

News monitored for: Lemon Tree Hotels

Lemon Tree Offer Expensive, Suitable for High-risk Investors

IPO WATCH

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ET Intelligence Group: Investors with appetite for high risk may consider investing in the initial public offering (IPO) of Delhi-based mid-sized hotels company Lemon Tree Hotels. The capital-intensive nature of its business, asset-heavy model and high valuation with respect to the listed peers are a few reasons which make the company's public offer an expensive proposition.

THE ISSUE

The issue is purely an offer for sale of 185,479,400 shares which would result in the exit of strategic investors such as Maplewood, Whispering Resorts, Palms International and RJ Corp.

BUSINESS

Lemon Tree Hotels offers rooms in three categories. These are Lemon Tree Premier (upper midscale), Lemon Tree Hotels (midscale) and Red Fox (economy segment). The average occupancy of its rooms is 77%. The company has an inventory of 4,700 rooms, of which 1,500 are on management contract, while 3,200 are owned/

leased. These rooms are located not only in metros but also in tier-II and tier-III cities. A large part of the company's room inventory is owned, which makes its business model asset-heavy. Due to this and high employee and interest costs, the company has been recording losses. After a long time, demand in the hotels sector is matching the supply. Therefore, this is a favourable period for Lemon Tree. But investors should wait to see how the company takes advantage of the favourable business environment.

FINANCIALS

In the four fiscals to FY17, the compa-

Dates and Numbers to Keep in Mind

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ny's total revenue grew by 17% annually to ₹418 crore. It incurred losses during the period. For the first nine months of FY18, the company posted net profit of ₹2.9 crore.

VALUATION

The company's enterprise value (EV) works out to be 43 times and 40 times the FY17 and FY18 annualised expected operating profit before depreciation (EBITDA) respectively. The average EV/EBITDA of peers including Royal Orchid Hotels, Oriental Hotels, and TajGVK Hotels & Resorts is 18.2. Large hotel chains including Indian Hotels and EIH

Lemon Tree Raises ₹311 cr

Lemon Tree Hotels has raised ₹311 crore from 18 anchor investors. It has allotted 5,56,43,820 shares at a price of ₹56 per scrip. The investors include SBI Magnum Balanced Fund, DB International Asia, HDFC Small Cap Fund, and BNP Paribas Arbitrage Fund. — PTI

have an EV/EBITDA of 28.9 and 32.2 respectively considering FY18 estimates according to Bloomberg data. Therefore, Lemon Tree's valuation looks aggressive.