

LEMON TREE HOTELS LTD

16-08-2024

Industry: IT - Hotels & Resorts
 Recommendation: Hold & Accumulate

Cmp: ₹120
 Target: ₹210

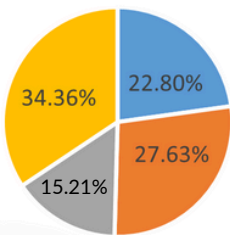
Key Data

BSE Code	541233
NSE Code	LEMON TREE
52 Week High (₹)	158.05
52 Week Low (₹)	92.50
Market Cap (₹ Cr)	9511
Face Value	10
Date of Report	

Industry Snapshot

Customers	Global
Market Presence	Global
Govt Regulations	Neutral
Msearch View	Positive

Shareholding Pattern



■ Promoters ■ FII ■ DIIs ■ Public

Promoters/Management

Mr. Patanjali Govind Keswani	Chairperson, MD
Mr. Kapil Sharma	EVP - CFO
Mr. Sumant Haidka	Sr. VP - Ops & COO

Key Ratios

PE	65.6
EPS	1.88
ROE	16.30%
ROCE	11.20%

Price Chart



Research Analyst

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About the Company

Lemon Tree Hotels Limited (LTH) is one of the largest hotel chains in India, which owns/leases/operates/franchises hotels across the upscale, upper-midscale, midscale and economy segments. The company operates under seven brands: Aurika Hotels & Resorts, Lemon Tree Premier, Lemon Tree Hotels, Red Fox Hotels by Lemon Tree Hotels, Keys Prima by Lemon Tree Hotels, Keys Select by Lemon Tree Hotels, and Keys Lite by Lemon Tree Hotels. Under its portfolio it has more than 100 currently operational across 63 cities - 34 owned, 7 leased, and 63 under management or franchisee contracts as on March 31, 2024 and an additional 60 hotels planned for future openings both in India and internationally.

Q1 FY2025 Result Update:

The company reported revenue of ₹ 268.02 cr in Q1 FY25, reflecting a 19.53% growth YoY but an 18.11% QoQ decline. Company's EBITDA stood at ₹ 1,15.07 cr, marking an 8.08% increase YoY but a 32.83% decrease QoQ. The EBITDA margin was at 42.9% from 47.5% in Q1FY 2024 down by 455 basis points YoY and 941 basis points QoQ. The decline in EBITDA was primarily due to increased investments in renovation and digital transformation initiatives. The Profit After Tax for the quarter was ₹ 20.1 cr, showing a 26.9% YoY decline and a 76.05% QoQ decline. While the PAT Margin decline from 12.3% in 1QFY 2024 to 7.5% in Q1FY 2025 a decline of 477 bps YOY 1820 bps QoQ. In Q1 FY25, the company recorded a Gross ARR of ₹ 5,686, reflecting a 9% YoY increase. However, occupancy for the quarter declined by 360 basis points YOY to 66.6%. As a result, RevPAR stood at ₹ 3,788, showing a 4% YoY growth. Company signed 3 new management and franchise contracts, adding 187 rooms to its pipeline and operationalized 4 hotels, contributing 331 rooms to its portfolio. Currently, the company's inventory consists of 107 operational hotels with a total of 10,125 rooms, with an additional pipeline of approximately 4,000 rooms.

Business Update & Guidance:

- By FY26, the company aims to have its entire portfolio fully renovated. Currently, 700 rooms were shut for renovation during Q1 FY25. With the goal of fully renovating its portfolio of owned hotels, Post-renovation these expenses are expected to drop by 1.5-1.6% of revenue.
- Post-renovation company expects its EBITDA from these properties to reach ₹ 60 cr annually, with an ARR of ₹ 5,500.
- The closure of 25% of the Keys portfolio for renovations led to a 10% YoY decrease in EBITDA margin.
- The company expects to renovate all 5,800 rooms by FY27, after which EBITDA margins are anticipated to normalize and return to 50%.
- The Aurika Mumbai hotel reported an occupancy rate of 46% in Q1 FY25. Company is optimistic on Aurika portfolio H2FY25 to be 2x of H1FY25; expecting Aurika MIAL's actual potential to start reflecting starting Q3FY25. Aurika MIAL ARR stood at ~ ₹ 8,900 in Q1FY25.
- The company is placing a strong focus on significant investments in hotel renovations, particularly in the near term. They have projected renovation expenses of Rs.100 cr for both FY25 and FY26.
- The company plans to use free cash flow generated during the winter months to pay down its debt. Management expects the company to be debt-free within four years i.e FY 29.
- The company is expecting to achieve ₹ 1250 cr + revenue in FY25E and continues to aim for total 20000 room (~6,000 owned rooms and ~14,000 managed) by FY27.

MView

We believe the company's Q1 FY2025 revenue from operations met expectations; however, EBITDA margin and PAT fell short. The 9% YoY increase in RevPAR indicates strong market positioning, but margins were impacted by renovation expenses and higher employee costs. The quarterly performance was further affected by the temporary closure of 25% of the Keys portfolio for renovations. Management plans to complete the renovation by FY2027, with approximately 5,800 rooms fully functional and an expected increase in ARR. The company remains optimistic about its Aurika portfolio, forecasting that H2 FY25 performance will double that of H1 FY25, with Aurika MIAL's full potential beginning to materialize from Q2 FY25. The management aims for 15% revenue growth in FY2025E and is on track to reach its goal of 20,000 rooms by 2027, with a mix of 30% owned and 70% managed. We believe that the renovation factors are priced in, and the successful ramp-up of Aurika Mumbai is crucial for future earnings growth. Therefore, we recommend a HOLD and ACCUMULATE strategy at current levels, with a target of ₹ 210, reflecting a positive long-term outlook.



Lemon Tree is currently trading at its major support mark of 115.00. The stock has established short-term support around the 92.50 mark, with a significant support level at 100. This positions the stock for potential upward movement, targeting levels of 300 and 350 as the rally progresses. At current market price of 116.00, the stock presents a good buying opportunity and upon any pullback towards 100 and 92.50 should be viewed as an excellent further addition opportunity for long-term investment.

Key Indicators:

- Monthly RSI: Approximately 52, indicating sideways momentum.
- Price Consolidation: The stock has been consolidating between 115 and 155 over the past few months, suggesting a strong accumulation phase. 100 being psychological support can play out as a major support level.

Given these factors, Lemon Tree presents a promising investment opportunity, with potential for significant gains.

By

Riyank Arora

Technical Analyst, Mehta Equities Ltd



CONSOLIDATED FINANCIAL TABLES

Particulars ₹ (in Cr)	1QFY 2025	1QFY 2024	YoY	4QFY 2024	QoQ
Revenue from Operations	268.02	224.23	19.53%	327.31	-18.11%
Expenses:					
Raw Material Consumed	16.43	12.43	32%	20.52	-19.93%
Employee Expense	50.71	42.59	19%	49.86	1.70%
Power, Oil & Fuel	23.37	19.28	21%	19.73	18.45%
Other Expenses	62.44	43.46	44%	65.88	-5.22%
Total Expenditure	152.95	117.76	30%	155.99	-1.95%
EBITDA	115.07	106.47	8.08%	171.32	-32.83%
EBITDA Margin	42.9%	47.5%	-9.58%	52.3%	-17.98%
Other Income	0.47	0.69	-32%	3.86	-87.82%
Depreciation	34.57	22.79	52%	33.39	3.53%
EBIT	80.97	84.37	-4%	141.79	-42.89%
EBIT Margin	30.2%	37.6%	-20%	43.3%	-30.26%
Interest	51.76%	48.14	8%	52.75	-1.88%
PBT	29.21	36.23	-19%	89.04	-67.19%
Tax	6.92	6.05	14%	11.43	-39.46%
Deferred Tax	2.17	2.65	-18%	-6.4	-133.91%
PAT	20.12	27.53	-26.9%	84.01	-76.05%
PAT Margin	7.51%	12.28%	-39%	25.7%	-70.75%
Share Capital	791.85	791.63		791.85	
Face Value	10	10		10	
Outstanding Shares	79.185	79.163		79.185	
Diluted EPS	0.25	0.35	-27%	1.06	-76.05%



MSEARCH

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Msearch's Recommendation (Absolute Performance)

Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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