

News monitored for: Lemon Tree Hotels

● LEMON TREE HOTELS RATING: ADD Acquisition in line with growth aspirations

Impact on leverage post buy of Keys Hotels would be important; TP revised to ₹86 with a rollover to March'21; 'Add' retained

LEMON TREE HAS entered into a non-binding agreement to acquire the hotel portfolio of Keys Hotels in India, which comprises 7 owned hotels (396 keys) and 14 (975 keys) managed hotels, that will further supplement Lemon Tree's own portfolio of 5,342 keys (3,570 owned and 1,772 managed) and a capacity pipeline of 3,458 keys (1,240 owned and 2,218 managed). While the intent to acquire does align with Lemon Tree's growth aspirations to build a large pan-India portfolio of assets, we would be watchful of purchase consideration and financials, and implications on leverage. Maintain **Add** rating.

Lemon Tree enters into non-binding pact to acquire 1,711-key portfolio
Lemon Tree has signed a non-binding term sheet to acquire 100% shareholding of Keys Hotels. Keys Hotels is a mid-market hotel chain with 21 hotels across 19 cities with an aggregate of 1,911 keys. Keys Hotels also owns two land parcels at Goa & Raipur.



Growth aspirations remain high
Lemon Tree continues to show an appetite for growth and diversification, aligned to its objective of being the largest hotel chain in India. Keys Hotels has limited overlap with Lemon Tree.

In the absence of financials and purchase consideration, it is difficult for us to

comment on the acquisition. However, we remain watchful of the net debt position for Lemon Tree, which currently stands at a more comfortable 1X on FY2020e on net debt of ₹13.6 bn, which may increase to ₹22.3 bn (1.9X net debt to equity) assuming ₹8.7 bn of enterprise value (based on unauthenticated media reports).

Company data and valuation summary

Lemon Tree Hotels

STOCK DATA			
52-week range (₹) (high,low)	91-57		
Market Cap. (₹ bn)	66.3		
Shareholding pattern (%)			
Promoters	31.1		
FIs	8.3		
MFs	13.7		
Price performance (%)			
	1M	3M	12M
Absolute	17.3	19.8	14.2
Rel. to BSE-30	11.5	14.1	2.3
Forecasts/Valuations			
	2019E	2020E	2021E
EPS (₹)	0.5	1.2	2.0
EPS growth (%)	161.8	157.1	67.7
P/E (X)	177.0	68.9	41.1
Sales (₹ bn)	5.5	8.2	9.6
Net profits (₹ bn)	0.4	1.0	1.6
Ebitda (₹ bn)	1.8	3.1	4.2
EV/Ebitda (X)	42.9	24.4	18.3
RoE (%)	4.5	10.6	16.3
Div. Yield (%)	0.0	0.0	1.1

Source: Company, Kotak Institutional Equities

We have revised our fair value estimate for Lemon Tree to ₹86/share (from ₹80/share) as we roll over to March 2021e-based valuations, as well as marginally increase our terminal growth assumption.

KOTAK INSTITUTIONAL EQUITIES