Lemon Tree Hotels (LEMONTRE IN)

Rating: BUY | CMP: Rs109 | TP: Rs140

Best placed to ride the industry upcycle

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Company Initiation

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Best placed to ride the industry upcycle

We initiate coverage on Lemon Tree Hotels Ltd (LTHL) with a 'BUY' rating and TP of Rs140. We believe LTHL is well poised to capitalize from impending uptick in the Indian hospitality industry given 1) leadership position in mid-scale/economy segment with ~19% market share 2) aggressive plans to rapidly expand via asset light management contract route that is expected to improve BS strength and uplift margin profile and 3) operationalization of Aurika hotel in Mumbai with 669 rooms. Aurika is expected to be a crown jewel for LTHL as it is strategically located in dense micro-market of Mumbai (near airport) and we expect the hotel to generate revenues of Rs2,764mn in FY26E (2nd full year of operations with an EBITDA margin of 60%). Backed by opening of Aurika, Mumbai in Oct-23 and addition of 4,808 managed rooms by FY26E, we expect revenue/PAT CAGR of 19%/36% over FY23-FY26E. We value LTHL on SOTP basis. The standalone business is valued at 21x FY26E EBITDA while Fleur, an asset owning subsidiary with 59% stake, is valued at 22x FY26E EBITDA to arrive at a per share value of Rs140. Initiate 'BUY'.

LTHL's market share set to rise in the mid-market hotel segment: LTHL's isolated choice of focusing on mid-market segment at a time when the branded hotel sector was an inverted pyramid (luxury/upscale room count was higher than mid-scale/economy count) enabled rapid expansion with swift market share gains. <u>We believe LTHL's share is expected to rise further as there are roughly ~2mn rooms in the unbranded category that are suitable for branding in the mid-scale/economy segment where LTHL has well established brands like Lemon Tree Hotels, Lemon Tree Premier, Red Fox and Keys.</u>

Transformed into an asset light business: <u>Expansion via management contract route not only makes the business asset light (capex is incurred by the property owner) but also uplifts margin profile as flow-through is high.</u> Over last 5 years, the count of managed room inventory has increased from 1,841 rooms (34% of inventory) in FY19 to 3,190 rooms (38% of inventory) in FY23. We expect the ratio of managed rooms inventory to reach 57% in FY26E as barring Aurika, Mumbai (669 rooms; owned hotel) entire inventory expansion plan is via management contract route resulting in 44% CAGR in management fee income over FY23-FY26E to Rs1,079mn in FY26E.

Aurika, Mumbai to emerge as a crown jewel for LTHL: LTHL is coming up with a new hotel in Mumbai near the airport under brand Aurika that is expected to be operational in Oct-23. <u>We believe Aurika, Mumbai is likely to be a key growth driver and crown jewel for LTHL</u> as **1)** it is strategically located in dense micro-market of Mumbai (near airport) and hence would require lower time to stabilize once operations begin (we expect occupancy of 75% and ARR of Rs11,179 in FY26E) and **2)** will uplift ARR and margin profile as ~13% of owned FY23 inventory will operate at an ARR which is ~2x of company-wide ARR with an EBITDA margin of 60% odd (in 2nd full year of operations).

Outlook and Valuation: We expect LTHL to report revenue/PAT CAGR of 19%/36% over FY23-26E amid operationalization of Aurika, Mumbai in Oct-23 and addition of 4,808 managed rooms over the same period. We value LTHL on SOTP basis and arrive at per share value of Rs140. Initiate 'BUY'.

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	8,750	10,978	13,225	14,670
EBITDA (Rs. m)	4,476	5,345	6,746	7,652
Margin (%)	*51.2*	*48.7*	*51.0*	*52.2*
PAT (Rs. m)	1,146	1,540	2,250	2,889
EPS (Rs.)	1.4	1.9	2.8	3.7
Gr. (%)	*NA*	*34.5*	*46.1*	*28.4*
DPS (Rs.)	-	-	0.1	0.4
Yield (%)	-	-	*0.1*	*0.3*
RoE (%)	*13.6*	*16.5*	*20.2*	*21.4*
RoCE (%)	*13.7*	*16.0*	*19.6*	*22.5*
EV/Sales (x)	11.8	9.3	7.4	6.4
EV/EBITDA (x)	23.0	19.0	14.6	12.3
PE (x)	75.0	55.8	38.2	29.7
P/BV (x)	10.1	8.5	7.0	5.8

Key Data	LEMO.BO | LEMONTRE IN
52-W High / Low	Rs. 113 / Rs. 70
Sensex / Nifty	65,881 / 19,611
Market Cap	Rs. 86 bn/ $ 1,034 m
Shares Outstanding	792m
3M Avg. Daily Value	Rs. 596.11m

Shareholding Pattern (%)

Promoter's	23.60
Foreign	25.48
Domestic Institution	10.38
Public & Others	40.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.6	34.3	48.1
Relative	14.3	22.8	33.1

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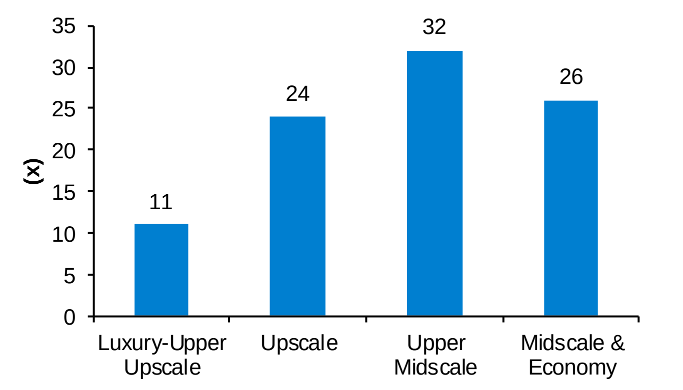
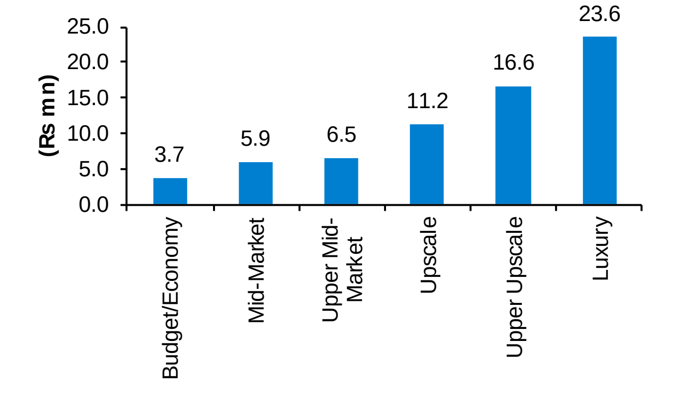
Story in Charts

Exhibit 1: US-India room ratio at 26x in midscale segment



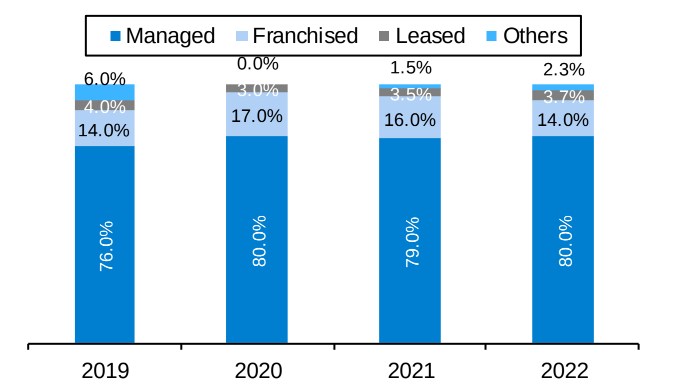
Source: Company, PL

Exhibit 2: Trend in development cost per key by positioning



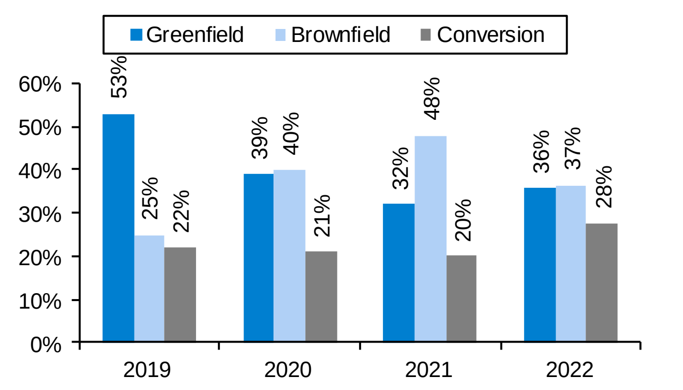
Source: Hotelviate, PL Note: Cost is excluding land

Exhibit 3: Management contracts form 80% of 2022 signings



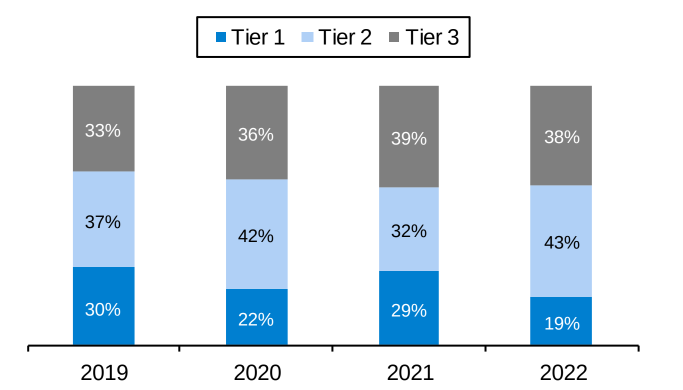
Source: HVS India, PL , Note: Figures on industry level

Exhibit 4: Brownfield signings held 37% share in 2022



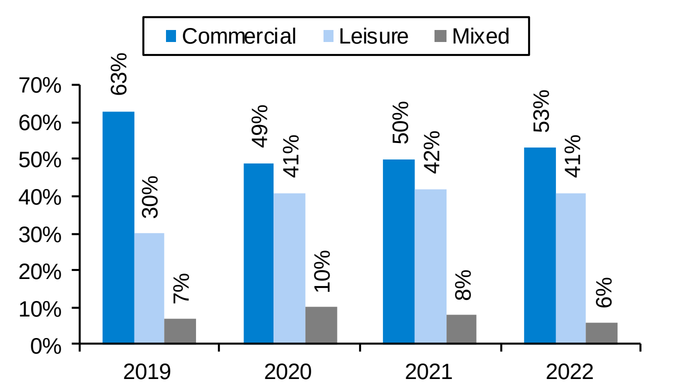
Source: HVS India, PL, Note: Figures on industry level

Exhibit 5: Tier 2 cities had highest signings at 43% in 2022



Source: HVS India, PL, Note: Figures on industry level

Exhibit 6: Leisure signings were at 41% in 2022



Source: HVS India, PL, Note: Figures on industry level

LTHL is a leading mid-market player

Lemon Tree Hotels Limited (LTHL) is one of the largest hotel chains in India operating across upscale, midscale and economy segments. LTHL opened its first hotel with 49 rooms in May 2004 and currently operates 8,491 rooms in 90 hotels across 56 destinations in India and abroad. The company has a portfolio of seven brands viz; Aurika Hotels & Resorts, Lemon Tree Premier, Lemon Tree Hotels, Red Fox Hotels, Keys Prima, Keys Select and Keys Lite across market segments.

In areas where LTHL has no presence, management contracts present a very promising alternative for rapid expansion in an asset light manner. As of 1QFY24, LTHL had a portfolio of 50 managed hotels with 3,401 rooms. LTHL's operations are spread across the value chain and range from acquiring land to owning, leasing, developing, managing and marketing the hotels.

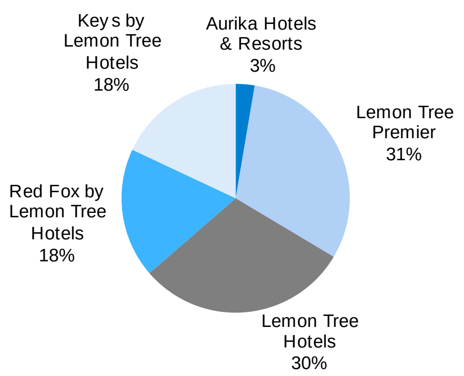
Exhibit 7: Lemon Tree - Snapshot of operational portfolio breakup as on 30th June 2023

Segment	Brand	Owned (incl. on leased land)		Leased		Managed/ Franchised		Total	
		Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Luxury and Upper Upscale	Aurika Hotels & Resorts	1	139	-	-	1	55	2	194
Upper Midscale	Lemon Tree Premier	7	1,442	2	161	9	911	18	2,514
	Keys Prima by Lemon Tree Hotels	-	-	-	-	2	82	2	82
Midscale and Economy	Lemon Tree Hotels	13	1,241	4	321	26	1,518	43	3,080
	Red Fox by Lemon Tree Hotels	5	759	1	91	5	440	11	1,290
	Keys Select by Lemon Tree Hotels	7	936	-	-	4	287	11	1,223
	Keys Lite by Lemon Tree Hotels	-	-	-	-	3	108	3	108
Total		**33**	**4,517**	**7**	**573**	**50**	**3,401**	**90**	**8,491**

Source: Company, PL

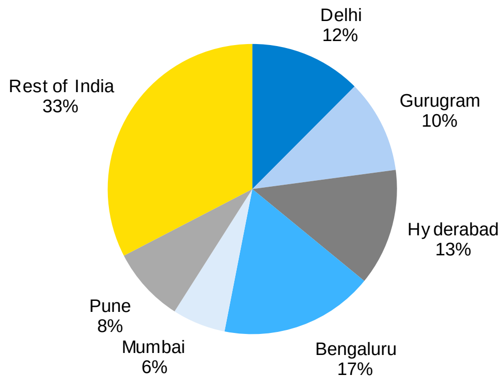
Majority of LTHL's portfolio caters to mid-scale and economy segments with luxury/upscale contributing just 3% of the pie as of FY23. From a geographical standpoint, LTHL has strong presence in Bangalore and Hyderabad with room inventory of 17% and 13% respectively.

Exhibit 8: Lemon Tree brand forms 61% of LTHL's brand mix



Source: Company, PL

Exhibit 9: Bengaluru forms 17% of LTHL's regional mix



Source: Company, PL

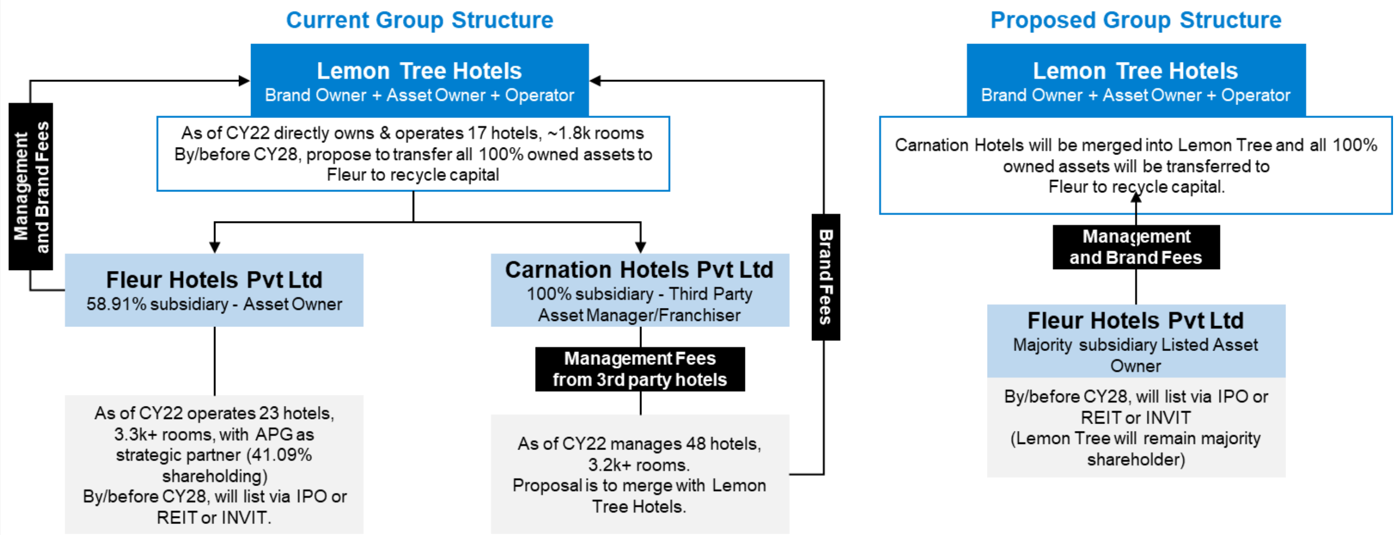
Exhibit 10: Lemon Tree's journey over the last 2 decades

Year	Milestone
2002	Company founded
2004	1st hotel opened (49 rooms, 1 hotel, 1 destination)
2007	5th hotel opened
2009	- Red Fox by Lemon Tree Hotels brand launched - 10th hotel opened
2010	Lemon Tree Premier brand launched
2014	25th hotel opened
2018	- Lemon Tree Hotels IPO - 50th hotel opened
2019	- Aurika Hotels & Resorts brand launched - Keys Hotels acquired by Lemon Tree Hotels - Lemon Tree Hotels goes international with Lemon Tree Hotel, Dubai - 75th hotel opened
2022	~8400 rooms;88 hotels;54 destinations
2023E	- 13K+ rooms operational and in pipeline - 150+ hotels operational and in pipeline
2028E	- 20K+ rooms operational and in pipeline - 300+ hotels operational and in pipeline

Source: Company, PL

LTHL has plans to simplify the group structure whereby all owned assets will be transferred to Fleur Hotels Pvt Ltd (an asset owner; 58.9% stake is owned by LTHL) whereas Carnation Hotels Pvt Ltd (an asset manager; 100% owned by LTHL) will be merged into LTHL. Post revamp, the plan is to list Fleur by IPO, REIT or INVIT by/before CY28 resulting in value unlocking.

Exhibit 11: LTHL plans to demarcate owned and management contract business by/before CY28



Source: Company, PL

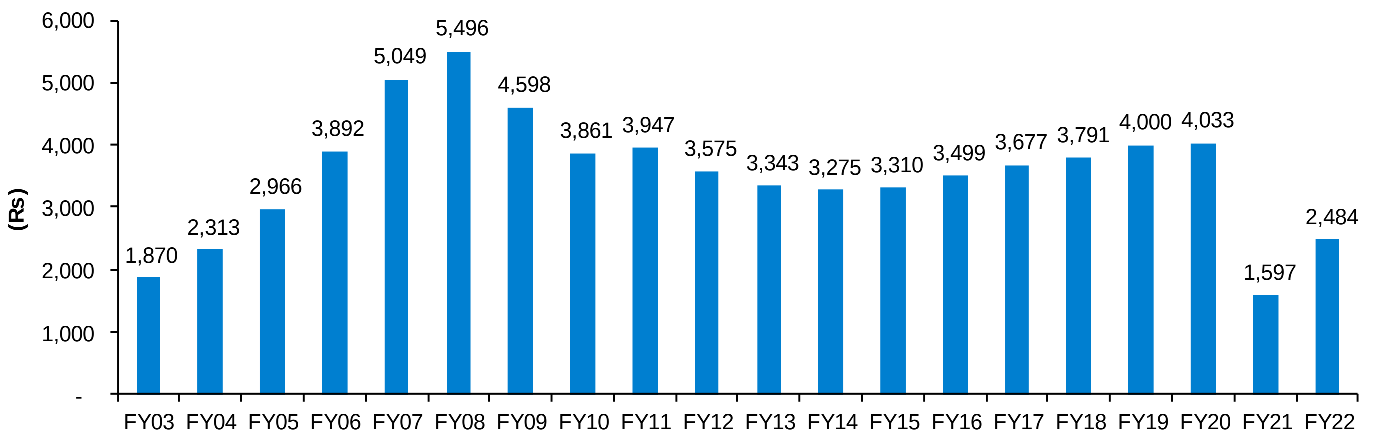
Investment Argument

Hotel industry on an upturn amid muted supply growth

Hotel industry is deeply cyclical and magnitude of gap between demand and supply determines the extent as well as length of up cycle or down cycle. Since it takes about 3-4 years for a new hotel to become operational, industry cycles are typically longer in tenure. An upcycle is characterized by rise in RevPAR and vice-versa. We believe RevPAR is a true metric to assess industry cycles as it is a function of occupancy and ARR.

A classic upcycle was witnessed in FY03-FY08 period when industry RevPAR increased at a CAGR of 24.1%. However, since FY08 RevPAR declined on steady basis and started witnessing an uptrend from FY16 (that further got impacted by COVID over last 2 years).

Exhibit 12: Industry RevPAR CAGR at 5% over FY03-FY20 (pre-COVID base)



Source: Hotelviate, PL

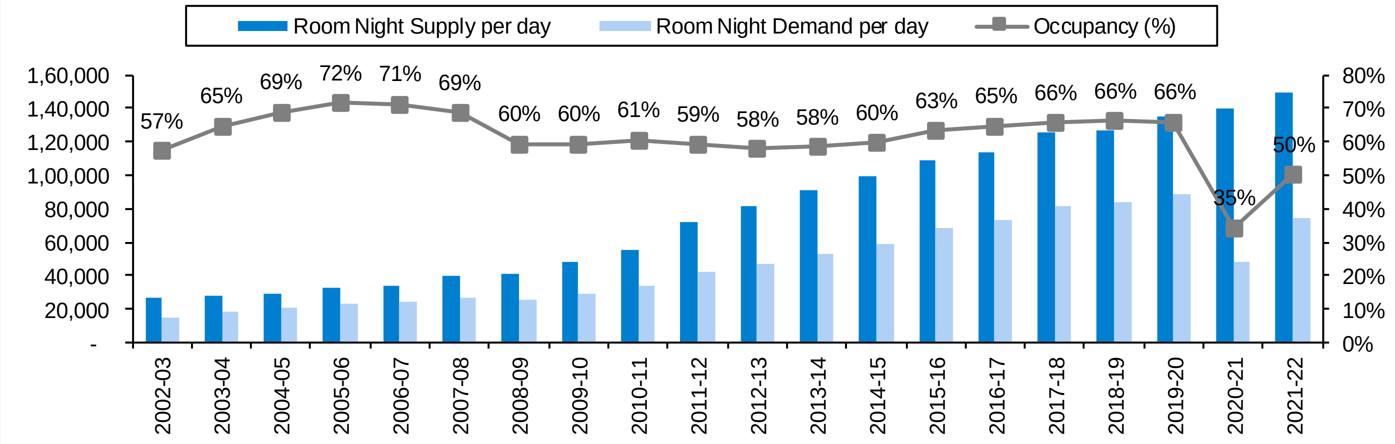
We expect the current upcycle to continue as expected demand growth of 9.7% over FY23-FY27E is likely to outpace supply growth of 5.2% over the same period (Data source: Hotelviate). Moreover, we believe there are additional growth levers like the ongoing G-20 summit and upcoming Cricket World Cup in India that would support demand momentum in the near term.

Exhibit 13: Demand to outpace supply over FY23-FY27E period

Period	FY08-14	FY14-20	FY23-27
Supply growth	14.0%	6.0%	5.2%
Demand growth	11.0%	8.0%	9.7%
ARR change	-3.0%	1.0%	?
Occupancy change	-11.0%	8.0%	?
Inference	Supply > Demand	Demand > Supply	Demand > Supply
Impact	ARR, Occupancy ↓	ARR, Occupancy ↑	ARR, Occupancy ↑

Source: Company, PL

Exhibit 14: Room night supply and demand per night have grown at 7% and 5% CAGR over FY12-FY22

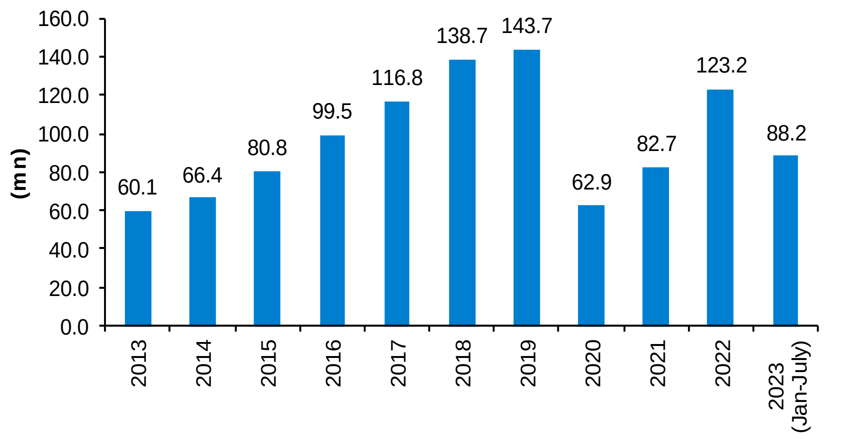


Source: Hotelviate, PL

Healthy growth in air travel and tourist visits

Over last 5 years (2014-2019; pre-COVID era) domestic aviation traffic has grown at 17% CAGR to 143.7mn in 2019. While recovery was sharp in 2022 to 123.2mn, traffic figure was still 14% lower than pre-COVID base of 2019. However, recovery in 2023 is sharp with 88.2mn passengers having travelled in first 7 months itself, and thus overall traffic figure is expected to be higher than 2019.

Exhibit 15: Domestic air traffic at 88mn (Jan-July'23) is set to surpass 2019



Source: DGCA, PL

In addition, domestic/foreign tourist visits which act a foundation for the hospitality business have also witnessed an increase in CAGR of 13%/7% to 2,322mn/31mn respectively over last 5 years (2014-2019; pre-COVID era).

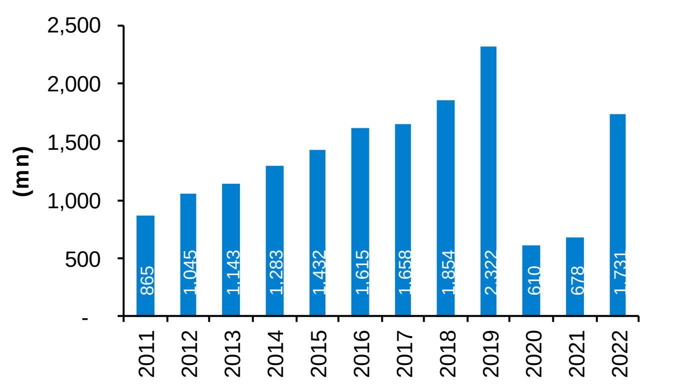
Progression in outlook of domestic travellers

We expect domestic tourist visits to increase at a healthy pace going ahead given India's burgeoning middle class, increased urbanization and higher discretionary income. Hospitality industry is a direct beneficiary of this trend and given India has only ~28,000 branded rooms in leisure destinations (Bali/Phuket has ~80,000/~44,000 rooms) there is a huge growth opportunity. Further, rise in discretionary income indicates the share of hospitality spends within the organized sector will increase. We believe LTHL is best placed to capitalize on this trend given its mid-market positioning and pan-India presence.

Recovery in foreign tourist visits is evident

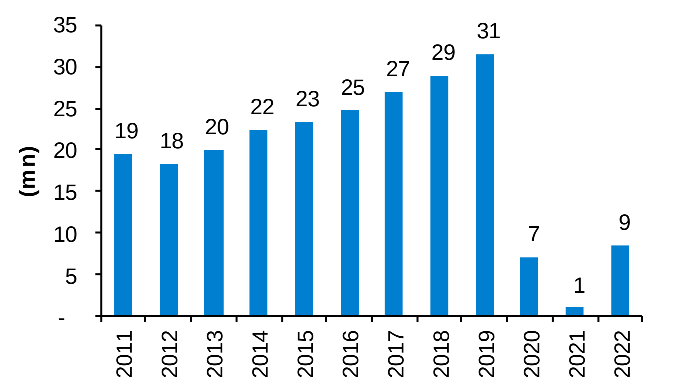
The foreign tourist visits stood at 9mn in 2022 (~71% lower than the comparable pre-COVID base of 2019). However, we expect the same to rise over a period of time as 1) visa issues have been sorted 2) direct flights have resumed to India 3) ongoing G-20 summit will result in influx of foreign delegates 4) the upcoming cricket world cup is in India and 5) corporate travel has slowly gathered momentum.

Exhibit 16: Domestic tourist visits were 1,731mn in 2022



Source: India Tourism Statistics, PL

Exhibit 17: Foreign tourist visits had reached 31mn in 2019



Source: India Tourism Statistics, PL

Overall, we believe sharp recovery in air travel and domestic/foreign tourist visits bodes well for growth of the hospitality industry.

Formidable player in mid-market hotel segment

LTHL is a formidable player in the mid-market (midscale and economy) segment with 19% market share. The company's isolated choice of focusing on mid-market segment at a time when the branded hotel sector was an inverted pyramid (luxury/upscale room count was higher than mid-scale/economy count) enabled rapid expansion with swift market share gains. Given strategic mid-market positioning LTHL was able to capture latent demand in the branded segment emanating from rising brand awareness, young working population, and higher discretionary spends.

Exhibit 18: LTHL's midscale and economy segment inventory forms 12.3% of the industry inventory

Segment	Industry Inventory	LT Inventory as in CY22	LT inventory as % of industry in CY22	Lemon Tree Brand Positioning
Luxury & Upper Upscale	62,107	194	0.2%	Aurika Hotels & Resorts
Upscale	33,175			
Upper Midscale	35,490	2,514	7.1%	Lemon Tree Premier
Midscale & Economy	46,137	5,674	12.3%	Lemon Tree Hotels, Red Fox ,Keys Prima ,Keys Select, Keys Lite
Total Branded Inventory	**1,77,449**	**8,382**	**4.7%**	

Source: Company, PL

Unorganised industry accounts for a sizable portion of the hospitality sector but we believe that share of branded players is expected to rise amid rising prevalence of management contracts and franchisee operations. Management contracts offer a lucrative option for unorganized players located in Tier-2/3/4 markets to associate themselves with a brand and improve their hotel performance thereby indirectly increasing share of total branded inventory in the market.

We believe LTHL will be able to consolidate its market share further in the mid-market segment, as there are roughly ~2mn rooms in the unbranded category that are suitable for branding in the mid-scale/economy segment. LTHL has well established mid-market brands like Lemon Tree Hotels, Lemon Tree Premier, Red Fox and Keys to capture the share of huge unorganized inventory.

Exhibit 19: 2mn unbranded rooms can be branded under LTP/LTH and RFH

Segment	Industry Inventory	Lemon Tree Brand Positioning
Unbranded Standalone	250,000 (suitable for branding under LTP/LTH/RFH)	Lemon Tree Premier , Lemon Tree Hotels, Red Fox Hotels
	1,750,000 (suitable for branding under KPH/KSH/KLH)	Keys Prima Hotels, Keys Select Hotels, Keys Lite Hotels

Source: Company, PL

Further, we believe there is limited competition in the mid-market segment as most of the organized listed peers like Chalet Hotels and EIH Ltd operate in the luxury/upscale segment. Chalet has association with a luxury brand like Marriott while EIH also has superior brands like Trident and Oberoi. However, Indian Hotels has an economy brand, Ginger (3,047 rooms in pipeline). Nonetheless, the ARR of Ginger is in-line with Red Fox and Keys indicating that positioning of other brands of LTHL is a notch higher. We thus believe LTHL's mid-market positioning not only fills the vacuum of a branded offering in that segment but also offers lucrative ground for growth given limited competition from other players.

LTHL filled void of branded supply in mid-market segment

About 2 decades back, the Indian hotel sector was an inverted pyramid with 76% of branded inventory under luxury or upper upscale segment. However, there has been an enormous transformation in the industry since then, and India is transitioning from an inverted supply pyramid structure to a market with increasing share of rooms in the mid-priced sector. Share of room inventory in mid-priced hotel segment has increased from 24% in 2002 to 46% in 2022. LTHL has pioneered correction of branded supply by rapidly expanding in the mid-market segment via management contract route.

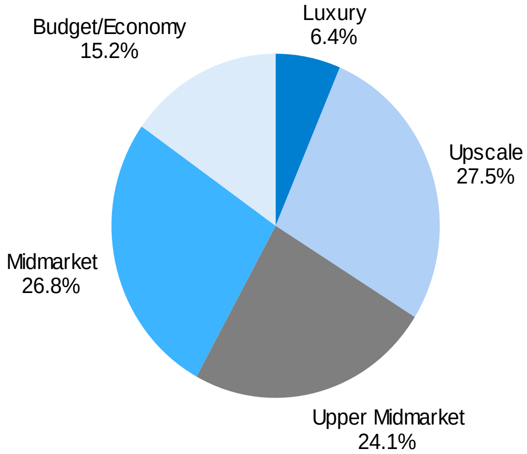
Exhibit 20: Share of India's mid-priced room inventory rose to 46% in 2022

Segments	No. of Branded Rooms		
	2002 (Total 26,022)	2019 (Total 1,49,260)	2022 (Total 1,77,449)
Luxury-Upper Upscale	15,052	51,170	62,107
Upscale	4,661	30,490	33,715
Upper Midscale	4,458	30,100	35,490
Midscale & Economy	1,895	37,500	46,137

Source: Company, PL

As per Hotelviate, roughly 66% of branded new rooms supply over next 5 years (2022-2027) is likely to be in the mid-market segment. This bodes well for LTHL, given its mid-market positioning enabling it to expand at a rapid pace via management contract route.

Exhibit 21: 66% of new rooms supply to be in the mid-market segment



Source: Hotelviate, PL

Aurika, Mumbai to be a game changer

LTHL is planning to come up with a new hotel in Mumbai near the airport under brand Aurika (luxury/upscale brand). The hotel will have 669 keys and is expected to open in Oct-23. Estimated capex outlay for the project is Rs9,500mn and LTHL has spent Rs6,840mn as of 30th June 2023. Out of the balance capex, majority will be spent to operationalize the hotel in FY24E, while some amount will be spilled-over to FY25E (certain payments are linked to performance guarantee).

Given Aurika is strategically located in Mumbai closer to the airport, we expect the hotel to stabilize within 6-8 months after operations begin. Accordingly, we expect ARR and occupancy of Rs10,351 and 70% in FY25E (first full year of operations). In FY26E, when the hotel will be in its second full year of operations we expect occupancy to rise to 75% with an ARR of Rs11,179 (conservative estimate of management is Rs12,000). As the hotel will have a banquet, we assume share of F&B revenue to be higher at 35% resulting in revenues of Rs2,389mn/Rs2,764mn with EBITDA margin of 55%/60% in FY25E and in FY26E respectively.

Exhibit 22: Aurika, Mumbai's EBITDA margin to be at 60% in FY26E

Aurika Mumbai P&L Snapshot	FY25E	FY26E
ARR (Rs)	10,351	11,179
Occupancy	70%	75%
RevPAR (Rs)	7,246	8,384
Room revenue	1,769	2,047
F&B revenue @35% of room revenue	619	717
Total revenue	**2,389**	**2,764**
EBITDA	**1,314**	**1,658**
EBITDA margin	*55%*	*60%*

Source: PL

We believe Aurika, Mumbai is likely to be the most priced asset for LTHL as: -

- **Location advantage**: It is strategically located in a dense micro-market of Mumbai (near airport) and shall attract all types of travellers like business, transit, long-stays, and leisure ensuring occupancy stabilizes in 70-75% band soon enough.
- **MICE opportunity**: It has a banquet and hence there is a possible upside from MICE business.
- **Uplift overall ARR of LTHL**: 669 rooms (13% of inventory on existing portfolio of owned rooms) will operate at an ARR which is ~2x of the company wide ARR in 1st year of operations uplifting the blended room rates for LTHL.
- **Healthy margins**: Being a luxury upscale property, EBITDA margin is likely to be ~60% uplifting the overall margin profile of LTHL.

LTHL also has another resort in Shimla with 69 rooms that is under development. Estimated capex for the project is sub ~Rs500-600mn and it is expected to open in FY26E which will provide an additional growth kicker.

Exhibit 23: Expansion plans of hotels under development as of 30th June,2023

Under-development hotels	Type	Rooms	Expected Opening date	Ownership (%)
Aurika, Mumbai International Airport	Owned	669	CY23	58.9%
Lemon Tree Mountain Resort, Shimla	Owned	69	FY26	100.0%
Total		**738**		

Source: Company, PL

Aurika site visit key takeaways

We visited the under construction hotel at Aurika, Mumbai and interacted with the hotel GM to gauge current progress. Brief highlights from our site visit is as follows:-

- Entire civil work is complete. Work at the reception area and lobby was ongoing when we visited the site. The hotel will have a gym, a pool, a coffee shop and separate entrance for banquet which can accommodate 800-1,000 people on rolling basis. There are 7 categories of rooms in the hotel.
- The area has about 1,200-1,300 rooms in the luxury upscale segment. Additional 500 rooms from Fairmont (Accor Group of Hotels) will be operational by 4QFY24/1QFY25. Despite additional supply on the anvil, given the location (near to airport in Mumbai), occupancy and rates are unlikely to come under pressure.
- LTHL plans to open the hotel by Oct-23.
- As the hotel has banquet, share of F&B revenue is expected to be at ~30-32%.
- As hotel is located near to the airport, airline business (crew accommodation) can be in the region of ~15-20%.
- Being a luxury brand, Aurika is expected to operate at a higher staff to room ratio. LTHL had staff to room ratio of ~0.62x in FY23.
- **Progress on operational readiness**: Most licenses to operate the hotel have been received and the occupancy certificate is expected to be received by end of September.

Business to turn asset light amid rapid expansion

Apart from Aurika, Mumbai (669 rooms) and Lemon Tree Resort, Shimla (69 rooms) LTHL's entire expansion plan (target of reaching 300+ hotels with 20K+ rooms by CY28E including properties in pipeline) is via management contract route. Under this model, LTHL gets a royalty fee of ~7-8% for managing the property, while capex is incurred by the property owner.

Over last 5 years, the count of managed room inventory has increased from 1,841 rooms (34% of inventory) in FY19 to 3,190 rooms (38% of inventory) in FY23. We expect the ratio of managed rooms inventory to reach 68% in FY28E as future expansion will be via management contract route.

We expect LTHL to add 1,330 rooms/1,606 rooms/1,872 rooms in FY24E/FY25E /FY26E respectively. As of 1QFY24, the managed portfolio had pipeline of 44 hotels with 2,986 rooms that are expected to be operational over next few years. Roughly, 87% of the managed room inventory pipeline is under Lemon Tree brand in FY24E indicating huge branding opportunity is available in mid-market category.

Exhibit 24: Managed rooms pipeline portfolio breakup as on 30th June,2023

Pipeline Portfolio	Managed/ Franchised	
	Hotels	Rooms
Aurika Hotels & Resorts	2	242
Lemon Tree Premier	5	399
Lemon Tree Hotels	32	2152
Keys by Lemon Tree Hotels	5	193
Total	**44**	**2986**

Source: Company, PL

Exhibit 25: Pipeline of managed & franchised contracts by opening as of 30th June,2023

#	Hotels Pipeline	City	Rooms	Expected opening
1	Lemon Tree Hotel Manali	Himachal Pradesh	34	FY24
2	Lemon Tree Hotel, Hubli	Hubli	65	FY24
3	Lemon Tree Hotel, Rajkot	Rajkot	45	FY24
4	Lemon Tree Hotel Dapoli	Maharashtra	50	FY24
5	Keys Lite by Lemon Tree Hotels, Dapoli	Maharashtra	20	FY24
6	Lemon Tree Resort Kumbhalgarh	Kumbhalgarh	59	FY24
7	Lemon Tree Hotel, Sonmarg	Sonmarg	40	FY24
8	Lemon Tree Hotel, McLeodganj	Dharamshala	39	FY24
9	Lemon Tree Hotel, Haridwar	Haridwar	50	FY24
10	Keys Lite by Lemon Tree Hotel Dehradun	Dehradun	32	FY24
11	Lemon Tree Hotel, Jamshedpur	Jamshedpur, Jharkhand	42	FY24
12	Lemon Tree Hotel, Malad, Mumbai	Mumbai	93	FY24
13	Lemon Tree Resort, Mussoorie	Mussoorie	40	FY24
14	Lemon Tree Hotel, Anjuna, Goa	Goa	51	FY24
15	Lemon Tree Premier, Kanha	Kanha	15	FY24
16	The Spectrum, operated by Lemon Tree Hotels, Gurugram	Gurugram	260	FY24
17	Peninsula Suites operated by Lemon Tree Hotels	Whitefield, Bengaluru	103	FY24
18	Lemon Tree Resort, Lumbini	Nepal	81	FY24
19	Lemon Tree Premier, Budhanilkantha	Kathmandu	102	FY24
20	Lemon Tree Premier, Biratnagar, Nepal	Biratnagar, Nepal	80	FY25
21	Lemon Tree Hotel, Tapovan, Rishikesh	Rishikesh	102	FY25
22	Lemon Tree Resort, Thimphu, Bhutan	Thimphu, Bhutan	38	FY25
23	Keys Select by Lemon Tree Hotels, Chirang	Chirang, Assam	40	FY25
24	Keys Lite by Lemon Tree Hotels, Jaipur	Jaipur	47	FY25
25	Lemon Tree Hotel, Erode	Erode, Tamil Nadu	64	FY25
26	Bhangeri Durbar Resort, operated by Lemon Tree Hotels	Nagarkot, Nepal	51	FY25
27	Lemon Tree Hotel, Chandausi	Chaundausi, UP	70	FY25

Contd…12

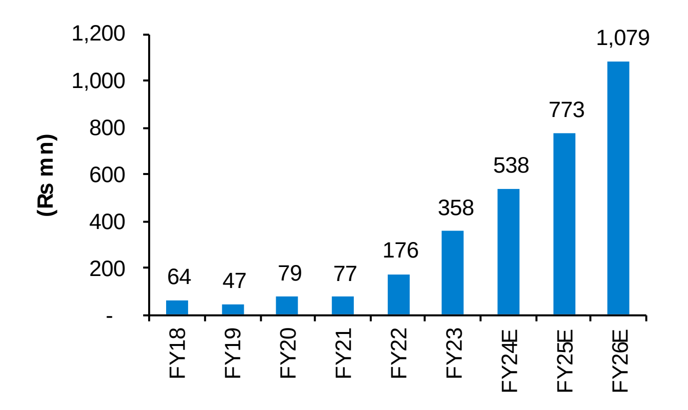
#	Hotels Pipeline	City	Rooms	Expected opening
28	Keys Lite by Lemon Tree Hotels, Banswara	Banswara, Rajasthan	54	FY25
29	Lemon Tree Hotel, Kharar	Kharar	60	FY25
30	Lemon Tree Hotel, Darjeeling	Darjeeling	55	FY26
31	Lemon Tree Hotel, Tejpur, Assam	Tejpur, Assam	42	FY26
32	Lemon Tree Hotel Jabalpur	Madhya Pradesh	75	FY26
33	Aurika, Rishikesh	Rishikesh	132	FY27
34	Lemon Tree Premier Gomti Nagar, Lucknow	Uttar Pradesh	82	FY27
35	Aurika, Kasauli	Himachal Pradesh	110	TBA
36	Lemon Tree Hotel Bharuch	Gujarat	83	TBA
37	Lemon Tree Hotel Sri Ganganagar	Rajasthan	60	TBA
38	Lemon Tree Hotel, Gulmarg	Gulmarg	35	TBA
39	Lemon Tree Hotel, Bokaro	Bokaro	70	TBA
40	Lemon Tree Hotel, Kathmandu	Kathmandu, Nepal	75	TBA
41	Lemon Tree Hotel, Thiruvananthapuram	Trivandrum	100	TBA
42	Lemon Tree Hotel, Ludhiana	Ludhiana	60	TBA
43	Lemon Tree Hotel, Rajahmundry	Andhra Pradesh	60	TBA
44	Lemon Tree Premier Hotel, Tirupati	Andhra Pradesh	120	TBA
	Hotels pipeline as of 30/6/2023 (Q1 FY24)	**Total**	**2986**	

Source: Company, PL

Consequent to sharp addition in managed room inventory, we expect management fee income to increase at a CAGR of 44% over FY23-FY26E and reach a level of Rs1,910mn by FY28E. We believe that management contract route will: -

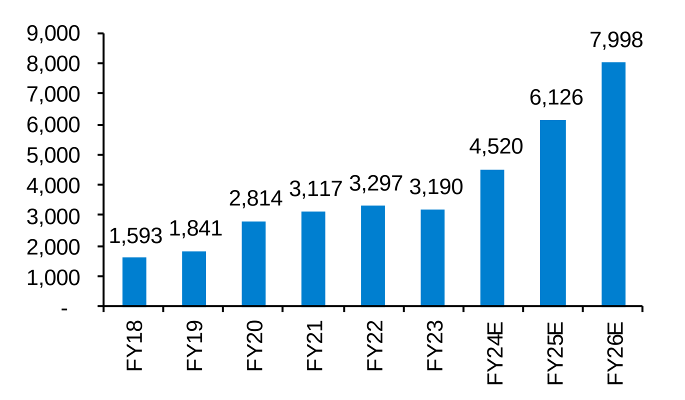
- Make the business asset light and improve BS strength (no requirement of debt to fund capex as the asset belongs to property owner).
- Enable faster expansion in areas where LTHL has limited presence (saves on time required to construct a new property and stabilize it).
- Improve the margin profile as flow-through to EBITDA from management fee income is high (no major direct cost involved in generating fee income).

Exhibit 26: Management fee to be at Rs1,079mn in FY26E



Source: Company, PL

Exhibit 27: Managed room count to reach 7,998 in FY26E



Source: Company, PL

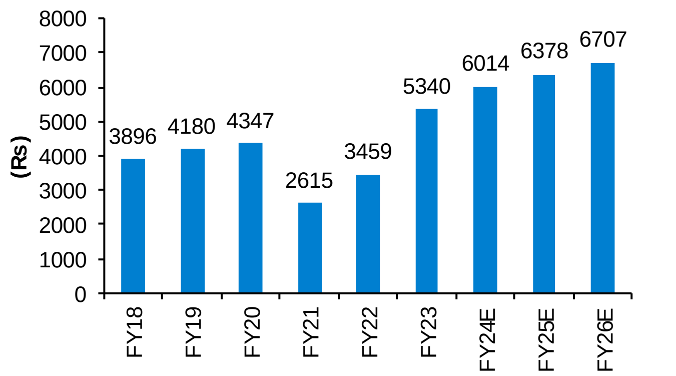
Financial Projections

Revenue CAGR of 19% over FY23-FY26E

We expect revenue CAGR of 19% over FY23-FY26E amid: -

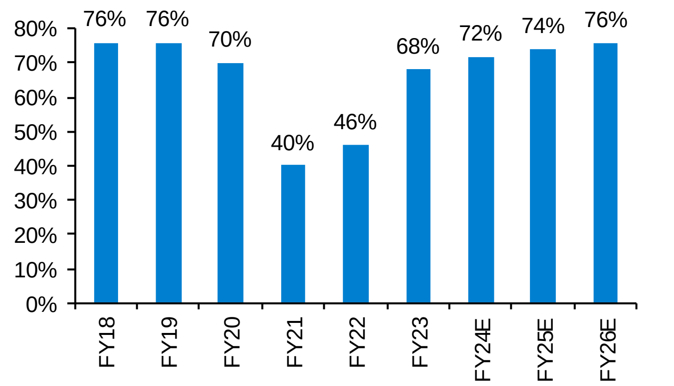
- 8% CAGR in ARR buoyed by favourable demand supply dynamics like upcoming cricket world cup in India and ongoing G-20 meetings. Further, large scale renovation of ~3,500-4,000 rooms (ear-marked a sum of ~Rs1,500mn) over next 3 years will also help in driving ARRs.
- Increase in the number of owned/leased rooms to 5,930 by FY26E. Additional 669 rooms at Aurika, Mumbai will begin operations by Oct-23, while we expect the 69 rooms resort at Shimla to begin operations in FY26E.
- Improvement in occupancy levels to 76% in FY26E. We expect blended occupancy levels to improve amid 1) addition of Aurika, Mumbai which is located in a dense market near airport and hence scale up is expected to be much faster and 2) large scale renovation of Keys portfolio (occupancy for Keys is expected to rise from 54% in FY23 to 65% in FY26E after upgradation).
- Increase in management fee income to Rs1,079mn in FY26E on the back of addition of 4,808 managed rooms over next 3 years.

Exhibit 28: ARR CAGR of 8% over FY23-26E



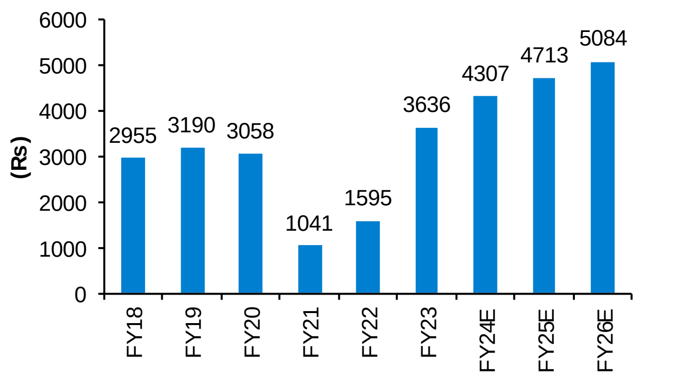
Source: Company, PL

Exhibit 29: Occupancy levels to improve to 76% in FY26E



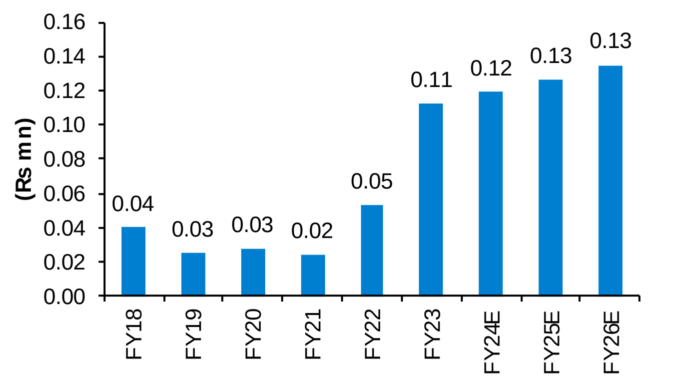
Source: Company, PL

Exhibit 30: RevPAR CAGR of 12% over FY23-26E



Source: Company, PL

Exhibit 31: Management fee per key at 0.13mn in FY26E



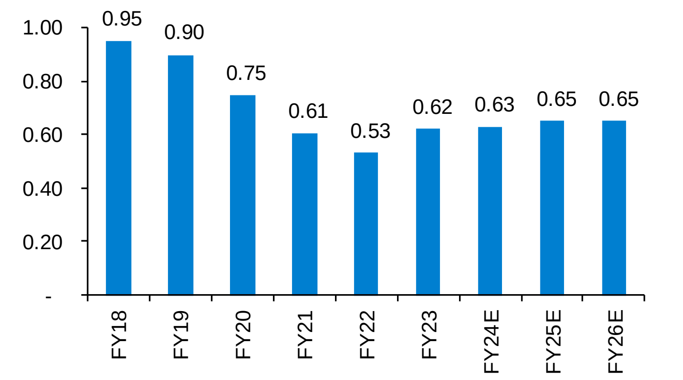
Source: Company, PL

EBITDA CAGR of 20% over FY23-FY26E

We expect EBITDA CAGR of 20% over FY23-FY26E with margin of 48.7%/51.0%/52.2% in FY24E/FY25E/FY26E respectively as: -

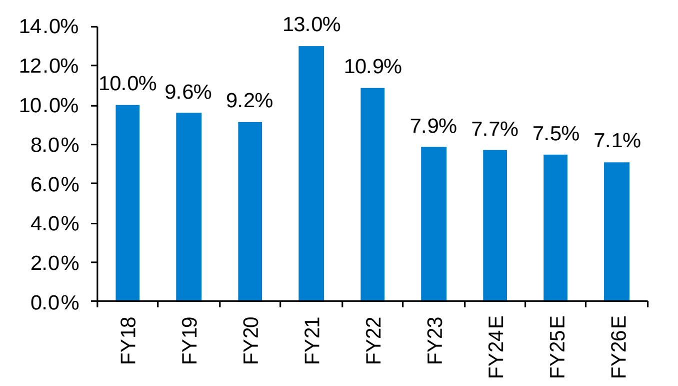
- Improved negotiation with suppliers amid better scale and re-invention of menus (reduces wastage) will lead to an improvement in F&B GM.
- Power & fuel cost is expected to decline from 7.9% of sales in FY23 to 7.1% of sales in FY26E, as share of renewable energy is expected to increase to 50% by FY26E.
- Stabilization of staff to room ratio at 0.65x (average of 0.97x over a 5-years period pre-COVID).
- Increase in management fee income from Rs358mn in FY23 to Rs1,079mn in FY26E where flow through to EBITDA is significantly higher.

Exhibit 32: Staff to room ratio to stabilize at 0.65x in FY26E



Source: Company, PL

Exhibit 33: Power cost to decline to 7.1% of sales in FY26E



Source: Company, PL

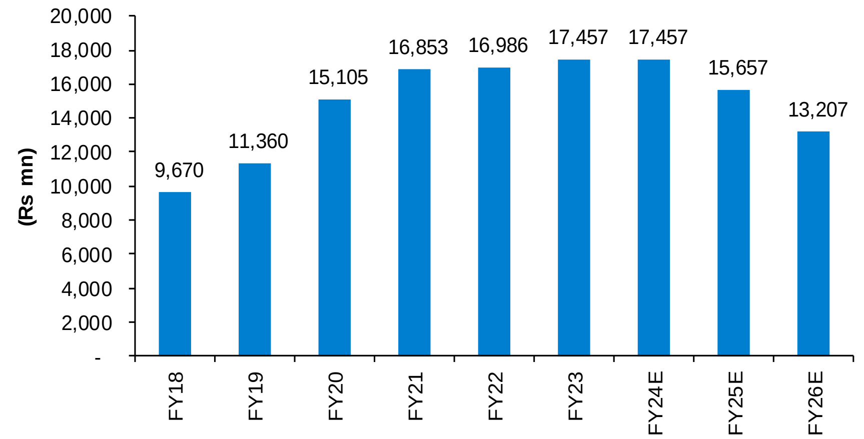
PAT to increase by 2.5x over FY23-FY26E

We expect PAT to increase by 2.5x over FY23-FY26E aided by 1) addition of 669 rooms at Aurika, Mumbai (full impact will be seen in FY25E) 2) increase in share of high margin management fee income from 4% in FY23 to 7% in FY26E 3) fall in interest expenses from Rs1,772mn in FY23 to Rs1,334mn in FY26E, as improvement in cash flows will be utilized to deleverage the BS.

Deleveraging to begin from FY25E

LTHL has already spent Rs6,840mn odd towards Aurika, Mumbai and an outgo of ~Rs2,660mn is lined up over next 2 years (some spill-over will happen in FY25E as certain payments are linked to performance guarantee). However, subsequently, there is no major capex lined-up as majority of the future expansion is via asset light management contract route. As a result, cash flows generated from existing hotel assets will be utilized to deleverage the BS. We expect debt repayments of Rs1,800mn in FY25E and Rs2,450mn in FY26E and consequently D/E is likely to improve from 1.2x in FY23 to 0.6x in FY26E, thereby significantly improving the BS strength of LTHL.

Exhibit 34: Deleveraging to begin from FY25E



Source: Company, PL

Exhibit 35: Brief financial snapshot

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	4,843	5,495	6,694	2,517	4,022	8,750	10,978	13,225	14,670
YoY growth	*18%*	*13%*	*22%*	*-62%*	*60%*	*118%*	*25%*	*20%*	*11%*
EBITDA	1,362	1,688	2,434	613	1,187	4,476	5,345	6,746	7,652
Margin	*28%*	*31%*	*36%*	*24%*	*30%*	*51%*	*49%*	*51%*	*52%*
PAT	142	529	(95)	(1,271)	(874)	1,146	1,540	2,250	2,889
Margin	*3%*	*10%*	*NM*	*NM*	*NM*	*13%*	*14%*	*17%*	*20%*
Net debt	9,340	10,759	14,652	15,432	16,384	17,211	15,785	12,569	8,406
Net debt/EBITDA (x)	6.9	6.4	6.0	25.2	13.8	3.8	3.0	1.9	1.1
Capex	(2,432)	(2,802)	(6,445)	(704)	(675)	(1,620)	(2,000)	(1,000)	(600)
FCFF	(1,287)	(935)	(4,935)	(294)	677	2,228	2,574	4,373	5,029

Source: Company, PL

Valuation

LTHL was listed in 2018 and hence does not have sufficient past listing history. Thereafter COVID hit India in 2020 and subsequent 2 years were marred by losses, wherein hospitality industry was worst hit by the virus making past history redundant for future benchmarking.

Further, past history also does not fully capture the re-rating potential that comes from expanding via asset light management contract route. Basically, earlier hotel companies were saddled with high debt and business model was capital intensive with low return ratios. However, expansion via management contract has turned the business model asset light which is likely to improve BS strength warranting a re-rating.

In order to value LTHL, we map the growth & profitability profile with its peers to arrive at a fair valuation multiple. As can be seen in exhibits below, the revenue and EBITDA CAGR of LTHL is higher than peers over FY23-FY26E but it is trading at a discount.

Exhibit 36: Revenue profile comparison of peer set

Revenue (Rs mn)	FY22	FY23	FY24E	FY25E	*FY23-FY25E CAGR*
Lemon Tree*	4,022	8,750	10,978	13,225	*22.9%*
Chalet (Hotel revenue only)*	4,058	10,285	13,266	14,647	*19.3%*
Indian Hotels	30,562	58,099	66,432	73,329	*12.3%*
EIH	9,853	20,188	21,913	24,206	*9.5%*

*Source: Company, PL *PL estimate Note: Peer set projections is BB consensus*

Exhibit 37: EBITDA profile comparison of peer set

EBITDA (Rs mn)	FY22	FY23	FY24E	FY25E	*FY23-FY25E CAGR*
Lemon Tree*	1,187	4,476	5,345	6,746	*22.8%*
Chalet (Hotel EBITDA only)*	696	4,318	5,837	6,445	*22.2%*
Indian Hotels	4,048	18,046	21,554	24,605	*16.8%*
EIH	-13	5,974	6,705	7,625	*13.0%*

*Source: Company, PL *PL estimate Note: Peer set projections is BB consensus*

Exhibit 38: Valuation comparison matrix

Particulars	FY23	FY24E	FY25E
Lemon Tree*	22.6	18.7	14.3
Chalet*	29.9	21.0	17.4
Indian Hotels	26.6	29.4	25.7
EIH	17.9	25.6	22.5

*Source: Company, PL *PL estimate*

We value LTHL on SOTP basis. Growth potential of standalone business where LTHL owns and operates 17 hotels and ~1,800 rooms is linked to RevPAR and management fee as no fresh inventory addition is lined up. Thus, the business characteristic of standalone operations is comparable to EIH Ltd (limited addition of room inventory and growth is linked to RevPAR) and our target multiple is benchmarked to it. EIH trades at 23x FY25 consensus EV/EBITDA. EIH has strong brands like Trident and Oberoi, but LTHL has additional growth kicker in the form of management fee income. We thus value standalone business at 21X FY26E EV/EBITDA and arrive at EV of Rs52bn.

Exhibit 39: LTHL standalone valuation

Particulars (Rs mn)	FY26E
EV/EBITDA multiple	21
EBITDA	2,488
EV	52,241

Source: PL

Fleur Hotels, a 59% subsidiary of LTHL, owns and operates 23 hotels and ~3,300 rooms. APG has ~41% stake in Fleur. We value the business at 22x FY26E EBITDA as 1) Aurika resides in Fleur and is likely to start operations from Oct-23 significantly uplifting the revenue and profitability profile of the subsidiary 2) post Aurika, no major capex is lined up and deleveraging journey is expected to begin from FY25E. After adjusting for minority stake of APG we arrive at an EV of Rs67bn for Fleur.

Exhibit 40: Fleur valuation

Particulars (Rs mn)	FY26E
EV/EBITDA multiple	22
EBITDA	5,165
EV	1,13,620
Less: APG stake adjustment factor	46,584
Adjusted EV	67,036

Source: PL

Accordingly, we arrive at an SOTP value per share of Rs140. **Initiate coverage with 'BUY' rating.**

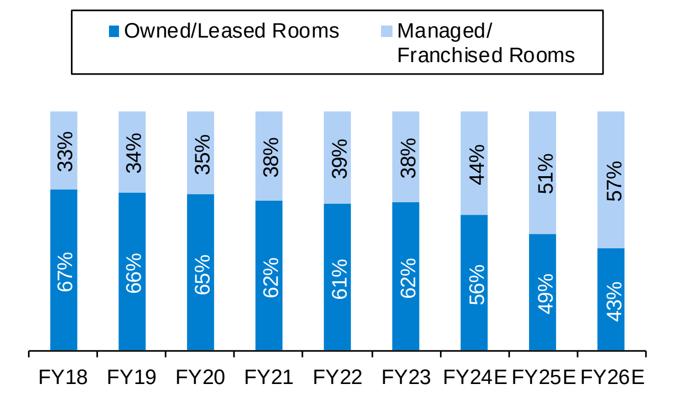
Exhibit 41: SOTP valuation table

(Rs mn)	FY26E
LT standalone EV	52,241
Fleur's stake adjusted EV	67,036
Total EV	1,19,276
Less: Debt	13,207
Add: Cash	4,791
Equity value	1,10,860
No of shares	792
SOTP per share (Rs)	**140**

Source: PL

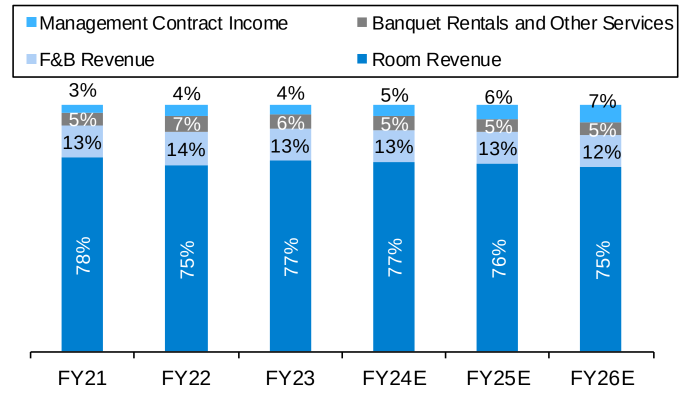
Story in Charts

Exhibit 42: Managed room share to be at 57% in FY26E



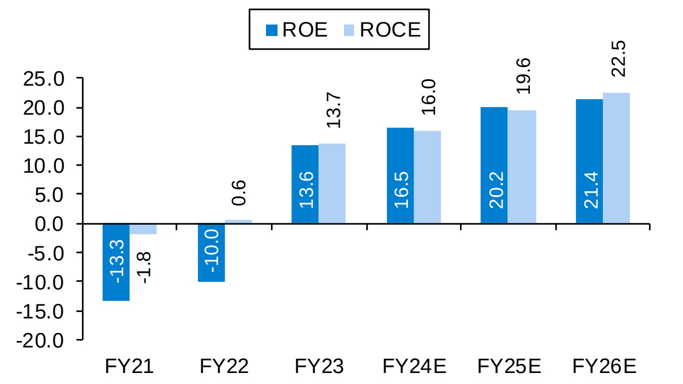
Source: Company, PL

Exhibit 43: Room revenue forms 75% of sales in FY26E



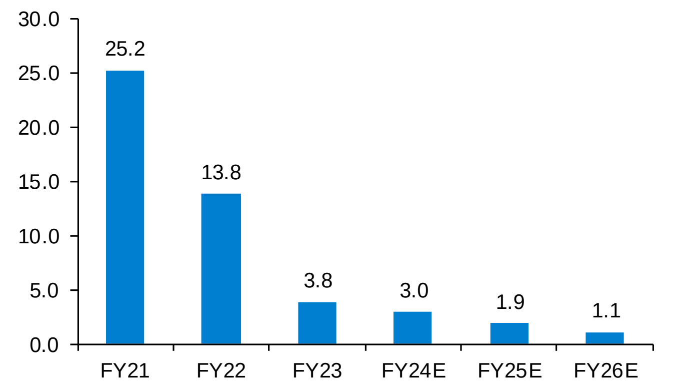
Source: Company, PL

Exhibit 44: ROE & ROCE to rise to 21%/23% in FY26E



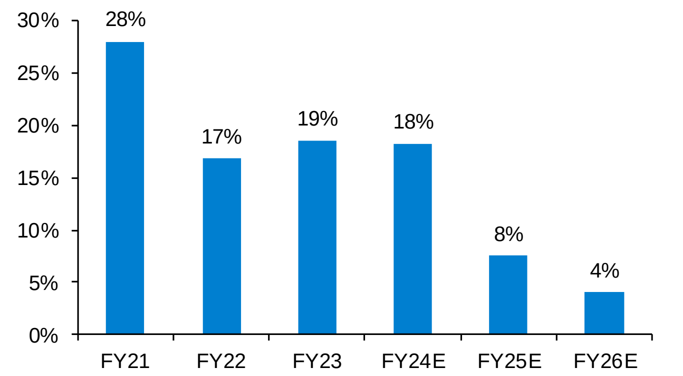
Source: Company, PL

Exhibit 45: Net debt/EBITDA to improve to 1.1x in FY26E



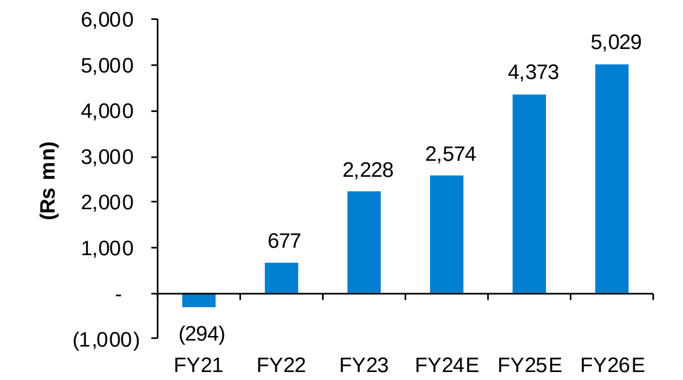
Source: Company, PL

Exhibit 46: Capex intensity to decline to 4% in FY26E



Source: Company, PL

Exhibit 47: FCFF to be at Rs5bn in FY26E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**8,750**	**10,978**	**13,225**	**14,670**
YoY gr. (%)	*117.5*	*25.5*	*20.5*	*10.9*
Cost of Goods Sold	499	635	732	799
Gross Profit	8,251	10,343	12,493	13,871
Margin (%)	*94.3*	*94.2*	*94.5*	*94.6*
Employee Cost	1,497	1,834	2,006	2,152
Other Expenses	2,278	3,163	3,740	4,068
EBITDA	**4,476**	**5,345**	**6,746**	**7,652**
YoY gr. (%)	*277.2*	*19.4*	*26.2*	*13.4*
Margin (%)	*51.2*	*48.7*	*51.0*	*52.2*
Depreciation and Amortization	966	1,076	1,328	1,354
EBIT	**3,510**	**4,269**	**5,418**	**6,299**
Margin (%)	*40.1*	*38.9*	*41.0*	*42.9*
Net Interest	1,772	1,763	1,581	1,334
Other Income	36	55	66	103
Profit Before Tax	**1,774**	**2,561**	**3,903**	**5,067**
Margin (%)	*20.3*	*23.3*	*29.5*	*34.5*
Total Tax	377	640	976	1,267
Effective tax rate (%)	*21.3*	*25.0*	*25.0*	*25.0*
Profit after tax	**1,397**	**1,921**	**2,927**	**3,800**
Minority interest	260	381	677	911
Share Profit from Associate	9	-	-	-
Adjusted PAT	**1,146**	**1,540**	**2,250**	**2,889**
YoY gr. (%)	*NA*	*34.5*	*46.1*	*28.4*
Margin (%)	*13.1*	*14.0*	*17.0*	*19.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,146**	**1,540**	**2,250**	**2,889**
YoY gr. (%)	*NA*	*34.5*	*46.1*	*28.4*
Margin (%)	*13.1*	*14.0*	*17.0*	*19.7*
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	1,147	1,540	2,250	2,889
Equity Shares O/s (m)	**792**	**792**	**792**	**792**
EPS (Rs)	**1.4**	**1.9**	**2.8**	**3.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**36,128**	**43,059**	**44,299**	**45,139**
Tangibles	35,822	42,683	43,853	44,623
Intangibles	306	376	446	516
Acc: Dep / Amortization	**7,506**	**8,582**	**9,910**	**11,264**
Tangibles	7,263	8,242	9,451	10,683
Intangibles	243	340	459	581
Net fixed assets	**28,622**	**34,477**	**34,389**	**33,875**
Tangibles	28,559	34,441	34,402	33,940
Intangibles	64	37	(13)	(65)
Capital Work In Progress	4,822	131	131	131
Goodwill	951	951	951	951
Non-Current Investments	859	1,044	1,117	1,234
Net Deferred tax assets	329	395	450	455
Other Non-Current Assets	344	384	463	557
Current Assets				
Investments	10	10	10	10
Inventories	105	132	159	176
Trade receivables	560	692	833	924
Cash & Bank Balance	275	1,706	3,131	4,850
Other Current Assets	375	461	542	601
Total Assets	**37,323**	**40,483**	**42,294**	**43,897**
Equity				
Equity Share Capital	7,916	7,916	7,916	7,916
Other Equity	621	2,162	4,299	6,900
Total Networth	**8,537**	**10,078**	**12,215**	**14,816**
Non-Current Liabilities				
Long Term borrowings	15,174	15,174	13,674	11,674
Provisions	25	33	40	44
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,283	2,283	1,983	1,533
Trade payables	668	1,053	1,449	1,648
Other current liabilities	750	900	1,062	1,159
Total Equity & Liabilities	**37,323**	**40,483**	**42,294**	**43,897**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,782	2,561	3,903	5,067
Add. Depreciation	966	1,076	1,328	1,354
Add. Interest	1,773	1,763	1,581	1,334
Less Financial Other Income	36	55	66	103
Add. Other	(63)	-	-	-
Op. profit before WC changes	4,459	5,400	6,812	7,755
Net Changes-WC	(403)	195	213	52
Direct tax	(207)	(640)	(976)	(1,267)
Net cash from Op. activities	**3,849**	**4,574**	**5,373**	**5,629**
Capital expenditures	(1,618)	(2,000)	(1,000)	(600)
Interest / Dividend Income	57	-	-	-
Others	(42)	(432)	(346)	(379)
Net Cash from Invt. activities	**(2,832)**	**(2,451)**	**(1,357)**	**(986)**
Issue of share cap. / premium	17	-	-	-
Debt changes	471	-	(1,800)	(2,450)
Dividend paid	-	-	(113)	(289)
Interest paid	(1,432)	(1,763)	(1,581)	(1,334)
Others	(379)	1,065	894	1,143
Net cash from Fin. activities	**(1,323)**	**(698)**	**(2,600)**	**(2,930)**
Net change in cash	**(306)**	**1,426**	**1,416**	**1,713**
Free Cash Flow	2,228	2,574	4,373	5,029

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**1,967**	**2,335**	**2,527**	**2,223**
YoY gr. (%)	*103.0*	*62.6*	*111.4*	*15.7*
Raw Material Expenses	304	298	289	317
Gross Profit	1,663	2,038	2,238	1,905
Margin (%)	*84.5*	*87.2*	*88.6*	*85.7*
EBITDA	**936**	**1,265**	**1,399**	**1,045**
YoY gr. (%)	*176.4*	*99.8*	*548.0*	*19.3*
Margin (%)	*47.6*	*54.2*	*55.4*	*47.0*
Depreciation / Depletion	250	236	235	228
EBIT	**686**	**1,029**	**1,164**	**817**
Margin (%)	*34.9*	*44.1*	*46.0*	*36.8*
Net Interest	446	445	452	481
Other Income	7	6	20	24
Profit before Tax	**247**	**590**	**732**	**359**
Margin (%)	*12.6*	*25.3*	*29.0*	*16.2*
Total Tax	56	106	143	87
Effective tax rate (%)	*22.7*	*18.0*	*19.6*	*24.2*
Profit after Tax	**191**	**484**	**589**	**272**
Minority interest	26	86	150	41
Share Profit from Associates	2	2	1	3
Adjusted PAT	**168**	**400**	**440**	**235**
YoY gr. (%)	*NA*	*NA*	*NA*	*69.4*
Margin (%)	*8.5*	*17.1*	*17.4*	*10.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**168**	**400**	**440**	**235**
YoY gr. (%)	*NA*	*NA*	*NA*	*69.4*
Margin (%)	*8.5*	*17.1*	*17.4*	*10.6*
Other Comprehensive Income	**1**	**1**	**(1)**	**-**
Total Comprehensive Income	**169**	**401**	**438**	**235**
Avg. Shares O/s (m)	**791**	**792**	**792**	**792**
EPS (Rs)	**0.2**	**0.5**	**0.6**	**0.3**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	1.4	1.9	2.8	3.7
CEPS	2.7	3.3	4.5	5.4
BVPS	10.8	12.7	15.4	18.7
FCF	2.8	3.3	5.5	6.4
DPS	-	-	0.1	0.4
Return Ratio(%)				
RoCE	13.7	16.0	19.6	22.5
ROIC	12.0	13.2	16.0	17.4
RoE	13.6	16.5	20.2	21.4
Balance Sheet				
Net Debt : Equity (x)	2.0	1.6	1.0	0.6
Net Working Capital (Days)	0	(8)	(13)	(14)
Valuation(x)				
PER	75.0	55.8	38.2	29.7
P/B	10.1	8.5	7.0	5.8
P/CEPS	40.7	32.8	24.0	20.2
EV/EBITDA	23.0	19.0	14.6	12.3
EV/Sales	11.8	9.3	7.4	6.4
Dividend Yield (%)	-	-	0.1	0.3

Source: Company Data, PL Research

Notes

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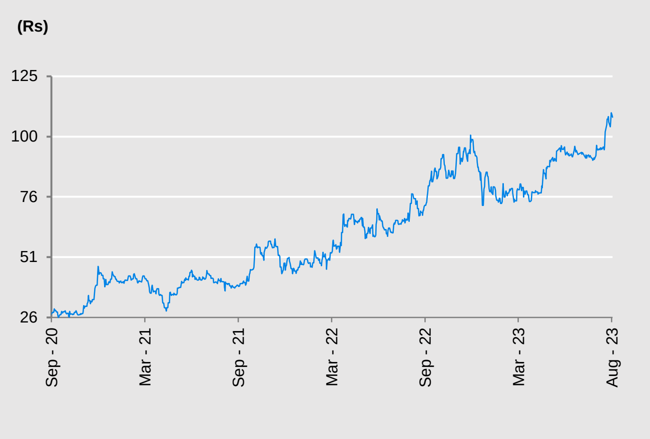
Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	562	489
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	700	646
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,855	2,565
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	192	144
8	Nazara Technologies	BUY	834	694
9	PVR Inox	BUY	1,797	1,565
10	S Chand and Company	BUY	338	249
11	Safari Industries (India)	BUY	3,728	3,195
12	V.I.P. Industries	Accumulate	707	598
13	Zee Entertainment Enterprises	BUY	276	242

PL's Recommendation Nomenclature

Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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