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● **LEMON TREE HOTELS**  
RATING: **BUY**

## Execution of strategy will be key

Capex cycle to end in 3 years; Ebitda CAGR of 71% is estimated; 'Buy' maintained

**LEMONTRE HOSTED AN** analyst meet at its recently launched hotel— Lemon Tree Premier in Mumbai. The company shed light on its execution strategy and addressed investor concerns regarding debt. Key insights are highlighted below:

**Besides synergies, Keys' acquisition to help add rooms via management contract:** While the acquisition of 'Keys Hotel' brings with it synergistic benefits, the deal is also expected to aid room addition under management contract. LEMONTRE is confident of achieving an immediate 4% revenue improvement coupled with 2% cost decrease (of sales) post acquisition.

**Capex cycle to end in the next three years:** As of Jun'19, LEMONTRE had a debt of ₹12.66 bn; of this, 55% can be attributed to adult hotels, which have the capability of generating enough cash to service the debt themselves. Thus, management is comfortable with its current level of debt. With major capex being required only for the 669-room Keys Hotel in Mumbai, management expects capex cycle to end in the next three years.

**Valuation and view:** While we maintain our estimates over FY19-21e, we expect revenue to grow 45% to ₹11.6 bn and Ebitda CAGR at 71% to ₹4.9 bn. The growth should mainly be driven by the recently commenced/upcoming hotels in high demand and high ARR markets of Pune, Mumbai, Kolkata and Udaipur. Additionally, management remains confident of achieving Ebitda of ₹600 m in FY21 from its acquisition of Keys Hotels. We value the stock at 18x FY21 EV/Ebitda and arrive at a TP of ₹75. Maintain **Buy**.

MOTILAL OSWAL

### Financials snapshot

(₹ bn)

Y/E Mar	2019	2020E	2021E
Sales	5.5	8.2	11.6
Ebitda	1.7	3.2	4.9
NP	0.5	0.6	1.5
EPS (₹)	0.7	0.8	1.9
Ebitda Gr (%)	23.9	88.3	55.7
EPS Gr. (%)	271.9	15.8	140.6
BV/Share (₹)	11.2	17.4	19.3
RoE (%)	6.3	5.5	10.3
RoCE (%)	4.4	5.7	7.4
EV/ Ebitda (x)	33.9	20.8	13.6
F/E (x)	78.4	67.7	28.1

Source: Company data, Motilal Oswal