

## ISSUE DETAIL :

Type	100% Book Building
Issue Size	Rs. 1,038.68 Crore
Offer Price	*Rs (54 - 56 ) / Share
Min App Size	265 Shares
Issue Open	26-Mar-18
Issue Close	28-Mar-18
Shares Offer	18.54 Cr.
Face Value	Rs 10
Lead Mgrs	CLSA India Private Ltd, J.P. Morgan India Private Ltd, Kotak Mahindra Capital Company Ltd
Listing	BSE, NSE
Registrar	Karvy Computershare Pvt Ltd
Market Cap (Post Issue)	4403.9

## No of shares ( Post & Pre Issue)

Noof Shares(Pre Issue)	7864,12,683
Offer for Sale	1854,79,400
Fresh Issue made	
No of Shares(Post Issue)	7864,12,683

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## COMPANY OVERVIEW:

Lemon Tree Hotels is India's largest hotel chain in the mid-priced hotel sector, and the third largest overall, on the basis of controlling interest in owned and leased rooms, as of 30 June 2017.

The company operates in the mid-priced hotel sector and its hotels are located across India, in metro regions, including the NCR, Bengaluru, Hyderabad and Chennai, as well as tier I and tier II cities such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore and Aurangabad.

As of 31 January 2018, it operated 4,697 rooms in 45 hotels (including managed hotels) across 28 cities in India. The company has created three brands in order to address these three hotel segments:

1. 'Lemon Tree Premier' which is targeted primarily at the upper-midscale hotel segment catering to business and leisure guests who seek to use hotels at strategic locations and are willing to pay for premium service and hotel properties;
2. 'Lemon Tree Hotels' which is targeted primarily at the midscale hotel segment catering to business and leisure guests and offers a comfortable, cost-effective and convenient experience; and
3. 'Red Fox by Lemon Tree Hotels' which is targeted primarily at the economy hotel segment.

The company have a portfolio of 19 owned hotels, three owned hotels located on leased or licensed land, five leased hotels and 13 managed hotels. It also has project design, management and development capabilities through its Subsidiary, Grey Fox Project Management Company Private Limited ("Grey Fox").

## Strengths

- ☒ **Leading mid-priced hotel chain with a differentiated business model** : Company is the ninth largest hotel chain in terms of owned, leased and managed rooms. Company have a portfolio of 45 hotels spread across 28 cities, as of Jan31, 2018. The rooms comprised 4.22% of upper-midscale, 7.65% of midscale and 15.30% of economy rooms, aggregating to 6.91% of all mid-priced rooms.
- ☒ **Strategically positioned in key geographical areas** : The hotels are located in major metro regions in India, including the NCR, Bengaluru, Hyderabad and Chennai, as well as tier I and tier II cities in India such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore and Aurangabad.
- ☒ **Focus on brand excellence, providing a value-for money proposition and strengthening employee culture** : Company believe brands are recognised for quality and consistency across various price points in the mid-priced hotel sector.

## OBJECTS OF ISSUE:

- ☒ Achieve the benefits of listing the Equity Shares on the Stock Exchanges
- ☒ Sale of up to 195,797,000 Equity Shares by the Selling Shareholders.

## RECOMMENDATION :

Hotels business are capital intensive making initial years heavy on bottline. As such topline for Lemon tree has been growing at 20%plus though the company has been reporting Net losses. The operating cash flow for the company is as high as 123 Cr on Topline of 412 Cr. The Asset turnover for Lemon tree is merely 0.23 times whereas Indian Hotels and EIH have at 0.7times and Taj GVK at 0.5times. Assuming huge growth in Sales going forward as the company plans to roll out 950 more rooms before FY19 end and another 650 before FY21, we expect the valuations are fairly priced. EV/ Sales for Lemon tree at 12.9times whereas Indian Hotel at 4.5times , Also Taj GVK at 5.3times. We maintain AVOID as we do not see any valuation cushion keeping in mind not so attractive financials

**Geographical Spread and Existing Hotels and Hotels Under development**

	Upper-Midscale Rooms (Hotels)	Midscale Rooms (Hotels)	Economy Rooms (Hotels)	Owned or leased Rooms (Hotels)	Managed Rooms (Hotels)
<b>Operational as of July 31, 2017</b>					
NCR	502 (4)	473 (5)	455 (3)	1,165 (10)	265 (2)
Bengaluru	188 (1)	305 (2)	-	493 (3)	-
Chennai	-	162 (2)	-	108 (1)	54 (1)
Hyderabad	267 (1)	190 (1)	121 (1)	578 (3)	-
Pune	-	124 (1)	-	124 (1)	-
Ahmedabad	63 (1)	99 (1)	-	99 (1)	63 (1)
Goa	-	99 (2)	-	99 (2)	-
Others	108 (1)	638 (10)	495 (4)	505 (6)	736 (9)
<b>Total</b>	<b>1,128 (8)</b>	<b>2,090 (24)</b>	<b>1,071 (8)</b>	<b>3,171 (27)</b>	<b>1,118 (13)</b>
<b>Under development as of July 31, 2017*</b>					
Mumbai	736 (2)	-	-	736 (2)	-
NCR	-	372 (2)	-	-	372 (2)
Kolkata	142 (1)	-	-	142 (1)	-
Hyderabad	-	84 (1)	-	84 (1)	-
Pune	199 (1)	-	-	199 (1)	-
Others	312 (3)	847 (13)	91 (1)	331 (3)	919 (14)
<b>Total</b>	<b>1,389 (7)</b>	<b>1,303 (16)</b>	<b>91 (1)</b>	<b>1,492 (8)</b>	<b>1,291 (16)</b>

**KEY Parameter for owned and Leases Hotels**

	For Our Owned and Leased Hotels:								
	Lemon Tree Premier			Lemon Tree Hotels			Red Fox Hotels		
Fiscal	2017	2016	2015	2017	2016	2015	2017	2016	2015
No. of available rooms*	877	877	681	1,351	1,306	1,306	605	605	589
No. of hotels*	5	5	4	15	13	13	4	4	4
ADR <sup>1</sup> (₹)	4,123	3,834	3,635	3,522	3,321	3,175	2,372	2,278	2,179
Average Occupancy <sup>2</sup>	74.6%	78.3%	68.3%	77.1%	73.3%	67.9%	79.1%	75.1%	67.8%
Rev PAR <sup>3</sup> (₹)	3,075	3,001	2,482	2,716	2,433	2,155	1,877	1,711	1,477
Average total hotel revenue per room <sup>4</sup> (₹)	1,729.43	1,587.79	1,415.72	1,423.35	1,332.89	1,105.88	918.23	854.43	741.68
	1	3	8	3	4	1	6	6	6
Revenue from room rentals <sup>5</sup>	64.9%	64.9%	64.0%	68.5%	66.8%	64.6%	74.6%	73.3%	72.7%
F&B revenue <sup>6</sup>	25.0%	25.1%	25.6%	22.3%	23.9%	26.1%	16.4%	17.5%	17.0%
Other revenue <sup>7</sup>	10.1%	10.0%	10.4%	9.2%	9.2%	9.4%	9.0%	9.2%	10.3%
Average operating expense per room <sup>8</sup> (₹)	978,477	887,601	946,101	821,141	815,440	702,788	521,89	477,31	445,29
	5	4	3	3	4	5	5	4	3
Operating expenses <sup>9</sup>	56.6%	55.9%	66.8%	57.7%	61.2%	63.6%	56.8%	55.9%	60.0%
Staff per room ratio <sup>10</sup>	1.09	1.15	0.98	1.17	1.15	1.12	0.74	0.75	0.72
Domestic guests	83.4%	85.4%	84.5%	85.1%	84.4%	82.0%	84.2%	89.7%	88.1%
Foreign guests	16.6%	14.6%	15.5%	14.9%	15.6%	18.0%	15.8%	10.3%	11.9%

**COMPETITIVE RISKS**

- ✓ Company's brand and reputation are among most important assets and company believe brands help in attracting guests to hotels. The continuing to develop awareness of brands, through ocused and consistent branding and marketing initiatives is important to increase revenues, grow existing market share and expand into new markets. Company rely heavily on existing brands and quality of services at our hotels. Any dilution of brand reputation or failure of quality control systems could adversely affect business, results of operations and financial condition.
- ✓ Certain operational risks are inherent in businesses due to the nature of the industry in which company operate. The hotels are subject to various operating and business risks common to the hotel and hospitality industry, including the impact of security issues on the quantity of travelers and destinations of business travel. Operational risks are inherent in business as it includes rendering services at high quality standards at hotels. A failure to manage such risks could have an adverse impact on business, results of operations and financial condition
- ✓ Company exposed to risks associated with the ownership and development of hotel properties. Delays in the constructions of new buildings or improvements on properties may have an adverse effect on business, results of operations and financial condition. Comapny experience delays in the delivery of the construction works and design and engineering services for new buildings or improvements for existing buildings. Comapny will not be able to start operations until completion of the construction of new buildings or improvements on existing properties.
- ✓ Company have one owned hotel on licensed land and two leased hotels, under development, representing 613 rooms under development. Company cannot assure that company will be able to fully comply with all the terms of the lease deeds or license agreements which comapny has entered into in relation to such hotels, renew such agreements or enter into new agreements in the future, on terms favorable to or at all.

## Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	9MFY18
Revenue from Operation	290	368	412	352
Change (%)		27%	12%	
Total Operating Expense	240	267	296	254
EBITDA	51	101	116	98
Change (%)		100%	15%	
Margin (%)	17%	27%	28%	28%
Dep & Amortization	52	52	51	40
EBIT	(1)	49	65	58
Interest & other finance cost	60	68	74	54
Other Income	1	2	6	1
EBT	(60)	(17)	(2)	5
Tax	3	13	5	2
Reported PAT	(63.24)	(29.81)	(7.17)	2.18
Change (%)		-53%	-76%	
Margin(%)	-21.8%	-8.1%	-1.7%	0.6%

Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	9MFY18
Share Capital	776	778	781	786
Reserves	34	32	27	17
Networth	810	810	809	803
Non-controlling interests	422	428	428	428
Non Current Liabilities				
Long term borrowing	488	525	691	901
Short term borrowing	67	69	67	31
Total Borrowing	555	595	759	932
Provisions	0.95	1.19	1.36	1.43
Deferred tax liabilities	-	7	7	5
Other non-current liabilities	8	14	21	26
Current Liabilities	-	-	-	-
Trade Payables	33	51	60	73
Other financial liabilities	56	85	106	94
Other current liabilities	9	13	19	20
Short-term provisions	1	2	2	3
Total Liabilities	1,896	2,006	2,212	2,385
Fixed Asset	1,403	1,491	1,769	1,939
Investments	36	43	51	62
Non-current tax assets	16	19	21	22
Other non-current assets	343	380	287	233
Non Current Assets				
Inventories	5	5	5	5
Trade receivables	17.9	24.5	31.4	51.7
Cash and bank balances	30	14	18	23
Other financial assets	32.3	7.0	7.1	12.8
Other current assets	12.0	22.7	22.5	36.3
Total Asset	1,896	2,006	2,212	2,383

Key Ratios			
Y/E March	FY15	FY16	FY17
EPS	-3.41	-1.61	-0.39
Book Value Per share	43.70	43.68	43.61
Valuation(x)			
P/E ( Upper Band )	-16.42	-34.83	-144.78
P/E ( Lower Band )	-15.83	-33.59	-139.61
Price / Book Value	1.28	1.28	1.28
EV	2211	2267	2427
EV/Sales	7.61	6.16	5.89
EV/EBITDA	43.61	22.41	20.86
Profitability Ratios			
RoE	-7.8%	-3.7%	-0.9%
RoCE	-0.12%	6.04%	8.08%
Liquidity Ratios			
Net Debt/Equity	0.69	0.73	0.94
Interest Coverage Ratio	-0.02	0.72	0.88
Current Ratio	19.54	27.38	26.49

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	9MFY18
Net Profit before tax	(60)	(17)	(2)	5
Adjustments for:				
Depreciation and Amortisation exp	52	52	51	40
Finance costs	69	69	74	55
Lease equalisation reserve / (reve	3	7	6	5
Finance income	(5)	(2)	(3)	(3)
Profit on sale of investment	(6.72)	(1.71)	(0.27)	(0.10)
Provision for gratuity	0.32	0.34	0.38	0.15
Share based payments to employ	(2)	1	1	1
Profit on relinquishment of rights	-	0.55	(4.40)	-
Provision for litigations	-	0.48	0.22	0.17
Provision for doubtful debts	0.12	0.12	0.23	0.01
Net (gain)/ loss on sale of propert	0.28	0.54	0.22	0.12
Operating Profit before Working	50	110	123	103
Changes in working capital				
Change in trade receivables	(2)	(7)	(7)	(20)
Change in loans and advances an	(88)	(73)	(12)	(15)
Change in inventories	(0)	(1)	0	(0)
Change in liabilities and provisions	2	50	32	10
Cash generated from operating	(38)	80	136	77
Tax Paid	13	12	4	5
Net Cash in OperatingActivities	(51)	68	132	72
Net Cash in Investing Activities	(150)	(103)	(229)	(198)
Net Cash in Financing Activities	158.72	18.50	100.29	131.04
Net Cash	(42.37)	(16.01)	3.55	4.83

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