9.3
<i>EBITDA Margin</i>	<i>48.4</i>	<i>46.9</i>	<i>146bps</i>
Net Profit	438	452	(3.0)
EPS Rs.	0.6	0.6	(3.0)

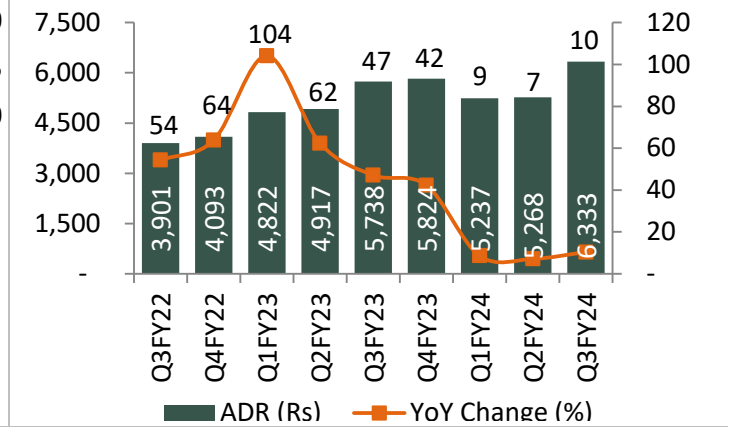
Source: Company; IDBI Capital Research

Exhibit 3: Total no of rooms and YoY change



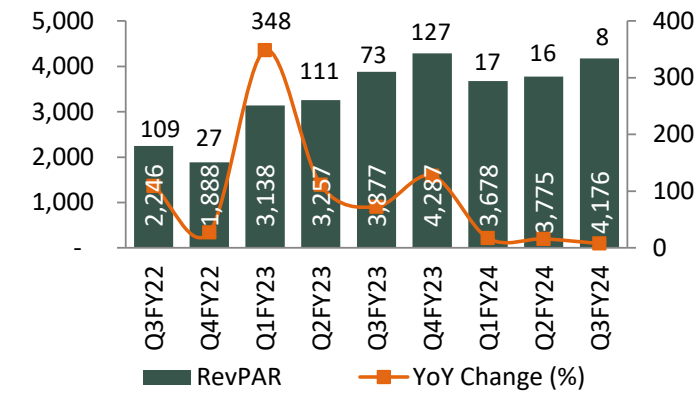
Source: Company, IDBI Capital Research

Exhibit 4: ADR trend



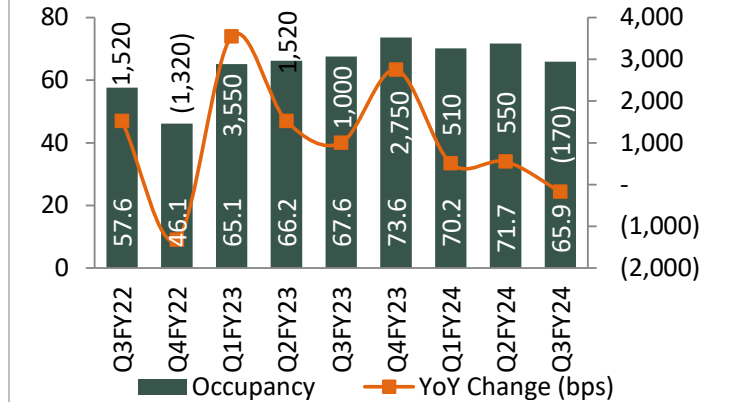
Source: Company, IDBI Capital Research

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	FY24E	FY25E	FY26E
Net sales	2,517	4,022	8,750	10,587	12,917	15,758
<i>Change (yoy, %)</i>	<i>(62.4)</i>	<i>60</i>	<i>118</i>	<i>21</i>	<i>22</i>	<i>22</i>
Operating expenses	(1,904)	(2,836)	(4,274)	(5,543)	(6,651)	(7,988)
EBITDA	613	1,186	4,476	5,044	6,266	7,770
<i>Change (yoy, %)</i>	<i>-74.8</i>	<i>94</i>	<i>277</i>	<i>13</i>	<i>24</i>	<i>24</i>
<i>Margin (%)</i>	<i>24.3</i>	<i>29.5</i>	<i>51.2</i>	<i>47.6</i>	<i>48.5</i>	<i>49.3</i>
Depreciation	(1,076)	(1,044)	(966)	(1,210)	(1,245)	(1,271)
EBIT	(463)	143	3,510	3,835	5,021	6,499
Interest paid	(1,817)	(1,740)	(1,772)	(2,542)	(1,581)	(1,090)
Other income	133	140	36	107	113	118
Pre-tax profit	(2,147)	(1,457)	1,774	1,400	3,553	5,527
Tax	322	72	(377)	(352)	(894)	(1,391)
<i>Effective tax rate (%)</i>	<i>15.0</i>	<i>5.0</i>	<i>21.3</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	(594.7)	(499.3)	259.8	(10.0)	(10.0)	(9.0)
Net profit	(2,420)	(1,884)	1,656	1,038	2,649	4,127
Exceptional items	-	-	-	-	-	-
Adjusted net profit	(2,420)	(1,884)	1,656	1,038	2,649	4,127
<i>Change (yoy, %)</i>	<i>1,758.8</i>	<i>(22)</i>	<i>(188)</i>	<i>(37)</i>	<i>155</i>	<i>56</i>
EPS	(3.1)	(2.4)	2.1	1.3	3.4	5.2
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	FY24E	FY25E	FY26E
Shareholders' funds	9,176	8,313	8,537	9,575	12,223	16,351
Share capital	7,904	7,908	7,916	7,916	7,916	7,916
Reserves & surplus	1,272	404	621	1,659	4,307	8,435
Total Debt	15,739	16,987	17,457	23,111	15,810	10,900
Other liabilities	4,708	4,268	4,289	4,331	4,417	4,548
Curr Liab & prov	2,388	1,108	1,443	1,489	1,548	1,641
Current liabilities	2,310	884	1,362	1,403	1,460	1,548
Provisions	78	224	81	85	88	93
Total liabilities	22,835	22,362	23,189	28,930	21,775	17,089
Total equity & liabilities	38,185	36,351	37,323	44,112	39,615	39,065
Net fixed assets	28,131	28,041	29,196	30,813	28,810	27,937
Investments	74	114	73	78	87	100
Other non-curr assets	7,679	6,940	6,701	7,005	7,224	7,428
Current assets	2,302	1,255	1,353	6,216	3,495	3,601
Inventories	72	81	105	118	136	160
Sundry Debtors	308	291	560	661	793	935
Cash and Bank	1,411	543	275	4,982	2,058	1,920
Loans and advances	510	340	414	455	509	585
Total assets	38,185	36,351	37,323	44,112	39,615	39,065

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	(2,147)	(1,457)	1,774	1,400	3,553	5,527
Depreciation	1,076	1,044	966	1,210	1,245	1,271
Tax paid	359	55	(361)	(352)	(894)	(1,391)
Chg in working capital	734	(1,226)	43	(68)	(90)	(75)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	21	(1,583)	2,422	2,189	3,813	5,332
Capital expenditure	(792)	(954)	(2,121)	(2,827)	759	(398)
Chg in investments	78	(40)	41	(5)	(9)	(13)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(714)	(994)	(2,080)	(2,832)	751	(411)
Equity raised/(repaid)	1	4	8	0	0	0
Debt raised/(repaid)	627	1,247	471	5,653	(7,301)	(4,910)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	20	(997)	180	-	-	-
Other financing activities	1,048	1,455	(1,269)	(302)	(187)	(149)
Cash flow from financing (c)	1,697	1,709	(610)	5,351	(7,488)	(5,059)
Net chg in cash (a+b+c)	1,003	(868)	(268)	4,708	(2,925)	(138)

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	10.8	10	10	11	15	20
Adj EPS (Rs)	-3.1	-2.4	2.1	1.3	3.4	5.2
Adj EPS growth (%)	1,758.5	-22	-188	-37	155	56
EBITDA margin (%)	24.3	29.5	51.2	47.6	48.5	49.3
Pre-tax margin (%)	-85.3	-36.2	20.3	13.2	27.5	35.1
Net Debt/Equity (x)	1.6	2.0	2.0	1.9	1.1	0.5
ROCE (%)	-1.3	0	10	10	12	17
ROE (%)	-25.4	-22	20	11	24	29

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	4.5	3.8	2.8
Net margin (%)	-96.1	-46.8	18.9	9.8	20.5	26.2

Working Capital & Liquidity ratio

Inventory days	10	7	4	4	4	4
Receivable days	45	26	23	23	22	22
Payable days	151	75	57	45	39	34

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	-45.1	-57.9	65.8	105.1	41.2	26.4
Price/Book value (x)	12.8	14.2	13.8	12.2	9.4	6.9
EV/Net sales (x)	49.0	31.2	14.4	12.0	9.5	7.5
EV/EBITDA (x)	201.4	105.8	28.2	25.2	19.6	15.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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