

Lemon Tree

BSE SENSEX

65,394

S&P CNX

19,384

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Stock Info

Bloomberg	LEMONTRE IN
Equity Shares (m)	792
M.Cap.(INRb)/(USD\$)	73.4 / 0.9
52-Week Range (INR)	103 / 63
1, 6, 12 Rel. Per (%)	-4/13/20
12M Avg Val (INR M)	492
Free float (%)	76.4

Financials Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	8.7	10.0	14.3
EBITDA	4.5	5.0	7.1
Adj. PAT	1.18	1.35	2.43
EBITDA margin (%)	51.7	50.4	49.7
Cons. Adj. EPS (INR)	1.5	1.7	3.1
EPS Gr. (%)	237.8	11.4	40.9
BV/Sh. (INR)	10.9	12.7	15.8

Ratios

Net D:E	2.0	1.8	1.3
RoE (%)	14.0	14.7	21.9
RoCE (%)	9.4	10.3	14.5
Payout (%)	-	-	-

Valuations

P/E (x)	61.2	53.6	29.8
EV/EBITDA (x)	21.0	19.0	13.3
Div. Yield (%)	-	-	-
FCF Yield (%)	3.1	2.2	6.2

CMP: INR93

TP: INR115 (+24%)

Buy

Ready for the next leg of growth!

Aurika MIAL – the jewel in the crown

During the last one year, Lemon Tree (LEMONTRE) has performed better than the industry in terms of growth and profitability. Going forward, addition of Aurika MIAL (its largest hotel having 669 rooms) coupled with the company's five-year (CY24 to CY28) road map, has the potential to propel the next leg of growth for LEMONTRE.

- Aurika MIAL, which is likely to be operational by Oct'23, will be the biggest addition to LEMONTRE's arsenal. The hotel will boost the company's dynamics in the form of higher Average Room Rate (ARR), better margins and improved brand mix.
- The management's five-year road map focusses on accelerated room additions (majorly management contracts), higher margin (~50%) and better channel mix (64% retail share).
- Additionally, the company plans to simplify its corporate structure into two entities – Standalone (all managed hotels) and Fleur Hotels (all owned assets). Further, management also plans to list Fleur hotels to unlock value.

Aurika – a game changer!

- Aurika MIAL (Mumbai International Airport Ltd) will be the flagship hotel of LEMONTRE in the upper upscale segment. It will have 669 rooms, of which 14 will be suites (~500 sqft each). Further, the hotel will consist of three banquet halls (with a total capacity of ~16,500 sqft) and number of restaurants & bars totaling ~4,000 sqft. According to the management, the hotel is expected to become operational from Oct'23E.
- Aurika MIAL will be a part of LEMONTRE's subsidiary, Fleur Hotels (holding 58.91% stake); (refer to Exhibit 3).
- Being located in the prime micro market of Mumbai (i.e. near to the Mumbai International Airport – T2) along with upper upscale brand offerings, Aurika MIAL's ARR is forecasted to be in the range of INR12,000-INR16,000 vs. its other brands that has an ARR ranging from as low as INR3,000 (Keys Lite) to ~INR8,000 (Lemon Tree Premier); (refer to Exhibit 5).
- Further, the hotel's Occupancy Rate (OR) will be on the higher side because of the close proximity to the international airport and business parks. We expect Aurika MIAL to clock an OR of ~65% in FY25 being the first full year of operation.
- As per our assumptions, Aurika MIAL is likely to generate revenue/EBITDA of INR2.7b/INR1.4b in FY25 with an EBITDA margin of ~50%. The OR/ARR for FY25 is expected to be 65%/INR12,300. EBITDA contribution from this hotel is projected at ~19% of consolidated entity in FY25 (refer to Exhibit 6).
- A further increase in OR (~75-80%) and ARR (~INR14,000) will potentially result in Aurika MIAL generating an EBITDA of ~INR2b, which is in the range of 22%-26% of consolidated EBITDA.
- Addition of Aurika MIAL will alter the dynamics of the company starkly in the form of higher OR/ARR, better margins, and improvement in brand mix. This will further pave the way for enhancing the Aurika brand via management contracts that will result in exponential growth of management fees.

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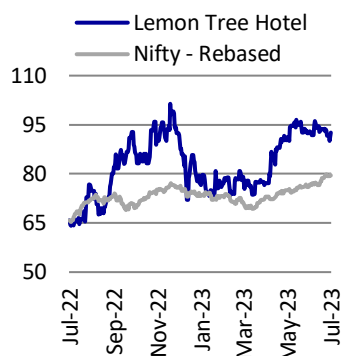
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Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	23.6	23.6	24.0
DII	10.6	10.1	12.2
FII	24.5	26.9	28.9
Others	41.2	39.4	35.0

FII Includes depository receipts

Stock's performance (one-year)**Five-year road map of strong and sustainable growth**

- Management laid out its five-year road map in the 4QFY23 earnings call, highlighting its focus areas (such as asset-light growth, digitization, etc.) and targets (over 300 hotels and 20,000 rooms by CY28).
- The focus areas would sustain around **seven** strategic levers:
 - **Asset-light growth:** LEMONTRE's next leg of growth will come from managed/franchise hotels where management plans to expand the network to ~15,000 rooms, contributing to ~70% of the total room portfolio.
 - Through **digitization**, the company will be focusing on driving the sales and bringing efficiencies in decision making process across functions and processes.
 - LEMONTRE is targeting **65% retail share** as it benefits from dynamic and market-driven pricing, increased referrals and better margins.
 - Further, the focus on **loyalty and reward programs** will help offer personalized customer experience. The company targets 40%+ repeat customers, thereby ensuring assured traffic for its newly expanded network.
 - The company will sustain its industry-leading margin (~50%) through a **lean operating model** with real-time cost control (via digitization), efficient cost structure and favorable staff-to-room ratio.
 - **Capital recycling of owned network:** LEMONTRE has 40 operational hotels with 5,090 rooms and two hotels with 738 rooms in pipeline, under the owned network. Of this, ~40% of the total capital employed has been operationalized in last three years that are generating higher returns and cash flows. The company is also considering to monetize these hotels by diluting its ownership (while retaining majority shareholding) to unlock cash.
 - Management is **simplifying the group structure** by transferring all 100%-owned hotels (~1,766 rooms) under Standalone business to Fleur Hotels (58.91% shareholding) and merging Carnations Hotels (management hotels) with LEMONTRE Standalone by/before CY28 (discussed below in details).

Corporate restructuring to unlock value!

- In the recent quarterly result, management has highlighted its plan to simplify its corporate structure into two entities (from current three) – Standalone and Fleur Hotels (*refer to Exhibit 4*).
- The Standalone business will house only management contract hotels. Currently, the management hotels are under Carnation Hotels (100% subsidiary), which will be merged with the Standalone business.
- The existing owned hotels in the Standalone business will be transferred to Fleur Hotels (i.e. sale of ~41.09% stake in these hotels). Funds from this transfer are likely to be utilized for debt repayment (FY23 net debt at ~INR17b); (*refer to Exhibit 9*).
- All the owned/leased hotels (existing and in pipeline) will be under Fleur Hotels.
- Post-restructuring, the company also plans to separately list the Fleur Hotels via IPO/REIT/INVIT. This will further unlock value for the company (*refer Exhibit 10*).

Valuation and View

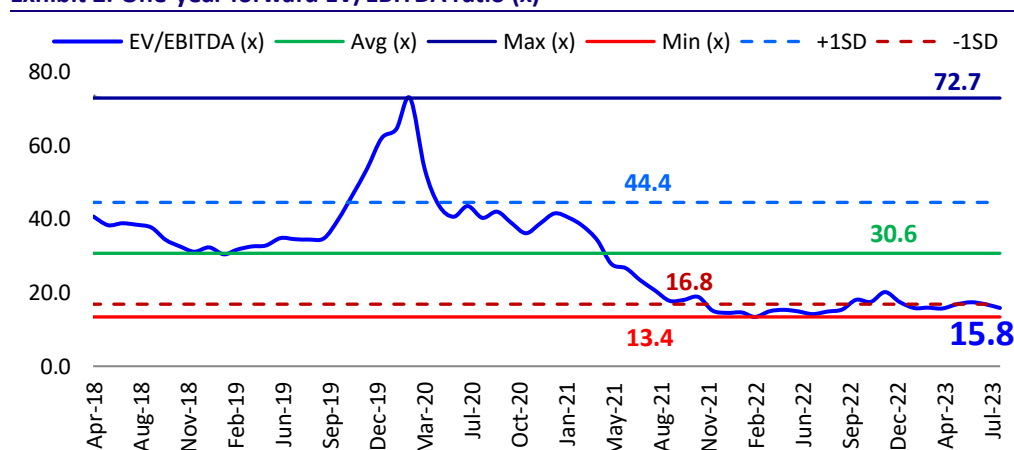
- Aurika MIAL's addition to LEMONTRE's portfolio will be a game changer. The addition will result in improved ARR, brand mix and margins at the consolidated level, which will further pave the way for enhancing the Aurika brand via management contracts that will lead to exponential growth of management fees.
- The corporate restructuring plan will help the company in simplifying its current corporate structure and also accelerate its debt repayment target.
- FY23 was a robust year for the company and we expect the strong momentum to continue going forward, led by: i) further improvement in occupancy on the back of a resilient demand scenario; ii) an increase in ARR with the addition of Aurika MIAL; and iii) strong addition of hotels under management contracts.
- We expect LEMONTRE to deliver a revenue/EBITDA/Adj. PAT CAGR of 28%/25%/43% over FY23-25. Its RoE would improve to 21.9% by FY25E. **We reiterate our BUY rating on the stock with a TP of INR115 (premised on FY25E SoTP).**

Exhibit 1: SOTP valuation

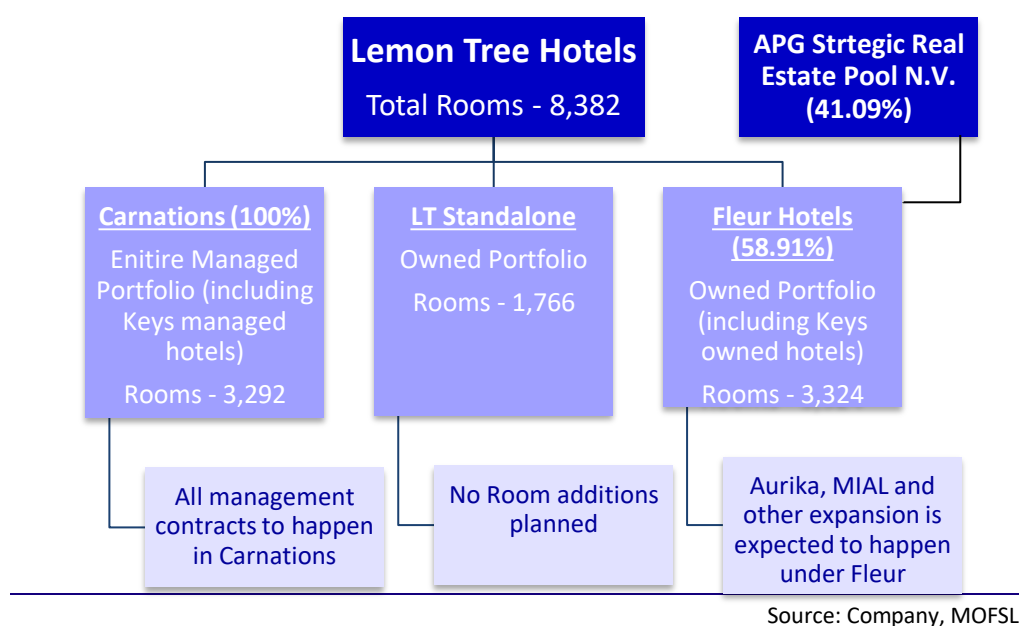
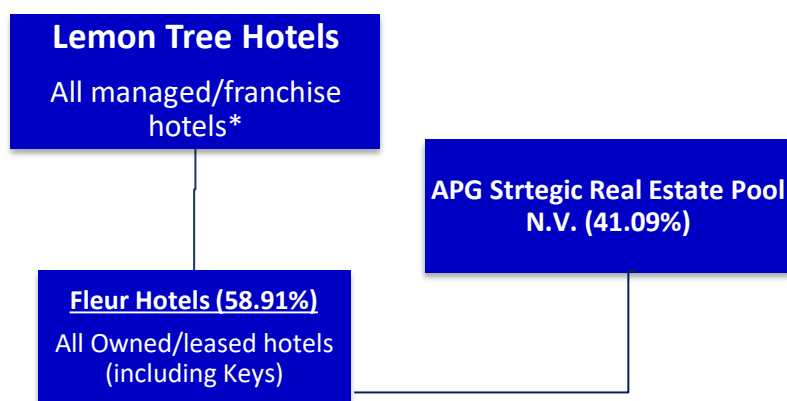
Particulars		FY25E
Standalone EBITDA	INRm	1,844
EV/EBITDA Multiple	x	18
EV	INRm	32,829
Less: Standalone Net Debt	INRm	8,784
Target Value	INRm	24,045
Carnations EBITDA (Management Contract)	INRm	744
EV/EBITDA Multiple	x	35
EV	INRm	26,044
Fleur's EBITDA	INRm	4,513
LEMONTRE's Share of Fleur EBITDA (58.91%)	INRm	2,658
EV/EBITDA Multiple	x	18
EV	INRm	47,318
Less: LEMONTRE's Share of Fleur Net Debt	INRm	6,867
Target Value	INRm	40,451
Total Target Value	INRm	90,540
No. of Shares	m	786
Target Price	INR	115

Source: Bloomberg, MOFSL

Exhibit 2: One-year forward EV/EBITDA ratio (x)



Source: Bloomberg, MOFSL

Exhibit 3: Current corporate structure**Exhibit 4: Proposed corporate structure (simplification)**

All 100% owned assets held in Standalone (~1,766 rooms) will be transferred to Fleur to recycle capital

*Carnation Hotels gets merged into LEMONTRE's standalone business

Source: Company, MOFSL

Exhibit 5: LEMONTRE's brand positioning

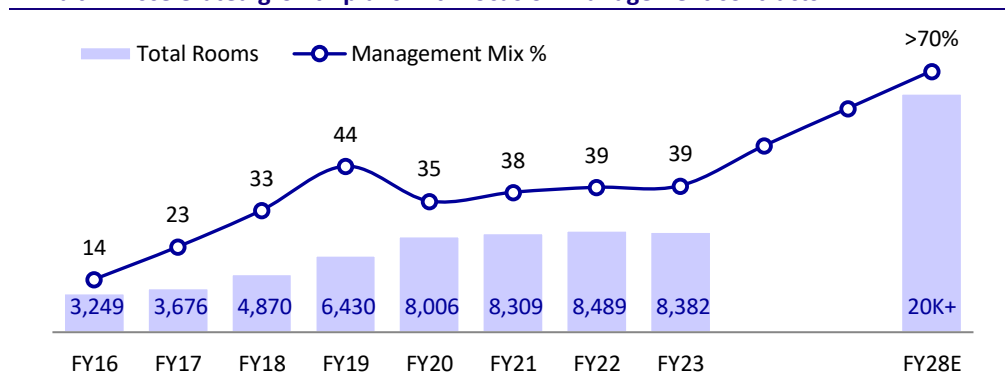
Brands	Segment	Average ARR (INR)
Aurika Hotels & Resorts	Upper Upscale	Over 15,000
Lemon Tree Premier (LTP)	Upscale	Over 6,000
Lemon Tree Hotels (LTH)	Upper Midscale	Over 4,500
Keys Prima by Lemon Tree Hotels (KPH)		
Red Fox by Lemon Tree Hotels (RFH)	Midscale	Over 3,500
Keys Select by Lemon Tree Hotels (KSH)		
Keys Lite by Lemon Tree Hotels (KLH)	Economy	Less than 3,500

Source: MOFSL, Company

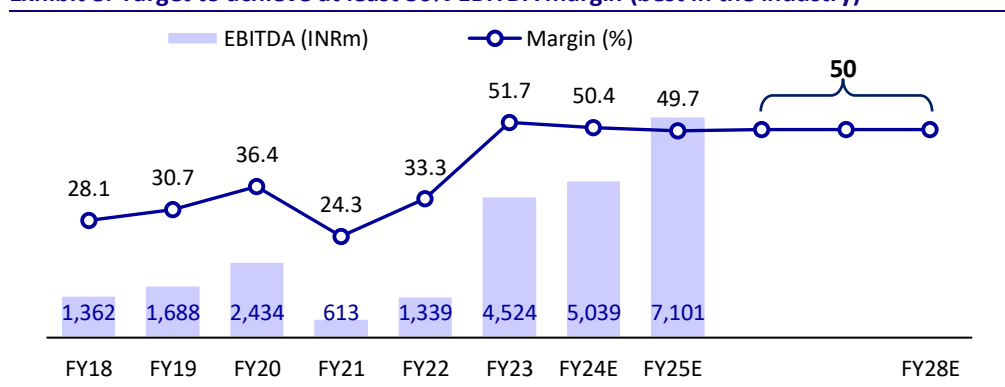
Exhibit 6: Aurika MIAL's first full-year P&L

Aurika MIAL	FY25E
Rooms	669
Occupancy	65%
ARR	12,305
Room Revenue	1,953
F&B and Other Income as a % of Room Revenue	40.0%
F&B and OI	781
F&B and OI as a% of total revenue	28.6%
Total Revenue	2,734
<i>As a % of Consol Revenue</i>	<i>19.2%</i>
Total Fixed Cost	1,036
Total Variable Cost	321
Total Expenditure	1,357
EBITDA	1,377
<i>EBITDA Margin</i>	<i>50.4%</i>
<i>As a % of Consol EBITDA</i>	<i>19.4%</i>
EBITDA/ occupied room	8,676

Source: Company, MOFSL

Exhibit 7: Accelerated growth plans with focus on management contracts

Source: Company, MOFSL

Exhibit 8: Target to achieve at least 50% EBITDA margin (best in the industry)

Source: Company, MOFSL

Exhibit 9: Monetization of 100% owned assets to pay-off significant debt

Particulars		FY25
Standalone EBITDA	INRm	1,844
EV/EBIDTA Multiple	x	18
EV	INRm	32,829
Less: Standalone Net Debt	INRm	8,784
Target Value	INRm	24,045
All Owned Asset Transfer to Fleur results in stake sale of	%	41.09
Approximate Consideration to receive if deal happens in FY25	INRm	9,880

Source: Company, MOFSL

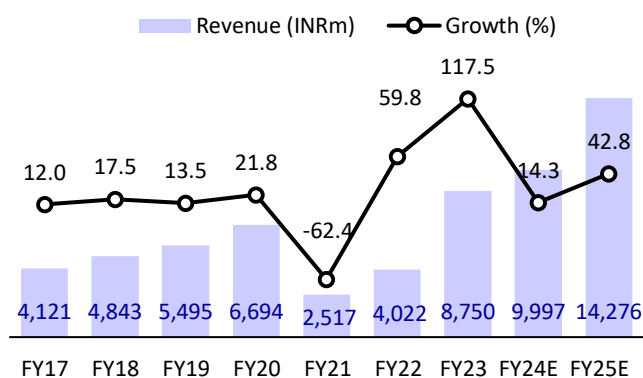
Exhibit 10: Enterprise value of LEMONTRE's stake in Fleur Hotels for FY25E

Particulars		FY25
Fleur's EBITDA	INRm	4,513
LEMONTRE's Holding in Fleur	%	58.91
LEMONTRE's Share of Fleur EBITDA	INRm	2,658
EV/EBIDTA Multiple	x	18
EV	INRm	47,318
Less: LEMONTER's Share of Fleur Net Debt	INRm	6,867
Enterprise Value	INRm	40,451

Source: Company, MOFSL

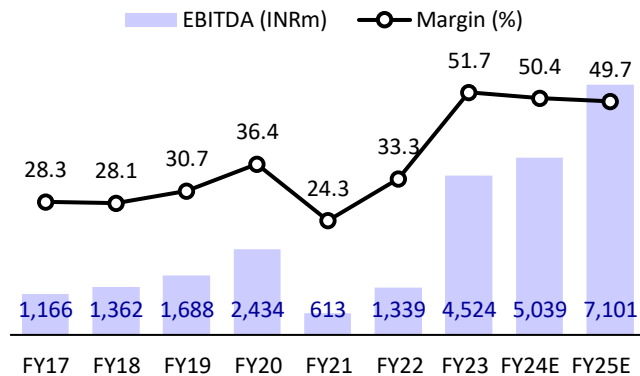
Story in Charts

Exhibit 11: Strong revenue trend...



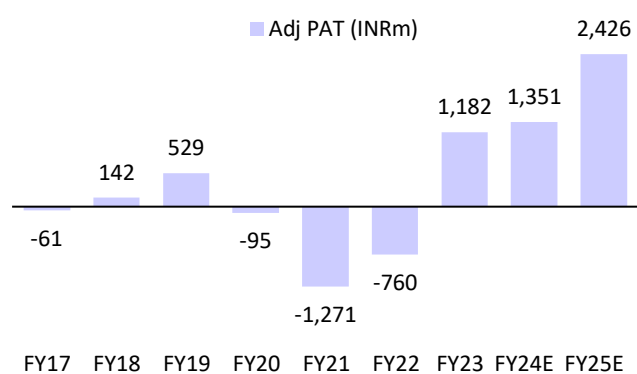
Source: Company, MOFSL

Exhibit 12: ...with margin near 50%...



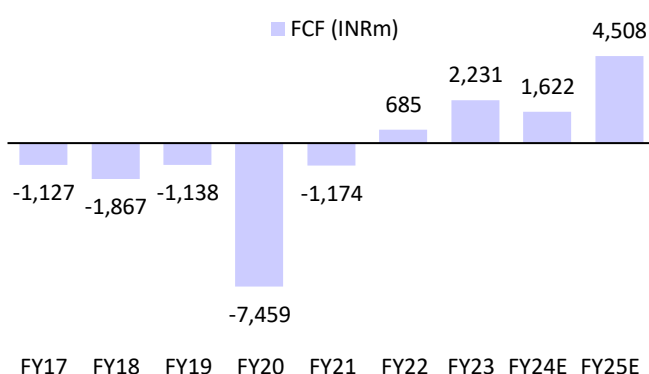
Source: Company, MOFSL

Exhibit 13: ...leading to strong Adj. PAT



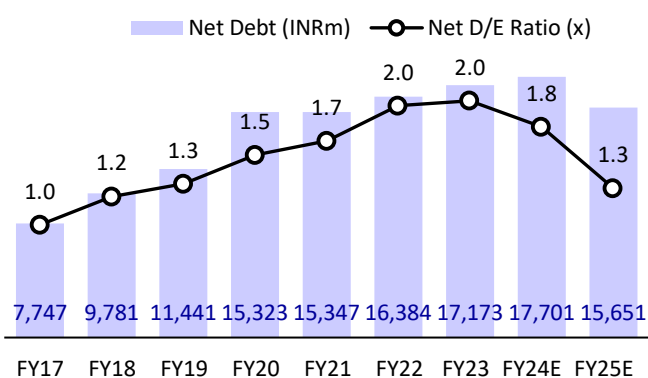
Source: Company, MOFSL

Exhibit 14: FCF to improve...



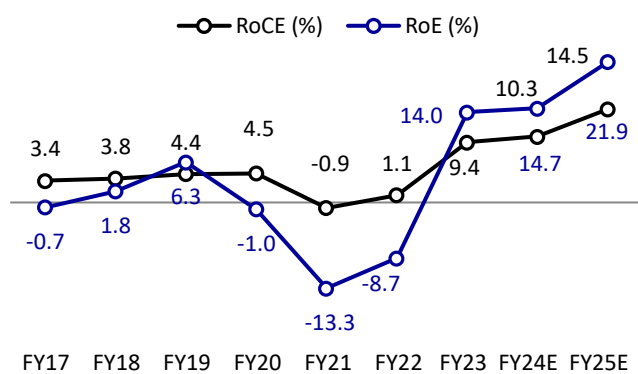
Source: Company, MOFSL

Exhibit 15: ...coupled with reduction in debt



Source: Company, MOFSL

Exhibit 16: Improving return ratios



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	4,843	5,495	6,694	2,517	4,022	8,750	9,997	14,276
Change (%)	17.5	13.5	21.8	-62.4	59.8	117.5	14.3	42.8
F&B Consumed	436	498	570	178	279	499	604	857
Employees Cost	1,096	1,205	1,553	704	973	1,497	1,694	2,356
Other Expenses	1,949	2,104	2,137	1,022	1,432	2,230	2,660	3,963
Total Expenditure	3,481	3,807	4,260	1,905	2,683	4,226	4,958	7,175
% of Sales	71.9	69.3	63.6	75.7	66.7	48.3	49.6	50.3
EBITDA	1,362	1,688	2,434	613	1,339	4,524	5,039	7,101
Margin (%)	28.1	30.7	36.4	24.3	33.3	51.7	50.4	49.7
Depreciation	526	541	922	1,076	1,043	966	1,042	1,187
EBIT	836	1,146	1,512	-463	296	3,557	3,997	5,914
Int. and Finance Charges	784	847	1,565	1,817	1,740	1,772	2,084	1,942
Other Income	126	145	58	133	140	36	121	143
PBT bef. EO Exp.	178	445	5	-2,147	-1,304	1,822	2,034	4,115
EO Items	0	0	0	0	153	-48	0	0
PBT after EO Exp.	178	445	5	-2,147	-1,456	1,774	2,034	4,115
Total Tax	38	-111	109	-322	-72	377	512	1,036
Tax Rate (%)	21.3	-25.0	2220.8	15.0	5.0	21.3	25.2	25.2
MI/ share of profit from associates	-2	27	-9	-555	-510	251	171	653
Reported PAT	142	529	-95	-1,271	-874	1,146	1,351	2,426
Adjusted PAT	142	529	-95	-1,271	-760	1,182	1,351	2,426
Change (%)	NA	271.9	-118.0	1,232.4	-40.2	-255.5	14.3	79.6
Margin (%)	2.9	9.6	-1.4	-50.5	-18.9	13.5	13.5	17.0

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	7,864	7,893	7,903	7,904	7,908	7,916	7,916	7,916
Eq. Share Warrants & App. Money	0	0	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	284	857	1,986	1,272	404	621	1,972	4,398
Net Worth	8,148	8,750	9,889	9,176	8,312	8,537	9,888	12,314
Minority Interest	4,286	4,322	5,559	6,174	5,676	5,597	5,775	6,433
Total Loans	10,110	12,042	15,775	16,850	16,986	17,457	17,907	15,807
Lease Liability	0	0	4,619	4,671	4,247	4,253	4,253	4,253
Deferred Tax Liabilities	43	0	0	0	0	0	0	0
Capital Employed	22,588	25,114	35,841	36,870	35,223	35,844	37,823	38,808
Gross Block	16,044	18,068	35,073	35,016	34,637	34,666	34,816	44,316
Less: Accum. Deprn.	1,513	2,054	2,977	4,052	5,096	6,062	7,104	8,291
Net Fixed Assets	14,531	16,014	32,097	30,964	29,542	28,605	27,713	36,026
Goodwill on Consolidation	68	0	951	951	951	951	951	951
Capital WIP	5,591	6,639	1,896	2,418	2,968	4,822	7,772	72
Total Investments	146	373	164	79	114	73	73	73
Current Investment	120	287	44	91	59	10	0	0
Curr. Assets, Loans&Adv.	4,247	4,693	2,521	3,737	2,776	2,873	3,157	4,334
Inventory	54	60	82	72	81	105	122	177
Account Receivables	525	844	503	308	291	560	630	860
Cash and Bank Balance	210	314	408	1,411	543	275	206	156
Loans and Advances	3,458	3,475	1,528	1,945	1,861	1,933	2,199	3,141
Curr. Liability & Prov.	1,994	2,605	1,786	1,278	1,128	1,479	1,843	2,648
Account Payables	811	958	842	788	585	668	883	1,278
Other Current Liabilities	1,140	1,592	877	412	319	730	820	1,171
Provisions	43	55	67	78	224	81	140	200
Net Current Assets	2,253	2,088	734	2,459	1,648	1,394	1,315	1,686
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	22,588	25,114	35,841	36,870	35,223	35,844	37,823	38,808

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	0.2	0.7	-0.1	-1.6	-1.0	1.5	1.7	3.1
Cash EPS	0.9	1.4	1.1	-0.2	0.4	2.7	3.1	4.6
BV/Share	10.4	11.2	12.7	11.7	10.6	10.9	12.7	15.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	509.0	136.9	-758.8	-56.9	-95.2	61.2	53.6	29.8
Cash P/E	108.3	67.6	87.5	-370.8	255.2	33.7	30.2	20.0
P/BV	8.9	8.3	7.3	7.9	8.7	8.5	7.3	5.9
EV/Sales	17.8	16.0	13.9	37.3	23.5	10.9	9.6	6.6
EV/EBITDA	63.5	52.2	38.3	153.2	70.5	21.0	19.0	13.3
EV/Room (INRm)	26.4	24.7	21.9	22.1	22.2	19.7	19.9	19.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-2.4	-1.5	-9.5	-1.5	0.9	2.9	2.1	5.8
Return Ratios (%)								
RoE	1.8	6.3	-1.0	-13.3	-8.7	14.0	14.7	21.9
RoCE	3.8	4.4	4.5	-0.9	1.1	9.4	10.3	14.5
RoIC	3.8	5.0	4.4	-1.0	0.7	8.6	9.9	13.0
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.3	0.2	0.1	0.1	0.3	0.3	0.3
Asset Turnover (x)	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.4
Inventory (Days)	4	4	4	10	7	4	4	5
Debtor (Days)	40	56	27	45	26	23	23	22
Creditor (Days)	61	64	46	114	53	28	32	33
Leverage Ratio (x)								
Current Ratio	2.1	1.8	1.4	2.9	2.5	1.9	1.7	1.6
Interest Cover Ratio	1.1	1.4	1.0	-0.3	0.2	2.0	1.9	3.0
Net Debt/Equity	1.2	1.3	1.5	1.7	2.0	2.0	1.8	1.3

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	178	445	5	-2,147	-1,446	1,782	2,034	4,115
Depreciation	526	541	922	1,076	1,043	966	1,042	1,187
Interest & Finance Charges	658	702	1,507	1,685	1,786	1,773	1,963	1,799
Direct Taxes Paid	-38	111	-109	322	-17	-207	-512	-1,036
(Inc)/Dec in WC	450	25	-754	-1,009	27	-403	10	-421
CF from Operations	1,775	1,824	1,572	-74	1,394	3,912	4,537	5,644
Others	-629	43	-62	-635	-41	-63	185	664
CF from Operating incl EO	1,145	1,867	1,510	-709	1,353	3,849	4,722	6,308
(Inc)/Dec in FA	-3,012	-3,004	-8,969	-465	-668	-1,618	-3,100	-1,800
Free Cash Flow	-1,867	-1,138	-7,459	-1,174	685	2,231	1,622	4,508
(Pur)/Sale of Investments	-82	-228	210	85	132	8	0	0
Others	495	337	2,677	-276	-56	-1,222	121	143
CF from Investments	-2,600	-2,895	-6,082	-656	-591	-2,832	-2,979	-1,657
Issue of Shares	52	29	10	1,750	8	17	0	0
Inc/(Dec) in Debt	2,124	1,931	3,733	1,075	134	471	450	-2,100
Interest Paid	-784	-847	-1,565	-1,817	-1,400	-1,432	-2,084	-1,942
Dividend Paid	0	0	0	0	0	0	0	0
Others	97	18	2,488	1,361	-372	-379	-178	-658
CF from Fin. Activity	1,489	1,131	4,667	2,368	-1,630	-1,323	-1,812	-4,701
Inc/Dec of Cash	35	103	94	1,003	-869	-306	-69	-49
Opening Balance	176	211	314	408	1,411	543	275	206
Closing Balance	211	314	408	1,411	543	275	206	156

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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