

News monitored for: Lemon Tree Hotels

Lemon Tree Hotels: Valuations are rich and seem fully occupied

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Those who checked into the Lemon Tree Hotels Ltd initial public offering in April have reason to cheer. The stock price has risen to ₹72 from the issue price of ₹56. While that's reason to be happy, the question is how valuations appear now.

The company's shares currently trade at about 38 times EV/Ebitda (enterprise valuation/earnings before interest, tax, depreciation and amortization), based on HDFC Securities Institutional Research's net debt and Ebitda estimates for FY19. That's not cheap.

A key risk for the stock includes Lemon Tree's rich valuation, which leaves limited margin of safety, pointed

out the brokerage firm in its September quarter results review report.

Nonetheless, it helps that demand growth for the hotel sector is expected to be higher than supply growth, leading to higher occupancies. In this backdrop, the company expects steeper price hikes going ahead.

Lemon Tree's financial results show it is doing well in

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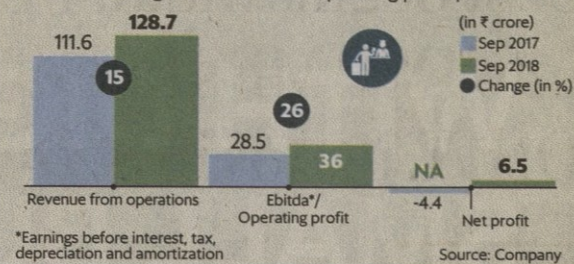
in FY19. For the six months ended 30 September, consolidated profit stood at ₹8.8 crore versus a loss of ₹7.5 crore in the same period last year. Last week, the company released its September quarter numbers where it reported a net profit of ₹6.5 crore, against a loss in the same period last year. It's

worth noting here that September quarter profits were helped by a sharp rise in other income to ₹5.4 crore.

But the hotel chain also saw a healthy 26% growth in Ebitda to ₹36 crore. This was mostly helped by a marginal decline in rent expenses and a slower rate of growth in power and fuel expenses. Revenue growth at 15% to ₹129 crore was decent.

Room for growth

Lemon Tree's September 2018 quarter net profit was helped by decent revenue growth and better operating profit performance.



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Price hikes in the second half of FY18 led to a 9% growth in average daily rates during the quarter. Occupancies improved by 230 basis points to 78.3%. A basis point is one-hundredth of a percentage point.

Given the seasonal nature of the hotels business, the rest of the year can be expected to turn out even better. "We are on a strong footing as we go into the second half of the year which is peak season for us, and accounts for majority of the annual revenue and Ebitda," says Patanjali Keswani, chairman and managing director of Lemon Tree Hotels, in its September quarter presentation.

All this is good. But, as mentioned earlier, valuations are rich and room for meaningful appreciation in the Lemon Tree share price from these levels may be limited.