

CMP: Rs 130
2 Year Target: Rs 170

Investor's Rationale

Lemon Tree Hotels (LEMONTREE) has established a niche for itself in the growing mid-market hospitality segment and is now expanding its wings by improving its presence in the top (upscale/luxury) segment and increasing its inventory through management contracts. We believe the company is set to benefit significantly from the sectoral tailwinds and emerge as a larger and stronger player.

The company is expected to benefit from the changing dynamics in its key markets such as NCR (~24%/17% of FY23/FY26E consol. Revenue as per our estimates) and Mumbai (excluding Aurika Sky City, ~10% in FY23 and 29% in FY26E including Aurika MIAL). Rising demand in these cities (which is accelerated by significant traction from new convention centers) and slower supply (~2-6% CAGR over FY23-28E) should propel the growth trajectory of existing players.

Aurika Sky City Mumbai, which is positioned as an upper upscale hotel, will be a key beneficiary of the trickling down of demand from the luxury segment. The hotel is expected to contribute to ~21%/23% of consolidated revenue/EBITDA by FY26.

LEMONTREE has a strong pipeline of ~3,354 managed rooms (~91% of operational managed rooms), which are expected to become operational by FY27, taking the share of managed rooms to ~55%. We expect LEMONTREE to clock management fees of INR943m by FY26 (~38% CAGR over FY23-26E).

Face Value	10.0
Market Cap (Rs cr)	10,275
52 week high/low	136/72
Shares O/S (Cr)	79.2
Book Value per Share (Rs)	10.9
Sensex	71,848
Nifty	21,659

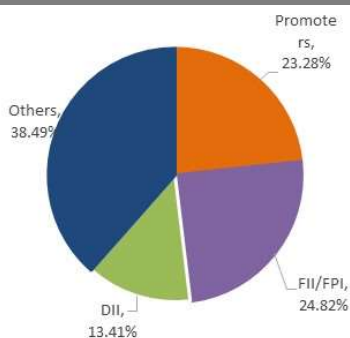
1 yr. Price Chart of Stock and Nifty



Valuation

We expect LEMONTREE to deliver a revenue/EBITDA/Adj. PAT CAGR of 21%/22%/38% over FY23-26 and improve RoE to ~22% by FY26 from 14% in FY23. We reiterate our BUY rating on the stock with Target Price of Rs 170 assigning a PE Multiple of 50x to FY25E EPS

Shareholding pattern as on 31st Dec 2024.



	FY23	FY24E	FY25E	FY26E
Revenue (Rs. Million)	8,750.0	10,483.0	14,340.0	15,559.0
EBITDA (Rs. Million)	4,524.0	4,984.0	7,269.0	8,119.0
Adj. profit (Rs. Million)	1,182.0	1,292.0	2,664.0	3,100.0
RoE	14	14.1	23.9	22.1
RoCE	9.4	9.7	14.4	17.1
P/BV	11	9.4	7.4	5.9
EV/Sales	13.3	11.2	8	7.1
EV/Room (INRm)	24.2	24.3	23.3	22.5
P/E	79.3	71.8	34.8	29.9

Re-ignition of convention centers to boost growth trajectory

NCR/Mumbai (excluding Aurika) are some of the key markets for LEMONTRE, accounting for ~24%/10% (as per our estimates) of the company's consolidated revenue in FY23.

These markets are expected to witness a significant change in dynamics with the recent opening of mega convention centers in those cities.

In NCR, Bharat Mandapam (inaugurated in Jul'23) and Yashobhoomi Convention Center (Sep'23) have a combined capacity of hosting ~18,000 people and are already witnessing significant traction.

In Mumbai, Jio Convention Center (inaugurated in Mar'22) hosted ~800 events in FY23, with cumulative footfalls of over 1.9m.

While demand is on the rise in these cities, hotel room supply is expected to be much slower (~2%/6% CAGR for room addition in Delhi/Mumbai over FY23-28E).

Accordingly, we believe the hospitality players should benefit from such a favorable demand scenario (indicating higher occupancy and room rates in the region going ahead).

Aurika Sky City – Unveiling the Crown Jewel

In Oct'23, LEMONTRE launched Aurika Sky City, a 669-room owned hotel (largest in the country by rooms) near the Mumbai International Airport.

With a prime location and upscale offerings, Aurika MIAL is likely to generate ARR of ~INR12,000-15,000 with occupancy of over 70%. EBITDAR margin for Aurika hotels is also much higher (~64% in FY23) compared with other brands (~18-41%).

Accordingly, the addition of Aurika Sky City in Mumbai (669 rooms; ~12% of total owned/leased inventory) is expected to alter the company's dynamics by improving its brand mix, coupled with higher ARR/OR and better margins

Further, Aurika, which is being positioned as an upscale hotel, is likely to benefit from the trickling down of demand from the luxury segment, led by rising demand and limited supply in these category (~7% of total proposed supply).

We expect Aurika MIAL to generate revenue/EBITDA of INR3.2b/INR1.9b in FY26 (~21%/23% of consolidated revenue/EBITDA) with an EBITDA margin of ~58%.

Robust pipeline to drive next leg of growth

LEMONTRE has a strong pipeline of ~3,423 rooms (~36% of the total operational rooms), comprising mainly of ~3,354 managed rooms (~91% of the operational managed rooms).

This pipeline inventory is expected to become operational over FY24-FY27E, taking the total rooms to ~12,852 rooms (with managed rooms accounting for

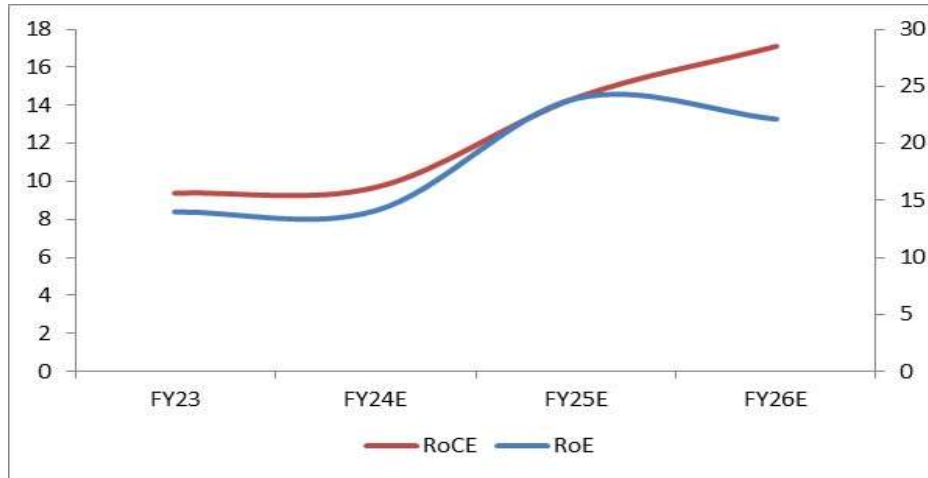
~55% of the total share).

In 1HFY24, LEMONTRE was more aggressive in inventory addition and improving its inventory pipeline (Exhibit 17).

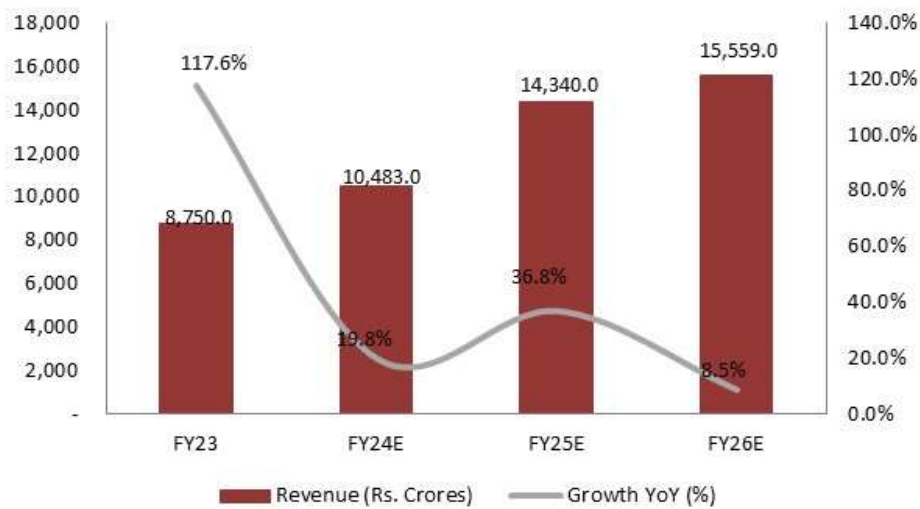
Going ahead, we expect traction to continue as LEMONTRE in its roadmap for the next five years has highlighted its target to take its total room network (operational rooms + pipeline) to over 20,000 rooms by CY28.

We expect LEMONTRE to clock management fees of INR943m by FY26 (registering ~38% CAGR over FY23-26E)

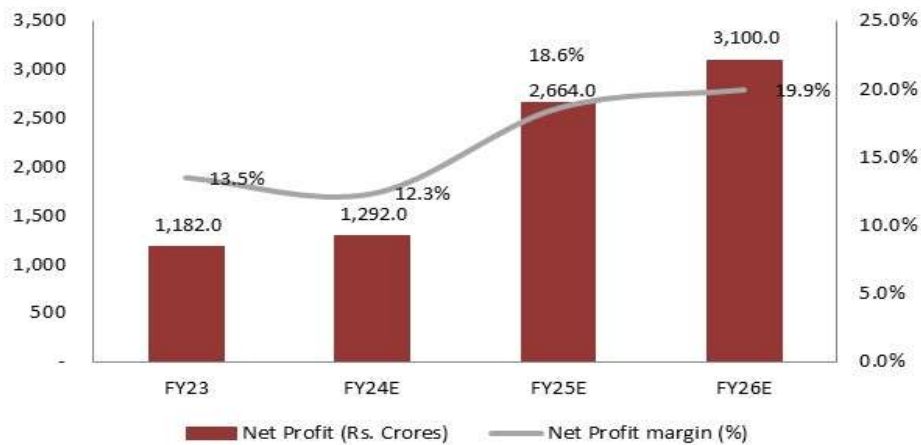
Return ratios to show strong growth in future



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

Overall, we expect strong momentum for LEMONTRE to continue going forward, led by: i) further improvements in occupancy and ARR on the back of resilient demand and a boost from recently opened convention centers in key markets; ii) an increase in ARR with the addition of Aurika Sky City Mumbai and room renovations; and iii) addition of hotels under management contracts

Key risks to our rating and estimates: 1) Decline in business/MICE activity leading to adverse impact on occupancy and ARR, 2) Any negative impact on the tourism/travel sector, 3) Inability to ramp up Aurika Sky City Mumbai due to lower-than-expected traction in the Mumbai market.

We expect LEMONTRE to deliver a revenue/EBITDA/Adj. PAT CAGR of 21%/22%/38% over FY23-26 and improve RoE to ~22% by FY26 from 14% in FY23. We reiterate our BUY rating on the stock with Target Price of Rs 170 assigning a PE Multiple of 50x to FY25E EPS

Lemon Tree Hotels Ltd- Company Overview

Hotel Portfolio

Company operates a network of 85 hotels with ~8,303 beds in operation. List of hotel brands with hotels in operations:-

Aurika - 2 Hotels - 194 Rooms

Lemon Tree Premiere - 18 Hotels - 2514 Rooms

Lemon Tree Hotel - 39 Hotels - 2867 Rooms

Red Fox Hotel - 12 Hotels - 1401 Rooms

Keys - 14 Hotels - 1327 Rooms

Geographical Footprint

The company has hotels in ~50 locations. Its key hotels are located in Delhi, Mumbai, Kolkata, Hyderabad, Chennai, Pune, Ahmedabad, Chandigarh, Jaipur, Kochi, Ludhiana and many more.

The company is also expanding its hotels network internationally. It operates 2 international hotels in Dubai, UAE and Thimphu, Bhutan. It has 2 upcoming international hotels in Kathmandu and Nagarkot in Nepal



Equity Research

Balance sheet (Consolidated)

(Rs million)	FY23	FY24E	FY25E	FY26E
Liabilities				
Equity Share Capital	7916	7916	7916	7916
Total Reserves	621	1913	4577	7677
Net Worth	8537	9829	12493	15593
Minority Interest	5597	5798	6268	7212
Total Loans	17457	18957	15457	10957
Lease Liability	4253	4253	4253	4253
Total Liabilities	35,844	38,837	38,471	38,015
Assets				
Net Fixed Assets	28,605	36,461	35,454	34,381
Capital WIP	4,822	72	14	14
Total Investments	73	73	73	73
Goodwill on Consolidation	951	951	951	951
Net Current Assets	1,394	1,281	1,979	2,596
Total Assets	35,844	38,837	38,471	38,015

Profit & Loss Account (Consolidated)

(Rs million)	FY23	FY24E	FY25E	FY26E
Total Income from Operations	8750	10483	14340	15559
EBITDA	4524	4984	7269	8119
Depreciation	966	1144	1315	1323
EBIT	3557	3840	5954	6796
Int. and Finance Charges	1772	1975	1931	1571
Other Income	36	114	143	156
PBT bef. EO Exp.	1822	1978	4166	5380
EO Items	-48	0	0	0
Total Tax	377	493	1039	1341
MI/ share of profit from associates	251	193	464	938
Adjusted PAT	1,182	1,292	2,664	3,100



Equity Research

Cashflow Statement (Consolidated)

Y.E March (Rs Million)	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,782	1,978	4,166	5,380
Depreciation	966	1,144	1,315	1,323
Interest & Finance Charges	1,773	1,861	1,788	1,416
Direct Taxes Paid	-207	-493	-1,039	-1,341
(Inc)/Dec in WC	-403	2	-441	-261
Others	-63	209	477	949
CF from Operating incl EO	3,849	4,702	6,266	7,464
Fixed Assets	-2,832	-4,136	-107	-94
CF from Investments	-2,832	-4,136	-107	-94
Issue of Shares	17	0	0	0
Inc/(Dec) in Debt	471	1500	-3500	-4500
Others	-1,811	-2,176	-2,401	-2,514
CF from Fin. Activity	-1,323	-676	-5,902	-7,015
Inc/Dec of Cash	-306	-111	258	355
Opening Balance	543	275	164	422
Closing Balance	275	164	422	777

Key Ratios & Valuations (Consolidated)

Y.E March	FY23	FY24E	FY25E	FY26E
Per share data (Rs.)				
BV/Share	10.9	12.6	16	20
EPS	1.5	1.7	3.4	4
DPS	0	0	0	0
Margin (%)				
EBITDA	51.7%	47.5%	50.7%	52.2%
NPM	13.5%	12.3%	18.6%	19.9%
Return Ratios (%)				
RoE	14	14.1	23.9	22.1
RoCE	9.4	9.7	14.4	17.1
Valuation(x)				
P/E	79.3	71.8	34.8	29.9
P/BV	11	9.4	7.4	5.9
EV/Sales	13.3	11.2	8	7.1
EV/Room (INRm)	24.2	24.3	23.3	22.5



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

Reg. office: PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai-400001, Maharashtra, India

Corp Office: 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai-400001, Maharashtra India

Tel: 91-22-67378001 **Fax:** 91-22-22646410

Dealing: 91-22-67378011 **Institutional Dealing:** 91-22-6737833

Email: research@mjpgdirect.com **Website:** www.mjpgdirect.com

Registration Number: SEBI- INZ000218338

Disclaimer:

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.