

Best Ever Quarter

LemonTree Hotels posted best ever quarter across all its metrics. With renovations of keys portfolio underway which is expected to be completed in H1FY24, the brand is set to perform better by the ability to charge premium on the upgraded rooms & increase the occupancy. Accelerating the Capex spends for its largest property in Mumbai, AURIKA MIAL(669 rooms) will be a game changer for the company which has the potential to clock revenue of more than Rs. 300 cr when fully operational & clock margins north of 50%. The propert is expected to open in Q3FY23 & is running as per schedule. The company generated cash profits of ~Rs 800 Mn during Q4FY23 and it is expected that significant debt reduction will happen from FY24 onwards with the aim to be debt free by FY28.

- **Occupancy & ARR to increase further:** Occupancy for Q4FY23 stood at 73.6% vs 67.6% (Q3FY23) vs 46.1% (Q4FY22). With renovation of keys hotel which is set to complete in the first half of FY24, upgradation of rooms will provide the ability to the company to charge higher room rates & increase the footfalls in these hotels.
- **LTH was able to generate industry leading Margins of 55.7% because of efforts taken towards cost optimization.** Total expenses as a % of revenue came at 44% for the quarter, down from 64% in Q4FY20 (pre-covid), a dip of 1926 bps.

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	2,517	4,022	8,750	10,131	13,793
EBITDA	613	1,187	4,443	4,779	6,954
EBITDA margins	24.3	29.5	50.8	47.2	50.4
PAT (adj)	-1,271	-874	1,117	1,102	2,686
EPS	-1.61	-1.11	1.41	1.39	3.39
P/E (x)	-59	-85	67	68	28
P/B (x)	8	9	9	8	6
EV/EBITDA (x)	165	85	23	21	14
RoE (%)	-14	-11	13	11	22
ROCE (%)	-1	1	14	14	20
RoIC (%)	-1	1	11	11	17

Source: Dalal and Broacha

Rating	TP (Rs)	Up/Dn (%)
BUY	120	27

Market data

Current price	Rs	94
Market Cap (Rs.Bn)	(Rs Bn)	75
Market Cap (US \$ Mn)	(US \$ Mn)	903
Face Value	Rs	10
52 Weeks High/Low	Rs	103.4 / 58.3
Average Daily Volume	('000)	22,015
BSE Code		541233
Bloomberg		LEMONTRE.IN

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	23.61	23.61
Public	76.31	76.31
Total	100	100

Source: BSE

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- **Rapid expansion of Inventory: 500+ rooms signed in Q4 & 2500+ rooms under pipeline & most of them will be under management contracts. Company aims to have 20,000+ rooms & 300+ hotels by CY28 including hotels in pipeline.**
- **Aurika MIAL to be a showstopper for the company. As per company's conservative estimates, this hotel is expected to generate annual income of ~2860 Mn with an EBITDA Margin of ~60% in FY26.**
- **Debt-free in 5 years: LTH has a debt of ~17,500 Mn, cash profit for Q4FY23 was ~820 Mn. It is expected that the company will continue to generate enough cash going forward & aims to be debt free in 5 years.**

QoQ Performance (Q4FY23 recorded Best ever Quarter)

Particulars	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.)	5,824	5,738	4,917	4,822	4,093	3,901	3,028	2,362	4,530	4,644	4,133	4,002
Occupancy %	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)	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)	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 %	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)	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)	59.0	48.6	19.4	13.58	-39.16	-5.2	-33.2	-59.8	-19	11.1	-2.3	-2.1

Source: Company, Dalal & Broach Research

Portfolio Highlights

- Operational inventory of 88 Hotels with 8382 rooms
- Pipeline of 42 Hotels with 3285 rooms (40H & 2547 rooms under Managed & Franchised contract)
- Signed 9 new Management & Franchised contracts, 538 rooms
- Expect to end FY24 with 10,500+ operating rooms.
- By CY28, company aims to have 20,000+ rooms & 300+ hotels (Operational + pipeline)

Key Financials Highlights

- Revenue from Operations at 2527Mn, +111% YoY/+8% QoQ
- EBITDA (Excl. OI) reported at 1399 Mn, +548% YoY/+11% QoQ
- EBITDA Margins (Excl. OI) grew substantially by 3730 bps/121 bps YoY/QoQ to come at 55.4% (Highest Ever)
- Cash Profit of ~825 Mn against 721 Mn (Q3FY23), +14% QoQ
- Adj. EPS at 0.56 for Q4FY23 vs 0.50 (+10% QoQ)

Operational Highlights Brands & Region Wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin %		
	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (bps)	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (bps)
By Brand (#Rooms)															
Aurika Hotels & Resorts (139)	11,189	4,130	171%	69%	29%	3,986	16,152	14,041	15%	10.29	2.18	373%	72%	40%	3,128
Lemon Tree Premier (1,603)	5,816	3,601	62%	81%	63%	1,806	7,143	5,683	26%	3.88	2.04	90%	61%	48%	1,277
Lemon Tree Hotels (1562)	4,079	2,923	40%	74%	66%	854	5,501	4,455	23%	2.41	1.49	62%	51%	41%	985
Red Fox by Lemon Tree Hotels (952)	3,378	2,194	54%	78%	63%	1,576	4,310	3,504	23%	2.03	1.01	101%	59%	43%	1,595
Keys by Lemon Tree Hotels (936)	1,815	1,441	26%	56%	52%	323	3,264	2,751	19%	0.94	0.25	275%	48%	14%	3,428

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room (Rs. Lacs)			Hotel level EBITDAR Margin %		
	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (bps)	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (%)	Q4 FY23	Q4 FY20	Change (bps)
By Region (#Rooms)															
Delhi (636)	5,559	3,728	49%	88%	72%	1,538	6,352	5,169	23%	3.78	1.96	93%	62%	44%	1,794
Gurugram (529)	4,191	2,931	43%	77%	65%	1,284	5,412	4,537	19%	2.58	1.53	69%	50%	40%	927
Hyderabad (663)	5,001	3,073	63%	77%	64%	1,314	6,459	4,780	35%	3.44	1.94	78%	64%	53%	1,151
Bengaluru (874)	3,178	2,249	41%	63%	57%	584	5,050	3,941	28%	1.95	0.83	134%	56%	31%	2,495
Mumbai (303)	7,657	4,041	89%	84%	59%	2,504	9,064	6,800	33%	4.63	2.46	88%	57%	57%	42
Pune (426)	3,494	2,536	38%	72%	61%	1,143	4,857	4,190	16%	1.80	1.20	51%	47%	40%	767
Rest of India (1,659)	3,718	2,340	59%	70%	57%	1,256	5,341	4,102	30%	2.48	1.01	145%	59%	37%	2,184
Total (5090)	4,287	2,764	55%	74%	61%	1259	5,824	4,530	29%	2.76	1.37	102%	58%	42%	1,611

Source: Company, Dalal & Broach Research

Quarterly Financials

(Rs.Mn)	Q4FY23	Q4FY22	YoY Growth	Q3FY23	QoQ Growth
Revenue from Operations	2,527	1,195	111%	2,335	8%
Other Income	20	76	-73%	6	264%
Total RM Cost	129	84	53%	131	-2%
Employee Benefits Expense	410	288	42%	381	7%
Other Expenses	589	607	-3%	558	6%
Total Expenses	1,128	980	15%	1,071	5%
EBITDA (Excluding Other Income)	1,399	216	548%	1,265	11%
Depreciation and Amortisation Expens	235	265	-11%	236	0%
EBIT / PBIT	1,184	27	4299%	1,035	14%
Net Finance Costs	452	424	6%	445	2%
EBT/ PBT	732	(397)	-284%	590	24%
Tax Expense	143	(3)	-5496%	106	35%
Net Profit after Tax	589	(395)	-249%	484	22%
Adj Earning Per Share	0.56	(0.31)	-279%	0.50	10%
Margins (%)			(In bps)		(In bps)
Gross Margins	94.9%	93.0%	194	94.4%	52
EBITDA Margins (Excl Other Income)	55.4%	18.1%	3730	54.2%	121
PAT Margins	18.4%	-19.6%	3800	18.0%	41
As a % to sales			(In bps)		(In bps)
RM as a % to sales	5.1%	7.0%	-194	5.6%	-52
EE Cost as a % to sales	16.2%	24.1%	-791	16.3%	-11
Other exps as a % to sales	23.3%	50.8%	-2745	23.9%	-57

Source: Company, Dalal & Broacah Research

Performance break-up of LTH portfolio & Keys portfolio

Rs. Cr	Lemon Tree Consolidated excluding Keys Hotels					Keys Hotels					Lemon Tree Consolidated				
	Q4 FY23	Q3 FY23	Q4 FY20	QoQ Change	YoY Change	Q4 FY23	Q3 FY23	Q4 FY20	QoQ Change	YoY Change	Q4 FY23	Q3 FY23	Q4 FY20	QoQ Change	YoY Change
Inventory	4,154	4,154	4,256	0%	-2%	936	936	936	0%	0%	5,090	5,090	5,192	0%	-2%
Gross ARR	6,237	6,094	4,856	2%	28%	3,264	3,512	2,751	-7%	19%	5,824	5,738	4,530	2%	29%
Occupancy %	77.7%	71.4%	62.9%	629 bps	1,475 bps	55.6%	50.6%	52.4%	497 bps	323 bps	73.6%	67.6%	61.0%	604 bps	1,259 bps
RevPAR	4,844	4,349	3,055	11%	59%	1,815	1,778	1,441	2%	26%	4,287	3,877	2,764	11%	55%
Revenue from Operations	234.5	215.6	158.7	9%	48%	18.2	17.9	17.5	1%	4%	252.7	233.5	176.1	8%	43%
Other Income	1.5	0.1	0.4	1281%	256%	0.6	0.5	0.0	25%	-	2.0	0.6	0.4	264%	394%
Total revenue	236.0	215.7	159.1	9%	48%	18.7	18.4	17.5	2%	7%	254.7	234.1	176.5	9%	44%
Total expenses	101.6	91.6	100.0	11%	2%	11.2	15.4	12.2	-27%	-8%	112.8	107.1	112.2	5%	1%
EBITDA	134.4	124.1	59.1	8%	127%	7.5	2.9	5.3	155%	43%	141.9	127.0	64.4	12%	121%
EBITDA Margin (%)	57.0%	57.5%	37.2%	-56 bps	1,981 bps	40.1%	16.0%	30.1%	2,405 bps	999 bps	55.7%	54.3%	36.5%	146 bps	1,926 bps
PBT	71.4	62.1	(11.3)	15%	-	1.9	(2.9)	(2.1)	-	-	73.4	59.2	(13.5)	24%	-

Source: Company, Dalal & Broacah Research

Other Concall KTAs

- Acquired additional 9.67L CCPS from APG group @ Rs 505, amounting to Rs 48.84 cr. With this acquisition Lemon Tree Hotels holds 58.91% of total CCPS issue by Fleur.
- Debt on books of ~17500 Mn, aims to be debt-free within next 5 years.
- Looking to leverage 4 separate revenue streams:
 - a. Improve Occupancy & ARR in Lemon Tree Hotel & Red Fox brand of hotels
 - b. On completion of renovation of Keys portfolio, management expects to command significantly higher ARR & Occupancy (Keys portfolio: ~17% of total inventory)
 - c. Substantial increase in management fee & franchise fee
 - d. AURIKA MIAL which is expected to open in Q3FY24 to contribute substantially to company's profitability.
- Expects to close this year (FY24) with 10,500 operating rooms (Currently ~8400 rooms), 699 rooms from AURIKA MIAL & additional ~1400 rooms from management & franchised contracts.
- Income from Management fee to see a significant rise for FY24 & much larger hike in FY25.
- Growth for franchised contract will be greater than growth for managed contract.
- Company has hired top management team of Choice Hotels, among Worlds top 2 franchise operator (US company), in October last year. Under Franchise contract there is no control in the services offered, hence a hotel needs to pass through various parameters & rigorous inspection to finalize the contract.
- Management contracts & franchised contracts clocks approximately 16.6% & 11.1% of hotel level EBITDA.
- 3 Year renovation plan for keys & older hotels, ~ 3500 rooms, plan to spend Rs. 1500 Mn, Rs. 500 Mn each year for next 3 years.
- 50% of Keys portfolio are in locations where there is significant ability to charge higher rates. In these hotels company plans to invests Rs. 50 Mn per room & payback in incremental EBITDA to be within 1 Year. And in balance portfolio, LTH to spend Rs. 15 Mn per room where intent is to bring up to required standards.
- For AURIKA MIAL, demand may be slow initially mainly due to festive season & is expected to stabilize in Q4. EBITDA margins

may be lower initially for this specific property but on a consol level, company should generate EBITDA margins >50%.

- Company is open to add inventory which does not require any additional capital deployment. Will consider to open under lease contract in dense market which has low risk & relatively higher reward ratio.
- To list Fleur Hotels Pvt Ltd (58.91% Subsidiary) via IPO/REIT/InvIT before CY28. (Lemon Tree to remain Majority shareholder)

Capex Update

- Spent Rs. 200 Mn in FY23, Rs. 550 Mn expected in FY24
- 75% of renovation expense will be expensed as it is a part of Opex.
- Accelerated CAPEX for AURIKA MIAL
- As on 31st March, 2023, spent Rs. 5750 Mn, deployed another ~Rs. 800 Mn. Remaining ~Rs. 3000 Mn of which about ~Rs 1000 Mn to be spent post opening of hotel.

Outlook and Valuations

With industry moving in an upcycle & Lemontree hotels commanding a significant market share in the mid-priced segment, the company is set to benefit from this uptrend. Various tailwinds in the sector like G20 summit & ICC world cup which are to be held in India in H2FY24 will provide a boost in terms of occupancy & ARR.

With Keys hotels renovation to be completed in the first half of FY24, upgradation of rooms will help the company to charge a higher rate on these rooms.

AURIKA MIAL which is the largest hotel for the company with 669 rooms, is set open in Q3FY24 will be a game changer for the company. Margins may shrink in the initial stages but when fully operational this hotel alone will contribute to ~Rs. 3000 Mn of topline.

LemonTree Hotels at CMP of Rs. 94.3 trades at 14x EV/EBITDA FY25E ; we value LTH at 17x FY25 EV/EBITDA multiple and maintain a BUY with a target price of Rs. 120, an upside of 27.2%.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	2,517	4,022	8,750	10,131	13,793
Operating Expenses	-178	-279	-499	-608	-828
Employee Cost	-704	-973	-1,497	-1,841	-2,065
Other Expenses	-1,022	-1,584	-2,310	-2,903	-3,946
Operating Profit	613	1,187	4,443	4,779	6,954
Depreciation	-1,076	-1,043	-966	-1,222	-1,274
PBIT	-463	143	3,477	3,558	5,680
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	1,848	4,006
Provision for tax	322	72	-377	-462	-1,002
Profit & Loss from Associates/JV	-40	10	9	10	11
Reported PAT	-1,865	-1,374	1,380	1,396	3,015
MI	595	499	-263	-294	-329
Owners PAT	-1,271	-874	1,117	1,102	2,686
Adjusted Profit	-1,271	-874	1,117	1,102	2,686
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	1,723	4,409
Net worth	9,176	8,312	8,537	9,639	12,325
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	3,754	4,200
TOTAL LIABILITIES	38,185	36,350	37,323	39,059	42,097
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	3,036	4,947
Current investments	9	59	10	11	12
Inventories	72	81	105	128	175
Trade Receivables	308	291	560	722	983
Cash and Bank Balances	1,411	543	275	1,761	3,360
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	39,059	42,097

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	-2,147	-1,456	1,748	1,848	4,006
Depreciation	1,076	1,043	966	1,222	1,274
Net Chg in WC	136	-180	-210	424	154
Taxes	96	-17	-269	-462	-1,002
Others	1,250	1,963	1,941	1,835	1,803
CFO	410	1,353	4,176	4,867	6,235
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	1,486	1,599
Cash Opening Balance	408	1,275	543	275	1,761
Cash Closing Balance	1,275	543	275	1,761	3,360

Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	24.3	29.5	50.8	47.2	50.4
NPM	-48.0	-21.0	12.7	10.8	19.4
Tax rate	-15.0	-5.0	-21.6	-25.0	-25.0

Growth Ratios (%)

Net Sales	-62.4	59.8	117.5	15.8	36.2
Operating Profit	-74.8	93.7	274.5	7.6	45.5
PBIT	-130.6	-130.9	2,329.2	2.3	59.7
PAT	1,328.9	-26.4	-200.4	1.2	116.1

Per Share (Rs.)

Net Earnings (EPS)	-1.61	-1.11	1.41	1.39	3.39
Cash Earnings (CPS)	-0.25	0.21	2.63	2.93	5.00
Dividend	-	-	-	-	-
Book Value	11.61	10.51	10.78	12.18	15.57
Free Cash Flow	-3.37	-2.26	2.70	1.16	4.48

Valuation Ratios

P/E(x)	-59	-85	67	68	28
P/B(x)	8	9	9	8	6
EV/EBIDTA(x)	165	85	23	21	14
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	-3.58	-2.39	2.86	1.23	4.75

Return Ratios (%)

ROE	-14%	-11%	13%	11%	22%
ROCE	-1%	1%	14%	14%	20%
RoIC	-1%	1%	11%	11%	17%

Source: Company, Dalal & Broacah Research

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