

Lemon Tree Hotels

BSE SENSEX

38,721

S&P CNX

11,559

CMP: INR66**TP: INR90(+36%)****Buy**

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Stock Info

Bloomberg	LEMONTRE IN
Equity Shares (m)	786
M.Cap.(INRb)/(USDb)	52.2 / 0.8
52-Week Range (INR)	91 / 64
1, 6, 12 Rel. Per (%)	-1/-11/-18
12M Avg Val (INR M)	54
Free float (%)	69.1

Financials Snapshot (INR b)

Y/E Mar	2019	2020E	2021E
Sales	5.5	8.2	11.6
EBITDA	1.7	2.9	4.6
NP	0.5	0.7	1.6
EPS (INR)	0.7	0.9	2.0
EBITDA Gr. (%)	23.9	69.3	60.3
EPS Gr. (%)	271.9	34.7	117.9
RoE (%)	6.3	6.4	10.7
RoCE (%)	4.4	5.9	8.0
EV/ EBITDA (x)	39.9	25.2	15.9
P/E (x)	97.5	72.4	33.2

Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	30.9	30.9	31.1
DII	9.0	8.4	39.4
FII	13.9	14.2	14.3
Others	46.3	46.5	15.2

FII Includes depository receipts

Synergies from Keys' acquisition to offer a great deal

Further strengthening its presence in the mid-market segment

Lemon Tree (LEMONTRE) hosted a conference call to discuss its acquisition of Keys Hotels. Main insights highlighted below:

Concludes acquisition of Keys Hotels for cash consideration of INR4,710m

The LEMONTRE board has approved the acquisition of Keys Hotels, owned by Berggruen Hotels Pvt. Ltd, for a cash consideration of INR4,710m (enterprise value – INR6,050m) through its subsidiary Fleur Hotels. Keys Hotels operates seven owned hotels (936 keys) and 14 managed hotels (975 keys). The acquisition will increase LEMONTRE's managed rooms by 50% and owned/leased rooms by 24%, taking the total to ~7,800 rooms, which constitutes 15% of the mid-market room supply in the country (up from 11%).

LEMONTRE's distribution network provides revenue potential...

Currently, occupancy/ARR of Keys Hotels is 10%/25% lower than LEMONTRE. However, management believes that the said gap can be narrowed by leveraging the distribution network of the company, and thus, offering a lucrative opportunity. Management highlighted that few hotels of Keys are located in the vicinity of LEMONTRE's existing hotels. Therefore, post-acquisition, the company would control a significant chunk of the supply in the respective micro-markets (Whitefield & Electronic City in Bangalore and Pune), which would further aid ARR increase.

...reduction in common corporate expenses to support EBITDA

Common corporate expenses for Keys Hotels in FY19 stood at INR150m, which management intends to reduce to INR20m in FY21. Thus, on an overall basis, management estimates Keys Hotel to generate EBITDA of INR510-590m (base and target case) in FY21 v/s INR203m in FY19. This is after factoring in 10% occupancy improvement, 5-9% ARR growth and reduction in corporate expenses. Thus, based on management's estimates, acquisition cost stands at 11.9x-10.3x FY21 EV/EBITDA.

Valuation and view

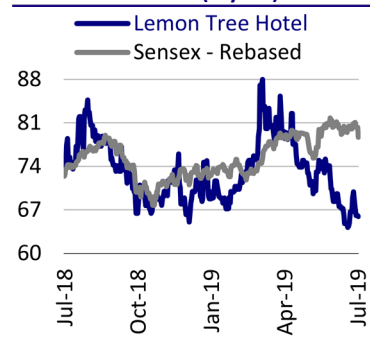
We believe the acquisition would strengthen LEMONTRE's position further and ensure its presence across the pricing spectrum in the mid-market segment. Although prima facie the acquisition looks expensive (30x FY19 EV/EBITDA), factoring in the expected synergies in FY21 (based on our estimates), the acquisition cost stands at 13.9x EV/EBITDA. We have factored in the acquisition into our calculations and increased EBITDA estimates by 5%/11% for FY20/FY21. We expect revenue/EBITDA CAGR of 45%/65% over FY19-21 to INR11.6b/INR4.6b in FY21. We value the stock at 21x FY21 EV/EBITDA to arrive at a TP of INR90. Maintain **Buy**.

Sumant Kumar – Research Analyst (Sumant.Kumar@MotilalOswal.com); +91 22 6129 1569

Darshit Shah – Research Analyst (Darshit.Shah@MotilalOswal.com); +91 22 6129 1546

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Stock Performance (1-year)**Other concall takeaways**

- Funding: Fleur Hotels is raising INR4,210m (APG – INR3,600m and LEMONTRE – INR610m) from its existing shareholders by issuing 0.01% Compulsorily Convertible Preference Shares. Fleur Hotels already has balance INR500m cash to fund the acquisition (INR4,710m less INR4,210m).
- Additionally, LEMONTRE is transferring its 100% owned Mumbai hotel (which commenced operations on 28th Jun'19 and has 303 keys) to Fleur Hotels. LEMONTRE had incurred capex of INR3,250m (debt of INR2,000m) towards the Mumbai hotel.
- Currently, LEMONTRE holds ~58% stake in Fleur Hotels; the balance is held by APG Strategic Real Estate Pool NV. Post the two transactions, the stake would remain at 58%.
- Management will transfer managed rooms of Keys Hotels (which generated revenue of INR60m in FY19) to Carnation Hotels for INR200m, after it receives approval from the Board of Directors (at 6x EV/EBITDA).
- Keys Hotels has operations under three main brands catering to the mid-market segment – (i) Keys Prima, (ii) Keys Select, and (iii) Keys Prime. Acquisition of Keys Hotels would allow LEMONTRE to now target rooms under management contract (did not qualify previously as it operated in a lower price point).
- Management expects INR150m to be incurred over three years towards upgrading Keys Hotels to LEMONTRE's brand specifications and for basic renovations.
- Impact of Ind-AS116: Previously, lease expense was recorded above the EBITDA under rent; however, now lease liability and asset have to be recorded in the balance sheet. Interest on the lease liability and depreciation on the asset is to be recorded in the P&L, thus inflating the EBITDA as well as the finance cost and depreciation. There is a positive impact on cash flows because of the decrease in tax-liability under MAT. It will lead to a 4.4% increase in EBITDA due to a corresponding decrease in lease expenses. Interest and depreciation will increase by 7.3%. PBT will fall by 2.9% and tax by 0.6%, leading to net decrease of 2.3% in the PAT.

Exhibit 1: Valuation

Particulars		FY21
EBITDA (FY21)	INRm	4,581
EV/ EBITDA Multiple	x	21.0
EV	INRm	96,208
Less: Net Debt (FY21)	INRm	(16,845)
Less: Minority Interest (FY21)	INRm	(8,686)
Target Value	INRm	70,677
No. of shares	M	786
Target Price	INR	90
CMP	INR	66
Upside	%	36

Source: MOFSL

Exhibit 2: Management's estimate for Keys Hotels

Particulars (INR m)	FY19	FY20E	FY21E - Base Case	FY21E - Target Case
Occupancy Improvement (%)			10%	10%
ARR Growth (%)			5%	9%
Revenue				
Owned (RR+F&B)	810	930	1,200	1,300
Management fees	60	60	-	-
Total	870	990	1,200	1,300
Operating expense	490	540	570	570
Operating Profit	380	450	560	640
Less: Lease expense	27	30	30	30
Less: Corporate office expense	150	150	20	20
EBITDA	203	270	510	590
EBITDA Margin (%)	23.3	27.3	42.5	45.4
EV/EBITDA (x)	29.8	22.4	11.9	10.3

Source: Company

Exhibit 3: Our estimates for Keys Hotels

Particulars (INRm)	FY19	FY20E	FY21E
Revenue	870	951	1,106
EBITDA	203	248	436
EBITDA Margin (%)	23.3	26.0	39.4
EV/EBITDA (x)	29.8	24.4	13.9

Source: MOFSL

Financials and Valuations

Consolidated - Income Statement						(INR Million)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	2,904	3,680	4,121	4,843	5,495	8,178	11,574
Change (%)	31.0	26.7	12.0	17.5	13.5	48.8	41.5
Total Expenditure	2,397	2,668	2,955	3,481	3,807	5,321	6,992
% of Sales	82.5	72.5	71.7	71.9	69.3	65.1	60.4
EBITDA	507	1,012	1,166	1,362	1,688	2,858	4,581
Margin (%)	17.5	27.5	28.3	28.1	30.7	34.9	39.6
Depreciation	517	522	510	526	541	820	1,068
EBIT	-10	490	656	836	1,146	2,038	3,513
Int. and Finance Charges	725	720	776	784	847	1,246	1,601
Other Income	134	58	118	126	145	213	243
PBT bef. EO Exp.	-601	-172	-2	178	445	1,004	2,155
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	-601	-172	-2	178	445	1,004	2,155
Total Tax	31	126	48	38	-111	241	517
Tax Rate (%)	-5.2	-73.3	-2058.7	21.3	-25.0	24.0	24.0
Minority Interest	-98	14	10	-2	27	51	85
Reported PAT	-534	-312	-61	142	529	712	1,552
Adjusted PAT	-534	-312	-61	142	529	712	1,552
Change (%)	NA	NA	NA	NA	271.9	34.7	117.9
Margin (%)	-18.4	-8.5	-1.5	2.9	9.6	8.7	13.4

Consolidated - Balance Sheet						(INR M)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	7,764	7,780	7,812	7,864	7,893	7,893	7,893
Total Reserves	338	319	274	284	857	1,570	3,122
Net Worth	8,102	8,099	8,086	8,148	8,750	13,673	15,225
Minority Interest	4,223	4,277	4,284	4,286	4,322	4,381	4,476
Total Loans	5,710	6,248	7,987	10,110	12,042	16,282	17,432
Deferred Tax Liabilities	0	69	67	43	0	0	0
Capital Employed	18,035	18,693	20,424	22,588	25,114	34,335	37,133
Gross Block	14,095	12,823	15,114	16,044	18,068	30,168	30,868
Less: Accum. Deprn.	1,733	507	998	1,513	2,054	2,874	3,942
Net Fixed Assets	12,362	12,316	14,116	14,531	16,014	27,294	26,925
Goodwill on Consolidation	0	0	67	68	0	0	0
Capital WIP	1,671	2,593	3,508	5,591	6,639	3,589	5,389
Total Investments	312	58	63	146	373	373	373
Curr. Assets, Loans&Adv.	4,617	5,092	4,363	4,247	4,693	6,590	9,281
Inventory	49	54	49	54	60	95	134
Account Receivables	179	245	314	525	844	1,008	1,268
Cash and Bank Balance	301	139	176	210	314	335	587
Loans and Advances	4,088	4,654	3,823	3,458	3,475	5,152	7,291
Curr. Liability & Prov.	926	1,366	1,694	1,994	2,605	3,511	4,836
Account Payables	334	511	604	811	958	1,312	1,724
Other Current Liabilities	572	825	1,053	1,140	1,592	2,126	3,009
Provisions	21	29	36	43	55	72	102
Net Current Assets	3,691	3,726	2,669	2,253	2,088	3,080	4,445
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	18,036	18,693	20,424	22,588	25,114	34,335	37,133

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	-0.7	-0.4	-0.1	0.2	0.7	0.9	2.0
Cash EPS	0.0	0.3	0.6	0.9	1.4	2.0	3.4
BV/Share	10.4	10.4	10.4	10.4	11.2	17.5	19.5
DPS	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
Valuation (x)							
P/E		NA	NA	362.6	97.5	72.4	33.2
Cash P/E		245.9	114.6	77.1	48.2	33.6	19.7
P/BV		6.4	6.4	6.3	5.9	3.8	3.4
EV/Sales		16.8	15.4	13.6	12.3	8.8	6.3
EV/EBITDA		61.2	54.5	48.2	39.9	25.2	15.9
Dividend Yield (%)		0.0	0.0	0.0	0.0	0.0	0.0
FCF per share		-0.8	-1.4	-2.4	-1.1	-9.4	0.7
Return Ratios (%)							
RoE	-6.6	-3.8	-0.7	1.8	6.3	6.4	10.7
RoCE	0.6	2.6	3.4	3.8	4.4	5.9	8.0
RoIC	-0.1	5.4	86.9	4.0	8.3	7.1	10.2
Working Capital Ratios							
Fixed Asset Turnover (x)	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Inventory (Days)	6	5	4	4	4	4	4
Debtor (Days)	23	24	28	40	56	45	40
Creditor (Days)	42	51	54	61	64	59	54
Leverage Ratio (x)							
Current Ratio	5.0	3.7	2.6	2.1	1.8	1.9	1.9
Interest Cover Ratio	0.0	0.7	0.8	1.1	1.4	1.6	2.2
Net Debt/Equity	0.6	0.7	1.0	1.2	1.3	1.1	1.1

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	-601	-173	-25	178	445	1,004	2,155
Depreciation	517	523	510	526	541	820	1,068
Interest & Finance Charges	639	667	704	658	702	1,034	1,358
Direct Taxes Paid	-131	-122	-40	-38	111	-241	-517
(Inc)/Dec in WC	-875	-297	133	450	268	-971	-1,114
CF from Operations	-451	598	1,282	1,775	2,067	1,646	2,951
Others	-57	83	-66	-629	43	68	105
CF from Operating incl EO	-508	681	1,216	1,145	2,110	1,714	3,055
(Inc)/Dec in FA	-1,621	-1,320	-2,343	-3,012	-3,004	-9,050	-2,500
Free Cash Flow	-2,129	-639	-1,127	-1,867	-894	-7,336	555
(Pur)/Sale of Investments	139	271	-3	-82	-228	0	0
Others	-21	21	54	495	145	213	243
CF from Investments	-1,503	-1,028	-2,292	-2,600	-3,087	-8,837	-2,257
Issue of Shares	116	25	1	52	29	4,210	0
Inc/(Dec) in Debt	2,164	847	1,739	2,124	1,931	4,240	1,150
Interest Paid	-692	-687	-737	-784	-847	-1,246	-1,601
Dividend Paid	0	0	0	0	0	0	0
Others	0	0	110	97	-33	-59	-95
CF from Fin. Activity	1,588	185	1,113	1,489	1,080	7,145	-546
Inc/Dec of Cash	-423	-162	37	35	103	21	252
Opening Balance	724	301	139	176	211	314	335
Closing Balance	301	139	176	211	314	335	587

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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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance Products and IPOs. Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

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