

Lemon Tree Hotels

BUY

Best ever quarterly performance

Summary

Lemon Tree Hotels Ltd.'s (LTH) Q3FY23 result was broadly in-line with our estimate on net sales front, while margins were beat. Healthy improvement in ARR and occupancies resulted in higher net sales, while the management's prudent take on cost optimization led to the best ever quarterly operating margin. The management guided that the outperformance will continue in near term given LTH has lined up inventory addition on management contract (100% flow through EBITDA) and continuation of higher ARR and occupancies. Net sales increased by 63% YoY to Rs2,335mn, while EBITDA came in at Rs1,265mn, a robust growth of 100% YoY. The company reported net profit of Rs400mn compared to net loss of Rs19mn in Q3FY22. We have introduced FY25E estimates in this report. Maintain BUY a revised TP of Rs110, assigning 15x EV/EBITDA to FY25E.

Key Highlights and Investment Rationale

- Robust quarter on all operational parameters:** LTH continued its outperformance in Q3FY23 as it reported both YoY /QoQ improvement in ARR and occupancies. Gross ARR improved by 17% QoQ to Rs5,738, while occupancy was up by 140bps over Q2FY23 to 67.6%. In Q3FY23 company signed 7 new hotels in Thekaddy, Haridwar, Jamshedpur, Dehradun, Chandausi ,Banswara and Tejpur and it operationalized 2 Lemon tree hotels and Keys Lite in Vishakhapatnam in Q3FY23.
- Outlook remains positive, 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****CMP Rs78**

Potential upside/downside 42%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.6)	(14.8)	60.9
Rel to Sensex	(2.9)	(12.6)	57.0

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	1.0	2.3	3.8
Consensus	1.3	2.0	3.1
% difference	(25.9)	14.1	21.5

Key Stock Data

Bloomberg / Reuters	LEMONTRE IN/LEMO.BO
Sector	Hotels
Shares o/s (mn)	792
Market cap. (Rs mn)	61,518
3-m daily avg Trd value(Rs mn)	48.8
52-week high / low	Rs103 / 45
Sensex / Nifty	60,432 / 17,771

Shareholding Pattern (%)

Promoters	23.6
FII	26.8
DII	9.8
Public	39.8

Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,517	4,022	8,399	10,205	12,348
Change (yoy, %)	(62)	60	109	22	21
EBITDA	613	1,186	4,202	5,358	6,656
Change (yoy, %)	(75)	94	254	28	24
EBITDA Margin(%)	24.3	29.5	50.0	52.5	53.9
Adj.PAT	(2,460)	(1,873)	797	1,856	2,979
EPS (Rs)	(3.1)	(2.4)	1.0	2.3	3.8
Change (yoy, %)	1,789.2	(23.8)	(142.5)	132.9	60.5
PE(x)	(24.9)	(32.7)	77.0	33.0	20.6
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	123.5	65.6	18.3	14.4	11.1
RoE (%)	(25.8)	(21.4)	9.1	18.5	23.9
RoCE (%)	(1.3)	0.4	7.9	10.3	13.7

Source: IDBI Capital Research

Concall Highlights:

- Q3 FY23 has been the best-ever quarter for the company. Revenue was up by 63% YoY & 19% QoQ to Rs 2,335 mn. EBITDA was up by 100% YoY & 35% QoQ to Rs1,265mn
- EBITDA margin stood at 54% increased by 1010bps YoY & 656bps QoQ . Increased margins were led by a strong focus on cost optimization. In Q3 Total expenses as % of revenue were 46% decreased by 1,265bps compared to the pre-covid level of 59%.
- Company has 8,451 rooms in 88 hotels till date & 2,789 rooms in 34 hotels under the pipeline which is expected to be completed by FY2025.
- Company mentioned that it is currently focusing on accelerating the growth in the management and franchised portfolio, further improving its Gross ARR and Occupancy in the LTH portfolio.
- In Q3FY23 Occupancy stood at +67.6% up by +1000bps YoY. ADR in Q3FY23 stood at Rs5,378 up by +47% YoY. RevPAR in Q3FY23 stood at Rs3,877 up by +73% YoY.
- Company mentioned in FY23 it will sign 26 new hotels with 1400 rooms, and in FY24 35 hotels with 2000 rooms, and will open 23 managed hotels with about 1500 rooms.
- Fees from managed hotels in 9M FY23 stood at RS25.1 cr up by 94% vs 9M FY20.
- Total estimated cost for Aurika, Mumbai international airport & Lemon tree mountain Resort, Shimla is around Rs 1,006cr. Aurika is expected to be completed by CY23.
- Management is optimistic that it will generate enough cash in the quarter to fund the Aurika project.
- In Q4 company will focus to increase group occupancy to over 75% and occupancy for the lemon tree will be around 80% and ARR will be higher than Q3FY23.
- Company mentioned in FY23 it will sign 26 new hotels with 1400 rooms, and in FY24 35 hotels with 2000 rooms, and will open 23 managed hotels with 1500 rooms.
- Management guided Net EBITDA margin expected to be significantly over 50% in the next quarter and certainly will have double the Net income compared to last year.

Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Total revenues	2,335	1,967	19	1,437	63
Total expenditure	1,071	1,031	4	804	33
EBIDTA	1,265	936	35.1	632.8	100
<i>EBIDTA margin (%)</i>	<i>54.2</i>	<i>48</i>	<i>655.9bps</i>	<i>44.1</i>	<i>1010.2bps</i>
Depreciation	236	250	(6)	254	(7)
Interest cost	445	446	(0)	438	2
Other income	6	7	(22)	24	(76)
Exceptional Item	-	-	N/A	-	N/A
PBT	590	247	139	(36)	NA
Tax	106	56	89	20	428
Adj. Net Profit	484	191	153	(56)	NA
Share of Associates	2.2	2.5	(10)	4	(38)
Minority Interest	(86)	(26)	233	33	NA
Rep. PAT	400	168	138	(19)	NA
Adj. EPS (INR)	0.51	0.21	138	(0.02)	NA

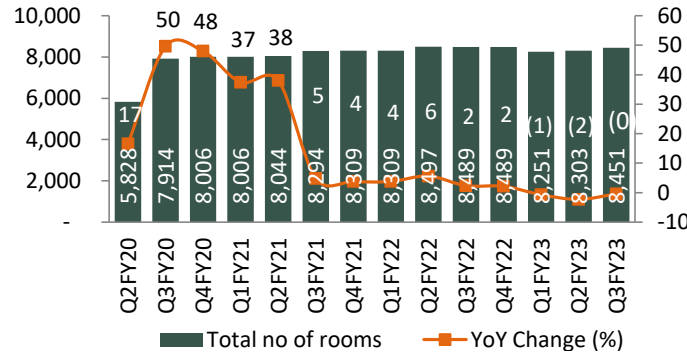
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Estimates

Particulars (Rs mn)	Q3FY23A	Q3FY23E	Variance (%)
Net Sales	2,335	2,212	6
EBITDA	1,265	1,100	15
<i>EBITDA Margin (%)</i>	<i>54.2</i>	<i>49.8</i>	<i>440bps</i>
Net Profit	400	311	29
EPS Rs	0.5	0.4	29

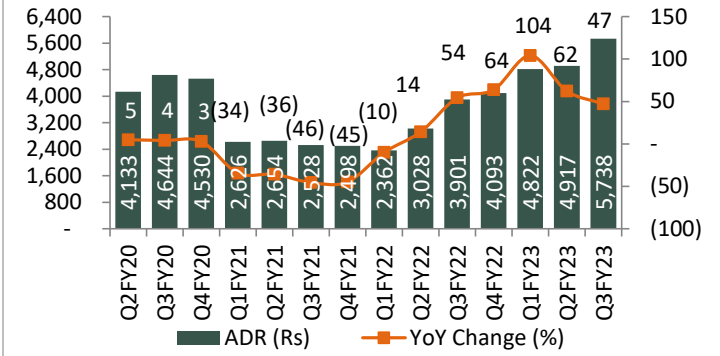
Source: Company; IDBI Capital Research

Exhibit 3: Total no of rooms and YoY change



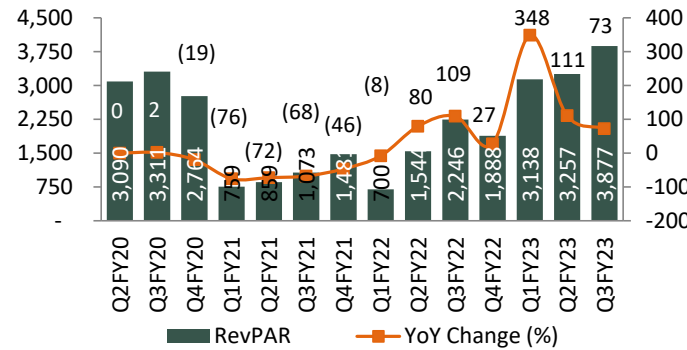
Source: Company, IDBI Capital Research

Exhibit 4: ADR trend



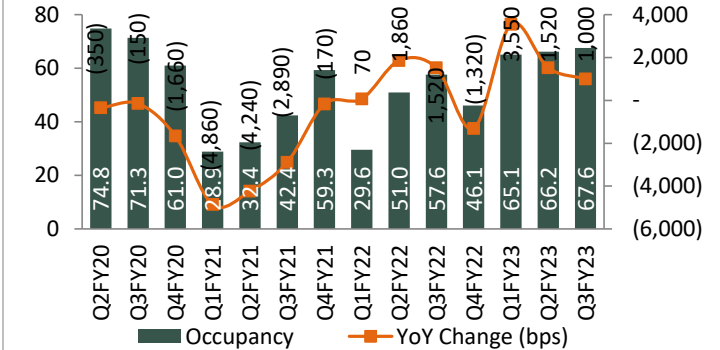
Source: Company, IDBI Capital Research

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	FY23E	FY24E	FY25E
Net sales	6,694	2,517	4,022	8,399	10,205	12,348
<i>Change (yoy, %)</i>	21.8	(62.4)	59.8	108.8	21.5	21.0
Operating expenses	(4,260)	(1,904)	(2,836)	(4,198)	(4,847)	(5,692)
EBITDA	2,434	613	1,186	4,202	5,358	6,656
<i>Change (yoy, %)</i>	44.2	-74.8	93.6	254.2	27.5	24.2
<i>Margin (%)</i>	36.4	24.3	29.5	50.0	52.5	53.9
Depreciation	(922)	(1,076)	(1,044)	(1,328)	(1,488)	(1,568)
EBIT	1,512	(463)	143	2,874	3,870	5,088
Interest paid	(1,565)	(1,817)	(1,740)	(1,869)	(1,437)	(1,156)
Other income	58	133	140	126	114	114
Pre-tax profit	5	(2,147)	(1,457)	1,132	2,547	4,046
Tax	(109)	322	72	(285)	(641)	(1,018)
<i>Effective tax rate (%)</i>	2,131.4	15.0	5.0	25.2	25.2	25.2
Minority Interest	(26.6)	(634.7)	(488.9)	(50.0)	(50.0)	(49.0)
Net profit	(130)	(2,460)	(1,873)	797	1,856	2,979
Exceptional items	-	-	-	-	-	-
Adjusted net profit	(130)	(2,460)	(1,873)	797	1,856	2,979
<i>Change (yoy, %)</i>	(124.6)	1,789.5	(23.8)	(142.5)	132.9	60.5
EPS	(0.2)	(3.1)	(2.4)	1.0	2.3	3.8
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-	-

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' funds	9,889	9,176	8,313	9,109	10,965	13,944
Share capital	7,903	7,904	7,908	7,908	7,908	7,908
Reserves & surplus	1,986	1,272	404	1,201	3,057	6,036
Total Debt	15,112	15,739	16,987	18,685	15,962	12,842
Other liabilities	4,619	4,708	4,268	4,352	4,396	4,483
Curr Liab & prov	2,448	2,388	1,108	1,173	1,211	1,254
Current liabilities	2,382	2,310	884	928	953	988
Provisions	67	78	224	246	258	267
Total liabilities	22,180	22,835	22,362	24,211	21,569	18,579
Total equity & liabilities	37,627	38,185	36,351	39,047	38,311	38,349
Net fixed assets	34,967	34,337	33,460	34,396	36,357	35,961
Investments	152	74	114	122	134	152
Other non-curr assets	483	1,472	1,521	608	730	818
Current assets	2,025	2,302	1,255	3,919	1,089	1,418
Inventories	82	72	81	93	105	120
Sundry Debtors	503	308	291	334	394	473
Cash and Bank	408	1,411	543	3,121	183	369
Loans and advances	640	50	4	4	5	5
Total assets	37,627	38,185	36,351	39,047	38,311	38,349

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	5	(2,147)	(1,457)	1,132	2,547	4,046
Depreciation	922	1,076	1,044	1,328	1,488	1,568
Tax paid	95	359	55	(285)	(641)	(1,018)
Chg in working capital	351	734	(1,226)	10	(34)	(51)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	1,373	21	(1,583)	2,184	3,359	4,544
Capital expenditure	(13,237)	(446)	(167)	(2,264)	(3,448)	(1,172)
Chg in investments	222	78	(40)	(8)	(12)	(17)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(13,015)	(368)	(207)	(2,272)	(3,460)	(1,189)
Equity raised/(repaid)	10	1	4	0	0	0
Debt raised/(repaid)	3,753	627	1,247	1,699	(2,723)	(3,121)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	1,210	(20)	(986)	-	-	-
Other financing activities	6,763	742	657	967	(115)	(48)
Cash flow from financing (c)	11,736	1,351	922	2,666	(2,838)	(3,169)
Net chg in cash (a+b+c)	94	1,003	(869)	2,578	(2,938)	186

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	11.7	10.8	9.7	10.7	13.1	16.8
Adj EPS (Rs)	-0.2	-3.1	(2.4)	1.0	2.3	3.8
Adj EPS growth (%)	-124.6	1,789.2	(23.8)	(142.5)	132.9	60.5
EBITDA margin (%)	36.4	24.3	29.5	50.0	52.5	53.9
Pre-tax margin (%)	0.1	-85.3	(36.2)	13.5	25.0	32.8
Net Debt/Equity (x)	1.5	1.6	2.0	1.7	1.4	0.9
ROCE (%)	5.1	-1.3	0.4	7.9	10.3	13.7
ROE (%)	-1.4	-25.8	(21.4)	9.1	18.5	23.9

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	4.3	3.9	3.1
Net margin (%)	-1.9	-97.7	(46.6)	9.5	18.2	24.1

Working Capital & Liquidity ratio

Inventory days	4	10.5	7	4	4	4
Receivable days	27	44.7	26	15	14	14
Payable days	72	150.9	75	53	47	41

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	-471.0	-24.9	(32.7)	77.0	33.0	20.6
Price/Book value (x)	6.6	7.2	8.0	7.2	5.9	4.6
EV/Net sales (x)	11.4	30.1	19.3	9.2	7.6	6.0
EV/EBITDA (x)	31.2	123.5	65.6	18.3	14.4	11.1
Dividend Yield (%)	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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