

IPO NOTE

Not Rated

23rd March 2018

Issue Details

Price Band (Rs)	54 – 56
Face Value(Rs)	10
Issue Size(Rs)	1039 Cr
Issue Type	Book Building
Minimum lot	265 Shares
Issue Opens	March 26, 2018
Issue Closes	March 28, 2018
Listing on	BSE, NSE

Indicative time line On or Before

Finalization of Basis of Allotment	April 4, 2018
Unblocking of Funds	April 5, 2018
Credit of shares to Demat Account	April 6, 2018
Listing on exchange	April 9, 2018

Other Detail

Book Running Lead Managers	CLSA India Private Limited, Kotak Mahindra Capital Company Limited, J.P. Morgan India Private Limited, YES Securities (India) Limited
Registrar	Karvy Computershare Private Limited

Lemon Tree Hotels Limited

Company Background

Incorporated in 1992, Delhi based Lemon Tree Hotels Limited (LTHL) 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. The group is the ninth largest hotel chain in India.

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.

The promoters of the company are Mr. Patanjali Govind Keswani and SMSPL. The promoters hold in aggregate 23.49% of the company's pre-offer paid-up equity share capital.

Issue Details

Lemon Tree is offering 185,479,400 share of face value of Rs.10 each under the OFS. At the upper price band of Rs.56, issue will raise Rs.1039Cr, which will be received by the selling shareholders and company would not get anything from the proceedings. Issue would constitute 23.59% of post offer paid up capital.

Objective of the issue is to enhance its visibility and brand image and provide liquidity to existing shareholders. For anchor investors, the issue will open on March 23.

Details of Selling Shareholders:

Selling Shareholders	Number of Shares offered for sale
Maplewood Investments Limited	9,45,00,053
RJ Corp Limited	2,53,20,584
Ravi Kant Jaipuria & Sons	1,39,99,416
Whispering Resorts Private Limited	69,86,180
Swift Builders Limited	8,83,440
Five Star Hospitality Investment Limited	2,36,49,816
Palms International Investments Limited	1,91,59,911
Mr. Satish Chander Kohli	4,80,000
Mr. Raj Pal Gandhi	5,00,000
Total	18,54,79,400

Source: Company RHP, ACMIIL Research

IPO Share Allotment Pattern

Category	Allocation	Number of Shares	Issue Size (Rs. Cr) at	
			Lower Band (Rs. 54)	Upper Band (Rs.56)
QIB	50%	92,739,700	501	519
Non-Institutional	15%	27,821,910	150	156
Retail	35%	64,917,790	351	364
Total	100%	185,479,400	1,002	1,039

Source: Company RHP, ACMIIL Research

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Outlook and Valuation

Lemon Tree is a known hotel chain in India with presence across 28 locations. Their forte is in mid-size to economy hotel operations. Moving ahead, they are planning to have more of premier hotel assets at various locations across the country. Although they have an impressive revenue growth of 17.68% CAGR in past five years, the business is unable to generate profits. At the upper price band of Rs.56, its asking price is at a P/E of 1400x on FY18E EPS of Rs.0.04 making it very expensive compared with industry PE of 63x.

Business Overview

Lemon Tree group offers hospitality services across India with 45 hotels operating at 28 locations. Business has been segregated under three brands to meet hotel needs across all levels:

Lemon Tree Premier: It is chain of upper midscale business and leisure hotels specially designed for upbeat business travelers who seek to use hotels at strategic locations and are willing to pay for premium service and hotel properties. First hotel under this brand, Lemon Tree Premier, Leisure Valley-1, Gurugram was launched in July 2010. This brand accounts for 1,301 rooms or 27.7% of total rooms as on January 31, 2018, spread across 10 hotels. Facilities at Lemon Tree Premier hotels include a business centre, a conference room, a 24x7 multi-cuisine coffee shop – ‘Citrus Café’, a recreation bar – ‘Slounge’, a pan-Asian restaurant – ‘Republic of Noodles’, a spa – ‘Fresco’, a well-equipped gym, an outdoor swimming pool and state-of-the-art security arrangements.

Lemon Tree Hotels: Lemon Tree Hotels are midscale business and leisure hotels, first brand launched by the group. Lemon Tree Hotel, Udyog Vihar, Gurugram was the first one which began services in May 2004. As of January 31, 2018, 27 Lemon Tree hotels are operational, accounting for 2,325 rooms or 49.5% of total rooms. These hotels feature simple, modern and comfortable furnishings and attempt to offer the essential amenities required by their target class of travelers, including a 24x7 coffee shop, a lounge bar, conference rooms, a business centre and a fitness centre.

Red Fox by Lemon Tree Hotels: It is chain of economy hotel segment. First hotel was Red Fox Hotel, Jaipur, which became operational in November 2009. As of January 31, 2018, there are eight hotels in operation under this brand which account for 1,071 rooms or 22.8% of total rooms. These hotels have an emphasis on quality and modern-style furniture and equipment. Services provided at these hotels include hi-speed Wi-Fi, cyber kiosks, a coffee shop – ‘Clever Fox Café’, a business center, meeting rooms, basic fitness center and laundry service

Investment Rationale

Multi business model

Operations of LTHL are spread across the value chain and range from acquiring land to owning, leasing, developing, managing and marketing hotels. Business is undertaken through: direct ownership of hotel properties, long-term lease or license arrangements for the land on which hotels are constructed, long-term leases for existing hotels which are owned by third parties and operating & management agreements. As of January 31, 2018, they had a portfolio of 19 owned hotels, three owned hotels located on leased or licensed land, five leased hotels and 18 managed hotels. They also have project design, management and development capabilities through Subsidiary, Grey Fox.

Presence across the country

Hotels are located in 28 cities including all major metro regions including the NCR, Bengaluru, Hyderabad, Chennai, and in other cities such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore, Alwar, Aurangabad, Coimbatore, Corbett, Vadodara, Patna, Katra, Jammu, Manesar, Siliguri, Dehradun, Tiruchirappalli, Gangtok, and Bhiwadi.

In the leisure hotel segment, they operate a resort and a hotel in Goa, one resort in the backwaters of Alleppey, Kerala and one wildlife resort in Bandhavgarh, Madhya Pradesh. They have strategically developed hotels at locations with high barriers-to-entry within or close to major business centers, airports and other convenient locations.

Penetrating tier II and tier III cities to increase market share in mid-priced hotel sector

LTHL seek to diversify their geographical footprint to reduce exposure to local, seasonal and cyclical fluctuations as well as in order to access a more diversified guest base across geographies. They are entering new markets such as Mumbai, Kolkata and Patna, and other Tier II and Tier III cities in order to expand geographical footprint. As of January 31, 2018, development pipeline is of 3,038 rooms across 28 new and one existing hotel which will be operational in parts by the end of FY21. These hotels are spread over 21 additional cities across India, where they are not present currently. Apart from India, they are building a hotel in each of Kathmandu, Nepal and Thimphu, Bhutan. Upcoming projects are mainly under the Premier and hotel segment.

They are expanding their portfolio through development of hotels, acquisition of properties and entering into leases and management agreements at diverse locations. Leased hotels are currently five in number with 397 rooms and are expanding to seven hotels with 572 rooms. Further, they are looking for management agreements which require lower upfront financial investment compared to acquisition of properties and enable to provide quality management and branding to third-party owned hotels. Currently LTHL is managing 18 hotels with 1,504 rooms and are planning to increase up to 38 hotels with 2,933 rooms.

Business with social responsibility

LTHL provide employment opportunity to deprived people, including differently-able individuals as well as those from economically, educationally and socially marginalized sections of society with an aim to have an engaged and committed workforce. They have been ranked among the “Best Companies to Work for” in India for seven consecutive years during FY11-17, by the Great Place to Work Institute. They were also ranked the fourth “Best Company to Work for” in India and were the only hotel company in the top 10 in FY17.

Hospitality business in on revival sphere

Travel, tourism and hospitality are among the key sectors of the Indian economy and have registered a steady growth rate of 15.6% on YoY basis. These sectors together generated 25.9 million jobs in 2017, contributing \$75.8 billion to the country’s GDP. According to FICCI, India has the potential to be the sixth-largest business travel market in the world by FY19 end. The growing disposable incomes and the rise of millennial as the primary wage earners is responsible for the growth of the travel and tourism sectors. With the enhanced use of technology and smartphones, India is moving towards becoming a digitally-enabled tourist destination and India had accounted for 3.7% of the global digital travel sales in FY17, making it the third-largest market by value in the Asia-Pacific region. The online travel booking sales are likely to go up at a CAGR of 14.8% during FY17-21 according to FICCI.

Financials

During FY13-17, revenues have increased at a CAGR of 17.68% to Rs.4119mn in FY17. Owned and leased hotels had an average occupancy rate of 76.8% and 75.3% in FY17 and 9MFY18 respectively leading to increase in average daily rate. EBITDA has grown by a CAGR of 32.23% to Rs.1226mn in FY17 with 29.3% margins. In last five years LTHL has made many investments and out of the present assets they hold, 40% were acquired in these years which are under construction and will start generating revenues fully in next 3-4 years. Heavy investments led to higher depreciation and interest costs denting bottom line substantially. Debt-to-equity ratio stood at 0.79 in FY17 compared with 0.65 in the previous year.

Peer Comparison (FY17)

Particulars	Face Value (Rs)	EPS (Rs)*	P/E	RoNW %*	Book Value per share (Rs)*
Lemon Tree Hotels Limited	10	-	-	-	15
The Indian Hotels Company Limited*	1	1.43	90.2	5.42	26.4
EIH Limited	2	1.7	97.6	3.8	48.4
The Byke Hospitality Limited	10	7.9	20.9	21.4	36.9

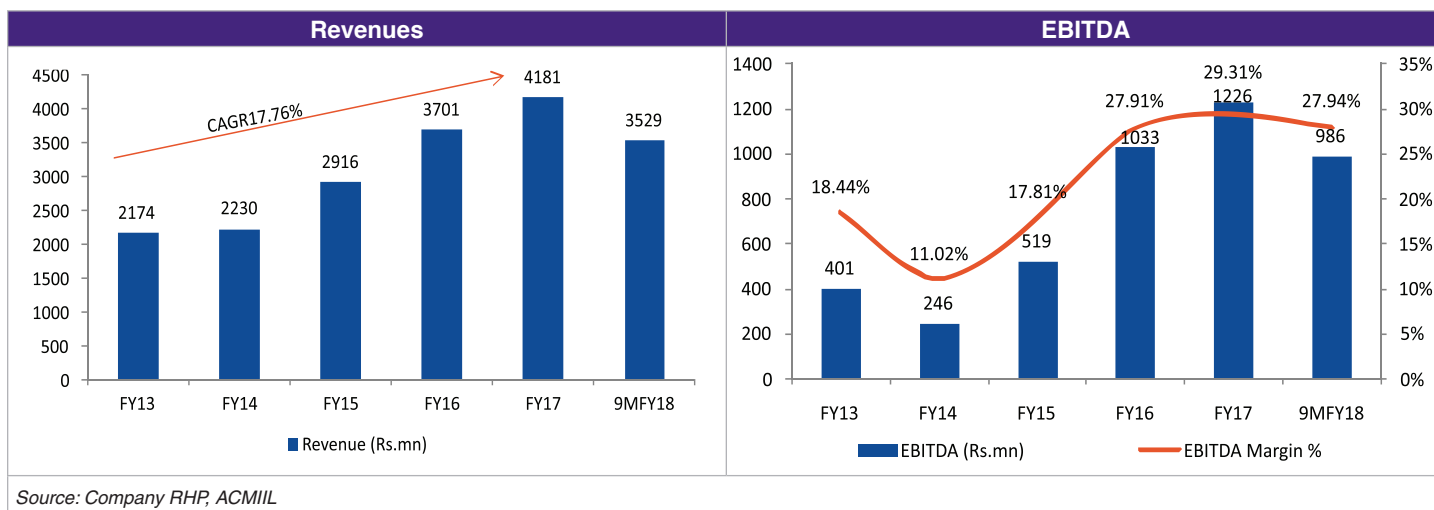
*Note: Data based on FY17
Source: Company RHP, ACMIL Research

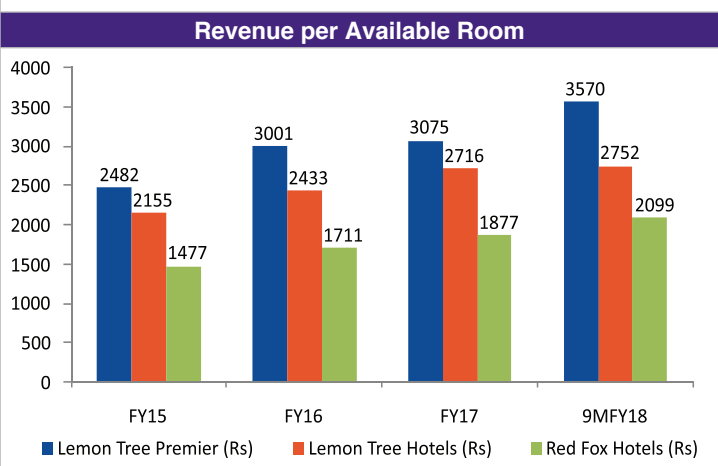
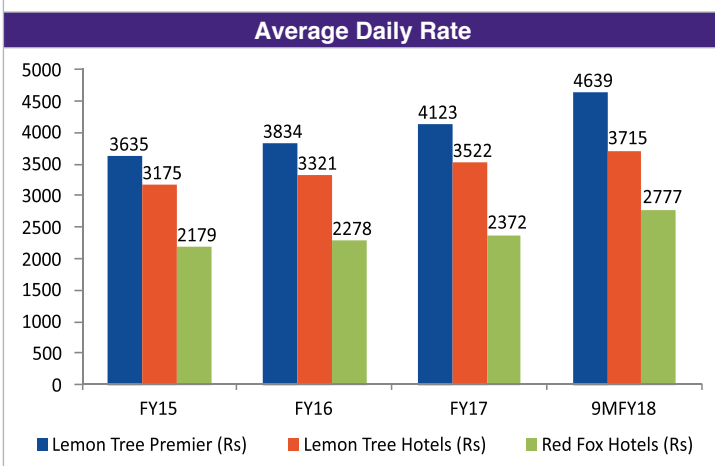
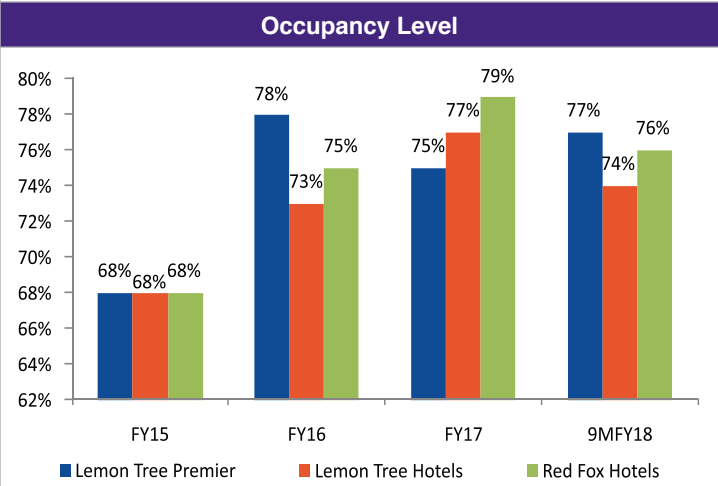
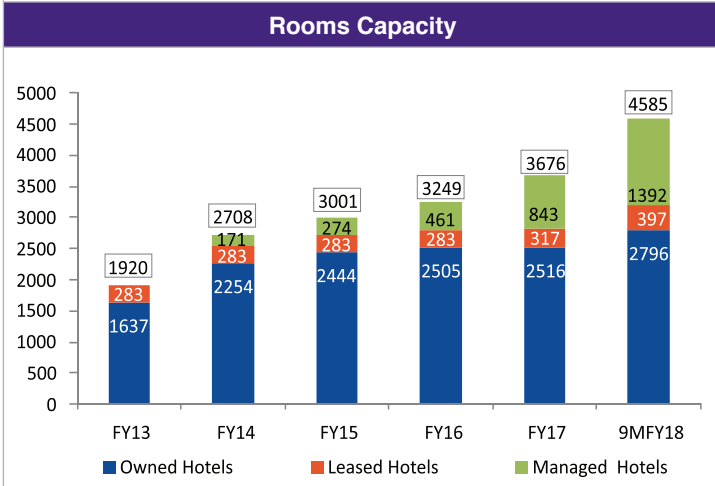
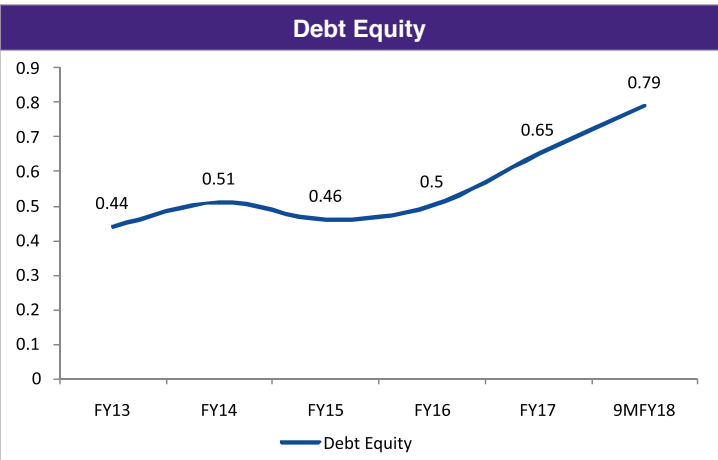
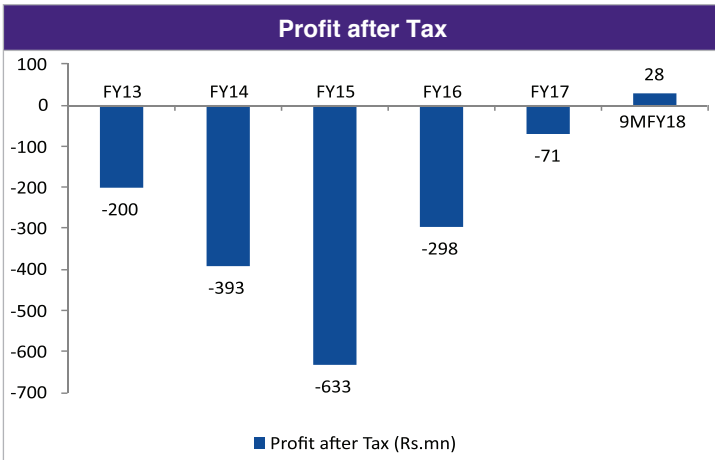
Risk and Concern

Business Risk: Lemon Tree is expanding its business aggressively which is impacting their returns. If they fail to meet the timeline, profitability will be hampered in future as well.

Operational risks: Hotel business possesses inherent operational risk being a service industry. A failure to manage such risks could have an adverse impact on business, results of operations and financial condition.

High Debt: Total debt is of Rs.1000 mn and in near future also they will raise more debt for ongoing projects, elevating leverage ratio.





Source: Company RHP, ACMIIL

Financial

Profit & Loss Statement (Consolidated)

Particulars (Rs.mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
Revenue						
Revenue from operations	2,148	2,217	2,904	3,680	4,119	3,523
Other income	26	12	12	21	62	6
Total Income	2,174	2,230	2,916	3,701	4,181	3,529
Expenses						
Cost of food and beverages consumed	221	244	284	346	353	321
Employee benefits expense	564	646	782	854	969	790
Other expenses	989	1,093	1,330	1,468	1,634	1,432
Total Expenses	1,773	1,984	2,397	2,668	2,956	2,543
EBITDA	401	246	519	1,033	1,226	986
<i>EBITDA Margin %</i>	<i>18.44%</i>	<i>11.02%</i>	<i>17.81%</i>	<i>27.91%</i>	<i>29.31%</i>	<i>27.94%</i>
Depreciation Expenses	237	310	517	523	510	398
EBIT	164	(64)	2	510	716	588
<i>EBIT Margin %</i>	<i>7.52%</i>	<i>-2.87%</i>	<i>0.08%</i>	<i>13.79%</i>	<i>17.11%</i>	<i>16.65%</i>
Net Finance Cost	389	292	604	683	740	542
Profit before exceptional items and tax	(225)	(356)	(602)	(173)	(24)	46
Share of profit/(loss) of an associate	-	-	-	-	-	7
Profit before tax	(225)	(356)	(602)	(173)	(24)	52
Tax expense						
Current tax	0	19	(1)	12	14	10
Minimum Alternate Tax (MAT)	1	65	36	16	17	34
Deferred tax charge/ (credit)	(27)	(47)	(4)	97	16	(20)
Total Tax expenses	(26)	37	32	125	47	24
Net Profits	(200)	(393)	(633)	(298)	(71)	28
<i>Net Profit Margin %</i>	-	-	-	-	-	<i>0.79%</i>
EPS	-	-	-	-	-	0.040

Source: Company RHP, ACMIL Research

Balance Sheet

Particulars (Rs.mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
ASSETS						
Non-current assets						
Property, plant and equipment	8,124	11,508	12,320	12,276	14,072	14,541
Capital work-in-progress	3,069	1,349	1,671	2,592	3,494	4,728
Investment Property	-	26	26	25	25	25
Goodwill	-	88	-	-	67	68
Intangible assets	17	21	16	13	19	18
Intangible assets under development	-	-	-	-	14	25
Investments	0	0	0	0	0	14
Loans	55	106	92	76	108	161
Other non- current financial assets	131	205	268	349	397	441
Deferred tax assets (net)	-	-	4	-	-	-
Non-current tax assets	91	80	160	194	210	220
Other non-current assets	1,968	2,454	3,433	3,800	2,874	2,328
Total Non current assets	13,455	15,837	17,990	19,325	21,280	22,569
Current assets						
Inventories	44	47	48	54	49	53
Trade receivables	148	160	179	245	314	517
Cash and Cash equivalents	136	724	300	138	176	225
Investments	1,860	384	312	58	63	78
Loans	8	6	8	6	5	3
Other current financial assets	3	3	5	6	5	44
Other current assets	163	158	119	225	227	362
Total Current Assets	2,362	1,482	971	732	839	1,282
Total Assets	15,817	17,319	18,961	20,057	22,119	23,851
EQUITY AND LIABILITIES						
Equity						
Share capital	1,268	1,286	7,764	7,780	7,812	7,864
Other Equity	7,111	6,706	338	319	274	169
Equity attributable to the owners of the parent	8,379	7,992	8,102	8,099	8,086	8,033
Non-controlling interests	2,094	2,895	4,223	4,277	4,284	4,282
Total Equity	10,473	10,887	12,325	12,376	12,370	12,315
Liabilities						
Non-current liabilities						
Borrowings	3,706	4,585	4,866	5,237	6,907	9,000
Other non- current financial liabilities	40	50	16	14	5	7
Provisions	5	7	9	12	14	14
Deferred tax liabilities (net)	49	3	-	69	68	48
Other non-current liabilities	35	51	81	143	208	256
Total Non-current liabilities	3,835	4,696	4,972	5,475	7,202	9,325
Current liabilities						
Borrowings	433	813	669	695	675	315
Trade payables	114	459	334	511	604	733
Other financial liabilities	857	371	563	853	1,058	937
Provisions	9	10	11	17	23	25
Other current liabilities	96	83	87	130	187	201
Total Current liabilities	1,509	1,736	1,664	2,206	2,547	2,211
Total Equity and Liabilities	15,817	17,319	18,961	20,057	22,119	23,851

Source: Company RHP, ACMIIL Research

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