

Lemon Tree Hotels Limited

4th June 2024

Transition to asset-light & Aurika MIAL to push growth

In Q4 FY24, Lemon Tree Hotel's revenue increased by 29.5% on a YoY basis, driven by growth in ARR by 13.4% and owned rooms by 13.1% on a YoY basis. Revenue growth was also supported by growth in management fees by 48% on a YoY basis. Despite strong topline growth, EBITDA margins declined by 297 Bps due to ongoing renovations, expansion of business development team and overall payroll increase. Renovation expenses resulted in 2.4% impact on EBITDA margins in FY24.

Strong Management contracts pipeline to drive margins

The Company has a strong pipeline of management contracts, and the pipeline figures are consistently growing. With a seamless 100% flow-through of management income and zero capital investment, this asset-light business positions the Company to achieve enhanced profit margins, given the absence of associated expenses with management fee income. Revenue from management & franchise fees contribute 12.6% of total revenue in Q4 FY24, up from 11.2% in Q4 FY23. Further, rooms in pipeline via managed rooms has increased by 60.5% on a YoY basis.

Renovation in Keys' Portfolio

Renovations are underway for Keys' portfolio, which is expected to be completed in the next couple of years. Keys Select Hotel, Pune, recently got renovated, resulting in an increase in ARR by 21% and improved occupancy from 76% to 84%. Management expects renovation expenses to payback within 2 years via incremental operating profit post renovation.

Repricing Opportunity

The hospitality industry is currently in an upcycle stage. Demand growth is ~10%, outpacing supply growth at 7%. This trend is expected to continue, providing the Company with an opportunity to improve its ARR. Management expects ARR growth of 9-10% in FY25.

Sweating of assets & Debt Repayment

With Aurika MIAL going live in Oct'23, no further capex are scheduled for the Company. With no capex planned, the Company anticipates generating sufficient cash flow from its properties to repay its debt. Management aims to bring debt to zero in next four years.

View & Valuation

LTH is a leader in the midscale & economy segment, transitioning to an asset light model through management contracts. The inauguration of Aurika MIAL is a milestone expected to boost both top and bottom-line performance. With demand set to outpace supply in the industry, occupancy and ARR visibility improve. We have revised our estimates and maintained our BUY rating on Lemon Tree Hotels Ltd with a target price of Rs. 151 (21x FY25E EV/EBITDA Multiple).

BUY

CMP Rs. 133

TARGET Rs. 151 (+13.5%)

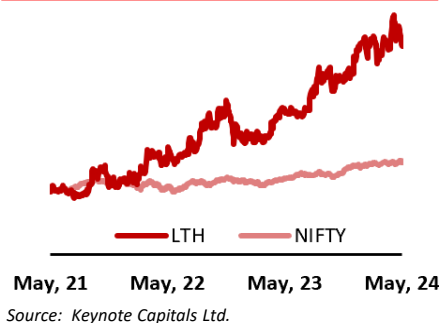
Company Data

| | |
|-------------------------|-------------|
| Bloomberg Code | LEMONTRE IN |
| MCAP (Rs. Mn) | 1,04,900 |
| O/S Shares (Mn) | 792 |
| 52w High/Low | 158 / 90 |
| Face Value (in Rs.) | 2 |
| Liquidity (3M) (Rs. Mn) | 590 |

Shareholding Pattern %

| | Mar'24 | Dec'23 | Sep'23 |
|-------------------|--------|--------|--------|
| Promoters | 22.88 | 23.21 | 23.28 |
| FII's | 27.09 | 22.82 | 24.82 |
| DII's | 15.35 | 15.00 | 13.41 |
| Non-Institutional | 34.68 | 38.98 | 38.48 |

LTH vs NIFTY



Key Financial Data

| (Rs Bn) | FY23 | FY24 | FY25E |
|--------------|-------|-------|-------|
| Revenue | 87.5 | 107.1 | 127.9 |
| EBITDA | 44.8 | 52.3 | 64.2 |
| Net Profit | 11.5 | 14.8 | 22.8 |
| Total Assets | 369.6 | 399.7 | 411.8 |
| ROCE (%) | 14% | 14% | 16% |
| ROE (%) | 10% | 10% | 19% |

Source: Company, Keynote Capitals Ltd Estimates

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Lemon Tree Hotels | Quarterly Update

Q4FY24 Result Update

Result Highlights (Rs. Mn)

| Particulars | Q4FY24 | Q4FY23 | Change % (Y-o-Y) | Q3FY24 | Change % (Q-o-Q) | FY24 | FY23 | Change % (Y-o-Y) |
|---------------------------|--------------|--------------|---------------------|--------------|---------------------|--------------|--------------|---------------------|
| Revenue | 3,273 | 2,527 | 29.5% | 2,887 | 13.4% | 10,711 | 8,750 | 22% |
| Employee Cost | 499 | 410 | 21.7% | 490 | 2% | 1,878 | 1,497 | 25% |
| F&B Cost | 205 | 129 | 59.3% | 166 | 23% | 628 | 499 | 26% |
| Power & Fuel Cost | 197 | 160 | 23.5% | 199 | -1% | 780 | 687 | 14% |
| Other Expenses | 657 | 430 | 53.0% | 634 | 4% | 2,193 | 1,591 | 38% |
| EBITDA | 1,715 | 1,399 | 23% | 1,397 | 23% | 5,232 | 4,476 | 17% |
| EBITDA % | 52.4% | 55.4% | -297 Bps | 48.4% | 398 Bps | 48.8% | 51.2% | -230 Bps |
| Depreciation | 334 | 235 | 42% | 333 | 0% | 1,121 | 966 | 16% |
| EBIT | 1,381 | 1,164 | 19% | 1,064 | 30% | 4,111 | 3,510 | 17% |
| EBIT % | 42.2% | 46.0% | -386 Bps | 36.9% | 533 Bps | 38.4% | 40.1% | -173 Bps |
| Finance Cost | 554 | 467 | 19% | 555 | 0% | 2,085 | 1,823 | 14% |
| Other Income | 65 | 36 | 83% | 43 | 50% | 125 | 88 | 43% |
| PBT | 892 | 732 | 22% | 552 | 62% | 2,151 | 1,774 | 21% |
| Tax | 50 | 143 | -65% | 118 | -57% | 341 | 377 | -9% |
| Profit from Associates/JV | -2 | 1 | | 3 | | 7 | 9 | -19% |
| Minority Interest | -170 | -150 | | -84 | | -332 | -260 | |
| Net Profit | 670 | 440 | 52% | 354 | 89% | 1,485 | 1,146 | 30% |
| EPS | 0.85 | 0.56 | - | 0.45 | - | 1.88 | 1.45 | - |

Source: Company, Keynote Capitals Ltd.

Operating Metrics

| Particulars | Q4FY24 | Q4FY23 | Change % (Y-o-Y) | Q3FY24 | Change % (Q-o-Q) |
|--------------------------|--------|--------|---------------------|--------|---------------------|
| Total Operational Rooms | 9,863 | 8,382 | 18% | 9,687 | 2% |
| Owned Rooms % | 58% | 61% | -234 Bps | 59% | -106 Bps |
| Managed/Franchised % | 42% | 39% | 234 Bps | 41% | 106 Bps |
| Total Rooms in Pipeline | 4,156 | 3,285 | 27% | 3,746 | 11% |
| Total Rooms | 14,019 | 11,667 | 20% | 13,433 | 4% |
| ARR (Rs.) | 6,605 | 5,824 | 13% | 6,333 | 4% |
| Occupancy % | 72.0% | 73.6% | -160 Bps | 65.9% | 610 Bps |
| Management Fees (Rs. Mn) | 412 | 278 | 48% | 323 | 28% |

Source: Company, Keynote Capitals Ltd.

Lemon Tree Hotels | Quarterly Update

Q4 FY24 Conference Call Takeaways

General Highlights

- Q4 FY24 was the best-ever Q4 performance in terms of Gross ARR, Revenue, EBITDA, PBT & PAT.
- EBITDA margins declined by 297 Bps due to an increase in renovation expenses, the expansion of the business development team, and an overall payroll increase.
- The investment in renovation has allowed LTH to position the Keys brand to capture better pricing and demand. The management shared a case study of Keys, Pune, where the property is 70%+ renovated, which has resulted in an increase in ARR by Rs. 800 on a YoY basis.
- Total network revenue for the full year stood at Rs. 16.2 Bn for FY24, compared to Rs. 13.3 Bn in FY23, which translates to an increase of 22%. Total network revenue increased by 31% on a YoY basis in Q4 FY24.
- The Company's debt increased by Rs. 1.4 Bn from 17.5 Bn in FY23 to 18.9 Bn in FY24 owing to borrowing against Aurika, Mumbai SkyCity.
- During the quarter, we signed 12 new management & franchise contracts, which added 667 new rooms to our pipeline and operationalized 4 hotels, which added 176 rooms to our portfolio.

Guidance

- Management expects operational inventory to be 120+ hotels with over 11,000+ rooms by the end of FY25.
- Management is targeting a minimum revenue growth of 15% for the next few years, a mix of ARR, Occupancy, and franchise fee income.
- Rate hike (ARR) in FY25 should be in line with FY24
- From October 2025 onwards, management is targeting an EBITDA of Rs. 600 Mn each year from the Key's portfolio.
- Q1 FY25 to be much better than Q1 FY24.
- Debt will be reduced to zero in the next 4 years.
- Expecting to spend Rs. 1 Bn in FY25 and FY26 for renovations. Of these, 2/3rd of the expense will be opex and hence flow through the profit & loss statement and impact EBITDA. Post these renovations, the entire room inventory will be new.
- Management aims to recover renovation expenses within 2 years with incremental EBITDA.

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Financial Statement Analysis

Income Statement

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------|---------------|--------------|---------------|---------------|---------------|
| Net Sales | 4,022 | 8,750 | 10,711 | 12,790 | 14,316 |
| Growth % | | 118% | 22% | 19% | 12% |
| Raw Material Expenses | 279 | 499 | 628 | 669 | 725 |
| Employee Expenses | 973 | 1,497 | 1,878 | 2,095 | 2,275 |
| Other Expenses | 1,584 | 2,278 | 2,973 | 3,607 | 4,109 |
| EBITDA | 1,187 | 4,476 | 5,232 | 6,419 | 7,206 |
| Growth % | | 277% | 17% | 23% | 12% |
| Margin% | 30% | 51% | 49% | 50% | 50% |
| Depreciation | 1,043 | 966 | 1,121 | 1,232 | 1,253 |
| EBIT | 143 | 3,510 | 4,111 | 5,187 | 5,953 |
| Growth % | | 2352% | 17% | 26% | 15% |
| Margin% | 4% | 40% | 38% | 41% | 42% |
| Interest Paid | 1,809 | 1,823 | 2,085 | 1,900 | 1,603 |
| Other Income & exceptional | 210 | 88 | 125 | 298 | 171 |
| PBT | -1,456 | 1,774 | 2,151 | 3,585 | 4,521 |
| Tax | -72 | 377 | 341 | 896 | 1,130 |
| PAT | -1,384 | 1,397 | 1,810 | 2,689 | 3,391 |
| Others (Minorities, Associates) | -498 | 268 | 339 | 423 | 472 |
| Net Profit | -1,882 | 1,146 | 1,485 | 2,280 | 2,933 |
| Growth % | | | 30% | 54% | 29% |
| Shares (Mn) | 792.2 | 792.2 | 792.2 | 792.2 | 792.2 |
| EPS | -1.11 | 1.45 | 1.87 | 2.88 | 3.70 |

Balance Sheet

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash, Cash equivalents & Bank | 543 | 275 | 537 | 1,898 | 630 |
| Current Investments | 59 | 10 | 81 | 81 | 81 |
| Debtors | 291 | 560 | 715 | 767 | 859 |
| Inventory | 81 | 105 | 138 | 140 | 152 |
| Short Term Loans & Advances | 255 | 294 | 550 | 550 | 550 |
| Other Current Assets | 81 | 116 | 32 | 32 | 32 |
| Total Current Assets | 1,310 | 1,360 | 2,053 | 3,469 | 2,304 |
| Net Block & CWIP | 33,456 | 34,264 | 36,660 | 36,452 | 35,757 |
| Long Term Investments | 37 | 45 | 52 | 58 | 64 |
| Other Non-current Assets | 1,087 | 1,288 | 1,206 | 1,206 | 1,206 |
| Total Assets | 35,890 | 36,958 | 39,972 | 41,184 | 39,331 |
| Creditors | 585 | 668 | 859 | 1,791 | 2,004 |
| Provision | 198 | 56 | 60 | 60 | 60 |
| Short Term Borrowings | 355 | 575 | 192 | 192 | 192 |
| Other Current Liabilities | 1,396 | 2,402 | 2,480 | 2,480 | 2,480 |
| Total Current Liabilities | 2,533 | 3,701 | 3,591 | 4,523 | 4,737 |
| Long Term Debt | 15,535 | 15,174 | 16,767 | 14,767 | 9,767 |
| Deferred Tax Liabilities | -441 | -329 | -306 | -306 | -306 |
| Other Long Term Liabilities | 4,274 | 4,278 | 4,456 | 4,456 | 4,456 |
| Total Non Current Liabilities | 19,368 | 19,123 | 20,917 | 18,917 | 13,917 |
| Paid-up Capital | 7,908 | 7,916 | 7,918 | 7,918 | 7,918 |
| Reserves & Surplus | 404 | 621 | 1,750 | 4,446 | 7,844 |
| Shareholders' Equity | 8,312 | 8,537 | 9,669 | 12,365 | 15,763 |
| Non Controlling Interest | 5,676 | 5,597 | 5,795 | 5,380 | 4,915 |
| Total Equity & Liabilities | 35,890 | 36,958 | 39,972 | 41,184 | 39,331 |

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24 | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|---------------|
| Pre-tax profit | -1,456 | 1,774 | 2,151 | 3,585 | 4,521 |
| Adjustments | 2,788 | 2,676 | 3,070 | 2,419 | 2,220 |
| Change in Working Capital | 27 | -403 | -218 | 877 | 110 |
| Total Tax Paid | -17 | -207 | -360 | -896 | -1,130 |
| Cash flow from operating Activities | 1,343 | 3,840 | 4,643 | 5,985 | 5,721 |
| Net Capital Expenditure | -668 | -1,618 | -3,305 | -1,023 | -558 |
| Change in investments | 132 | 8 | -242 | 0 | 0 |
| Other investing activities | 81 | -1,222 | -418 | 299 | 173 |
| Cash flow from investing activities | -454 | -2,832 | -3,965 | -724 | -386 |
| Equity raised / (repaid) | 8,426 | 17,067 | 5,126 | 0 | 0 |
| Debt raised / (repaid) | 134 | 471 | 1,418 | -2,000 | -5,000 |
| Dividend (incl. tax) | 0 | 0 | 0 | 0 | 0 |
| Other financing activities | -1,773 | -1,811 | -2,008 | -1,900 | -1,603 |
| Cash flow from financing activities | -1,630 | -1,323 | -585 | -3,900 | -6,603 |
| Net Change in cash | -742 | -315 | 93 | 1,360 | -1,268 |

Valuation Ratios

| | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------------|-------|-------|------|-------|-------|
| Per Share Data | | | | | |
| EPS | -1.1 | 1.4 | 1.9 | 3.9 | 4.9 |
| Growth % | | -231% | 30% | 110% | 24% |
| Book Value Per Share | 10 | 18 | 20 | 22 | 26 |
| Return Ratios | | | | | |
| Return on Assets (%) | -2% | 3% | 4% | 8% | 10% |
| Return on Equity (%) | -10% | 10% | 10% | 19% | 20% |
| Return on Capital Employed (%) | 1% | 14% | 14% | 16% | 18% |
| Turnover Ratios | | | | | |
| Asset Turnover (x) | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 |
| Sales / Gross Block (x) | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 |
| Working Capital / Sales (x) | -23% | -20% | -18% | -10% | -12% |
| Receivable Days | 27 | 18 | 22 | 21 | 21 |
| Inventory Days | 101 | 68 | 71 | 76 | 74 |
| Payable Days | 62 | 26 | 26 | 38 | 48 |
| Working Capital Days | 66 | 60 | 67 | 59 | 46 |
| Liquidity Ratios | | | | | |
| Current Ratio (x) | 0.5 | 0.4 | 0.6 | 0.8 | 0.5 |
| Interest Coverage Ratio (x) | 0.2 | 2.0 | 2.0 | 2.9 | 3.8 |
| Total Debt to Equity | 2.0 | 1.1 | 1.1 | 0.8 | 0.5 |
| Net Debt to Equity | 2.0 | 1.1 | 1.1 | 0.7 | 0.5 |
| Valuation | | | | | |
| PE (x) | -57.2 | 43.8 | 71.5 | 34.1 | 27.5 |
| Earnings Yield (%) | -2% | 2% | 1% | 3% | 4% |
| Price to Sales (x) | 12.5 | 5.7 | 9.9 | 8.3 | 7.4 |
| Price to Book (x) | 6.0 | 7.2 | 11.0 | 8.6 | 6.7 |
| EV/EBITDA (x) | 56.2 | 17.5 | 23.8 | 19.4 | 17.2 |
| EV/Sales (x) | 16.6 | 9.0 | 11.6 | 9.7 | 8.7 |

KEYNOTE Rating History

| Date | Rating | Market Price at Recommendation | Upside/Downside |
|--------------------------------|--------|--------------------------------|-----------------|
| 26 th February 2024 | BUY | 142 | +12.6% |
| 4 th June 2024 | BUY | 133 | +13.5% |

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Rating Methodology

| Rating | Criteria |
|--|--|
| BUY | Expected positive return of > 10% over 1-year horizon |
| NEUTRAL | Expected positive return of > 0% to < 10% over 1-year horizon |
| REDUCE | Expected return of < 0% to -10% over 1-year horizon |
| SELL | Expected to fall by >10% over 1-year horizon |
| NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS) | Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage |

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