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## Q2FY21 results review

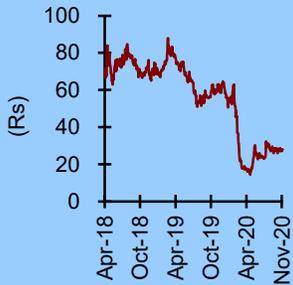
## Hotels

Target price Rs37

## Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	31.2	31.2	31.1
Institutional investors	40.6	35.3	34.8
MFs and other	17.1	17.0	16.3
FIs and Banks	-	0.1	0.0
Insurance Cos.	-	-	-
FII	23.5	18.2	18.5
Others	28.2	33.5	34.1

## Price chart



INDIA

## Lemon Tree Hotels

**BUY**  
Maintain  
**Rs28**

## Festive season brings visible green shoots

Lemon Tree Hotels (LTH) clocked a weak Q2FY21 performance with revenue declining 69% YoY owing to a sharp YoY drop in occupancies and ADRs. However, the company was able to reduce operating costs by 62% YoY leading to a second consecutive quarter of positive EBITDA, which is commendable in a tough industry scenario. We expect the company to post an improved performance in H2FY21 on the back of recovery in leisure/wedding bookings from Q3FY21 and a possible pickup in business travel from Q4FY21. While the pace of recovery remains contingent on Covid impact, we believe that LTH will benefit from its presence in the midscale segment along with a higher share of domestic customers (85%). We retain our BUY rating with an unchanged SoTP-based target price of Rs37/share valuing its hotel business at 16x Sep'22E EV/EBITDA.

- **Cost savings initiatives enable LTH to remain EBITDA positive:** Q2FY21 revenue declined 69% YoY to Rs476mn (up 17% QoQ) as ADR declined 36% YoY to Rs2,654 and occupancy declined 4,239bps YoY to 32.4%. In spite of the sharp YoY revenue decline, the company reduced operating costs by 62% YoY which enabled it to report a positive EBITDA of Rs83mn in Q2FY21 (EBITDA of Rs44mn in Q1FY21). As per LTH's management, the gradual decline in Covid cases across India has led to a pickup in Q3FY21 in leisure/staycation travel along with MSME/domestic airline crew segment also seeing improved traction. While this has led to higher occupancies of 40-50% across operational hotels, ADRs remain lower by 30-40% YoY. The company expects an improved showing from Q4FY21 as business travel may again see pick-up which may lead to exit occupancy run-rate of ~50% by March 2020 across operational hotels. However, any sustained recovery remains contingent on Covid trajectory.
- **LTH's occupancy and ADRs expected to recover from FY22E:** We estimate that LTH will see a 53% YoY revenue decline in FY21E followed by a strong bounce-back in FY22E with revenues growing 89% YoY to Rs6.0bn and FY23E revenues of Rs7.4bn. Company has also implemented cost-saving initiatives in H1FY21, which may enable it to achieve a 500-700bps EBITDA margin improvement once demand normalises. We model an EBITDA margin of 42.7% in FY22E and 44.7% in FY23E as compared to EBITDA margins of 30.7% in FY20.
- **Valuations:** Hotels are a deep cyclical business, which is usually hit the first during an economic downturn and is the last to recover in an upcycle. We expect a similar story to play out post-Covid with industry occupancies expected to reach pre-Covid levels only in FY23E. We value LTH at 16x Sep'22E EV/EBITDA, which is a 20% discount to long-term listed peer multiple of 20x. We retain our BUY rating based on an SoTP-based target price of Rs37/share adjusted for APG share in Fleur Hotels.

Market Cap	Rs22.3bn/US\$301mn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuter/Bloomberg	LEMO.BO/LEMONTRE IN	Revenue (Rs bn)	6.7	3.2	6.0	7.4
Shares Outstanding (mn)	792.2	Rec. Net Income (Rs bn)	(0.1)	(2.1)	(0.2)	0.6
52-week Range (Rs)	65/14	EPS (Rs)	(0.1)	(2.7)	(0.2)	0.8
Free Float (%)	68.9	% Chg YoY	NM	NM	NM	NM
FII (%)	18.5	P/E (x)	NM	NM	NM	34.9
Daily Volume (US\$'000)	1,030	P/B (x)	2.6	3.5	3.6	3.3
Absolute Return 3m (%)	18.1	EV/E (x)	18.6	42.7	17.3	12.9
Absolute Return 12m (%)	(52.3)	Dividend yield (%)	-	-	-	-
Sensex Return 3m (%)	12.3	RoCE (%)	4.7	(0.2)	4.7	7.4
Sensex Return 12m (%)	6.9	RoE (%)	(1.1)	(29.2)	(3.0)	9.9

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Please refer to important disclosures at the end of this report

Table 1: Q2FY21 consolidated result snapshot

(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)
<b>Total Operating income</b>	<b>476</b>	<b>1,528</b>	<b>407</b>	(68.8)	17.0
Raw Materials	107	314	86	(65.9)	24.1
Personnel Cost	143	366	178	(61.0)	(19.6)
Other Expenses	143	363	99	(60.6)	44.2
<b>Total Expenses</b>	<b>393</b>	<b>1,043</b>	<b>363</b>	<b>(62.3)</b>	<b>8.2</b>
<b>EBITDA</b>	<b>83</b>	<b>484</b>	<b>44</b>	<b>(82.8)</b>	<b>90.6</b>
<i>EBITDA margin (%)</i>	<i>17.5</i>	<i>31.7</i>	<i>10.7</i>	<i>(1,425.3)</i>	<i>673.6</i>
Interest (Net)	463	325	469	42.7	(1.1)
Depreciation	270	196	271	38.1	(0.3)
Other Income	60	9	31	546.9	92.9
Exceptional items	-	-	-	-	-
<b>Profit Before Tax</b>	<b>(590)</b>	<b>(27)</b>	<b>(665)</b>	<b>NM</b>	<b>NM</b>
Taxation	(62)	1	(71)	NM	NM
<b>Profit After Tax before MI/Associate</b>	<b>(529)</b>	<b>(27)</b>	<b>(594)</b>	<b>NM</b>	<b>NM</b>
MI/Associate share	157	6	175	-	-
<b>Reported PAT</b>	<b>(371)</b>	<b>(22)</b>	<b>(419)</b>	<b>NM</b>	<b>NM</b>
<i>Net margin (%)</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>

Source: Company data, I-Sec research

Table 2: LTH Q2FY21 consolidated income statement breakup

Rs mn	Same Hotels			New Hotels*	Total without Keys Hotels			Keys Hotels	Total		
	Q2FY20	Q2FY21	YoY chg	Q2FY21	Q2FY20	Q2FY21	YoY chg	Q2FY21	Q2FY20	Q2FY21	YoY chg
Inventory	3,975	3,975	0.0%	281	3,975	4,256	7.1%	936	3,975	5,192	30.6%
ADR	4,133	2,634	-36.3%	4,962	4,133	2,730	-33.9%	2,122	4,133	2,654	-35.8%
Occupancy	74.8%	35.5%	(3,930)	21.5%	74.8%	34.6%	(4,020)	22.4%	74.8%	32.4%	(4,240)
RevPAR	3,090	934	-69.8%	1,069	3,090	943	-69.5%	475	3,090	859	-72.2%
Revenue from Operations	1,528	390	-74.5%	33	1,528	422	-72.4%	54	1,528	476	-68.8%
Total Expenses	1,043	319	-69.4%	23	1,043	342	-67.2%	51	1,043	393	-62.3%
EBITDA	485	71	-85.4%	10	485	80	-83.5%	3	485	83	-82.9%
EBITDA Margin (%)	31.7%	18.2%	(1,354)	30.3%	31.7%	19.0%	(1,278)	5.6%	31.7%	17.4%	(1,430)
PBT	(30)	(399)	NA	(123)	(30)	(522)	NA	(75)	(30)	(597)	NA

Source: Company, I-Sec research, \*Note: New Hotels include: Lemon Tree Premier Kolkata &amp; Aurika Udaipur

Table 3: LTH operational performance by region – Q2FY20 vs Q2FY21

By Region (rooms)	Occupancy Rate (%)			Average Daily Rate (Rs)			Hotel Level EBITDAR/Room* (Rs mn)			Hotel level EBITDAR* Margin (%)		
	Q2FY20	Q2FY21	Change (bps)	Q2FY20	Q2FY21	Change (%)	Q2FY20	Q2FY21	Change (%)	Q2FY20	Q2FY21	Change (bps)
Delhi (636)	86.0%	58.5%	(2,750)	4,312	2,921	-32%	0.17	0.06	-65%	38.6%	35.5%	(310)
Gurugram (529)	77.9%	24.7%	(5,320)	4,078	2,987	-27%	0.12	0.01	-92%	30.9%	13.8%	(1,710)
Hyderabad (663)	83.7%	33.5%	(5,020)	4,239	2,175	-49%	0.22	0.02	-91%	51.0%	24.9%	(2,610)
Bengaluru (493)	80.1%	23.7%	(5,640)	4,370	1,643	-62%	0.20	0.01	-95%	47.5%	17.7%	(2,980)
Mumbai (303)	50.3%	48.6%	(170)	6,219	3,789	-39%	0.13	0.09	-31%	36.5%	48.1%	1,160

Source: Company, I-Sec Research, \*Excludes performance LTP Kolkata, Aurika, Udaipur, Keys | EBITDAR – Earnings before interest depreciation amortization rent

**Table 4: LTH brand-wise operating performance trend**

Brand*	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Lemon Tree Premier</b>									
Occupancy (%)	84.8%	74.4%	76.3%	78.8%	75.4%	79.1%	66.0%	42.2%	48.6%
ADR (Rs)	4,833	5,587	5,337	4,820	5,069	5,839	5,501	3,176	2,850
Hotel level EBITDAR/room (Rs mn)	0.2	0.3	0.3	0.2	0.2	0.3	0.2	0.1	0.1
Hotel level EBITDAR Margin (%)	39.6%	49.2%	48.1%	43.7%	42.5%	49.7%	46.4%	39.6%	39.4%
<b>Lemon Tree Hotels</b>									
Occupancy (%)	73.2%	73.0%	77.3%	77.4%	72.7%	72.9%	65.6%	27.5%	26.6%
ADR (Rs)	3,835	4,341	4,364	3,920	3,948	4,514	4,455	2,467	2,498
Hotel level EBITDAR/room (Rs mn)	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.0	0.0
Hotel level EBITDAR Margin (%)	30.0%	43.7%	41.0%	35.0%	34.5%	46.9%	41.4%	9.2%	13.7%
<b>Red Fox Hotels</b>									
Occupancy (%)	80.4%	78.7%	79.8%	76.1%	77.0%	79.6%	62.1%	23.1%	29.9%
ADR (Rs)	2,946	3,384	3,265	3,039	3,014	3,676	3,596	2,089	2,296
Hotel level EBITDAR/room (Rs mn)	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.0	0.0
Hotel level EBITDAR Margin (%)	44.0%	52.8%	47.8%	42.4%	41.2%	55.2%	42.8%	12.0%	8.7%

Source: Company, I-Sec Research, \* \*Excludes performance LTP Kolkata, Aurika, Udaipur, Keys | EBITDAR – Earnings before interest depreciation, amortisation and rent

**Table 5: Key operating assumptions for LTH**

Owned + Leased Rooms	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Rooms	3,277	3,570	5,192	5,192	5,192	5,192
ADR (Rs)	3,896	4,180	4,327	3,324	3,878	4,284
Occupancy (%)	76%	76%	71%	41%	65%	70%
RevPAR (Rs)	2,961	3,177	3,072	1,346	2,504	2,989

Source: Company, I-Sec research

## Valuation

Hotels are typically a capital intensive and deep cyclical business, which are usually hit the first during an economic downturn and are the last to recover in an upcycle. We expect a similar story to play out post Covid with industry occupancies expected to recover to pre-Covid levels only in FY23E. Hence, we believe that an EV/EBITDA multiple is the appropriate valuation methodology to value hotel companies across cycles.

## Retain BUY

**We retain our BUY rating on Lemon Tree Hotels (LTH) with an unchanged SoTP-based target price of Rs37/share valuing the stock on 16x Sep'22E EV/EBITDA.** Our EV/EBITDA multiple of 16x is at a 20% discount to the hotel industry's long-term listed peer multiple of 20x. We have assumed no capex beyond FY21E for upcoming assets and have included capital WIP of Rs3.6bn in these assets and also adjusted for APG's minority interest in Fleur Hotels, to arrive at our valuation.

We believe the key positives that should enable LTH to benefit from a recovery in hotel cycle are:

- Capital raise of Rs1.75bn from APG provides adequate liquidity cushion to manage debt for FY21E-FY22E along with further possible infusion of Rs1.25bn and rights/QIP issue of up to Rs1.5bn.
- LTH's cost-saving initiatives have already borne fruit with the company achieving an EBITDA breakeven in Q1FY21 and we expect more lasting cost-saving initiatives to drive a 500-700bps EBITDA margin improvement once demand normalises.
- LTH operates largely in the midscale and upper midscale segments along with a higher share of domestic customers (85%), which is likely to see faster demand recovery as compared to international customers.

**Table 6: SoTP valuation of Lemon Tree Hotels**

<b>September 2022 EBITDA (Rs mn)</b>	<b>2,931</b>
EV/EBITDA multiple (x)	16
<b>Gross Enterprise Value (Rs mn)</b>	<b>46,898</b>
Add: Capital WIP in upcoming assets (Mumbai Aurika) – Rs mn	3,600
Less: September 2022 Net Debt (Rs mn)	(13,133)
Less: September 2022 Minority Interest (Rs mn)	(8,484)
<b>LTH Equity Value/Target Price (Rs mn)</b>	<b>28,881</b>
<b>Equity Value per Share (Rs)</b>	<b>37</b>

Source: I-Sec research

## Financial summary

Table 7: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>6,694</b>	<b>3,154</b>	<b>5,964</b>	<b>7,408</b>
<b>Operating Expenses</b>	<b>4,311</b>	<b>2,125</b>	<b>3,415</b>	<b>4,095</b>
<b>EBITDA</b>	<b>2,383</b>	<b>1,029</b>	<b>2,550</b>	<b>3,313</b>
% margins	36%	33%	43%	45%
Depreciation & Amortisation	872	1,171	1,201	1,218
Interest expenses	1,573	2,028	1,655	1,605
Other Income	67	63	89	111
Exceptional items	-	-	-	-
<b>PBT</b>	<b>5</b>	<b>(2,107)</b>	<b>(217)</b>	<b>601</b>
Less: Taxes	109	325	(52)	144
<b>PAT before</b>				
<b>Minority/Associate</b>	<b>(104)</b>	<b>(2,431)</b>	<b>(165)</b>	<b>457</b>
Minority/Associate share	9	333	(14)	161
<b>Net Income (Reported)</b>	<b>(95)</b>	<b>(2,099)</b>	<b>(179)</b>	<b>618</b>

Source: Company data, I-Sec research,

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	5,420	3,529	4,857	6,196
of which cash & cash eqv.	408	854	454	730
Total Current Liabilities & Provisions	1,786	1,196	2,670	3,360
<b>Net Current Assets</b>	<b>3,634</b>	<b>2,333</b>	<b>2,187</b>	<b>2,836</b>
Goodwill/Investments	164	164	164	164
Net Fixed Assets	30,148	29,727	28,527	27,309
Capital WIP	1,896	1,496	2,496	2,496
<b>Total Assets</b>	<b>35,841</b>	<b>33,720</b>	<b>33,373</b>	<b>32,804</b>
<b>Liabilities</b>				
Borrowings	15,775	14,375	14,225	13,225
Equity Share Capital	7,903	7,903	7,903	7,903
Reserves & Surplus*	327	1,772	1,951	1,334
<b>Net Worth</b>	<b>8,230</b>	<b>6,131</b>	<b>5,952</b>	<b>6,569</b>
Minority Interest	7,218	8,595	8,577	8,391
Lease Liability	4,619	4,619	4,619	4,619
Deferred Taxes	-	-	-	-
<b>Total Liabilities</b>	<b>35,841</b>	<b>33,720</b>	<b>33,373</b>	<b>32,804</b>

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>5</b>	<b>(2,107)</b>	<b>(217)</b>	<b>601</b>
Depreciation	872	1,171	1,201	1,218
Interest expenses	1,507	1,965	1,566	1,494
Interest income/dividend	-	-	-	-
Non-Cash Adjustments	(62)	(413)	(50)	(212)
Working Capital Changes	(730)	1,746	(254)	(373)
Taxes Paid	(109)	(325)	52	(144)
<b>Operating Cashflow</b>	<b>1,483</b>	<b>2,039</b>	<b>2,298</b>	<b>2,584</b>
Capital Commitments	(6,019)	(350)	(1,000)	-
<b>Free Cashflow</b>	<b>(4,536)</b>	<b>1,689</b>	<b>1,298</b>	<b>2,584</b>
Interest income/dividend	-	-	-	-
Other investing cashflow	(37)	63	89	111
<b>Cashflow from Investing Activities</b>	<b>(6,056)</b>	<b>(287)</b>	<b>(911)</b>	<b>111</b>
Issue of Share Capital	10	1,750	-	-
Inc (Dec) in Borrowings	3,733	(1,400)	(150)	(1,000)
Interest expenses	(1,573)	(2,028)	(1,655)	(1,605)
Dividend paid	-	-	-	-
Others	2,496	373	18	186
<b>Cashflow from Financing activities</b>	<b>4,667</b>	<b>(1,306)</b>	<b>(1,788)</b>	<b>(2,419)</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>94</b>	<b>446</b>	<b>(400)</b>	<b>276</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	(0.1)	(2.7)	(0.2)	0.8
Cash EPS	1.0	(1.2)	1.3	2.3
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	10.5	7.8	7.6	8.4
<b>Growth (%)</b>				
Net Sales	21.8	(52.9)	89.1	24.2
EBITDA	41.2	(56.8)	147.7	29.9
PAT	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>				
P/E	NM	NM	NM	34.9
P/BV	2.6	3.5	3.6	3.3
EV / EBITDA	18.6	42.7	17.3	12.9
EV / Room	10.4	10.3	10.2	8.5
EV / Sales	6.6	13.9	7.4	5.8
Dividend Yield	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Debt/EBITDA (x)	6.6	14.0	5.6	4.0
Net D/E	1.9	2.2	2.3	1.9
<b>Profitability/Return Ratios (%)</b>				
RoE	(1.1)	(29.2)	(3.0)	9.9
RoCE	4.7	(0.2)	4.7	7.4
EBITDA Margins	35.6	32.6	42.7	44.7
Net Income Margins	(1.4)	(66.5)	(3.0)	8.3

Source: Company data, I-Sec research

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