

Enduring short-term pain for long-term gain

Hotels ▶ Result Update ▶ August 8, 2024

TARGET PRICE (Rs): 145

We assume coverage on Lemon Tree Hotels (LTH) with an ADD recommendation and upside of 14.9%. LTH's Q1FY25 results were a mixed bag, with revenue broadly in line with consensus estimates, while margin was lower. EBITDAM fell by 460bps YoY to 42.9%; half of this decline is attributed to a one-off increase in investments in renovation and digital transformation. RevPar growth (3.6% YoY) moderated from prior Quarters, with occupancies down by 360bps YoY, hit by shutdown of 25% of the Keys portfolio. The entire renovation is expected to continue till FY26-end (open in winters), after which the entire portfolio will be available. The management sees stabilization of Aurika Mumbai, accelerated growth in management and franchisee contracts, and timely completion of renovation as key growth levers. We cut FY25E/26E EBITDA by ~6%, factoring in the Q1 performance and continued elevated renovation expenses. We maintain ADD, with TP of Rs145/sh (roll over to 21x Jun-26E EV/ EBITDA).

Lemon Tree Hotels: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	8,750	10,711	13,234	14,720	16,583
EBITDA	4,524	5,232	6,728	7,622	8,854
Adj. PAT	1,193	1,485	2,298	3,015	4,085
Adj. EPS (Rs)	1.5	1.9	3.3	3.8	5.2
EBITDA margin (%)	51.7	48.8	50.8	51.8	53.4
EBITDA growth (%)	281.2	15.7	28.6	13.3	16.2
Adj. EPS growth (%)	0.0	24.4	75.2	15.9	35.5
RoE (%)	14.2	16.3	21.2	22.4	24.0
RoIC (%)	9.1	10.0	10.7	12.8	15.9
P/E (x)	83.8	67.4	38.5	33.2	24.5
EV/EBITDA (x)	25.4	22.2	15.1	14.2	11.6
P/B (x)	11.7	10.3	7.4	6.7	5.3
FCFF yield (%)	2.0	1.2	4.1	5.3	6.3

Source: Company, Emkay Research

Results Summary

LTH revenue grew 19.5% YoY to Rs2.7bn in Q1FY25, broadly in line with consensus estimates. ARR grew 8.6% YoY to Rs5,686, while occupancies declined by 360bps YoY to 66.6%. RevPar grew by 360bps YoY to Rs3,788. EBITDA grew 8% YoY to Rs1.2bn. EBITDAM declined by 457bps YoY to 42.9%, partially impacted by higher one-time renovation and digital transformation expenses. Fees from the management and franchised contracts for third party-owned hotels stood at Rs125mn, up 21% YoY. Cash profit for the quarter was Rs547mn, up 9% YoY. During the quarter, the company signed 3 new management contracts to add 187 new rooms, and operationalized 4 hotels that added 331 rooms to the portfolio. The current portfolio stands at 107 hotels with 10,125 rooms.

Earnings Call KTAs

1) Q1 is typically a seasonally-weak quarter, with the general elections and heatwaves also impacting performance in this quarter. Going ahead, supply-demand mismatch, tailwinds for the tourism industry, and the company's own initiatives should position LTH as the preferred brand of choice in the mid-market segment. 2) 700 rooms were shut for renovation this quarter. The entire renovation for the Keys portfolio would be complete by FY26-end, after which renovation expenses would drop to 1.5-1.6% of the revenue. The company expects EBITDA of Rs600mn for the Keys portfolio, once renovation is complete. 3) Along with the large-scale renovation, LTH has created a new sales system led by digital capabilities. It is currently re-imagining its loyalty program and website. LTH has also ramped up its Business Development team by 4x. 4) Aurika Mumbai reported occupancy of 45.9% in Q1, with ARR of <Rs8,900. The company has let go of some crew business, which typically operates at lower rates. Corporate segment has done well, but the retail segment needs more focus. The mgmt expects stability in Aurika, Mumbai by Q4FY25, given its large size. 5) FCF generated in the summer season will be utilized for renovation expenses, while FCF generated in winters (2-2.5x of the summer FCF) will be used for debt reduction. 6) The mgmt targets zero debt over the next 4 years with 20,000 rooms by FY27 of which 30% would be owned and 70% managed.

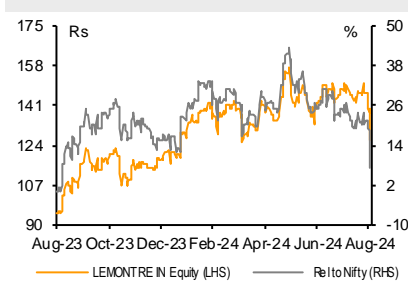
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	14.9
CMP (08-Aug-24) (Rs)	126.2

Stock Data	Ticker
52-week High (Rs)	158
52-week Low (Rs)	93
Shares outstanding (mn)	792.2
Market-cap (Rs bn)	100
Market-cap (USD mn)	1,191
Net-debt, FY25E (Rs mn)	12,908
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	504.1
ADTV-3M (USD mn)	6.0
Free float (%)	-
Nifty-50	24,117
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	22.8
FPIs/MFs (%)	27.6/15.2

Price Performance

(%)	1M	3M	12M
Absolute	(14.2)	(17.1)	33.3
Rel. to Nifty	(13.5)	(23.3)	8.2

1-Year share price trend (Rs)



Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6624 2458

Exhibit 1: Actual vs Estimates (Q1FY25)

(Rs mn)	Actual	Consensus Estimate	Variation	Comment
Revenue	2,680	2,677	0%	In line with estimates
EBITDA	1,151	1,231	-7%	Impacted by higher renovation and digital transformation expenses
EBITDA margin	42.9%	46.0%		
PAT	198	252	-21%	

Source: Company, Emkay Research

Exhibit 2: Quarterly financial snapshot

	1QFY24	4QFY24	1QFY25	QoQ	YoY
Owned Rooms (no. of)	5,090	5,759	5,759	0.0%	13.1%
ARR (Rs)	5,237	6,605	5,686	-13.9%	8.6%
Occupancy (%)	70.2	72.0	66.6	-7.5%	-5.1%
RevPAR (Rs)	3,657	4,754	3,788	-20.3%	3.6%
Room Revenue (Rs mn)	1,675	2,464	1,963	-20.3%	17.2%
Other Revenue (Rs mn)	568	809	717	-11.4%	26.3%
Total Revenue (Rs mn)	2,243	3,273	2,680	-18.1%	19.5%
Total RM Cost (Rs mn)	124	205	164	-19.9%	32.2%
Employee Benefit Expenses (Rs mn)	426	499	507	1.7%	19.0%
Other Expenses (Rs mn)	627	855	858	0.4%	36.8%
Total Expenses (Rs mn)	1,178	1,558	1,530	-1.9%	29.9%
EBITDA (Rs mn)	1,065	1,715	1,151	-32.9%	8.0%
D&A (Rs mn)	228	334	346	3.5%	51.7%
Finance cost - net (Rs mn)	481	528	518	-1.9%	7.5%
PAT (Rs mn)	235	670	198	-70.4%	-15.8%
EPS (Rs mn)	0.3	0.8	0.3	-70.4%	-15.8%
% of revenue					
Total RM cost	5.5	6.3	6.1	-14 bps	59 bps
Employee Benefit Expenses	19.0	15.2	18.9	368 bps	-7 bps
Other Expenses	28.0	26.1	32.0	591 bps	405 bps
EBITDA margin (%)	47.5	52.4	42.9	-946 bps	-457 bps

Source: Company, Emkay Research

Exhibit 3: Change in estimates

	FY25E			FY26E			FY27E
	New	Old	Chg	New	Old	Chg	Introduced
Owned Rooms (no. of)	5,759	5,759	0.0%	5,828	5,828	0.0%	5,828
ARR (Rs)	6,422	6,470	-0.7%	6,863	6,897	-0.5%	7,480
Occupancy (%)	72.3	74.0	-2.3%	73.1	75.2	-2.8%	74.3
RevPAR (Rs)	4,644	4,786	-3.0%	5,017	5,184	-3.2%	5,558
Room revenue (Rs mn)	9,667	9,933	-2.7%	10,553	10,874	-3.0%	11,705
Non-room revenue (Rs mn)	3,567	3,504	1.8%	4,167	4,123	1.1%	4,878
Revenue (Rs mn)	13,234	13,437	-1.5%	14,720	14,997	-1.8%	16,583
EBITDA (Rs mn)	6,728	7,163	-6.1%	7,622	8,126	-6.2%	8,854
EBITDA Margin (%)	50.8	53.3	-246 bps	51.8	54.2	-242 bps	53.4
APAT (Rs mn)	2,298	2,466	-6.8%	3,015	3,222	-6.4%	4,085
AEPS (Rs)	2.9	3.1	-6.4%	3.8	4.1	-7.2%	5.2

Source: Company, Emkay Research

Lemon Tree Hotels: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	8,750	10,711	13,234	14,720	16,583
Revenue growth (%)	117.5	22.4	23.6	11.2	12.7
EBITDA	4,524	5,232	6,728	7,622	8,854
EBITDA growth (%)	281.2	15.7	28.6	13.3	16.2
Depreciation & Amortization	966	1,121	1,263	1,260	1,276
EBIT	3,557	4,111	5,465	6,362	7,578
EBIT growth (%)	2,386.1	15.6	32.9	16.4	19.1
Other operating income	0	0	0	0	0
Other income	36	56	48	51	53
Financial expense	1,772	2,016	1,921	1,672	1,207
PBT	1,822	2,151	3,593	4,741	6,424
Extraordinary items	0	0	0	0	0
Taxes	377	341	951	1,234	1,672
Minority interest	260	332	350	498	675
Income from JV/Associates	9	7	6	7	8
Reported PAT	1,193	1,485	2,298	3,015	4,085
PAT growth (%)	0.0	24.4	54.8	31.2	35.5
Adjusted PAT	1,193	1,485	2,298	3,015	4,085
Diluted EPS (Rs)	1.5	1.9	3.3	3.8	5.2
Diluted EPS growth (%)	0.0	24.4	75.2	15.9	35.5
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 (%)	51.7	48.8	50.8	51.8	53.4
EBIT margin (%)	40.7	38.4	41.3	43.2	45.7
Effective tax rate (%)	20.7	15.9	26.5	26.0	26.0
NOPLAT (pre-IndAS)	2,821	3,459	4,019	4,705	5,605
Shares outstanding (mn)	792.2	792.2	792.2	792.2	792.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,822	2,151	3,593	4,741	6,424
Others (non-cash items)	2,676	3,070	3,129	2,874	2,422
Taxes paid	(207)	(360)	(972)	(1,256)	(1,694)
Change in NWC	(403)	(218)	(363)	226	225
Operating cash flow	3,896	4,650	5,393	6,591	7,384
Capital expenditure	(1,618)	(3,305)	(730)	(855)	(907)
Acquisition of business	0	0	0	0	0
Interest & dividend income	57	71	48	51	53
Investing cash flow	(2,832)	(3,965)	(732)	(854)	(903)
Equity raised/(repaid)	17	5	0	0	0
Debt raised/(repaid)	1,776	3,674	(2,515)	(2,850)	(5,701)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,432)	(1,616)	(1,921)	(1,672)	(1,207)
Dividend paid (incl tax)	0	0	0	0	0
Others	(1,684)	(2,648)	500	538	580
Financing cash flow	(1,323)	(585)	(3,936)	(3,984)	(6,328)
Net chg in Cash	(258)	100	725	1,753	153
OCF	3,896	4,650	5,393	6,591	7,384
Adj. OCF (w/o NWC chg.)	4,299	4,868	5,756	6,366	7,160
FCFF	2,279	1,345	4,662	5,736	6,478
FCFE	564	(601)	2,790	4,115	5,324
OCF/EBITDA (%)	86.1	88.9	80.2	86.5	83.4
FCFE/PAT (%)	47.2	(40.4)	121.4	136.5	130.3
FCFF/NOPLAT (%)	80.8	38.9	116.0	121.9	115.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	7,916	7,918	7,918	7,918	7,918
Reserves & Surplus	621	1,750	4,043	7,051	11,127
Net worth	8,537	9,669	11,961	14,969	19,046
Minority interests	5,597	5,795	6,145	6,644	7,319
Deferred tax liability (net)	(515)	(534)	(556)	(577)	(599)
Total debt	22,404	23,863	21,898	19,642	14,582
Total liabilities & equity	36,024	38,793	39,449	40,677	40,347
Net tangible fixed assets	0	0	0	0	0
Net intangible assets	29,704	36,418	35,334	34,207	32,957
Net ROU assets	4,036	3,907	3,907	3,907	3,907
Capital WIP	4,691	248	840	1,563	2,345
Goodwill	951	951	951	951	951
Investments [JV/Associates]	45	52	52	52	52
Cash & equivalents	285	618	1,343	3,096	3,250
Current assets (ex-cash)	2,047	2,407	2,967	2,953	2,957
Current Liab. & Prov.	749	951	1,047	1,154	1,271
NWC (ex-cash)	1,298	1,456	1,920	1,799	1,685
Total assets	36,024	38,793	39,490	40,718	40,289
Net debt	14,890	16,148	12,908	8,305	2,451
Capital employed	28,794	31,697	31,803	32,437	31,466
Invested capital	31,002	37,874	37,254	36,006	34,642
BVPS (Rs)	10.8	12.2	17.1	18.9	24.0
Net Debt/Equity (x)	1.7	1.7	1.1	0.6	0.1
Net Debt/EBITDA (x)	3.3	3.1	1.9	1.1	0.3
Interest coverage (x)	0.5	0.5	0.3	0.3	0.2
RoCE (%)	12.5	13.8	17.4	20.0	23.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	83.8	67.4	38.5	33.2	24.5
P/CE(x)	46.3	38.4	24.8	23.4	18.7
P/B (x)	11.7	10.3	7.4	6.7	5.3
EV/Sales (x)	13.1	10.8	7.7	7.4	6.2
EV/EBITDA (x)	25.4	22.2	15.1	14.2	11.6
EV/EBIT(x)	32.3	28.3	20.7	17.0	13.5
EV/IC (x)	3.7	3.1	3.0	3.0	3.0
FCFF yield (%)	2.0	1.2	4.1	5.3	6.3
FCFE yield (%)	0.6	(0.6)	2.8	4.1	5.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	13.6	13.9	17.4	20.5	24.6
Total asset turnover (x)	0.3	0.4	0.4	0.5	0.5
Assets/Equity (x)	3.4	3.3	2.9	2.4	1.9
RoE (%)	14.2	16.3	21.2	22.4	24.0
DuPont-RoIC					
NOPLAT margin (%)	32.2	32.3	30.4	32.0	33.8
IC turnover (x)	0.3	0.3	0.4	0.4	0.5
RoIC (%)	9.1	10.0	10.7	12.8	15.9
Operating metrics					
Core NWC days	(15.3)	(13.1)	(9.2)	(6.9)	(7.2)
Total NWC days	54.2	49.6	52.9	44.6	37.1
Fixed asset turnover	0.3	0.3	0.4	0.4	0.5
Opex-to-revenue (%)	42.6	45.3	43.0	42.1	40.4

Source: Company, Emkay Research

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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