ADD Lemon Tree Hotels

Aurika, managed portfolio to drive growth and deleveraging

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Hotels ▸ Result Update ▸ **February 8, 2024**

TARGET PRICE (Rs) : 145

Lemon Tree Hotels' (LTH) Q3 revenue beats estimates, though margin missed estimates, led by higher renovation expenses. We remain positive on LTH's earnings and margin trajectory, prompted by: i) the opening of Aurika Mumbai Skycity in Q3; ii) further acceleration in the managed and franchise portfolios; iii) improvement in gross ARR on renovation. RoE is likely to reach 23% by FY26E vs. 14% in FY23. More hotels under management contracts and revenue from Aurika would help LTH to deleverage from FY25. We have increased our estimate of revenue beat but cut our FY24/25/26 margin estimates due to continued renovation expenses. We maintain ADD, with a target price of Rs145/share (21x Dec-25E EV/EBITDA) vs. Rs140/share earlier.

Lemon Tree Hotels: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,022	8,750	10,628	13,437	14,997
EBITDA	1,187	4,524	5,244	7,163	8,126
Adj. PAT	(874)	1,193	1,378	2,466	3,222
Adj. EPS (Rs)	(1.1)	1.5	1.7	3.5	4.1
EBITDA margin (%)	29.5	51.7	49.3	53.3	54.2
EBITDA growth (%)	93.7	281.2	15.9	36.6	13.5
Adj. EPS growth (%)	0.0	0.0	15.4	102.6	15.4
RoE (%)	(10.0)	14.2	14.9	22.2	23.1
RoIC (%)	0.4	9.1	10.2	14.5	17.6
P/E (x)	(125.3)	91.8	79.5	39.3	34.0
EV/EBITDA (x)	104.9	27.5	23.8	15.1	14.3
P/B (x)	13.2	12.8	11.1	7.8	7.0
FCFF yield (%)	0.5	2.1	1.2	4.5	5.7

Source: Company, Emkay Research

Q3FY24 results: Revenue beats estimates; margin miss led by other expenses

The opening of Aurika in Q3 aided ARR growth of 10% YoY (20% QoQ); however, LTH's occupancy declined 170bps YoY to 65.9% (-580bps QoQ). This led to RevPAR growth moderating to 8% YoY (16% YoY in Q2). Revenue increased 23.6% YoY, beating our/consensus' estimates by 5%/2%. Margin disappointed, impacted by higher other expenses (+49% YoY), led by increased renovation expenses of Rs98mn (3.4% of revenue) vs. Rs48mn YoY (1.8% of revenue). PAT missed estimates on higher depreciation and interest costs.

Aurika, renovation, and Keys pipeline to drive revenue/margin improvement

We see four growth drivers for LTH: i) pickup in Aurika's occupancy (40% in Q3); ii) investing in renovations (focus on Delhi, Hyderabad, and Gurgaon), to reprice (up) its portfolio and increasing its ARR; iii) pipeline of 3,677 Keys under managed and franchised contracts; and iv) pickup in demand in Bangalore, Pune, and Hyderabad, driven by the IT sector. Margin is expected to increase to over 50%, as Aurika's occupancy improves and ~70% of incremental revenue flows to the bottom line with a stable cost structure. LTH expects RevPAR growth in mid-teens for FY25 (our est. 17% YoY) and occupancy at 73% when Aurika stabilizes (our est. 74%). LTH expects peak debt in FY24 and deleveraging thereon (net debt/EBITDA guidance at 3.7x/2.5x/1.5x for FY24E/FY25E/FY26E).

Deleveraging on the cards, returns to improve; maintain ADD

We expect LTH to log revenue/EBITDA CAGR of 20%/22% over FY23-26E, led by revenue from *Aurika Mumbai,* and the addition of hotels under management contracts. This will help LTH to deleverage from FY25E in the absence of major capex (Rs400mn capex/opex on renovation and ~Rs500mn on Shimla hotel). RoE should reach 23% by FY26E vs. 14% in FY23. We raise our FY24/25/26E revenue est. by 1%/2%/2%, resp., as we adjust for the revenue beat. We cut FY24/25/26E margin by 40/10/10bps due to renovation expenses. Maintain ADD, with a TP of Rs145 (21x Dec-25E EV/EBITDA) vs. Rs140 earlier.

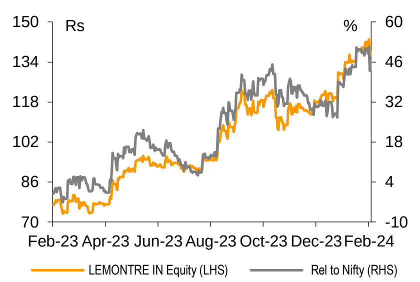
Target Price – 12M	Dec-24
Change in TP (%)	**3.6**
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	4.8
CMP (08-Feb-24) (Rs)	138.3

Stock Data	**Ticker**
52-week High (Rs)	146
52-week Low (Rs)	73
Shares outstanding (mn)	792.2
Market-cap (Rs bn)	110
Market-cap (USD mn)	1,321
Net-debt, FY24E (Rs mn)	15,013
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	938.5
ADTV-3M (USD mn)	11.3
Free float (%)	-
Nifty-50	21,718
INR/USD	83.0
Shareholding, Dec-23	
Promoters (%)	23.2
FPIs/MFs (%)	22.8/15.0

Price Performance

(%)	1M	3M	12M
Absolute	8.6	17.7	79.4
Rel. to Nifty	7.6	5.4	47.6

1-Year share price trend (Rs)



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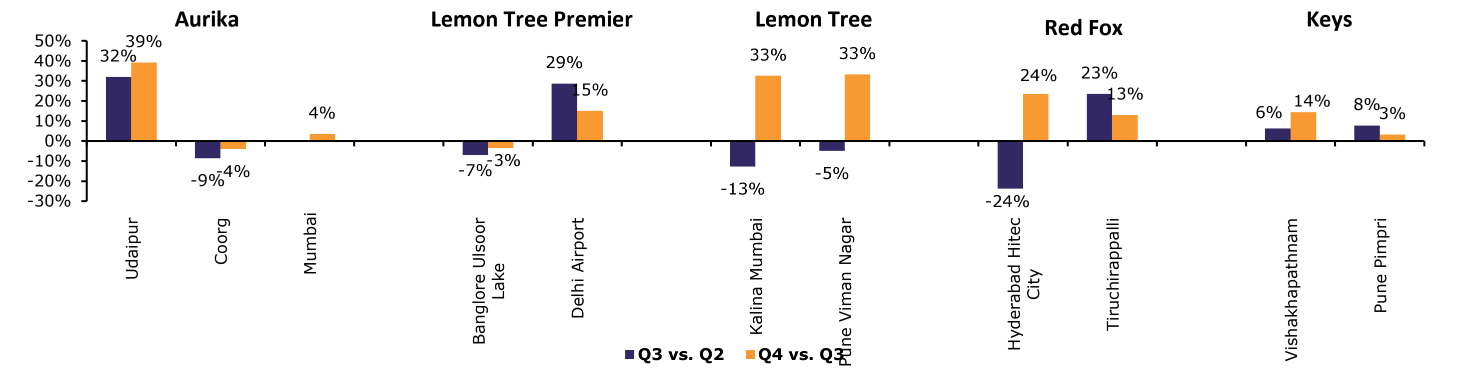
Pickup in ARR to continue for LTH

Gross ARR increased 10% YoY (7% YoY in Q2). The start of Aurika in Q3 helped in increasing blended ARR. Aurika is yet to stabilize and can continue to drive up ARR. Moreover, renovation will continue to increase ARR.

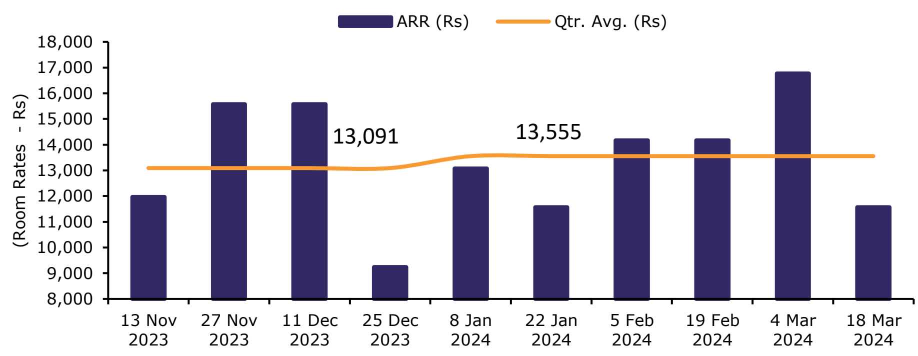
As per our checks, LTH's room rate is expected to increase further in Q4 across different categories, as travel for business picks up in Q4. Only Coorg and Bangalore are expected to see softness in room rates, as per our channel checks.

Exhibit 1: Lemon Tree ARR change QoQ (%) – ARR to pick up further QoQ in Q4 from Q3 levels



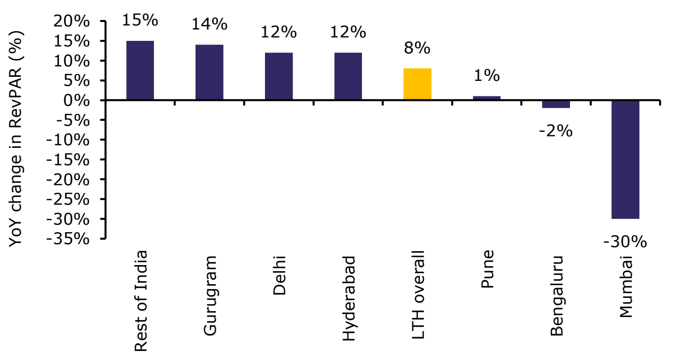
Source: Company website, Emkay Research

Exhibit 2: Aurika Mumbai's ARR to increase marginally QoQ in Q4



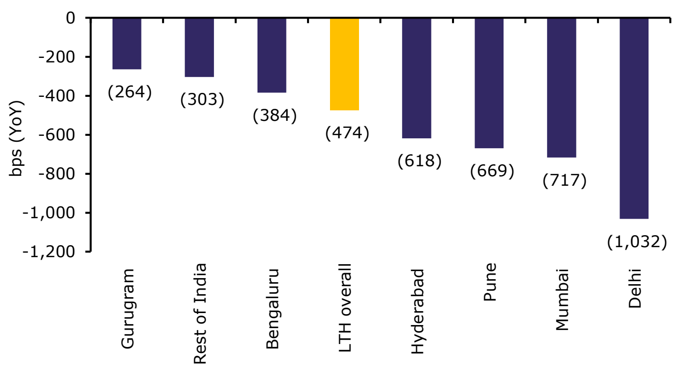
Source: Company, Emkay Research

Exhibit 3: RevPAR YoY growth – Mumbai impacted by start of Aurika



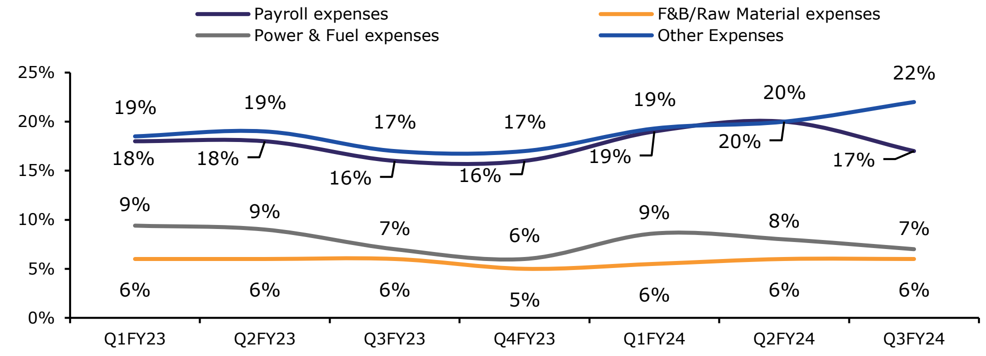
Source: Company, Emkay Research

Exhibit 4: EBITDAR margin down YoY on increased renovation cost



Source: Company, Emkay Research

Exhibit 5: Cost structure (% of Revenue) – Other expenses up on higher renovation expense



Source: Company, Emkay Research

Key takeaways from the earnings call

- **EBITDA margin to improve:** The increase in expenses in terms of percentage of revenue can largely be attributed to payroll expenses (2.4%), renovations (1.6%), commissions to travel agents, and credit cards (0.8%), in line with the rise in retail contribution, rent for Aurika Mumbai (0.6%), and spa and transport service (0.5%). The salary hike was deferred since Covid-19 and is now implemented during this quarter. Additionally, a lower contribution from Aurika Mumbai (with 13-14% of the total inventory) keeps margins low. As Aurika Mumbai starts contributing more (GM of 60%) going ahead, management expects EBITDA margin of over 50% from FY25.
- **Bangalore and Pune markets lack demand:** About one-third of LTH's inventory is not performing well and is still below pre-Covid level, especially in the Bangalore and Pune regions. This is due to their higher dependency on the IT sector, which is experiencing layoffs instead of hiring. This has particularly impacted the Keys brand having the highest properties in these regions.
- **Aurika Mumbai to stabilize in FY25:** Aurika Mumbai operated at an occupancy of ~40% (250 rooms) in Q3, which has increased to 60% in Q4 (will be further aided by the Miss World event with 100 rooms occupancy for 14 days). With a fixed expense of Rs196mn (Rs130mn depreciation and Rs66mn interest) every quarter impacting the income statement, the impact will appear higher until occupancy stabilizes at an increased level, which management expects to achieve in FY25. The lease rental for Aurika Mumbai to be paid annually is Rs30mn and will increase every year (current NPV of Rs500mn). Also, until demand is built, the contribution of airline crew is higher, but that is a low-rate business, typically logging a room rate of ~Rs7,700/night. Hence, the company has guided to restrict crew rooms to 100, corporate rooms to 150, and 200-250 rooms for retail in FY25.
- **Renovations to aid ARR growth:** LTH constantly carries out expensive renovations at its properties, which in turn helps reprice higher and increase occupancy for those properties (aiding recovery of renovation expense within the next two years). This strategy is now being implemented in Delhi, Gurgaon, and Hyderabad. Renovation spends are estimated as Rs300mn for opex and Rs100mn for capex for FY24. With minimal capex requirement in FY25, LTH plans to complete renovation at most of its Keys portfolio (will help increase ARR by 8-12% every year) and Lemon Tree properties in Delhi and Hyderabad by H1FY25.
- **Deleveraging plans:** Management aims to bring down its Debt/EBITDA to 3.7 by FY24, 2.5 by FY25, and 1.5 by FY26 and eventually become debt-free in the next four years.
- **Capex requirement:** The company has decided to convert its under-construction Shimla property to Aurika (100 rooms) at an additional capex of Rs500mn over the already spent capex of Rs270mn. This property is expected to be in operation by Q1FY26.
- **Higher focus on retail over corporate:** Before Covid-19, there were higher negotiations for prices from corporates even during peak times, hence lowering the ARR. Hence, management has now increased its rates for corporates paying fair prices while lowering the rates for retail with an intent to expand its retail base. As a result, despite the reduction of corporate contribution in room night to 38%, revenue managed to stay flat at 36%, and management aims to fill this difference going forward. An inverse trend is witnessed on the retail side, where the revenue premium of 3% (compared to room night) has reduced to

1%. This has also led to the doubling (3% to 6%) of room night contribution from its own website.

- **Current Indian occupancy does not imply an upcycle:** The average occupancy in India is at ~60%. LTH (excluding Aurika Mumbai and Keys) occupancy is also lower at 73-76%. Hence, management believes until the average occupancy crosses 70-75%, the hotel industry cannot be said to be in the upcycle. It is expected that India will reach an occupancy level of ~70% in FY26, a point at which it can be called an upcycle.
- **Fleur divestment:** Over the longer term, management plans to list Fleur Hotels separately with a fresh issue of capital in it. This will benefit LTH in utilizing the funds for expanding its portfolio and further strengthening its brand to cater to the rising demand.
- **Occupancy to rise in FY25:** LTH is achieving higher occupancy levels of over 80% in Delhi, Mumbai (ex. Aurika), and Hyderabad and in mid-70s for Gurgaon. However, the regions of Bangalore and Pune remain subdued. As a result, management expects an average occupancy of ~65% in FY24. With Aurika stabilizing and contributing higher in FY25, occupancy is expected to increase to ~73% in FY25.
- **Lower fees from Fleur:** With a higher portfolio of Bangalore and Pune hotels under Fleur, which are not performing well along with under 40% occupancy for Aurika Mumbai meant that only the fixed portion of fees was received (incentive fees not received) from Fleur for these properties. The incentive fees portion will increase disproportionately as the revenue increases from these properties.
- **Lower competition for Aurika Mumbai:** Management believes Aurika Mumbai will face no impact from Hilton Garden property being built next to Aurika as both fall into different categories. Additionally, Lemon Tree hotels hotels cannot be compared with luxury hotels.

Q3FY24 Results: Beat on revenue; miss on margin

KPIs impacted by the start of Aurika Mumbai in Q3FY24

- **Gross ARR up 10% YoY** (7% YoY in Q2) and 20% QoQ to Rs6,333, 1% beat to our estimate. In comparison, Q3 ARR was up 17%/8% YoY for Indian Hotels/Chalet.
- **Occupancy was down 163bps YoY at 65.9%** (vs. 71.3% in Q2FY24; 67.6% in Q3FY23) vs. our estimate of 68.3%. The decline was led by Mumbai occupancy (53% in Q3FY24 vs. 79% in Q3FY23) due to the opening up of Aurika in Q3. Occupancy was 77% (up 5ppts YoY)/71% (up 6ppts YoY) for Indian Hotels/Chalet in Q3.
- **RevPAR up 8%YoY** (+11% QoQ) to Rs4,176, at a 2% miss on our estimate, led by lower occupancy. RevPAR was up 25%/18% YoY for Indian Hotels/Chalet.

Financial performance

- **Revenue from operations grew 23.6% YoY** to Rs2,887mn (up 27.1% QoQ), beating our/consensus estimate by 5%/2%. Total management fees (including fees from Fleur Hotels) grew 25% YoY (+29% YoY in Q2).
- **Margin miss:** EBITDA (excluding OI) stood at Rs1,397mn, +10.5% YoY/+37.2% QoQ (1% beat on our estimate). EBITDA margin (excluding OI) was down 575bps YoY and up 357bps QoQ to 48.4%, 90bps/190bps miss on consensus/our estimates. The margin miss was due to higher other expenses (+49% YoY). Other expenses include higher renovation expenses of Rs98mn for Q3FY24 (3.4% of revenue) vs. Rs48mn YoY (2.1% of revenue) for Q3FY23. Adjusting for this, the margin would have declined 440bps YoY to 50.1%.
- **Cash profit came in at Rs771mn,** up from Rs721mn in Q3FY23 and Rs490mn in Q2FY24.
- **Finance cost increased 12.7% QoQ** and 20% YoY due to higher debt. Cost of debt increased 20bps YoY to 8.85% in Q3FY24.
- Adjusted PAT stood at Rs354mn for Q3FY24 (-11.5% YoY; +56.3%QoQ). Higher D&A and increased finance cost (on the start of Aurika in Q3) led to lower PAT.

Exhibit 6: Q3FY24 results

(Rs mn)	3QFY23	2QFY24	3QFY24	QoQ	YoY
Rooms (No. of)	5,090	**5,090**	**5,759**	13.1%	13.1%
ARR (Rs)	5,738	**5,268**	**6,333**	20.2%	10.4%
Occupancy (%)	67.6	**71.7**	**65.9**	-8.1%	-2.5%
RevPAR (Rs)	3,879	**3,775**	**4,176**	10.6%	7.7%
Room Revenue	1,777	**1,729**	**2,164**	25.2%	21.8%
Other Revenue	559	**543**	**722**	33.1%	29.3%
Total Revenue	**2,335**	**2,272**	**2,887**	**27.1%**	**23.6%**
Total RM Cost	131	**132**	**166**	26.1%	26.7%
Employee Benefit Expense	381	**463**	**490**	5.8%	28.5%
Other Expenses	558	**658**	**833**	26.6%	49.3%
Total Expenses	**1,071**	**1,253**	**1,490**	**18.9%**	**39.1%**
EBITDA	**1,265**	**1,019**	**1,397**	**37.2%**	**10.5%**
D&A	236	226	333	47.5%	41.5%
Finance Cost (net)	445	473	534	12.7%	20.0%
PAT	**400**	**226**	**354**	**56.3%**	**-11.5%**
EPS (Rs)	0.5	**0.3**	**0.4**	56.3%	-11.5%
% of revenue					
Total RM Cost	*5.6*	***5.8***	***5.8***	*-4 bps*	*14 bps*
Employee Benefit Expense	*16.3*	***20.4***	***17.0***	*-341 bps*	*64 bps*
Other Expenses	*23.9*	***29.0***	***28.9***	*-12 bps*	*497 bps*
EBITDA Margin	*54.2*	***44.8***	***48.4***	*357 bps*	*-575 bps*

Source: Company, Emkay Research

Other highlights

- **New contract signings continue:** During Q3, the company signed nine new management and franchise contracts (vs. 11/6 in Q2/Q1), which added 621 rooms (vs. 639/548 in Q2/Q1) to the pipeline. As of 30-Dec-23, LTH's operational inventory comprises 100 hotels with 9,687 rooms, and the pipeline includes 55 hotels with 3,746 rooms.
- **Share of room-nights sold on own website** has increased from 3% in Q3FY23 to 6% in Q3FY24. The share of rooms booked for airlines increased from 8% in Q3FY23 to 14% in Q3FY24.
- **Brand-wise RevPAR growth:** Keys RevPAR increased 7% YoY, while it rose 12% YoY for LTH. Lemon Tree Premier and RedFox RevPAR were up 10% YoY each. Aurika's RevPAR fell 50% YoY because of the start of Aurika Mumbai. Aurika occupancy was down 11pp YoY on the start of Mumbai Aurika.
- **Margin decline YoY** was led by a decline in margin for Aurika, while Keys' margin was up YoY in Q3. Overall EBITDAR margin fell ~2pp YoY due to a significant increase in renovation expense YoY.
- Hyderabad, Rest of India, and Gurugram had the highest improvement in occupancy YoY.

Changes in estimate and valuation

We increase our revenue estimates by 1.5%/2.2%/2.2% for FY24E/FY25E/FY26E on result beat. We have cut our margins for FY24/FY25/FY26 by 40bps/10bps/10bps on account of higher renovation expenses. We maintain our ADD recommendation, with a TP of **Rs145/share (21x Dec-25E EV/EBITDA)** vs. Rs140/share earlier.

Exhibit 7: Changes in estimate

	FY24E			FY25E			FY26E		
	New	Old	Chg	New	Old	Chg	New	Old	Chg
Rooms (Nos)	5,759	5,759	0.0%	5,759	5,828	-1.2%	5,828	5,828	0.0%
ARR (Rs)	5,826	5,777	0.8%	6,470	6,365	1.6%	6,897	6,811	1.3%
Occupancy (%)	70.2	71.1	-1.4%	74.0	74.2	-0.3%	75.2	75.4	-0.3%
RevPAR (Rs)	4,088	4,109	-0.5%	4,786	4,720	1.4%	5,184	5,132	1.0%
Room Revenue (Rs mn)	8,020	7,945	0.9%	9,933	9,826	1.1%	10,874	10,795	0.7%
Other Revenue (Rs mn)	2,608	2,526	3.2%	3,504	3,326	5.3%	4,123	3,875	6.4%
Revenue (Rs mn)	**10,628**	**10,471**	**1.5%**	**13,437**	**13,153**	**2.2%**	**14,997**	**14,670**	**2.2%**
EBITDA (Rs Mn)	5,244	5,213	0.6%	7,163	7,028	1.9%	8,126	7,968	2.0%
EBITDA Margin (%)	**49.3**	**49.8**	**-44 bps**	**53.3**	**53.4**	**-13 bps**	**54.2**	**54.3**	**-13 bps**
APAT (Rs mn)	1,378	1,559	-11.6%	2,466	2,756	-10.5%	3,222	3,501	-8.0%
AEPS (Rs)	1.7	2.0	-11.6%	3.1	3.5	-10.5%	4.1	4.4	-8.0%

Source: Company, Emkay Research

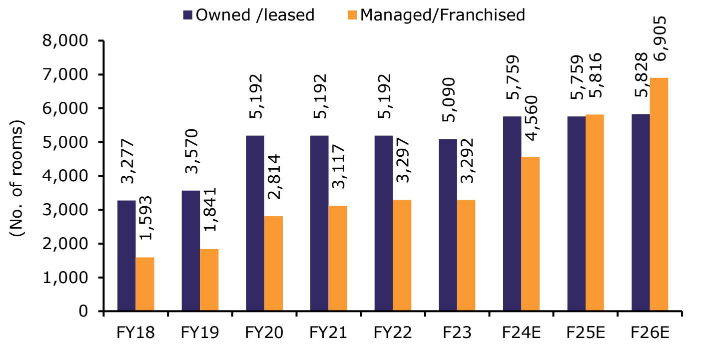
Exhibit 8: Valuation

Valuation summary	**Dec-25**
Consol. EBITDA (Rs mn)	7,885
EBITDA ex Fleur APG stake (75%)	5,914
EV/EBITDA (x)	21.0x
Enterprise Value (Rs mn)	124,194
Net debt	16,335
Less: Debt ex. Fleur APG stake (58.9%)	9,621
Equity Value (Rs mn)	114,572
Value per share (Rs)	**145**

Source: Company, Emkay Research

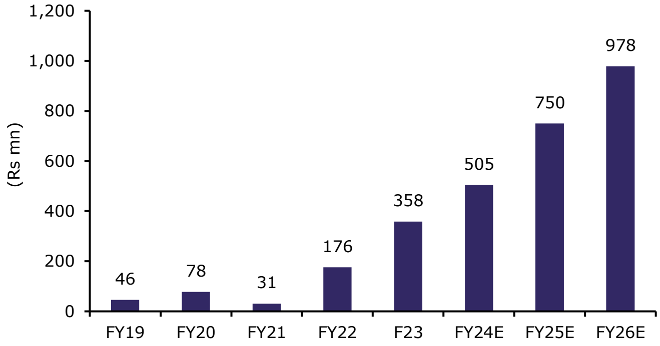
Story in Charts

Exhibit 9: Number of managed rooms to grow at a faster pace



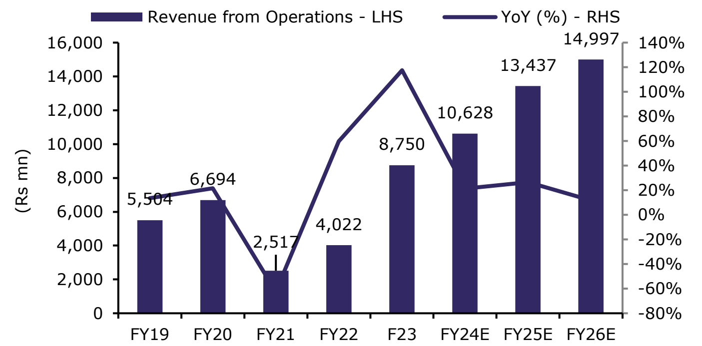
Source: Company, Emkay Research

Exhibit 10: Revenue from management fees to aid growth



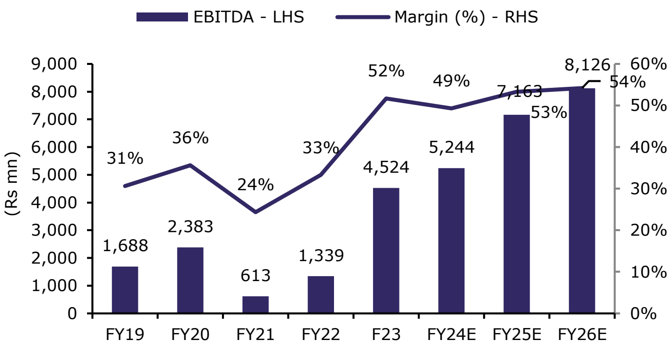
Source: Company, Emkay Research

Exhibit 11: Revenue jump in FY25E to be led by *Aurika, Mumbai Skycity*



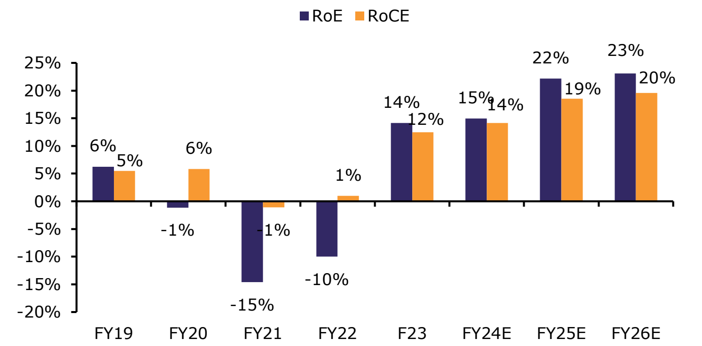
Source: Company, Emkay Research

Exhibit 12: Margins to improve, led by pass-through of management fee



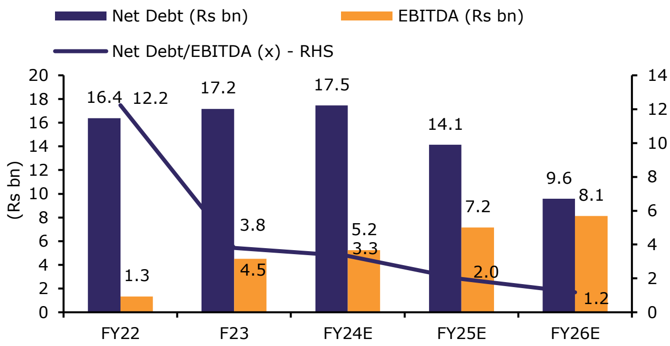
Source: Company, Emkay Research

Exhibit 13: LTH set to report RoE of ~23% by FY26E



Source: Company, Emkay Research

Exhibit 14: Net debt-to-EBITDA to decline for LTH



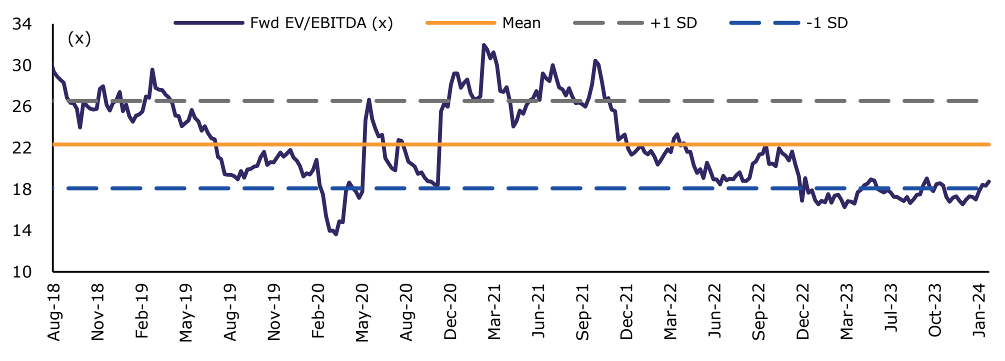
Source: Company, Emkay Research

Exhibit 15: Sensitivity for a 5% decline in RevPAR

		FY25	FY26
Base RevPAR	Rs	4,786	5,184
New RevPAR	Rs	4,546	4,925
Change	%	-5.0%	-5.0%
Base Revenue	Rs mn	13,437	14,997
New Revenue	Rs mn	12,765	14,247
Change	%	-5.0%	-5.0%
Base EBITDA	Rs mn	7,163	8,126
New EBITDA	Rs mn	6,531	7,423
Change	%	-8.8%	-8.7%
Base PAT	Rs mn	2,466	3,222
New PAT	Rs mn	2,089	2,774
Change	%	-15.3%	-13.9%
Base RoE	%	22.2%	23.1%
New RoE	%	19.1%	20.8%
Change	bps	-307	-231
Base RoCE	%	18.5%	19.5%
New RoCE	%	16.7%	17.9%
Change	bps	-183	-160
Base Net Debt	Rs bn	14.1	9.6
New Net Debt	Rs bn	14.5	10.5
Change	%	2.8%	9.9%
Base Net Debt/EBITDA	x	2.0	1.2
New Net Debt/EBITDA	x	2.2	1.4
Change	%	12.8%	20.3%
Base TP	Rs	145	
New TP	Rs	130	
Change	%	-10.3%	

Source: Company, Emkay Research

Exhibit 16: One-year forward EV/EBITDA



Source: Company, Emkay Research

Lemon Tree Hotels: Consolidated Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**4,022**	**8,750**	**10,628**	**13,437**	**14,997**
Revenue growth (%)	59.8	117.5	21.5	26.4	11.6
EBITDA	**1,187**	**4,524**	**5,244**	**7,163**	**8,126**
EBITDA growth (%)	93.7	281.2	15.9	36.6	13.5
Depreciation & Amortization	1,043	966	1,116	1,279	1,266
EBIT	**143**	**3,557**	**4,128**	**5,883**	**6,861**
EBIT growth (%)	0.0	2,386.1	16.0	42.5	16.6
Other operating income	0	0	0	0	0
Other income	140	36	97	102	107
Financial expense	1,740	1,772	2,026	1,874	1,595
PBT	**(1,456)**	**1,822**	**2,199**	**4,112**	**5,372**
Extraordinary items	0	0	0	0	0
Taxes	(72)	377	536	1,072	1,401
Minority interest	(499)	260	296	585	764
Income from JV/Associates	10	9	10	12	14
Reported PAT	**(874)**	**1,193**	**1,378**	**2,466**	**3,222**
PAT growth (%)	0.0	0.0	15.4	79.0	30.6
Adjusted PAT	**(874)**	**1,193**	**1,378**	**2,466**	**3,222**
Diluted EPS (Rs)	**(1.1)**	**1.5**	**1.7**	**3.5**	**4.1**
Diluted EPS growth (%)	0.0	0.0	15.4	102.6	15.4
DPS (Rs)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Dividend payout (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
EBITDA margin (%)	29.5	51.7	49.3	53.3	54.2
EBIT margin (%)	3.6	40.7	38.8	43.8	45.7
Effective tax rate (%)	5.0	20.7	24.4	26.1	26.1
NOPLAT (pre-IndAS)	**136**	**2,821**	**3,123**	**4,349**	**5,072**
Shares outstanding (mn)	792.2	792.2	792.2	792.2	792.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	7,908	7,916	7,916	7,916	7,916
Reserves & Surplus	404	621	1,989	4,443	7,650
Net worth	**8,312**	**8,537**	**9,905**	**12,359**	**15,566**
Minority interests	5,676	5,597	5,893	6,478	7,242
Deferred tax liability (net)	(685)	(515)	(537)	(560)	(583)
Total debt	**21,532**	**22,404**	**23,425**	**23,879**	**24,385**
Total liabilities & equity	**34,836**	**36,024**	**38,685**	**42,157**	**46,611**
Net tangible fixed assets	0	0	0	0	0
Net intangible assets	30,533	29,704	28,762	27,604	26,448
Net ROU assets	4,299	4,036	4,036	4,036	4,036
Capital WIP	2,946	4,691	7,616	8,745	9,711
Goodwill	951	951	951	951	951
Investments [JV/Associates]	37	45	45	45	45
Cash & equivalents	**602**	**285**	**617**	**3,981**	**8,571**
Current assets (ex-cash)	1,527	2,047	2,471	2,690	2,837
Current Liab. & Prov.	809	749	825	909	1,002
NWC (ex-cash)	**718**	**1,298**	**1,645**	**1,781**	**1,836**
Total assets	**34,836**	**36,024**	**38,685**	**42,157**	**46,611**
Net debt	14,933	14,890	15,013	11,492	6,747
Capital employed	28,838	28,794	30,890	33,750	37,544
Invested capital	**31,251**	**31,002**	**30,407**	**29,385**	**28,283**
BVPS (Rs)	10.5	10.8	12.5	17.7	19.6
Net Debt/Equity (x)	1.8	1.7	1.5	0.9	0.4
Net Debt/EBITDA (x)	12.6	3.3	2.9	1.6	0.8
Interest coverage (x)	6.1	0.5	0.5	0.3	0.2
RoCE (%)	**1.0**	**12.5**	**14.2**	**18.5**	**19.5**

Source: Company, Emkay Research

Cash Flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(1,456)	1,822	2,199	4,112	5,372
Others (non-cash items)	2,788	2,676	3,035	3,039	2,739
Taxes paid	(17)	(207)	(558)	(1,095)	(1,424)
Change in NWC	27	(403)	(234)	(16)	72
Operating cash flow	**1,200**	**3,896**	**4,453**	**6,052**	**6,775**
Capital expenditure	(668)	(1,618)	(3,098)	(1,251)	(1,075)
Acquisition of business	0	0	0	0	0
Interest & dividend income	81	57	97	102	107
Investing cash flow	**(454)**	**(2,832)**	**(3,052)**	**(1,199)**	**(1,018)**
Equity raised/(repaid)	8	17	0	0	0
Debt raised/(repaid)	2,604	1,776	455	(156)	(155)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,400)	(1,432)	(2,026)	(1,874)	(1,595)
Dividend paid (incl tax)	0	0	0	0	0
Others	(2,842)	(1,684)	502	541	583
Financing cash flow	**(1,630)**	**(1,323)**	**(1,069)**	**(1,489)**	**(1,167)**
Net chg in Cash	(884)	(258)	332	3,364	4,590
OCF	1,200	3,896	4,453	6,052	6,775
Adj. OCF (w/o NWC chg.)	1,173	4,299	4,686	6,068	6,702
FCFF	533	2,279	1,354	4,801	5,700
FCFE	(1,126)	564	(575)	3,029	4,212
OCF/EBITDA (%)	101.2	86.1	84.9	84.5	83.4
FCFE/PAT (%)	128.8	47.2	(41.7)	122.8	130.7
FCFF/NOPLAT (%)	**391.8**	**80.8**	**43.4**	**110.4**	**112.4**

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(125.3)	91.8	79.5	39.3	34.0
P/CE(x)	556.2	43.5	37.7	22.2	21.0
P/B (x)	13.2	12.8	11.1	7.8	7.0
EV/Sales (x)	31.0	14.2	11.7	8.1	7.8
EV/EBITDA (x)	104.9	27.5	23.8	15.1	14.3
EV/EBIT(x)	761.5	30.6	26.4	17.9	14.7
EV/IC (x)	3.5	3.5	3.6	3.6	3.6
FCFF yield (%)	0.5	2.1	1.2	4.5	5.7
FCFE yield (%)	(1.2)	0.6	(0.6)	3.2	4.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(21.7)	13.6	13.0	18.4	21.5
Total asset turnover (x)	0.1	0.3	0.4	0.4	0.4
Assets/Equity (x)	3.4	3.4	3.2	2.9	2.6
RoE (%)	**(10.0)**	**14.2**	**14.9**	**22.2**	**23.1**
DuPont-RoIC					
NOPLAT margin (%)	3.4	32.2	29.4	32.4	33.8
IC turnover (x)	0.1	0.3	0.3	0.4	0.5
RoIC (%)	**0.4**	**9.1**	**10.2**	**14.5**	**17.6**
Operating metrics					
Core NWC days	(45.2)	(15.3)	(9.3)	(4.9)	(4.0)
Total NWC days	**65.2**	**54.2**	**56.5**	**48.4**	**44.7**
Fixed asset turnover	0.1	0.3	0.4	0.5	0.6
Opex-to-revenue (%)	63.6	42.6	44.9	40.7	39.6

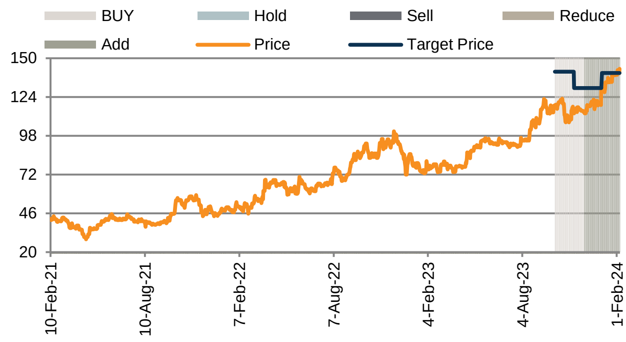
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-Jan-24	129	140	Add	Santosh Sinha
04-Dec-23	116	130	Add	Santosh Sinha
30-Nov-23	114	130	Add	Santosh Sinha
11-Nov-23	113	130	Buy	Santosh Sinha
05-Oct-23	118	141	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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REDUCE	5% upside to 15% downside
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