

Published Date:	Friday 14th August, 2020	Publication:	Financial Express [Ahmedabad]
Journalist:	Bureau	Page No:	10
MAV/CCM:	51,558/40.28	Circulation:	10,000

ANALYST CORNER

◆ Maintain 'buy' on Lemon Tree with TP of ₹26

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THE Q1FY21 PERFORMANCE of Lemon Tree (LT) did not have much to look forward to given the ongoing industry dislocation in the wake of the lockdown; LT reported a 71% YoY contraction in revenue. However, cost control initiatives helped it clock positive EBITDA/cash profit. On the liquidity side too, the situation remains comfortable; besides, LT has confirmed a rights issue of ₹1.5bn with no plans to raise debt. With liquidity comfort in these uncertain times and an attractive valuation to boot, we maintain 'buy' with an unchanged TP of ₹26. Our sector outlook (including mid-market) though remains bleak (unchanged).

The sector continued to reel as ~70% of branded inventory was non-operational in Q1FY21. Similarly, LT reported a 71% YoY revenue contraction with ARR/RevPar down 34%/76% YoY. Key demand segments remain similar to peers' and industry i.e. quarantine guests, medical staff, etc. LT's prime focus in Q1 was to make fixed expenses variable to the extent possible and defer all non-essential expenditure. This

reflects in tight control on expenses (opex down 62% YoY) and it managed to record positive EBITDA of ₹44m (down 90% YoY). The situation at least in terms of opening has improved for LT with 86% rooms operational (Q1FY21: 71%).

From the liquidity perspective, LT has sufficient cash to meet its total expenses including debt obligations for the next four quarters assuming the worst-case scenario. In addition to the ₹2.3bn of liquidity (including ₹1.7bn from APG), LT has confirmed its plans for a rights issue, which will shore up its coffers by ₹1.5bn. There is also an option of raising another ₹1.3bn from APG. Putting in perspective its monthly opex of ~₹100m, liquidity is ample.

We had upgraded LT to 'buy' in our last update citing reduced risk post-APG infusion. With liquidity improving further, our view is reinforced. We maintain 'buy' with an unchanged TP of ₹26. At our TP, the stock would trade at 14.5x FY22E Ev/EBITDA (IHCL: 16x), compared with its trading history of >20x since its IPO and pre-covid-19. That said, our 'buy' is based on LT's improved risk profile and cheap valuation; the sector outlook remains bleak (unchanged).