

### Growth momentum continues

LemonTree Hotels has continued its growth momentum with Q2FY24 being the best ever Q2 in terms of Gross ARR, Revenue, EBITDA & PAT. With price hikes already done in the last year, this year the focus of the management is to improve its occupancy & as a result occupancy has grown by 542 bps YoY & 143 bps QoQ. LemonTree has successfully opened India's largest property in terms of rooms i.e. Aurika, Mumbai Sky City, 669 rooms in October. Margins have seen a dip primarily due to increase in renovation expense & pre-operative expense for Aurika, Mumbai. Margins may continue to see some pressure until operating leverage kicks in. Robust growth in management fees of 29% in Q2FY24. On its strategy to be asset-light, company has signed 11 new management/franchised contracts which adds ~640 new rooms. By the end of FY24, company expects ~10,000+ rooms under its operational inventory (Currently - 8,760 rooms).

### Key Financials Highlights

- Revenue from Operations at 2,272 Mn, +15% YoY/+2% QoQ
- EBITDA (Excl. OI) reported at 1,019 Mn, +9% YoY/-3% QoQ
- EBITDA Margins (Excl. OI) saw a de-growth of 276 bps/218 bps YoY/QoQ to come at 44.8%
- Cash Profit of ~490 Mn against 444 Mn (Q2FY23), +10.4% YoY
- EPS at 0.29 for Q2FY24 vs 0.21 (+35% YoY)

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	2,517	4,022	8,750	10,841	14,730
EBITDA	613	1,187	4,476	5,058	7,247
<b>EBITDA margins</b>	24.3	29.5	51.2	46.7	49.2
PAT (adj)	-1,271	-874	1,146	1,494	3,114
EPS	-1.61	-1.11	1.45	1.89	3.93
P/E (x)	-70	-102	78	60	29
P/B (x)	10	11	11	9	7
EV/EBITDA (x)	189	98	26.08	22.38	15.28
RoE (%)	-14	-11	13	15	24
ROCE (%)	-1	1	14	15	21
RoIC (%)	-1	1	11	13	20

Source: Dalal and Broacha

### One Year Performance

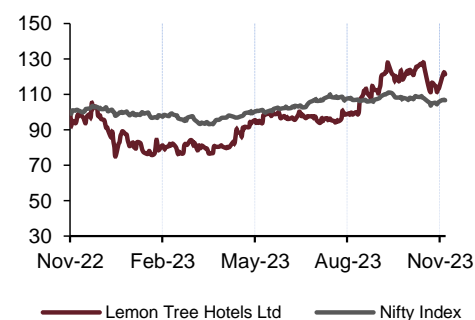
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>130</b>	<b>15</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>113</b>
Market Cap (Rs.Bn)	(Rs Bn)	90
Market Cap (US\$ Mn)	(US\$ Mn)	1,075
Face Value	Rs	10
52 Weeks High/Low	Rs	126.8 / 70.2
Average Daily Volume	(000)	3,246
BSE Code		541233
<b>Bloomberg</b>		<b>LEMONTRE.IN</b>

Source: Bloomberg

Source: Bloomberg



Source: BSE

% Shareholding	Sep-23	Jun-23
Promoters	23.28	23.60
Public	76.64	76.32
<b>Total</b>	<b>100</b>	<b>100</b>

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## QoQ Performance (Q2FY24 recorded Best ever second Quarter)

Particulars	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23
Gross ARR (Rs.)	5,268	5,237	5,824	5,738	4,917	4,822
Occupancy %	71.7%	70.2%	73.6%	67.6%	66.2%	65.1%
Revenue (Rs. Cr)	230.1	224.6	254.7	234.1	197.4	192.3
EBITDA* (Rs. Cr)	104.8	106.8	141.9	127.0	94.3	92.6
EBITDA* %	45.5%	47.6%	55.7%	54.3%	47.8%	48.2%
PBT (Rs. Cr)	35.0	36.2	73.4	59.2	25.0	20.7
PAT (Rs. Cr)	26.4	27.5	59.0	48.6	19.4	13.58

### Portfolio Highlights

- Operational inventory of 95 Hotels with 8760 rooms
- Pipeline of 52 Hotels with 4092 rooms (50H & 3354 rooms under Managed & Franchised contract)
- Signed 11 new Management & Franchised contracts, 639 rooms
- Expect to end FY24 with 10,000+ operating rooms.

## Quarterly Financials

(Rs.Mn)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
<b>Revenue from Operations</b>	<b>2,272</b>	<b>1,967</b>	<b>15%</b>	<b>2,223</b>	<b>2%</b>
Other Income	29	7	306%	24	24%
Total RM Cost	132	123	7%	124	6%
Employee Benefits Expense	463	361	28%	426	9%
Other Expenses	658	547	20%	627	5%
Total Expenses	1,253	1,031	22%	1,178	6%
<b>EBITDA (Excluding Other Income)</b>	<b>1,019</b>	<b>936</b>	<b>9%</b>	<b>1,045</b>	<b>-3%</b>
Depreciation and Amortisation Expenses	226	250	-10%	228	-1%
<b>EBIT / PBIT</b>	<b>822</b>	<b>693</b>	<b>19%</b>	<b>841</b>	<b>-2%</b>
Net Finance Costs	473	446	6%	481	-2%
<b>EBT/ PBT</b>	<b>348</b>	<b>247</b>	<b>41%</b>	<b>359</b>	<b>-3%</b>
Tax Expense	86	56	54%	87	-1%
P&L from JV/associate	2	2	-19%	3	-36%
<b>Net Profit after Tax</b>	<b>264</b>	<b>194</b>	<b>36%</b>	<b>275</b>	<b>-4%</b>
Adj Earning Per Share	0.29	0.21	35%	0.30	-3%
<b>Margins (%)</b>			<b>(In bps)</b>		<b>(In bps)</b>
Gross Margins	94.2%	93.8%	44	94.4%	-21
EBITDA Margins (Excl Other Income)	44.8%	47.6%	-276	47.0%	-218
Adj. PAT Margins	10.8%	8.7%	204	11.4%	-67
<b>As a % to sales</b>			<b>(In bps)</b>		<b>(In bps)</b>
RM as a % to sales	5.8%	6.2%	-44	5.6%	21
EE Cost as a % to sales	20.4%	18.3%	204	19.2%	122
Other exps as a % to sales	29.0%	27.8%	116	28.2%	75
<b>Key Operational Metrics</b>					
Gross ARR	5,268	4,917	7%	5,237	1%
Occupancy	71.7%	66.2%	550	70.2%	150
RevPAR	3,678	3,257	13%	3,678	0%

Source: Company, Dalal &amp; Broach 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 %		
	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (bps)	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (bps)
By Brand (#Rooms)															
Aurika Hotels & Resorts (139)	5,576	4,682	19%	49%	39%	918	11,487	11,896	-3%	2.79	2.85	-2%	44%	49%	-555
Lemon Tree Premier (1,603)	5,044	4,496	12%	80%	76%	326	6,334	5,887	8%	3.21	2.91	10%	56%	56%	-6
Lemon Tree Hotels (1562)	3,854	3,163	22%	74%	66%	885	5,178	4,823	7%	2.08	1.78	17%	46%	47%	-133
Red Fox by Lemon Tree Hotels (952)	2,803	2,496	12%	69%	68%	152	4,059	3,697	10%	1.37	1.30	6%	46%	49%	-290
Keys by Lemon Tree Hotels (936)	2,085	1,771	18%	59%	53%	637	3,524	3,355	5%	0.78	0.94	-17%	36%	50%	-1,417

## Performance Region-Wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)			Hotel level EBITDAR/room/qtr. (Rs. Lacs)			Hotel level EBITDAR Margin %		
	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (bps)	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (%)	Q2 FY24	Q2 FY23	Change (bps)
By Region (#Rooms)															
Delhi (636)	4,377	3,928	11%	76%	79%	-345	5,757	4,941	17%	2.38	2.34	1%	47%	51%	-389
Gurugram (529)	3,582	3,005	19%	74%	65%	905	4,865	4,654	5%	1.95	1.57	24%	43%	41%	230
Hyderabad (663)	4,929	4,361	13%	85%	81%	445	5,775	5,390	7%	3.24	3.00	8%	59%	61%	-208
Bengaluru (874)	3,640	3,178	15%	74%	68%	595	4,910	4,661	5%	2.11	2.03	4%	54%	58%	-432
Mumbai (303)	6,762	5,483	23%	87%	77%	963	7,786	7,101	10%	4.64	3.62	28%	63%	59%	361
Pune (426)	3,565	3,225	11%	71%	69%	277	4,997	4,703	6%	1.98	1.87	5%	49%	51%	-273
Rest of India (1,659)	2,723	2,282	19%	60%	52%	767	4,550	4,374	4%	1.15	1.12	3%	37%	42%	-512
<b>Total (5090)</b>	<b>3,775</b>	<b>3,257</b>	<b>16%</b>	<b>72%</b>	<b>66%</b>	<b>542</b>	<b>5,268</b>	<b>4,917</b>	<b>7%</b>	<b>2.10</b>	<b>1.93</b>	<b>9%</b>	<b>49%</b>	<b>52%</b>	<b>-248</b>

Source: Company, Dalal &amp; Broacah Research

- Mumbai continue to remain a strong market with ADR growth of 10% & Occupancy reaching 87%.
- Business at New Delhi was impacted primarily due to certain regions being closed for G20 summit & significant portion of business was diverted to Luxury & Upper upscale hotels.

## Performance break-up of LTH portfolio &amp; Keys portfolio

Rs. Cr	Lemon Tree Consolidated excluding Keys Hotels					Keys Hotels					Lemon Tree Consolidated				
	Q2 FY24	Q1 FY24	Q2 FY23	QoQ Change	YoY Change	Q2 FY24	Q1 FY24	Q2 FY23	QoQ Change	YoY Change	Q2 FY24	Q1 FY24	Q2 FY23	QoQ Change	YoY Change
Inventory	4,154	4,154	4,154	-	-	936	936	936	-	-	5,090	5,090	5,135	-	-
Gross ARR	5,580	5,555	5,186	0%	8%	3,524	3,434	3,355	3%	5%	5,268	5,237	4,917	1%	7%
Occupancy %	74.5%	73.2%	69.3%	132	520	59.1%	57.2%	52.8%	193	637	71.7%	70.2%	66.2%	143	542
RevPAR	4,156	4,064	3,592	2%	16%	2,085	1,965	1,771	6%	18%	3,775	3,678	3,257	3%	16%
<b>Revenue from Operations</b>	<b>206.9</b>	<b>202.9</b>	<b>179.1</b>	<b>2%</b>	<b>16%</b>	<b>20.3</b>	<b>19.4</b>	<b>17.6</b>	<b>5%</b>	<b>15%</b>	<b>227.2</b>	<b>222.3</b>	<b>196.7</b>	<b>2%</b>	<b>15%</b>
Other Income	2.7	2.2	0.4	22%	606%	0.2	0.1	0.3	55%	-37%	2.9	2.4	0.7	24%	306%
<b>Total revenue</b>	<b>209.6</b>	<b>205.1</b>	<b>179.5</b>	<b>2%</b>	<b>17%</b>	<b>20.5</b>	<b>19.5</b>	<b>18.0</b>	<b>5%</b>	<b>14%</b>	<b>230.1</b>	<b>224.6</b>	<b>197.4</b>	<b>2%</b>	<b>17%</b>
Total expenses	110.4	102.7	90.8	8%	22%	15.0	15.1	12.3	-1%	22%	125.3	117.8	103.1	6%	22%
<b>EBITDA*</b>	<b>99.2</b>	<b>102.4</b>	<b>88.6</b>	<b>-3%</b>	<b>12%</b>	<b>5.6</b>	<b>4.4</b>	<b>5.7</b>	<b>26%</b>	<b>-3%</b>	<b>104.8</b>	<b>106.8</b>	<b>94.3</b>	<b>-2%</b>	<b>11%</b>
<i>EBITDA Margin(%)</i>	<b>47.3%</b>	<b>49.9%</b>	<b>49.4%</b>	-260	-205	<b>27.1%</b>	<b>22.6%</b>	<b>31.7%</b>	450	-466	<b>45.5%</b>	<b>47.6%</b>	<b>47.8%</b>	-203	-225
<b>PBT</b>	<b>36.4</b>	<b>39.0</b>	<b>25.5</b>	<b>-7%</b>	<b>42%</b>	<b>(1.3)</b>	<b>(2.8)</b>	<b>(0.6)</b>	<b>-53%</b>	<b>135%</b>	<b>35.0</b>	<b>36.2</b>	<b>25.0</b>	<b>-3%</b>	<b>40%</b>

Source: Company, Dalal &amp; Broacah Research

## Other Concall KTAs

- **EBITDA margins** for the quarter saw a dip, mainly due to planned increase in renovation expense over & above same quarter previous year & pre-operative expense for Aurika, Mumbai. of 4.4 cr – reduced ebitda % by 2%
  - These two expense accounted for ~Rs 44 Mn (Rs 30 Mn towards renovation & Rs 14 Mn pre-op. expense) & decrease in margins by 200 bps.
  - Higher payroll cost, increase in bonus payouts, hiring of new talents in various dept. also led to increase in costs, dragging margins further.
- **KEYS** portfolio also saw margin contraction due to increase in investments towards renovation, to the extent of 5% points.
  - Plans to invest ~Rs 400 Mn towards renovation & expects return of minimum 15% on these investments.
  - Some of the renovated rooms to open in next 6-9 months
  - Target to achieve Rs 1,000 Mn in EBITDA from KEYS.
  - Will expand KEYS portf only through managed/franchised contracts.
- **Total Debt** for H1FY24 increased by 14% over same period last year, which now stands at ~Rs 1900 cr. This was due to unplanned acquisition of CCPS. It is expected no significant increase in debt going forward.
- D/E which currently is 3x is expected to reduce drastically in next few years.
- Company had invested at revamping its website & loyalty program during Covid. The return on these investments are now visible with material **increase in room nights sold from company's website** – lowest cost & highest stickiness
- Aurika, Udaipur is expected to perform much better in H2, due to seasonality nature of this market, revenue during winter are almost **2x** that of summers.
- Mainly company expends for 2 type of renovation: (i) Brand maintenance – costs ~Rs 2-3L/room (KEYS portf), no major increase in ARR is expected; (ii) Renovation in high demand markets – costs ~Rs 8L/room, where the company can reprice the rooms significantly.
- **Capex Plans**
  - To spend Rs 500 Mn towards renovation for FY24 & Rs 1 Bn over next 2 years (Amount spent is expected to be recovered in 1 year).
  - Capex almost over, focus will be towards sweating of the assets, especially Aurika, Mumbai

## Aurika MIAL (669 rooms)

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- Opened on 5th October, 2023.
- 15% occupancy in October, 2023 i.e. ~100 rooms/day.
- ARR still low primarily due to segment mix – (i) retail demand, which are at higher ARR, being low because of festive season & (ii) Most rooms are occupied by Airline crew which is low rate business (ARRs of ~Rs 7000/7500).
- Roughly 200 rooms are dedicated for airline crew, with the strategy to cover cost till retail & corporate demand picks up.
- Spent ~Rs 20 Mn towards pre-opening expense; Rs 14 Mn incurred in Q2FY24, balance to incur in Q3.
- To turn EBITDA positive from Q3FY24.
- ARR for Q3FY24 is expected to be ~Rs 8000/8500 & Q4 will be much higher.
- Property is expected to drag on the company level EBITDA margins as management does not expect Q4FY24 margins to be higher than 35%

## Outlook and Valuations

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With growth in GDP, % of discretionary spends in hotel sector is only expected to increase. Demand in hotel space to outpace supply for next 3 to 4 years.

Business in H2 is usually 1.2x/1.5x of H1 & as the proportion of power & fuel costs reduces, H2 is margin accretive.

Major capex cycle for the company is now over & focus will be towards ramping up of these hotels. In FY23, company focused on increasing ARR and for FY24, its strategy is to drive higher occupancy

With renovated inventory in KEYS coming up in next 6-9 months, performance under KEYS brand will improve. Renovation expenses are expected to continue for the rest of the year as well and as a result margins are expected to remain muted.

Aurika, Mumbai will immensely contribute in FY25 as the hotel ramps up its operations & turns EBITDA accretive.

Strong portfolio of inventory in its pipeline & the pace with which new management contracts are being signed provides strong visibility in revenues in the future. In line with its asset-light strategy, management aims to have 70% of its portfolio under managed & franchised contracts by FY26.

**LemonTree Hotels at CMP of Rs. 113.25 trades at 15x EV/EBITDA FY25E ; we value LTH at 17x FY25 EV/EBITDA multiple and maintain a BUY with a target price of Rs. 130, an upside of 14.6%.**

## Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	2,517	4,022	8,750	10,841	14,730
Operating Expenses	-178	-279	-499	-607	-884
Employee Cost	-704	-973	-1,497	-1,854	-2,091
Other Expenses	-1,022	-1,584	-2,278	-3,322	-4,508
<b>Operating Profit</b>	<b>613</b>	<b>1,187</b>	<b>4,476</b>	<b>5,058</b>	<b>7,247</b>
Depreciation	-1,076	-1,043	-966	-1,004	-1,046
PBIT	-463	143	3,510	4,054	6,202
Other income	133	140	36	36	36
Net Interest (Exp)/Inc	-1,817	-1,740	-1,772	-1,722	-1,665
Profit before tax	-2,147	-1,456	1,774	2,368	4,572
Provision for tax	322	72	-377	-592	-1,143
Profit & Loss from Associates/JV	-40	10	9	10	11
Reported PAT	-1,865	-1,374	1,405	1,785	3,440
MI	595	499	-260	-291	-326
Owners PAT	-1,271	-874	1,146	1,494	3,114
<b>Adjusted Profit</b>	<b>-1,271</b>	<b>-874</b>	<b>1,146</b>	<b>1,494</b>	<b>3,114</b>
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	2,116	5,230
<b>Net worth</b>	<b>9,176</b>	<b>8,312</b>	<b>8,537</b>	<b>10,032</b>	<b>13,146</b>
MI	6,174	5,676	5,597	5,564	5,855
<b>Non Current Liabilities</b>	<b>19,872</b>	<b>19,828</b>	<b>19,488</b>	<b>19,553</b>	<b>18,925</b>
<b>Current Liabilities</b>	<b>2,963</b>	<b>2,533</b>	<b>3,701</b>	<b>4,319</b>	<b>4,544</b>
<b>TOTAL LIABILITIES</b>	<b>38,185</b>	<b>36,350</b>	<b>37,323</b>	<b>39,468</b>	<b>42,469</b>
<b>Non Current Assets</b>	<b>35,883</b>	<b>35,041</b>	<b>35,963</b>	<b>34,760</b>	<b>35,320</b>
Fixed Assets	29,295	29,180	30,359	29,148	29,706
Right of Use Assets	5,060	4,299	4,036	4,036	4,036
Financial Assets	821	799	859	882	882
Deferred Tax Asset	404	461	365	365	365
Long Term Loans and Advances	230	245	186	261	261
Other Non Current Assets	73	57	158	67	70
<b>Current Assets</b>	<b>2,302</b>	<b>1,310</b>	<b>1,360</b>	<b>4,708</b>	<b>7,149</b>
<b>Current investments</b>	<b>9</b>	<b>59</b>	<b>10</b>	<b>11</b>	<b>12</b>
Inventories	72	81	105	128	186
Trade Receivables	308	291	560	683	1,049
Cash and Bank Balances	1,411	543	275	3,243	5,253
Short Term Loans and Advances	-	-	-	-	-
Other Financial Assets	42	24	36	51	56
Other Current Assets	460	312	375	592	592
<b>TOTAL ASSETS</b>	<b>38,185</b>	<b>36,350</b>	<b>37,323</b>	<b>39,468</b>	<b>42,469</b>

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	-2,147	-1,456	1,774	2,368	4,572
Depreciation	1,076	1,043	966	1,004	1,046
Net Chg in WC	<b>136</b>	<b>-180</b>	<b>-210</b>	<b>18</b>	<b>600</b>
Taxes	96	-17	-269	-592	-1,143
Others	1,250	1,963	1,948	1,828	1,783
<b>CFO</b>	<b>410</b>	<b>1,353</b>	<b>4,208</b>	<b>4,625</b>	<b>6,858</b>
Capex	-644	-668	-116	-3,000	-1,750
Net Investments made	-137	159	-12	-24	-1
Others	125	55	-	-	-
<b>CFI</b>	<b>-656</b>	<b>-454</b>	<b>-127</b>	<b>-3,024</b>	<b>-1,751</b>
Change in Share capital	<b>2</b>	<b>8</b>	-	-	-
Change in Debts	598	134	489	-557	-698
Div. & Div Tax	-	-	-	-	-
Others	<b>512</b>	<b>-1,773</b>	<b>-4,837</b>	<b>1,923</b>	<b>-2,399</b>
<b>CCF</b>	<b>1,112</b>	<b>-1,630</b>	<b>-4,349</b>	<b>1,367</b>	<b>-3,097</b>
<b>Total Cash Generated</b>	<b>866</b>	<b>-732</b>	<b>-268</b>	<b>2,968</b>	<b>2,010</b>
<b>Cash Opening Balance</b>	<b>408</b>	<b>1,275</b>	<b>543</b>	<b>275</b>	<b>3,243</b>
<b>Cash Closing Balance</b>	<b>1,275</b>	<b>543</b>	<b>275</b>	<b>3,243</b>	<b>5,253</b>
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	24.3	29.5	51.2	46.7	49.2
NPM	-48.0	-21.0	13.0	13.7	21.1
Tax rate	-15.0	-5.0	-21.3	-25.0	-25.0
<b>Growth Ratios (%)</b>					
Net Sales	-62.4	59.8	117.5	23.9	35.9
Operating Profit	-74.8	93.7	277.2	13.0	43.3
PBIT	-130.6	-130.9	2,351.8	15.5	53.0
PAT	1,328.9	-26.4	-202.3	27.0	92.7
<b>Per Share (Rs.)</b>					
Net Earnings (EPS)	-1.61	-1.11	1.45	1.89	3.93
Cash Earnings (CPS)	-0.25	0.21	2.67	3.16	5.25
Dividend	-	-	-	-	-
Book Value	11.61	10.51	10.78	12.67	16.61
Free Cash Flow	-3.37	-2.26	4.62	-0.02	4.89
<b>Valuation Ratios</b>					
P/E(x)	-70	-102	78	60	29
P/B(x)	10	11	11	9	7
EV/EBIDTA(x)	189	98	26	22	15
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	-2.98	-1.99	4.08	-0.01	4.32
<b>Return Ratios (%)</b>					
ROE	-14%	-11%	13%	15%	24%
ROCE	-1%	1%	14%	15%	21%
RoIC	-1%	1%	11%	13%	20%

Source: Company, Dalal &amp; Broacah Research



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