Lemon Tree Hotels — BUY

Operating margin disappointed

TP	Rs150
CMP	Rs126
Potential upside/downside	19%
Previous Rating	BUY

Key Stock Data

Bloomberg / Reuters	LEMONTRE IN/LEMO.BO
Sector	Hotels
Shares o/s (mn)	792
Market cap. (Rs mn)	99,942
3-m daily avg Trd value(Rs mn)	43.6
52-week high / low	Rs158 / 93
Sensex / Nifty	78,886 / 24,117

Price Performance (%)

	-1m	-3m	-12m
Absolute	(14.2)	(17.1)	33.2
Rel to Sensex	(12.8)	(24.5)	13.4

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	2.8	4.0
Consensus	3.3	4.5
% difference	*(14.1)*	*(11.1)*

Shareholding Pattern (%)

Promoters	22.8
FII	27.6
DII	14.8
Public	34.8

Summary

Lemon Tree Hotels Ltd.'s (LTH) Q1FY25 net sales and EBTDA were in-line with our estimates while PAT was disappointed. Despite increase in RevPAR on YoY, margins were impacted due to renovation expenses as well as increase in sales and marketing and payroll increase expenses. The quarterly performance was also marred by lower operational inventory as 25% of Keys inventory was shut down for renovation. The management aims to complete renovation by FY26 post-which, ~5,800 rooms to be fully functional with increased ARR by ~Rs2,000. The company is optimistic on Aurika portfolio H2FY25 to be 2x of H1FY25; expecting Aurika MIAL's actual potential to start reflecting starting Q3FY25. We have cut our net sales/EBITDA estimates by 2%/2% and 8%/7% over FY25E/FY26E. Maintain BUY with a revised TP of Rs150 (earlier Rs162), assigning 17x EV/EBITDA to FY26E.

Key Highlights and Investment Rationale

- **Good performance on operating metrics, cost escalation dented margins:** Despite lesser operational inventory due to renovation of 25% of Keys portfolio, the company witnessed 10% YoY increase in ARR to Rs5,686. Also, RevPAR grew by 4% YoY to Rs3,788. Occupancy was down by 360bps YoY to 66.6%. Revenue came in at Rs2,680mn, higher by 21% YoY, while EBITDA stood at Rs1,151mn, increased by 10% YoY. PAT was at Rs201mn, down by 27% YoY.

- **Revival in margins to be visible from FY26E, BUY with a TP of Rs150:** 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. Further, the managements' robust outlook on inventory addition and balance sheet strengthening through debt repayment is encouraging. Though FY25E will see challenges on margins front due to cost escalation, we expect revival in margins from FY26E. BUY with a TP of Rs150.

Financial snapshot (Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,022	8,750	10,711	13,764	15,553
Change (yoy, %)	*60*	*118*	*22*	28	13
EBITDA	1,186	4,476	5,232	6,569	7,684
Change (yoy, %)	*94*	*277*	*17*	26	17
EBITDA Margin(%)	*29.5*	*51.2*	*48.8*	47.7	49.4
Adj.PAT	(1,884)	1,656	1,485	2,218	3,186
EPS (Rs)	(2)	2	*2*	2.8	4.0
Change (yoy, %)	*(22.2)*	*(187.9)*	*29.6*	*49*	44
PE(x)	*(113.8)*	*86.9*	*67.1*	*44.9*	*31.3*
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	*97.8*	*26.1*	*22.5*	*17.6*	*14.6*
RoE (%)	(10.0)	13.6	16.3	20.6	*23.6*
RoCE (%)	0.4	9.9	11	13.7	*15.9*

Source: IDBI Capital Research

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Concall Highlights:

Industry:

- The management is seeing the structural shift in the demand of the hotel industry led by increased per capita income, increase in SUV car sales, and decrease in the travelling time from one city to another.

Operating Performance:

- Lemon Tree witnessed 10% YoY increase in ARR to Rs 5,686. Also, RevPAR grew by 4% YoY to Rs3,788.
- Total 5,800 rooms of which, ~700 rooms shut during the quarter along with ~25% of Keys portfolio.
- Aurika MIAL ARR stood at ~Rs 8,900; excl. Aurika MIAL, ARR stood at ~Rs 5,400, ~3% YoY growth
- The F&B cost usually constitute ~30% of the top-line. However, Q1FY25 witnessed lower banquet events leading to high F&B cost.
- The sales team has increased by 50% in last 3 months and business development team grew by 4x.
- During the quarter, the margins were impacted (~2.5% due to renovation and 2.2% due to increase in sales and marketing and payroll increase expenses)

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 Rs1 bn each for FY26.

Aurika

- Crew-base rooms declined from ~200 rooms in Q3FY24 to ~115 in Q1FY25, to further reduce to ~100 in Q2FY25 for reducing dependency on crew due to higher seasonality in airline sector and increase in the retail demand. So out of the 669 rooms, 200 rooms will be for retail customers, 200 for corporates and remaining will be for other occasions and crew.
- Company expecting higher contribution from corporate and retail segments along with uptick in MICE events

- Company is optimistic on Aurika portfolio H2FY25 to be 2x of H1FY25; expecting Aurika MIAL's actual potential to start reflecting starting Q3FY25. Aurika MIAL ARR stood at ~Rs 8,900 in Q1FY25.
- The management has guided that they are having plans to launch more Aurika hotels in near future.

Hyderabad region

- In Hyderabad, out of ~660 rooms, ~80-90 rooms shut due to ongoing renovation; planning shutdown of ~20% inventory due to renovation which has lead weak occupancy in the region.

Keys Portfolio

- The Keys portfolio 25% of the inventory was shut down due which led to EBITDA margin decreased by 10% YoY due to renovation.
- Keys Pune functioning at ~100% occupancy (at ~70% inventory levels) and 25% YoY growth in ARR; margin impact due to higher fixed costs
- Post-renovation, expecting overall portfolio rates to growth ~15-20% YoY compared to pre-COVID levels

Debt and Renovation

- The company has guided utilization of FCF in FY25 and FY26: renovation (1/5th of inventory to be renovated every year during summer quarters) and debt reduction (winter quarters)
- The company expects to be debt free by the end of FY29.
- Renovation expenses expected to continue till FY26 post-which, expenses would be ~1.5-1.6% of topline
- Management aims to complete renovation by FY26 post-which, ~5,800 rooms to be fully functional with increased ARR by ~Rs2,000

Management Guidance

- The company is expecting to achieve Rs 12.5bn+ revenue in FY25E.
- The Company continues to aim for ~5,000 owned rooms and ~14,000 managed by FY27.

Exhibit 1: Financial snapshot

Particulars (mn)	Q1FY25	Q4FY24	*QoQ (%)*	Q1FY24	*YoY (%)*
Total revenues	**2,680**	**3,273**	***(18)***	**2,223**	***21***
Total expenditure	1,530	1,558	*(2)*	1,178	*30*
EBIDTA	**1,151**	**1,715**	***(32.9)***	**1,045**	***10***
EBIDTA margin (%)	***43***	***52***	***-946bps***	***47***	***-408bps***
Depreciation	346	334	*4*	228	*52*
Interest cost	517	528	*(2)*	492	*5*
Other income	4	39	*(91)*	34	*(90)*
PBT	291	892	*(67)*	359	*(19)*
Tax	91	50	*81*	87	*5*
Adj. Net Profit	**200**	**842**	***(76)***	**272**	***(26)***
Exceptional Item	-	-	-	1	*(100.0)*
Minority Interest	1	(2)	*(178)*	-	-
Rep. PAT	**201**	**840**	***(76)***	**275**	***(27)***
Adj. EPS (INR)	0.3	1	*(76)*	0	*(27)*

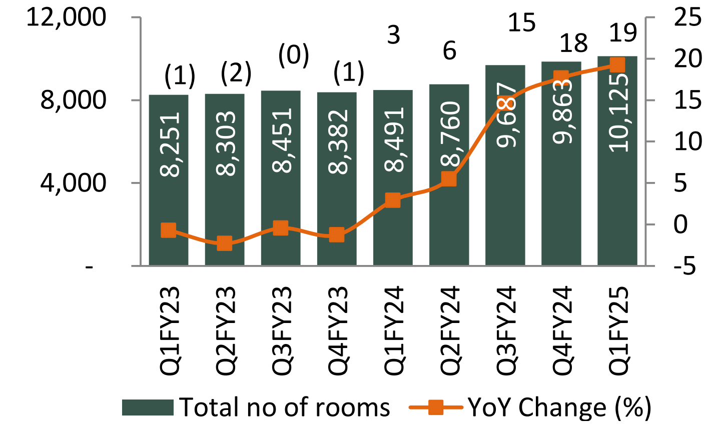
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (mn)	Q1FY25A	Q1FY25E	*Variance (%)*
Net Sales	**2,680**	**2,633**	**2**
EBITDA	**1,151**	**1,185**	***(3)***
EBITDA Margin	*42.9*	*45.0*	*-207bps*
Net Profit	**201**	**269**	***(25)***
EPS Rs.	0.3	0.3	*(25)*

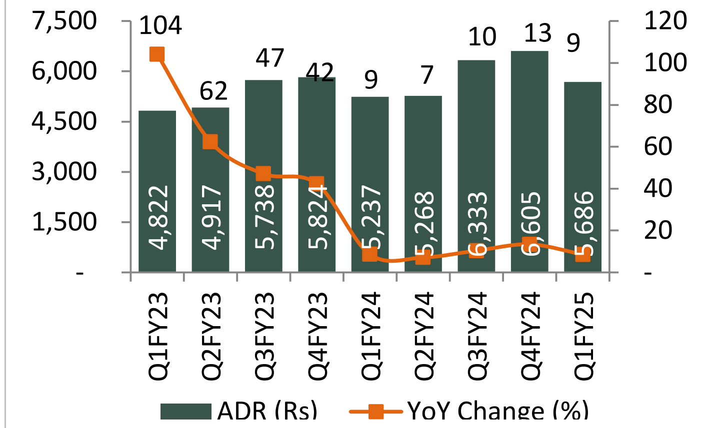
Source: Company; IDBI Capital Research

Exhibit 3: Total no of rooms and YoY change



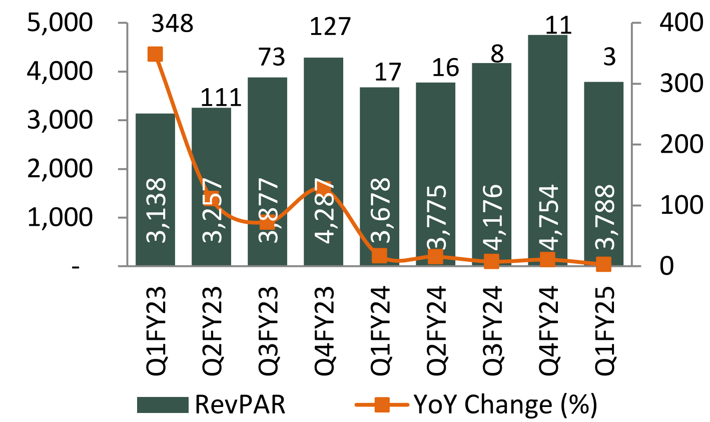
Source: Company, IDBI Capital Research

Exhibit 4: ADR trend



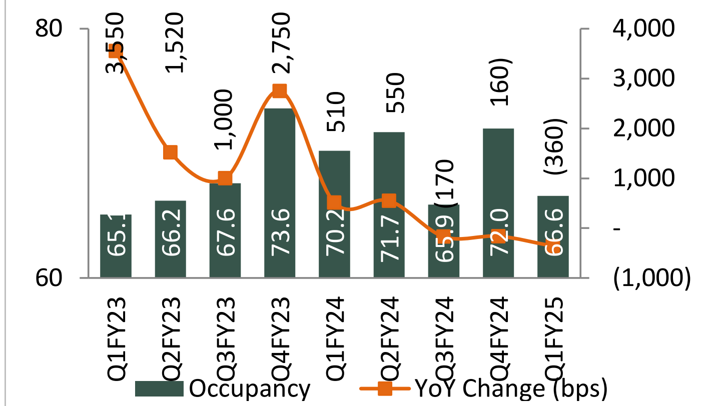
Source: Company, IDBI Capital Research

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**	**13,764**	**15,553**
Change (yoy, %)	*(62.4)*	*60*	*118*	*22*	*28*	*13*
Operating expenses	(1,904)	(2,836)	(4,274)	(5,479)	(7,195)	(7,869)
EBITDA	**613**	**1,186**	**4,476**	**5,232**	**6,569**	**7,684**
Change (yoy, %)	*-74.8*	*94*	*277*	*17*	*26*	*17*
Margin (%)	*24.3*	*29.5*	*51.2*	*48.8*	*47.7*	*49.4*
Depreciation	(1,076)	(1,044)	(966)	(1,121)	(1,180)	(1,210)
EBIT	**(463)**	**143**	**3,510**	**4,111**	**5,389**	**6,474**
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**	**3,396**	**4,689**
Tax	322	72	(377)	(341)	(855)	(1,180)
Effective tax rate (%)	*15.0*	*5.0*	*21.3*	*15.9*	*25.2*	*25.2*
Minority Interest	554.8	509.7	(251.1)	(325.2)	(323.0)	(323.0)
Net profit	**(1,271)**	**(875)**	**1,146**	**1,485**	**2,218**	**3,186**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**(1,271)**	**(875)**	**1,146**	**1,485**	**2,218**	**3,186**
Change (yoy, %)	*1,550.3*	*(31)*	*(231)*	*30*	*49*	*44*
EPS	(1.6)	(1.1)	1.4	1.9	2.8	4.0
Dividend per sh	-	-	-	-	-	-
Dividend Payout (%)	-	-	-	-	-	-

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	**9,176**	**8,313**	**8,537**	**9,669**	**11,887**	**15,072**
Share capital	7,904	7,908	7,916	7,918	7,918	7,918
Reserves & surplus	1,272	404	621	1,750	3,968	7,154
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**	**41,234**	**43,256**
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**	**2,951**	**4,969**
Inventories	72	81	105	138	159	188
Sundry Debtors	308	291	560	715	858	1,012
Cash and Bank	1,411	543	275	537	1,281	3,018
Loans and advances	510	340	414	584	654	752
Total assets	**38,185**	**36,351**	**37,323**	**40,331**	**41,234**	**43,256**

IDBI capital

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	3,396	4,689
Depreciation	1,076	1,044	966	1,121	1,180	1,210
Tax paid	359	55	(361)	(324)	(855)	(1,180)
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**	**3,613**	**4,624**
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 monorities	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**	**744**	**1,737**

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	10.8	10	10	11	14	18
Adj EPS (Rs)	*-3.1*	*-2.4*	*2.1*	*1.9*	*2.8*	*4.0*
Adj EPS growth (%)	*1,758.5*	*-22*	*-188*	*30*	*49*	*44*
EBITDA margin (%)	*24.3*	*29.5*	*51.2*	*48.8*	*47.7*	*49.4*
Pre-tax margin (%)	*-85.3*	*-36.2*	*20.3*	*20.1*	*24.7*	*30.1*
Net Debt/Equity (x)	*1.6*	*2.0*	*2.0*	*1.9*	*1.3*	*0.8*
ROCE (%)	*-1.3*	*0*	*10*	*11*	*14*	*16*
ROE (%)	*-25.4*	*-22*	*20*	*16*	*21*	*24*
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	3.8	3.1
Net margin (%)	*-96.1*	*-46.8*	*18.9*	*13.9*	*16.1*	*20.5*
Working Capital & Liquidity ratio						
Inventory days	10	7	4	5	4	4
Receivable days	45	26	23	24	23	24
Payable days	151	75	57	57	45	43

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	-78.4	-113.8	86.9	67.1	44.9	31.3
Price/Book value (x)	11.6	13.0	12.6	11.0	8.8	6.9
EV/Net sales (x)	45.3	28.8	13.3	11.0	8.4	7.2
EV/EBITDA (x)	185.9	97.8	26.1	22.5	17.6	14.6
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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