

News monitored for: Lemon Tree Hotels

◆ Lemon Tree: Maintain 'add' with fair value of ₹80/share

BY KOTAK INSTITUTIONAL EQUITIES

LEMON TREE continues to report steadily improving operating metrics with ARR having increased 5% year-on-year to ₹4,465 a day and occupancy levels declining 350 bps to 73% in Q3FY19. Commissioning of two new hotels as well as a mid-week Diwali did weigh in on operating metrics for the quarter. But a structurally improving ARR and large inventory addition in the high-value market of Mumbai keeps us positive on the company. Maintain 'add' rating with fair value of ₹80 per share.

Lemon Tree continues to report strong earnings growth with 14% y-o-y increase in Ebitda at ₹490 million on the back of (1) increase in owned/rental keys at 3,570 (+12% y-o-y, +9% q-o-q), and (2) higher ARR of ₹4,465 a day (+5% y-o-y, +13% q-o-q). Drop in occupancy to 73% compared with 76% in Q3FY18 and 78% in Q2FY19 was likely attributable to ramping up of new hotel properties, resulting in lower flow

through of ARR improvement. Excluding the new supply of rooms added during the quarter, the drop in occupancy is 156 bps. Fees from management hotels stood at ₹64.2 billion (4.4% of the total revenue in Q3FY19) up 57% y-o-y from ₹41 million in Q3FY18. Ebitda margins remained healthy at 34%, and higher than estimated other income of ₹27 million further extended the earnings beat with net income of ₹133 million (KIE ₹64 million).

Earnings performance remains steady with a 22% growth in Ebitda for 9MFY19 even as we step into a seasonally strong quarter in Q4FY19. LTH added 292 owned keys during the quarter — Lemon Tree Premier (201 keys) in Pune and Red Fox Hotel (91 keys) in Dehradun. Upcoming hotels in Mumbai (303 keys) and Kolkata (142 keys) are marginally delayed and would commission in April 2019 and May 2019, respectively. The management contract pipeline remains strong with estimated addition of 2,043 keys till FY2021.