

Lemon Tree Hotels

02 June 2020

Reuters: LEMO.BO; Bloomberg: LEMONTRE IN

Post COVID cost control is crucial for survival

Revenue growth of 17% YoY in 4QFY20 was primarily driven by 48% YoY increase in number of rooms to 8,006 rooms. RevPar at Rs2,764 declined by 19% YoY. However, the RevPar for Lemon Tree (excluding the RevPar of Keys Hotels) declined by 11% YoY.

While reported EBITDA and EBITDA margin rose by 31% and 381bps, respectively YoY, the comparable EBITDA (adjusted for changes due to Ind As 116) rose by 12% YoY and the comparable EBITDA margin declined by 127bps YoY to 31.2%.

We however remain concerned about the rising debt level. In 4QFY20, the net debt to equity stood at 1.79x as compared to 1.33x in 4QFY19.

In the first two months of FY21, RevPar has declined by 79% and 73% YoY, respectively. The management expects similar de-growth for June 2020 also. In order to counter the decline in revenues, management has begun to implement measures to reduce its fixed costs.

We have valued LTHL at 18x Sept FY22E EV/EBITDA and arrived at a revised target price (TP) of Rs25. We have made changes to our RevPar estimates. (Refer Exhibit 5).

Revenue increases by 17% YoY primarily driven by increase in number of rooms: Revenue at Rs1,761mn increased by 17% YoY. The increase is attributable to 48% YoY increase in the number of rooms from 5,411 rooms in 4QFY19 to 8,006 rooms in 4QFY20. Inorganic increase in the number of rooms because of the acquisition of Keys Hotels stood at 1,591 rooms. Organic growth in the number of rooms of Lemon Tree increased by 19% YoY from 5,411 rooms in 4QFY19 to 6,415 rooms in 4QFY20. Revenue from only Lemon Tree hotels grew by 5% YoY in 4QFY20. (Refer Exhibit 1 & 2).

The RevPar on a consolidated basis, including the RevPar of Keys Hotels, declined by only 19% YoY in 4QFY20. However, the RevPar for Lemon Tree (excluding the RevPar of Keys Hotels) declined by 11% YoY. (Refer Exhibit 1 & 2).

Rise in EBITDA by 31% YoY and EBITDA margin by 381bps YoY: EBITDA for 4QFY20 stood at Rs639mn, up 31% YoY and EBITDA margin stood at 36.3%, up 381bps YoY. A part of increase in EBITDA is due to implementation of Ind AS 116. As a result of Ind AS 116, the rent cost declined by 71% YoY to Rs20mn. Thus, on a pre Ind AS 116 comparable basis, the EBITDA stood at Rs550mn, up 12% YoY and EBITDA margin declined by 127bps to 31.2% in 4QFY20 from 32.5% in 4QFY19.

Another reason for rise in EBITDA is consolidation of Keys Hotels which contributed Rs46mn to EBITDA in 4QFY20. However, the EBITDA margin for Keys Hotels stood at 26.3%, which is substantially lower as compared to Lemon Tree hotels.

The rise in EBITDA margin in 4QFY20 is attributable to better performance by newly opened hotels.

Rising debt and interest costs: Gross debt in 4QFY20 increased by 26% YoY to Rs15,105mn. Net debt stood at Rs14,697mn in 4QFY20. The net debt to equity ratio stood at 1.79x in 4QFY20 as compared to 1.51x in 1HFY20 and 1.33x in 4QFY19. (refer Exhibit 3). In 4QFY20, the interest coverage ratio stood at 0.74x and interest cost accounted for 76% of the 4QFY20 EBITDA. For FY20, the interest coverage ratio stood at 0.94x and interest cost accounted for 68% of the FY20 EBITDA.

The company has opted for a six month moratorium for principal and interest falling due between 01/03/2020 and 31/08/2020. The company expects a repayment of Rs4,000mn (Rs2,500mn interest cost and Rs1,500mn principal repayment).

Quarterly Financials

Y/E Mar (Rs mn)	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20E	Var(%)
Net sales	1,761	1,996	(11.8)	1,505	17.0	1,621	8.6
Food & Beverages Consumed	(146)	(167)	(12.7)	(134)	9.1	(115)	27.3
Employee benefit expenses	(429)	(421)	1.9	(319)	34.6	(429)	(0.1)
Power and Fuel	(145)	(160)	(9.1)	(126)	15.0	(163)	(10.9)
Rent	(20)	(21)	(7.1)	(69)	(71.2)	(22)	(8.9)
Other Expenses	(382)	(415)	(8.0)	(368)	3.6	(423)	(9.8)
EBITDA	639	812	(21.3)	489	30.7	469	36.2
EBITDAM (%)	36.3	40.7	-	32.5	-	29.0	-
Depreciation and amortization	(277)	(227)	22.2	(143)	93.7	(229)	21.0
EBIT	362	585	(38.1)	346	4.6	240	50.7
EBITM (%)	20.6	29.3	-	23.0	-	14.8	-
Other income	4	32	(87.0)	26	(83.8)	33	(87.3)
Interest expenses	(487)	(452)	7.8	(223)	118.2	(457)	6.8
Extraordinary/Exceptional	-	-	-	-	-	-	-
Profit before tax	(121)	165	(173.6)	148	(181.9)	(184)	(34.0)
Tax expense	(56)	(46)	22.0	194	(128.6)	48	(214.8)
Effective tax rate (%)	(46)	28	-	(131)	-	26	-
PAT	(177)	119	(248.3)	342	(151.7)	(135)	30.8
Minority Interest	(11)	(11)	-	12	-	-	-
Share of Profit/(losses) from Associates	(13)	(8)	-	(6)	-	(9)	53.8
Adjusted Net Profit	(179)	122	(246.9)	325	(155.2)	(144)	24.5

Source: Company, Nirmal Bang Institutional Equities Research; Note: 1. The revenue and expenses of recently acquired Berggruen Hotels Private Limited for the 5 months period ended March 31, 2020 have been consolidated and included in the above consolidated financial results. Resultantly, the figures for the current periods are of comparable with the previous periods. 2. Impact of acquisition of Keys hotels is not included in our 4QFY20 estimates, as there was no details available for same.

BUY

Sector: Hotel

CMP: Rs19

Target Price: Rs25

Upside: 32%

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Key Data

Current Shares O/S (mn)	792.2
Mkt Cap (Rsbn/US\$m)	15.0/198.2
52 Wk H / L (Rs)	77/14
Daily Vol. (3M NSE Avg.)	2,484,073

Price Performance (%)

	1 M	6 M	1 Yr
Lemon Tree Hotels	7.4	(70.0)	-
Nifty Index	(0.3)	(18.5)	(17.6)

Source: Bloomberg

Two pronged strategy to mitigate the impact of COVID-19: In order to reduce the impact of COVID-19, the management has decided to raise capital and make certain changes in the operations of the hotels to achieve operational efficiencies. Fixed expenses currently account for 50% of revenue. The management aims to significantly reduce the same. During the first two months of FY21, when demand was low, management has managed to reduce it to 20% of revenue. The details are as follows:

A. Capital Raising:

- a. Board has approved to raise Rs1,500mn equity capital through Rights Issue/Preferential Placement/QIP for liquidity cushion. Further disclosures pertaining to the transaction shall be submitted on finalization of the transaction.
- b. Fleur Hotels Private Limited (FHPL) (subsidiary company) will issue of 0.01% Compulsorily Convertible Preference Shares ("CCPS") to APG Strategic Real Estate Pool N.V ("APG") in two tranches. The preference shares will be converted into equity shares (1:1) within 30 months. APG will infuse Rs3,000mn in FHPL as follows:
 - i. Tranche 1 – Rs1,750mn at Rs325.50/share.
 - ii. Tranche 2 – Rs1,250mn at price determined at time of issuance.

In order to maintain FHPL as a subsidiary, LTHL will inject additional 100% owned assets at the end of 30 months at the valuation prevailing at that time for FHPL.

B. Measures to improve operational efficiencies:

a. Short to medium term measures:

- i. Employee costs – Hiring freeze, salary cuts (min 50%) at leadership levels.
- ii. Power & Fuel expenses reduced – Thrive to consume lesser units and waiver on fixed charges received by some state electricity boards.
- iii. Lease rentals and other expenses:
 1. Renegotiated lease rentals, AMC, IT contracts etc. to get waiver for 1Q/H1 FY21.
 2. Discretionary spends – suspended.
 3. Repairs and Maintenance – Only minimal expense for operations.

b. Long term measures:

- i. Staff to room ratio – reduce from current 0.95-1.0 to 0.7-0.75.
- ii. Electricity consumption – Currently, Power & Fuel expenses account for 10% of total revenue, with more than 70% being electricity consumption. Try and reduce the same.
- iii. Various other fixed and variable expenses can also be reduced significantly on a permanent basis.

Negative operating cash flow for 1st two months of FY21: Currently, the occupancies for hotels have been supported by foreign nationals staying in India, IT companies and hospitals and their staff. However, the average occupancy for Lemon Tree in April 2020 stood at 22% and 31% in May 2020. The RevPar for April 2020 and May 2020 is down by 79% and 73% YoY, respectively. The operating cash flows for April 2020 and May 2020 stood at Rs(29)mn and Rs(8)mn, respectively. (Refer Exhibit 4).

Maintain Buy with revised TP of Rs25: Our revised TP of Rs25 for LTHL is based on 18x Sep FY22E EV/EBITDA. We have revised our RevPar estimates for LTHL. (Refer Exhibit 5).

Exhibit 1: Quarterly Financials – Excluding impact of acquisition of Keys Hotels

Y/E Mar (Rs mn)	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	4QFY20E	Var (%)
Net sales	1,587	1,839	(13.7)	1,505	5.4	1,621	(2.1)
Total Expenses	(1,082)	(1,148)	(5.7)	(1,016)	6.5	(1,152)	(6.1)
EBITDA	505	691	(26.9)	489	3.2	469	7.6
EBITDA Margin (%)	31.8	37.6	-	32.5	-	29.0	-
Profit before tax	(61)	205	NA	148	NA	(184)	(66.8)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational Performance highlights:

Particulars	With Keys Hotels					Without Keys Hotels					Keys Hotels		
	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY(%)	4QFY20	3QFY20	QoQ(%)
Number of rooms													
Owned Rooms	4,517	4,517	0.0	2,997	50.7	3,581	3,581	0.0	2,997	19.5	936	936	0.0
Leased Rooms	675	675	0.0	573	17.8	675	675	0.0	573	17.8	-	-	0.0
Managed Rooms	2,814	2,787	1.0	1,841	52.9	2,159	2,132	1.3	1,841	17.3	655	655	0.0
Total Number of Rooms	8,006	7,979	0.3	5,411	48.0	6,415	6,388	0.4	5,411	18.6	1,591	1,591	0.0
Operational Parameters													
ARR	4,530	4,644	(2.5)	4,405	2.8	4,856	4,869	(0.3)	4,405	10.2	2,751	2,985	(7.8)
Occupancy Rates	61.0%	71.3%	-1028bps	77.5%	-1653bps	62.9%	72.0%	-914bps	77.5%	-1464bps	52.4%	66.3%	(1390)bps
RevPar	2,764	3,311	(16.5)	3,416	(19.1)	3,055	3,508	(12.9)	3,416	(10.6)	1,442	1,979	(27.2)
Financial Parameters													
Revenue from Operations (Rs mn)	1,761	1,996	(11.8)	1,505	17.0	1,587	1,839	(13.7)	1,505	5.4	175	158	10.8
EBITDA (Rs mn)	550	725	(24.1)	489	12.5	504	691	(27.1)	489	3.1	46	34	35.3
EBITDA margin (%)	31.2%	36.3%	-510bps	32.5%	-130bps	31.8%	37.6%	-580bps	32.5%	-70bps	26.3%	21.8%	450bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Debt profile:

Debt Profile	4QFY20	2QFY20	4QFY19	2QFY19	4QFY18
Gross Debt	15,105	12,851	11,956	10,528	10,110
Cash and Balance	408	358	314	276	210
Net Debt	14,697	12,493	11,642	10,251	9,900
Net worth	8,230	8,247	8,750	8,271	8,148
Net Debt : Equity	1.79	1.51	1.33	1.24	1.21
Average cost of borrowing	9.60%	9.62%	9.40%	9.20%	9.53%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Operational performance for 1st two months of FY21:

Performance for 1 st two months of FY21	Apr-20	Apr-19	YoY(%)	May-20	May-19	YoY(%)
Occupancy (%)	21.9%	75.0%	-	30.9%	75.3%	--
ARR (Rs)	2,881	3,985	-27.7%	2,625	3,947	-33.5%
RevPar (Rs)	631	2,990	-78.9%	812	2,974	-72.7%
Revenues(Rs mn)	108	456	-76.3%	135	462	-70.8%
Expenses	107	255	-58.1%	113	265	-57.4%
Hotel Level GOP	1	200	-99.5%	22	198	-88.9%
Operating Cashflow	(29)	-	-	(8)	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Changes in Estimates:

Particulars	FY21E	FY22E	FY23E
Lemon Tree Premier			
Earlier RevPar estimate (Rs)	3,918	4,874	5,541
Earlier YoY RevPar growth estimate (%)	-10.0%	24.4%	13.7%
Revised RevPar estimate (Rs)	2,062	3,162	4,058
Revised YoY RevPar growth estimate (%)	-46.1%	53.3%	28.3%
Lemon Tree			
Earlier RevPar estimate (Rs)	2,925	3,749	4,272
Earlier YoY RevPar growth estimate (%)	-10.0%	28.2%	13.9%
Revised RevPar estimate (Rs)	1,606	2,463	3,160
Revised YoY RevPar growth estimate (%)	-50.6%	53.3%	28.3%
Red Fox			
Earlier RevPar estimate (Rs)	2,412	3,068	3,488
Earlier YoY RevPar growth estimate (%)	-10.0%	27.2%	13.7%
Revised RevPar estimate (Rs)	1,256	2,312	2,967
Revised YoY RevPar growth estimate (%)	-48.3%	84.1%	28.3%
Keys Hotels			
Earlier RevPar estimate (Rs)	1,647	1,812	1,957
Earlier YoY RevPar growth estimate (%)	10.0%	10.0%	8.0%
Revised RevPar estimate (Rs)	1,638	2,376	2,494
Revised YoY RevPar growth estimate (%)	-30.0%	45.0%	5.0%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: ARR

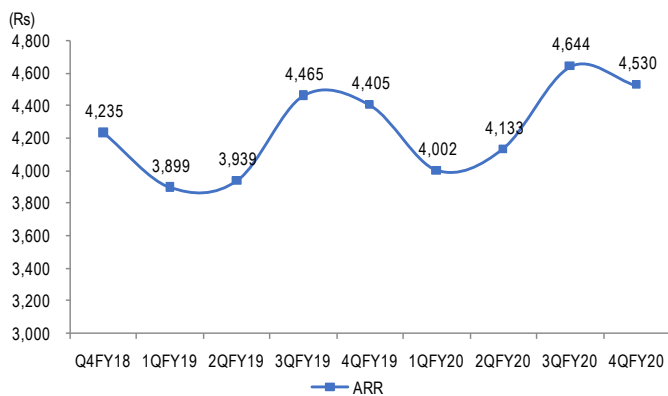
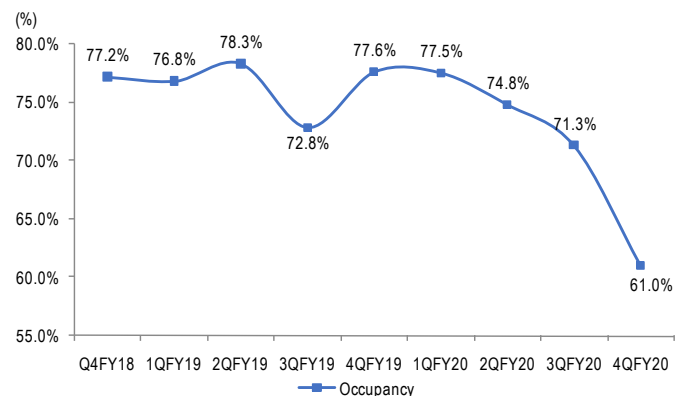


Exhibit 7: Occupancy



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA margin – Pre implementation of Ind AS 116

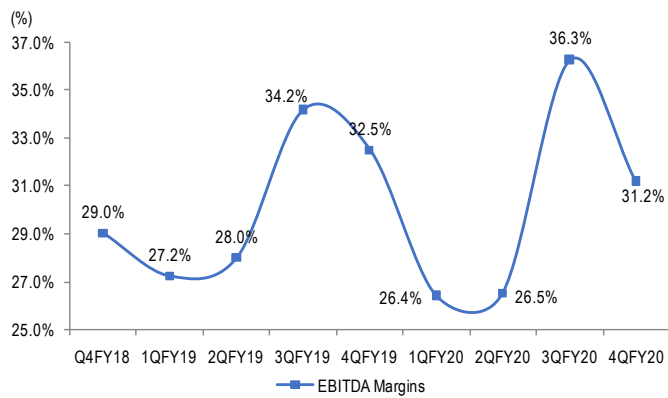
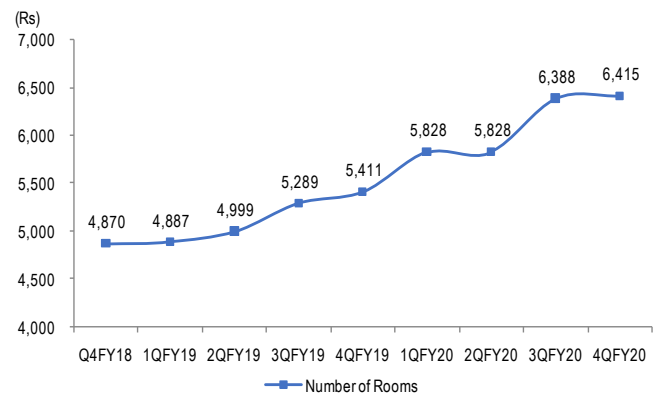


Exhibit 9: Number of rooms – Excluding number of rooms of Keys Hotels



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	4,843	5,495	6,694	4,263	6,040
Growth YoY (%)	17.6	13.5	21.8	(36.3)	41.7
COGS/direct expenses	1,226	1,330	1,183	600	1,010
Operating costs	1,558	1,743	1,633	1,241	1,332
Other expenses	696	734	1,495	478	816
EBITDA	1,362	1,688	2,383	1,944	2,883
EBITDA growth (%)	17.0	23.9	41.2	(18.4)	48.3
EBITDA margin (%)	28.1	30.7	35.6	45.6	47.7
Depreciation	526	541	872	1,058	1,058
EBIT	836	1,147	1,512	886	1,825
EBIT (%)	17.3	20.9	22.6	20.8	30.2
Interest expense	784	847	1,616	1,875	1,995
Other income	78	99	58	61	64
Others	48	46	51	82	-
Earnings before tax	178	445	5	(846)	(106)
Tax- total	38	-111	109	(178)	(22)
Rate of tax (%)	21.3	-25.0	2,220.8	21.0	21.0
Net profit	140	556	(104)	(668)	(84)
Adjusted PAT	142	529	(95)	(661)	(78)
% growth	N/A	272.5	N/A	N/A	N/A
EPS (FD)	0.18	0.67	(0.12)	(0.84)	(0.10)
% growth	N/A	272.5	N/A	N/A	N/A

*Adjusted PAT is after considering non- controlling interest and share in associates

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	7,864	7,893	7,903	7,903	7,903
Reserves and surplus	285	858	327	(430)	(508)
Net worth	8,149	8,751	8,230	7,473	7,395
Loans	10,110	11,956	15,105	16,405	17,805
Lease Liabilities	-	-	4,627	4,527	4,427
Minority interest	4,286	4,322	7,218	7,218	7,218
Provisions	16	17	24	25	26
Deferred tax liability	43	-	-	-	-
Other non-current liability	286	362	-	-	-
Total capital employed	22,890	25,408	35,203	35,648	36,871
Property, plant and equipment	20,189	22,676	29,631	30,359	31,088
Right to use	-	-	3,387	3,247	3,107
Investments	26	63	96	99	102
Loans	162	17	12	12	13
Other non-current assets	2,823	2,997	2,909	2,985	3,064
Total non-current assets	23,200	25,753	36,035	36,703	37,373
Trade payables	811	958	420	353	481
Other current liabilities	854	1,315	1,962	2,021	2,081
Provisions (current)	27	38	43	44	45
Total current liabilities	1,692	2,311	2,425	2,418	2,608
Inventories	54	60	82	42	58
Investments	120	287	44	45	47
Trade receivables	525	844	503	296	417
Cash and bank balance	210	314	408	1,038	1,626
Loans and advances	3	-	-	-	-
Other current assets	470	461	555	572	589
Total current assets	1,382	1,966	1,592	1,993	2,736
Net current assets	(310)	(345)	(832)	(425)	129
Total capital employed	22,890	25,407	35,203	35,648	36,871

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Profit after tax	142	529	(95)	(661)	(78)
Depreciation	526	541	872	1,198	1,198
Finance costs	784	847	1,616	2,221	2,363
Other income	78	99	58	61	64
Working capital changes	(318)	139	581	222	34
Operating cash flow	1,056	1,956	2,915	2,919	3,453
Capital expenditure	(3,031)	(3,046)	(7,628)	(1,786)	(1,786)
Net cash after capex	(1,975)	(1,090)	(4,713)	1,134	1,667
Other income/(expense)	550	218	1,395	(709)	(117)
Issue/(buyback of equity)	117	97	10	-	-
Proceeds/repayment of borrowings	2,124	1,845	3,149	1,300	1,400
Finance costs	784	847	1,616	2,221	2,363
Dividend & dividend distribution tax	-	-	-	-	-
Others	3	(120)	2,896	0	(0)
Cash flow from financing	1,460	975	4,439	(921)	(963)
Total cash generation	34	104	1,122	(497)	587
Opening cash balance	176	210	314	10,562	408
Closing cash & bank balance	210	314	408	408	995

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

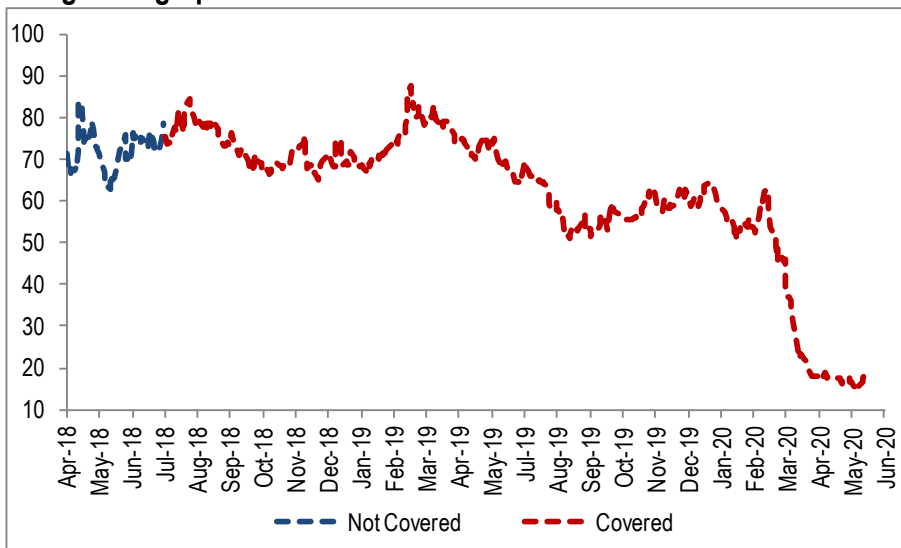
Y/E March	FY18	FY19	FY20	FY21E	FY22E
Profitability and return ratios					
EBITDA margin (%)	28.1	30.7	35.6	45.6	47.7
EBIT margin (%)	17.3	20.9	22.6	20.8	30.2
Net profit margin (%)	2.9	9.6	-1.4	-15.5	-1.3
RoE (%)	1.7	6.0	-1.2	-8.8	-1.1
RoCE (%)	3.7	4.5	4.3	2.5	5.0
Working capital & liquidity ratios					
Receivable (days)	40	57	28	28	28
Inventory (days)	16	16	25	25	21
Payable (days)	124	134	56	56	56
Current ratio (x)	0.8	0.9	0.7	0.6	0.8
Valuation ratios					
EV/sales (x)	12.6	11.4	5.5	8.9	6.4
EV/EBITDA (x)	44.7	37.1	15.4	19.6	13.5
P/E (x)	330.3	88.7	-155.8	-22.5	-190.0
P/BV (x)	5.8	5.4	1.8	2.0	2.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 July 2018	Buy	76	92
16 August 2018	Buy	78	92
16 November 2018	Buy	72	92
18 February 2019	Buy	72	92
15 March 2019	Buy	84	97
03 June 2019	Buy	74	97
10 July 2019	Accumulate	66	72
8 August 2019	Accumulate	57	64
11 September 2019	Accumulate	53	64
14 November 2019	Accumulate	58	62
26 November 2019	Accumulate	59	60
18 February 2020	Accumulate	60	60
23 March 2020	Buy	31	51
2 June 2020	Buy	19	25

Rating track graph



DISCLOSURES

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ACCUMULATE -5% to 15%

SELL < -5%

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