

Best Ever Quarter 1

LemonTree Hotels posted best ever Q1 results in terms of Gross ARR, Revenue, EBITDA, PBT & PAT. Gross ARR saw a marginal growth of ~8% vs Industry growth of +16% for the Q1 vs previous year as LemonTree had already repriced twice in FY23 & will be focusing on increasing occupancy significantly for FY24. Despite of Q1 being a weak quarter occupancy for LemonTree grew by 511 bps whereas Industry saw a de-growth of 18 bps. Occupancy going forward is expected to show robust growth & hotel is expected to reprice significantly from Q3 onwards. AURIKA MIAL is on track to open in October, 2023 wherein most regulatory approvals are already received. According to managements conservative estimates this property in its full year of operations will be generating an EBITDA of ~Rs 1,700 Mn with margins north of 50% when scaled up. Performance of KEYS hotels to improve once the renovations are completed. Margins saw a dip due to seasonality, guidance to maintain 50% for the full year.

Key Financials Highlights

- Revenue from Operations at 2223Mn, +16% YoY/-12% QoQ
- EBITDA (Excl. OI) reported at 1045 Mn, +13% YoY/-25% QoQ
- EBITDA Margins (Excl. OI) saw a de-growth of 108 bps/834 bps YoY/QoQ to come at 47%
- Cash Profit of ~503 Mn against 381 Mn (Q1FY23)
- Adj. EPS at 0.3 for Q1FY24 vs 0.23 (+28% YoY)

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	2,517	4,022	8,750	10,588	14,075
EBITDA	613	1,187	4,443	5,075	7,134
EBITDA margins	24.3	29.5	50.8	47.9	50.7
PAT (adj)	-1,271	-874	1,117	1,323	2,821
EPS	-1.61	-1.11	1.41	1.67	3.56
P/E (x)	-59	-85	67	56	26
P/B (x)	8	9	9	8	6
EV/EBITDA (x)	165	85	23	20	14
RoE (%)	-14	-11	13	13	22
ROCE (%)	-1	1	14	15	21
RoIC (%)	-1	1	11	12	18

Source: Dalal and Broacha

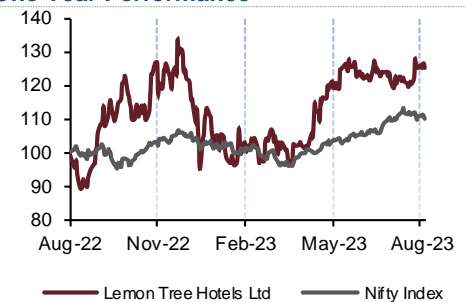
Rating	TP (Rs)	Up/Dn (%)
BUY	124	31

Market data

Current price	Rs	95
Market Cap (Rs.Bn)	(Rs Bn)	75
Market Cap (US \$ Mn)	(US \$ Mn)	907
Face Value	Rs	10
52 Weeks High/Low	Rs	103.4 / 66.4
Average Daily Volume	('000)	4,071
BSE Code		541233
Bloomberg		LEMONTRE.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	23.61	23.61
Public	76.31	76.31
Total	100	100

Source: BSE

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QoQ Performance (Q1 FY24 recorded Best ever first Quarter)

Particulars	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY20	Q3 FY20	Q2 FY20	Q1 FY20
Gross ARR (Rs.)	5,237	5,824	5,738	4,917	4,822	4,093	3,901	3,028	2,362	4,530	4,644	4,133	4,002
Occupancy %	70.2%	73.6%	67.6%	66.2%	65.1%	46.1%	57.6%	51.0%	29.6%	61.0%	71.3%	74.8%	77.5%
Revenue (Rs. Cr)	224.6	254.7	234.1	197.4	192.3	127.2	146.0	98.8	44.3	176.5	202.8	153.7	142.2
EBITDA* (Rs. Cr)	106.8	141.9	127.0	94.3	92.6	44.5	65.6	35.8	2.0	64.4	84.4	49.4	46.0
EBITDA* %	47.6%	55.7%	54.3%	47.8%	48.2%	35.0%	44.9%	36.2%	4.6%	36.5%	41.6%	32.1%	32.4%
PBT (Rs. Cr)	36.2	73.4	59.2	25.0	20.7	-39.4	-3.2	-34.6	-67.3	-13.5	15.6	-2.1	-1.4
PAT (Rs. Cr)	27.5	59.0	48.6	19.4	13.58	-39.16	-5.2	-33.2	-59.8	-19	11.1	-2.3	-2.1

Portfolio Highlights

- Operational inventory of 90 Hotels with 8491 rooms
- Pipeline of 46 Hotels with 3724 rooms (44H & 2986 rooms under Managed & Franchised contract)
- Signed 6 new Management & Franchised contracts, 548 rooms
- Expect to end FY24 with 10,500+ operating rooms.
- By CY28, company aims to have 20,000+ rooms & 300+ hotels (Operational + pipeline)

Quarterly Financials

(Rs.Mn)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Revenue from Operations	2,223	1,920	16%	2,527	-12%
Other Income	24	3	835%	20	15%
Total RM Cost	124	116	7%	129	-3%
Employee Benefits Expense	426	345	23%	410	4%
Other Expenses	627	535	17%	589	6%
Total Expenses	1,178	997	18%	1,128	4%
EBITDA (Excluding Other Income)	1,045	924	13%	1,399	-25%
Depreciation and Amortisation Expenses	228	245	-7%	235	-3%
EBIT / PBIT	841	681	23%	1,184	-29%
Net Finance Costs	481	429	12%	452	7%
EBT/ PBT	359	252	42%	732	-51%
Tax Expense	87	71	22%	143	-39%
Net Profit after Tax	272	181	50%	589	-54%
Adj Earning Per Share	0.30	0.23	28%	0.56	-47%
Margins (%)			(In bps)	(In bps)	
Gross Margins	94.4%	94.0%	44	94.9%	-50
EBITDA Margins (Excl Other Income)	47.0%	48.1%	-108	55.4%	-834
Adj. PAT Margins	11.4%	11.5%	-7	18.4%	-694
As a % to sales			(In bps)	(In bps)	
RM as a % to sales	5.6%	6.0%	-44	5.1%	50
EE Cost as a % to sales	19.2%	18.0%	118	16.2%	294
Other exps as a % to sales	28.2%	27.9%	35	23.3%	490
Key Operational Metrics					
Gross ARR	5,237	4,822	9%	5,824	-10%
Occupancy	70.2%	65.1%	510	73.6%	-340
RevPAR	3,676	3,139	17%	4,286	-14%

Source: Company, Dalal & Broacah Research

Operational Highlights Brand-wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room/qtr. (Rs. Lacs)			Hotel level EBITDAR Margin %		
	Q1 FY24	Q1 FY23	Change (%)	Q1 FY24	Q1 FY23	Change (bps)	Q1 FY24	Q1 FY23	Change (%)	Q1 FY24	Q1 FY23	Change (%)	Q1 FY24	Q1 FY23	Change (bps)
By Brand (#Rooms)															
Aurika Hotels & Resorts (139)	4,635	4,091	13%	46%	37%	990	9,989	11,207	-11%	2.52	2.55	-1%	44%	48%	-320
Lemon Tree Premier (1,603)	4,989	4,186	19%	78%	71%	720	6,380	5,896	8%	3.16	2.69	17%	56%	56%	10
Lemon Tree Hotels (1562)	3,779	3,235	17%	73%	68%	510	5,163	4,751	9%	2.19	1.87	17%	49%	49%	-20
Redi Fox by Lemon Tree Hotels (952)	2,746	2,361	16%	68%	64%	430	4,044	3,712	9%	1.43	1.10	29%	50%	47%	270
Keys by Lemon Tree Hotels (936)	1,964	1,785	10%	57%	56%	160	3,434	3,211	7%	0.64	0.58	11%	31%	32%	-60

Performance Region-Wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room/qtr. (Rs. Lacs)		
	Q1 FY24	Q1 FY23	Change (%)	Q1 FY24	Q1 FY23	Change (bps)	Q1 FY24	Q1 FY23	Change (%)	Q1 FY24	Q1 FY23	Change (%)
By Region (#Rooms)												
Delhi (636)	4,251	3,549	20%	74%	73%	150	5,744	4,895	17%	2.25	1.91	18%
Gurugram (529)	3,448	2,693	28%	68%	57%	1,130	5,078	4,758	7%	2.04	1.36	50%
Hyderabad (663)	4,749	3,885	22%	84%	73%	1,110	5,627	5,300	6%	3.13	2.69	16%
Bengaluru (874)	3,444	3,299	4%	71%	76%	-520	4,878	4,352	12%	2.06	1.97	4%
Mumbai (303)	6,656	5,293	26%	86%	74%	1,180	7,721	7,114	9%	4.66	3.63	28%
Pune (426)	3,518	3,209	10%	72%	71%	20	4,920	4,501	9%	1.76	1.80	-2%
Rest of India (1,659)	2,724	2,348	16%	60%	53%	740	4,510	4,431	2%	1.27	1.07	19%
Total (5090)	3,676	3,139	17%	70%	65%	510	5,237	4,822	9%	2.09	1.77	18%

Source: Company, Dalal & Broach Research

- Robust retail demand in Mumbai, reflecting high recognition of LemonTree Brand.
- Bengaluru market subdued, large inventory consists of KEYS portfolio (~380 out of ~870 rooms) – an economy brand & until renovation are completed, it will drag the performance of total portfolio. Also demand from IT companies is still soft.
- Gurgaon which is less dependent on IT & more dependent on MNCs, pharma cos & large Financial institutions, have all normalized, as a result showing significant growth.

Performance break-up of LTH portfolio & Keys portfolio

Rs. Cr	Lemon Tree Consolidated excluding Keys Hotels					Keys Hotels					Lemon Tree Consolidated				
	Q1 FY24	Q4 FY23	Q1 FY23	QoQ Change	YoY Change	Q1 FY24	Q4 FY23	Q1 FY23	QoQ Change	YoY Change	Q1 FY24	Q4 FY23	Q1 FY23	QoQ Change	YoY Change
Inventory	4,154	4,154	4,199	0%	-1%	936	936	936	0%	0%	5,090	5,090	5,135	0%	-1%
Gross ARR	5,555	6,237	5,119	-11%	9%	3,434	3,264	3,211	5%	7%	5,237	5,824	4,822	-10%	9%
Occupancy %	73.2%	77.7%	67.2%	-451	595	57.2%	55.6%	55.6%	160	164	70.2%	73.6%	65.1%	-339	514
RevPAR	4,064	4,844	3,440	-16%	18%	1,965	1,815	1,784	8%	10%	3,678	4,287	3,138	-14%	17%
Revenue from Operations	202.9	234.5	175.0	-13%	16%	19.4	18.2	17.1	7%	13%	222.3	252.7	192.0	-12%	16%
Other Income	2.2	1.5	0.1	50%	3053%	0.1	0.6	0.2	-76%	-25%	2.4	2.0	0.3	15%	835%
Total revenue	205.1	236.0	175.0	-13%	17%	19.5	18.7	17.3	4%	13%	224.6	254.7	192.3	-12%	17%
Total expenses	102.7	101.6	86.2	1%	19%	15.1	11.2	13.5	35%	12%	117.8	112.8	99.7	4%	18%
EBITDA*	102.4	134.4	88.9	-24%	15%	4.4	7.5	3.8	-41%	17%	106.8	141.9	92.6	-25%	15%
<i>EBITDA Margin(%)*</i>	49.9%	57.0%	50.8%	-701	-82	22.6%	40.1%	21.8%	-1748	82	47.6%	55.7%	48.2%	-815	-60
PBT	39.0	71.4	23.0	-45%	70%	(2.8)	1.9	(2.3)	-244%	21%	36.2	73.4	20.7	-51%	75%

Source: Company, Dalal & Broach Research

Other Concall KTAs

- Best ever Q1 in Revenue, Gross ARR PBT, PAT
- Signed 6 new managed & franchised contracts
- Growth levers going forward – (i) Opening of AURIKA MIAL in October, 2023; (ii) Acceleration in managed & franchised portfolio, with proportionate increase in fee based income (iii) Improvement in Gross ARR & occupancy (iv) Increase in performance from KEYS portfolio post renovation
- FY23 focused on repricing & hence it was done twice in the previous year, evident from increase in ARRs, as a result some demand was lost. Focus for FY24 will be towards increasing occupancy, which is expected to increase significantly from Q2 onwards.
- Marginal increase in ARR expected in Q2. Will reprice significantly in H2FY24 as a result of demand being robust from key events (G20, World Cup)
- Management intends to increase the share of business from retail segment & reduce corporates share – most price sensitive
- Evidently Rooms per day (RPD) from corporates reduced by 100 days in Q1FY24, YoY
- Want to have ~66% of demand from retail segment in 4 years, thereby increasing brand awareness.
- By end of FY24 will have >10,500 operational rooms, will continue to be aggressive in signings of contracts
- AURIKA Udaipur to perform significantly better in Q3 & Q4. 15 weddings already booked & each wedding generates an EBITDA of ~ Rs 10 Mn.
- Management fees from third-party in FY23 was @ Rs ~360 Mn. Expectations for FY24/25/26 is Rs 500/750/1,300 Mn.
- Fleur Hotels: LTH owns 59%, however 15% of EBITDA taken as Management fee out of APGs 41% resulting LTHs economic interest of ~65%.
- To sign 40 Hotels more in FY24 under Managed & Franchised contracts.
- International travel (Contr. ~10% of demand) still less than 40% from pre-covid level.
- Employee expense increased by 23% YoY, grew the strength of business development team. YoY increase of ~ Rs 80 Mn, 30% towards business development team; balance – normalized the salary of employees which were reduced during Covid. Similar levels to sustain going forward.
- Debt – May increase slightly in Q3 due to AURIKA MIAL, but will start reducing from FY24 onwards. Target to be debt-free in about 4 years.
- To spend Rs 1,500 Mn in next 3 years towards renovation

- **Fleur (LTH owns ~59%)** Total debt of ~ Rs 14,500 Mn. 3 Options going forward.
 - 1) Continue as is
 - 2) List Fleur once AURIKA MIAL is stable
 - 3) Raise money from Third Party investor - Management can raise upto 18% fresh equity. As a result, LTH stake will dilute to ~51%
- Outlook: ARR to grow >15% for next 3 years. Occupancy to improve going forward, with July month clocking an occupancy of 74%.

Aurika MIAL

- Opening in October, 2023
- Most licenses required for opening of hotel already obtained
- Entire inventory (669 rooms) to be ready by end of October
- Demand is expected to remain soft on account of festive season, pick up in demand to be seen from second half of November
- LTP in Mumbai, clocked an ARR of ~Rs 8,000 (Q1) & price differential between AURIKA & LTP in Mumbai is about Rs 4,000
- Will be competing with ITC Maratha & JW Marriott which are priced between Rs 12,000 to Rs 20,000
- Hence, AURIKA MIAL is also expected to have room rates in the similar range.
- Expect about 100 rooms a day from airlines at a price of ~Rs 8000 (Base rate).
- As per Managements conservative estimates, the hotel is expected to generate an EBITDA of Rs 1,700 Mn in full year of operations.
- Revenue Mix expected - Room Rental (68%) || Food & Beverages (32%)

A typical 5-star hotel has a revenue mix of Room Rental:Revenue from F&B is 55:45, resulting in a margin range of 30-40%. However, in case of Lemon Tree's business model, this ratio is 75:25 which is why the EBITDA margins are >50%

Outlook and Valuations

Indian Hotel Industry is going through an upcycle which typically lasts ~4/5 years significantly benefitting major branded players. LTH commands a market leadership position in the mid-market segment, standing to gain immensely.

Opening of AURIKA MIAL with 669 rooms, largest in the country, will be a game changer for the company which is on track to open in October, 2023. Company expects to generate an EBITDA of ~1,700 Mn. With the amount of cash generated from this property, Company aims to pay off its debt and be debt free in a span of ~4 years.

Company's economy brand KEYS is under renovation and once completed they will be able to charge premium from the current levels, improving the company's overall performance which is currently dragged down by underperformance of KEYS.

Focus for FY24 will be towards increasing the occupancy & the company will reprice its rooms from Q3 onwards. It is expected that this repricing will be significant as demand remains robust from H2FY24 supported by key events like G20, World cup.

With asset-light being a core strategy, management fees which majorly flows directly to EBITDA, is expected to see a major jump going forward. The pipeline of managed & franchised contracts is strong with ~3,000 rooms.

LemonTree Hotels at CMP of Rs. 94.9 trades at 13.68x EV/EBITDA FY25E ; we value LTH at 17x FY25 EV/EBITDA multiple and maintain a BUY with a target price of Rs. 124, an upside of 31.9%.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	2,517	4,022	8,750	10,588	14,075
Operating Expenses	-178	-279	-499	-635	-844
Employee Cost	-704	-973	-1,497	-1,845	-2,070
Other Expenses	-1,022	-1,584	-2,310	-3,033	-4,027
Operating Profit	613	1,187	4,443	5,075	7,134
Depreciation	-1,076	-1,043	-966	-1,222	-1,274
PBIT	-463	143	3,477	3,853	5,860
Other income	133	140	36	36	36
Net Interest (Exp)/Inc	-1,817	-1,740	-1,765	-1,745	-1,710
Profit before tax	-2,147	-1,456	1,748	2,143	4,186
Provision for tax	322	72	-377	-536	-1,047
Profit & Loss from Associates/JV	-40	10	9	10	11
Reported PAT	-1,865	-1,374	1,380	1,617	3,150
MI	595	499	-263	-294	-329
Owners PAT	-1,271	-874	1,117	1,323	2,821
Adjusted Profit	-1,271	-874	1,117	1,323	2,821

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	7,904	7,908	7,916	7,916	7,916
Reserves	1,272	404	621	1,944	4,765
Net worth	9,176	8,312	8,537	9,860	12,681
MI	6,174	5,676	5,597	5,859	6,154
Non Current Liabilities	19,872	19,828	19,488	19,807	19,418
Current Liabilities	2,963	2,533	3,701	3,811	4,236
TOTAL LIABILITIES	38,185	36,350	37,323	39,338	42,489
Non Current Assets	35,883	35,041	35,963	36,023	37,150
Fixed Assets	29,295	29,180	30,359	30,021	30,912
Right of Use Assets	5,060	4,299	4,036	4,426	4,654
Financial Assets	821	799	859	859	859
Deferred Tax Asset	404	461	365	365	365
Long Term Loans and Advances	230	245	186	186	186
Other Non Current Assets	73	57	158	166	174
Current Assets	2,302	1,310	1,360	3,315	5,339
Current investments	9	59	10	11	12
Inventories	72	81	105	134	178
Trade Receivables	308	291	560	754	1,003
Cash and Bank Balances	1,411	543	275	2,002	3,728
Short Term Loans and Advances	-	-	-	-	-
Other Financial Assets	42	24	36	40	43
Other Current Assets	460	312	375	375	375
TOTAL ASSETS	38,185	36,350	37,323	39,338	42,489

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	-2,147	-1,456	1,748	2,143	4,186
Depreciation	1,076	1,043	966	1,222	1,274
Net Chg in WC	136	-180	-210	443	147
Taxes	96	-17	-269	-536	-1,047
Others	1,250	1,963	1,941	1,835	1,803
CFO	410	1,353	4,176	5,108	6,363
Capex	-644	-668	-1,600	-3,000	-1,750
Net Investments made	-137	159	-12	-1	-1
Others	125	55	-	-	-
CFI	-656	-454	-1,612	-3,001	-1,751
Change in Share capital	2	8	-	-	-
Change in Debts	598	134	489	-286	-457
Div. & Div Tax	-	-	-	-	-
Others	512	-1,773	-3,321	-94	-2,428
CCF	1,112	-1,630	-2,832	-380	-2,885
Total Cash Generated	866	-732	-268	1,727	1,726
Cash Opening Balance	408	1,275	543	275	2,002
Cash Closing Balance	1,275	543	275	2,002	3,728

Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	24.3	29.5	50.8	47.9	50.7
NPM	-48.0	-21.0	12.7	12.5	20.0
Tax rate	-15.0	-5.0	-21.6	-25.0	-25.0

Growth Ratios (%)

Net Sales	-62.4	59.8	117.5	21.0	32.9
Operating Profit	-74.8	93.7	274.5	14.2	40.6
PBIT	-130.6	-130.9	2,329.2	10.8	52.1
PAT	1,328.9	-26.4	-200.4	17.2	94.8

Per Share (Rs.)

Net Earnings (EPS)	-1.61	-1.11	1.41	1.67	3.56
Cash Earnings (CPS)	-0.25	0.21	2.63	3.21	5.17
Dividend	-	-	-	-	-
Book Value	11.61	10.51	10.78	12.46	16.02
Free Cash Flow	-3.37	-2.26	2.70	1.47	4.64

Valuation Ratios

P/E(x)	-59	-85	67	56	26
P/B(x)	8	9	9	8	6
EV/EBIDTA(x)	165	85	23	20	14
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	-3.58	-2.39	2.86	1.55	4.92

Return Ratios (%)

ROE	-14%	-11%	13%	13%	22%
ROCE	-1%	1%	14%	15%	21%
RoIC	-1%	1%	11%	12%	18%

Source: Company, Dalal & Broacah Research

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