Initiating Coverage | 23 April 2019
Sector: Hospitality

Lemon Tree Hotels

The Eagle Eyed

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Lemon Tree Hotels

BSE Sensex	S&P CNX
38,565	11,576

CMP: INR74 | **TP: INR90 (+21%)** | **Buy**

Stock Info

Bloomberg	LEMONTRE IN
Equity Shares (m)	786
MCap.(INR b)/(USD b)	58.9 / 0.8
52-Week Range (INR)	91 / 62
1, 6, 12 Rel. Per (%)	-8/-1/-24
12M Avg Val (INR M)	80
Free float (%)	69.1

Financial Snapshot (INR b)

Y/E Mar	FY19E	FY20E	FY21E
Sales	5.6	7.8	10.4
EBITDA	1.8	2.8	4.1
NP	0.4	0.8	1.5
EPS (INR)	0.5	1.0	1.9
EBITDA Gr. (%)	28.6	60.3	47.1
EPS Gr. (%)	149.7	115.2	94.2
RoE (%)	4.3	8.6	14.8
RoCE (%)	4.6	6.9	9.5
EV/ EBITDA (x)	42.6	27.4	19.0
P/E (x)	163.7	76.1	39.2

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	39.1	39.1	38.7
DII	27.2	40.5	40.8
FII	14.6	0.0	0.0
Others	19.1	20.4	20.6

Lemon Tree Hotels

The Eagle Eyed

Sumant Kumar

Please click here for Video Link

Lemon Tree Hotels (LEMONTRE) is the largest hotel chain operator in the mid-priced hotel segment in India. It manages 5,342 rooms across India through its three brands: (i) Lemon Tree Premier (LTP) – catering to the upper-midscale segment, (ii) Lemon Tree Hotels (LTH) – for the midscale segment, and (iii) the Red Fox Hotel (RFH) - targeted towards the economy segment.

The Eagle Eyed

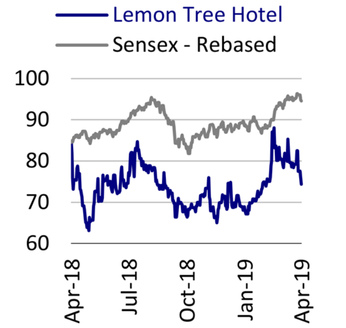
Squeezing opportunities in demand-dense, high ARR markets

- **With the Indian hospitality industry at the cusp of an upcycle, LEMONTRE seems all set to cash in on the upswing. Currently, it plans to increase owned rooms by 1.5x to 4,899 rooms; of this 68% will come up in the high demand and high average room rate (ARR) markets of Mumbai and Udaipur. We expect revenue to grow at 29% CAGR over FY18-21 to INR10.4b, backed by room addition and ARR CAGR of 12% (FY18-21) to INR5,434.**
- **After establishing itself as a leading player in the mid-priced hotel segment, the company is now well poised to leverage the same and add rooms through the management contract route. We expect revenue from management contracts to grow at 62% CAGR over FY18-21 to INR378m.**
- **Existing hotels of LEMONTRE are already operating at 75% occupancy (FY18) level, thus, any increase in ARR will directly flow to the EBITDA (as 75-80% is fixed cost). Moreover, 68% of its owned rooms are coming up in high ARR markets, which should aid EBITDA growth as cost of operating the hotel does not increase proportionately to ARR increase.**
- **We expect LEMONTRE to deliver revenue/EBITDA CAGR of 29%/ 45% over FY18-21 to INR10.4b/INR4.1b and expect RoE to improve to 14.8% by FY21 from 1.8% in FY18. We expect adjusted PAT to grow 10x to INR1,484m by FY21, mainly led by EBITDA growth.**
- **We ascribe one-year forward EV/EBITDA of 22x to LEMONTRE (10% premium to Indian Hotels 14-year average of ~20x) considering its strong growth prospects. We arrive at a target price of INR90 and initiate coverage on LEMONTRE with a Buy rating.**

Room addition in high ARR market to drive revenue

The Indian hospitality industry is at the cusp of an upcycle with occupancy rates already breaching the optimum level of 65%. Cashing in on this upswing, LEMONTRE plans to increase owned rooms by 1.5x to 4,899 rooms over FY18-21; 68% of this incremental room addition is in the demand-dense and high ARR markets of Mumbai and Udaipur. In FY18, ARR of LEMONTRE (across brands) stood at INR3,868; this is expected to increase regardless of an upcycle playing out as 68% of the incremental room addition is in markets where the ARR is >INR6,000. According to our estimates, LEMONTRE's existing hotels located in NCR, Bangalore, Hyderabad and Goa contribute ~69% to the revenue. Since hotels located in these cities are already operating at >65% occupancy level, it is likely that an ARR increase will be witnessed at an earlier stage in the impending upcycle. Therefore, we expect the company to post revenue CAGR

Stock Performance (1-year)



of 29% over FY18-21 to INR10,352m, backed by room addition, improvement in occupancy (230bp over FY18-21 to 77.8%) and ARR CAGR of 12% (FY18-21) to INR5,434.

Leveraging its brand via management contracts

After establishing its presence and brand in the mid-priced hotel segment, LEMONTRE is now well set to leverage it by adding rooms under the 'management contract' model. LEMONTRE added two hotels under management contract in FY14, adding rooms at 75% CAGR over FY14-18. Hereon, the focus of the company is to add rooms majorly through management contracts, expecting room addition at 32% CAGR over FY18-21 to 3,696 rooms. We expect revenue from management contact to grow at 62% CAGR over FY18-21 to INR378m on account of room addition and stabilization of existing hotels. Company announced a JV with Warburg to explore opportunities in the co-living spaces with a corpus of INR30b in the Indian market. The venture is currently at a nascent stage, but offers a huge growth opportunity for the company.

Higher ARRs to foster EBITDA growth

Existing hotels of LEMONTRE are already operating at 75% occupancy (FY18) level, thus, any increase in ARR will directly flow to the EBITDA (as 75-80% is fixed cost). Additionally, 68% of hotels that will be added incrementally come under the high ARR markets of Mumbai and Udaipur (>INR6,000) v/s FY18 ARR (INR3,868). This should aid EBITDA growth as cost of operating the hotel does not increase proportionately to an ARR increase. Thus, the overall EBITDA/occupied room (ex-management contract income) is expected to grow at 23% CAGR over FY18-21 to INR2,661 in FY21. Hence, we expect EBITDA CAGR of 45% over FY18-21 to INR4,130m. Additionally, LEMONTRE is all set to acquire 'Keys Hotel'. LEMONTRE will use its distribution network, which should aid in improving occupancies and ARRs, thereby increasing EBITDA margins.

Initiating coverage with a Buy rating

We believe that LEMONTRE is well placed to capitalize on the impending opportunity in the domestic hospitality industry and the expected upcycle due to (a) its strong presence in the mid-priced hotel segment, (b) line-up of hotel launches in high demand and high ARR markets, and (c) an increase in the number of rooms through management contracts. We expect LEMONTRE to deliver revenue/ EBITDA CAGR of 29%/ 45% over FY18-21 to INR10.4b/ INR4.1b and expect RoE to improve to 14.8% by FY21 from 1.8% in FY18. In FY18, LEMONTRE's adjusted PAT turned positive for the first time since FY13 and stood at INR142m. We expect adjusted PAT to grow 10x to INR1,484m by FY21, mainly led by EBITDA growth. On one-year forward EV/EBITDA, Indian Hotels (IHIN) has historically traded at a 14-year average of ~20x. However, we ascribe one-year forward EV/EBITDA of 22x to LEMONTRE (10% premium) considering its strong growth prospects and arrive at a target price of INR90. Our target price does not capture the value of its upcoming 669-room hotel near the Mumbai airport in FY22; value/share stands at INR11 using the DCF method. We initiate coverage on LEMONTRE with a **Buy** rating.

Exhibit 1: Initiating with a 'Buy' rating (INR m)

Particulars	FY21
EBITDA (FY21)	4,130
EV/ EBITDA (x)	22.0
EV	90,855
Less: Net Debt (FY21)	(15,577)
Less: Minority Interest (FY21)	(4,598)
Target Value	70,680
No. of shares (m)	786
Target Price (INR)	**90**
CMP (INR)	74
Upside (%)	21

Source: MOFSL

Exhibit 2: Peer comparison

Company Name	MCap	EV/ EBITDA (x)		PE (x)		RoE (%)		Revenue CAGR %	EBITDA CAGR %
	(INR b)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY18-21E	FY18-21E
Indian Hotels Co	183	19.9	15.9	51.2	37.4	8.0	10.2	9.5	24.3
EIH Ltd	109	23.4	23.8	43.4	46.5	8.1	7.2	10.1	16.7
Chalet Hotels	64	18.9	15.9	46.6	30.7	8.8	11.6	11.5	20.3
Lemon Tree Hotels	**59**	**27.4**	**19.0**	**76.1**	**39.2**	**8.6**	**14.8**	**28.8**	**44.7**

Source: Bloomberg, MOFSL

Story in charts (Hotel industry exhibits)

Exhibit 3: In the last upcycle (over FY04-08), industry occupancy moved above 65%, while ARRs increased at 22% CAGR

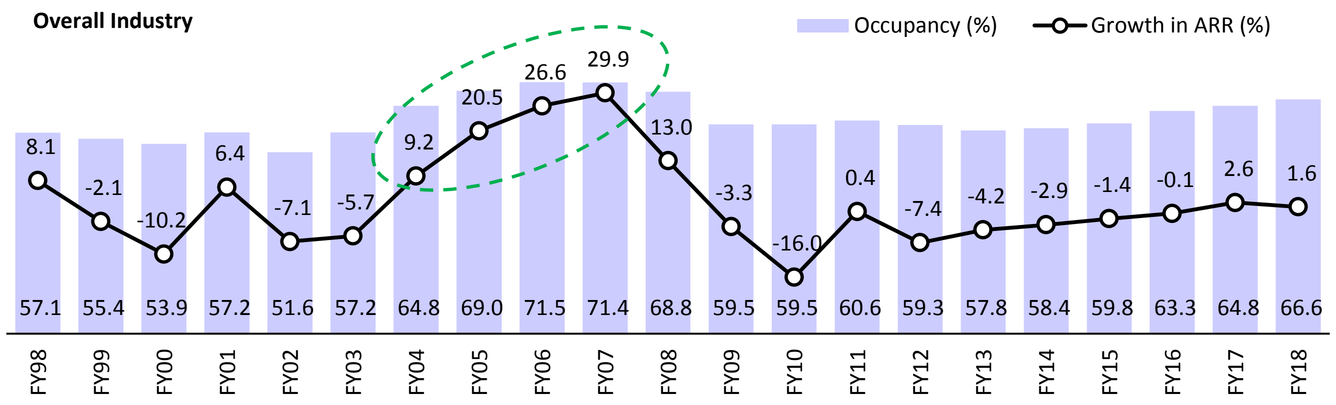


Exhibit 4: For the last six years, industry occupancy for hotels in India has been on an uptrend

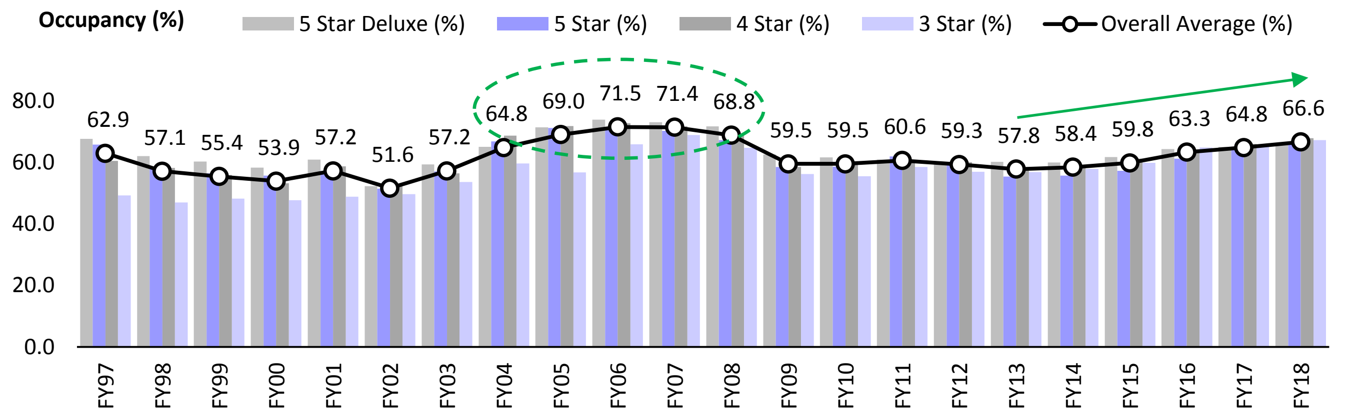
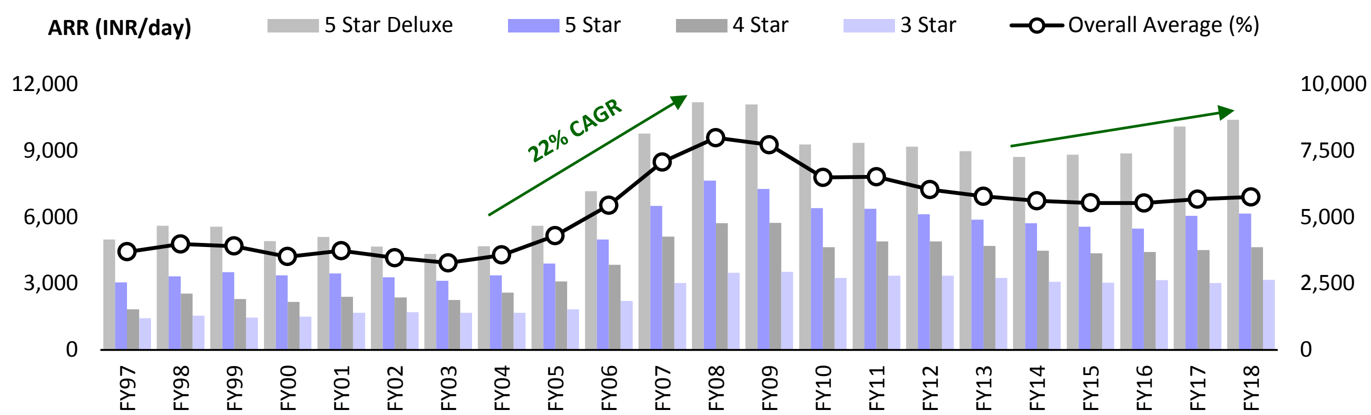


Exhibit 5: Industry ARRs have remained flattish over FY13-18, despite an improvement in occupancy



Source: HVS, Hotelivate, MOFSL

Fast paced room addition to fire up revenues

New hotels in Mumbai to drive ARR over FY18-22

- **We expect LEMONTRE to post revenue CAGR of 29% over FY18-21 to INR10,352m mainly due to new hotel launches in the demand-dense and high ARR markets.**
- **The company is adding 1,622 rooms over FY18-21; 68% of the room inventory will come up in Mumbai and Udaipur — both demand-dense and high ARR markets. Thus, stabilization is expected at a faster pace and should drive overall ARRs.**
- **The Indian hospitality industry is at the cusp of an upcycle as occupancy levels have already breached the optimum level of 65%. In the last upcycle, as industry occupancy crossed the optimum level, ARR grew at a CAGR of 22% over FY04-08. We expect demand to grow at 10-12% as against supply growth of 5%; this should lead to an ARR growth of 8-10% in the next cycle.**
- **We expect LEMONTRE's ARR (across brands) to grow at 12% over FY18-21 to INR5,434 and occupancy to improve by 230bp over FY18-21 to 77.8% in FY21.**

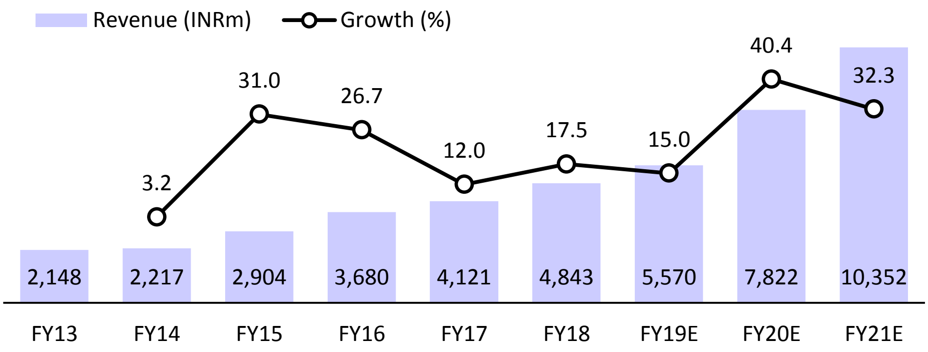
LEMONTRE delivered revenue CAGR of 19% over FY15-18 to INR4,843m, primarily driven by an improvement in the occupancy rate (750bp over FY15-18 to 75.5%) and growth in ARR (8% CAGR over FY15-18 to INR3,868). Over the same period, the company added 701 owned rooms to its portfolio of 3,277 rooms. However, we expect LEMONTRE to post revenue CAGR of 29% over FY18-21 to INR10,352m, mainly due to room addition in high ARR markets (14% CAGR over FY18-21 to 4,899 rooms) and ARR growth (12% CAGR over FY18-21 to INR5,434). 68% of the upcoming rooms are located in the dense-demand markets of Mumbai and Udaipur (thus, would stabilize at a faster pace). It should also command higher ARRs, driving the overall ARR of the company.

Exhibit 6: Multiple drivers in place to drive revenue

ROOM ADDITION	OCCUPANCY IMPROVEMENT	GROWTH IN ARR
❖ Adding 1,622 owned rooms over FY18-21 (up 1.5x); 68% of the room inventory will come up in Mumbai (60%)/ Udaipur (8%) -- cities that have higher demand and ARRs. ❖ Adding 1,887 managed rooms over FY18-21 (up 2.2x).	❖ Room addition in the high demand micro-markets like Mumbai and Udaipur. ❖ Stabilizing of four hotels (422 rooms), which commenced operations in FY18.	❖ 68% of incremental rooms to be added over FY18-21 are in Mumbai and Udaipur - a high yielding market, thus, driving the overall ARR of LEMONTRE. ❖ Change in customer mix (shift towards retail and MSME enterprises) aids in charging higher rates. ❖ Change in the room mix (shifting customers towards premium rooms) to aid in driving up ARRs.

Source: Company, MOFSL

Exhibit 7: Revenue to grow at 29% CAGR over FY18-21

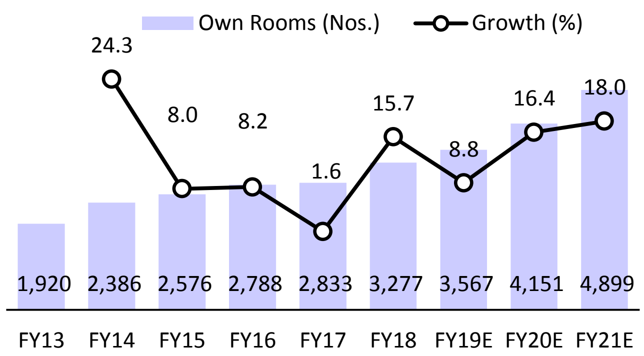


Source: Company, MOFSL

Addition of owned rooms to drive revenue

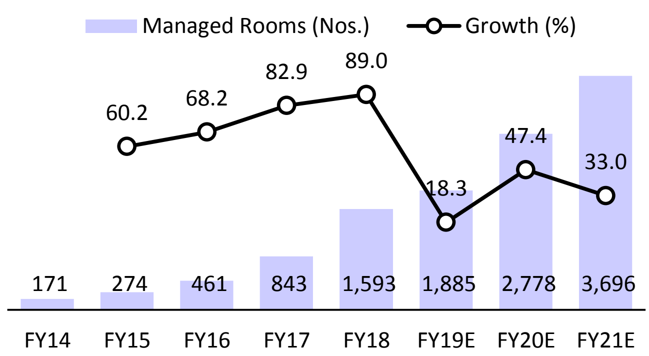
- LEMONTRE commenced operations of its first owned property with 49 rooms back in FY05. For 10 years, it focused on establishing a strong brand image, while adding owned rooms at 54% CAGR over FY05-14 (total ~2,386 rooms).
- In FY14, the company added two hotels under management contract with 171 rooms. Thus, after establishing a strong brand image; the company added rooms via management contracts at a faster pace, compared to owned rooms.
- The company has increased its rooms (owned and managed) at 17% CAGR over FY14-18 to 4,870 rooms. Over the same period, rooms under management contracts grew at 75% CAGR as against owned rooms' 8% CAGR.
- Over FY18-21, LEMONTRE plans to add rooms at 21% CAGR, taking the total number of rooms to 8,595 (mainly driven by room addition via management contracts). Management contract rooms are expected to grow at 32% CAGR over FY18-21 to 3,696 rooms.
- Further, the company plans to increase owned rooms by 1.5x to 4,899 rooms by FY21 (14% CAGR over FY18-21). Of the incremental room addition of 1,622 rooms, 90% will come up under the *Lemon Tree Premier* brand or under its new upscale brand (to be announced) that operates in the premium segment, thus it should garner higher ARRs. Additionally, 68% of the incremental rooms (1,622 rooms) are coming up in the demand-dense market of Mumbai (60%) and Udaipur (8%). Therefore, stabilization of its business is expected at a faster pace coupled with higher ARRs.
- The company has recently announced plans to launch hotels in Udaipur and Mumbai (near the airport) under a new upscale brand.

Exhibit 8: Expect room addition at 14% CAGR over FY18-21



Source: Company, MOFSL

Exhibit 9: … at 32% CAGR over FY18-21

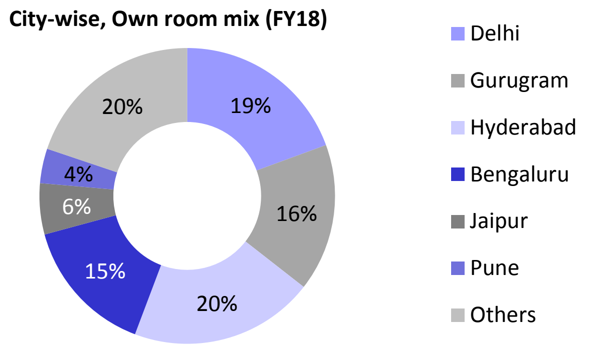


Source: Company, MOFSL

Hotels located in the demand-dense region to ensure higher occupancy

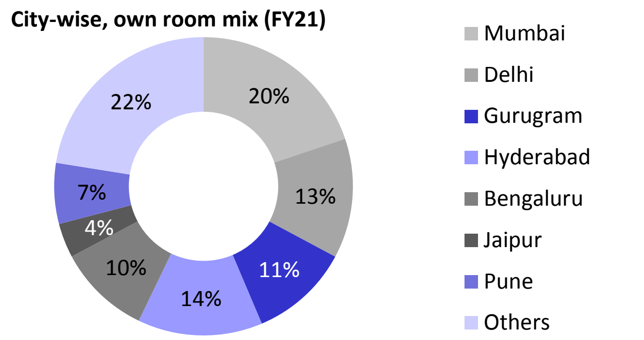
- LEMONTRE plans to add 1,622 rooms over FY18-21; 60% of which is in the Mumbai market and located near the airport; thus it should stabilize at a faster pace.
- Typically, airports are the most demand-dense locations in any particular micro-market. Apart from the company's two upcoming hotels near Mumbai airport; it already has two hotels near New Delhi airport. According to our calculations, four airport hotels would significantly contribute (24%) to the company's revenue from FY22 onwards.
- Additionally, four hotels with 422 rooms that commenced operations in FY18 are expected over the next 1- 2 years, thereby aiding an improvement in overall occupancy.
- According to our estimates, LEMONTRE's hotels in NCR, Bangalore, Hyderabad and Goa contribute ~69% to the revenue. These are high-demand markets with hotels operating at >65% occupancy levels. Additionally, hotels in these cities have an optimum level of occupancy, and thus, they are likely to see ARR increase at an earlier stage in the impending upcycle.
- Against this backdrop, we expect the company's occupancy to improve by 230bp over FY18-21.

Exhibit 10: Own room mix, city-wise (FY18)



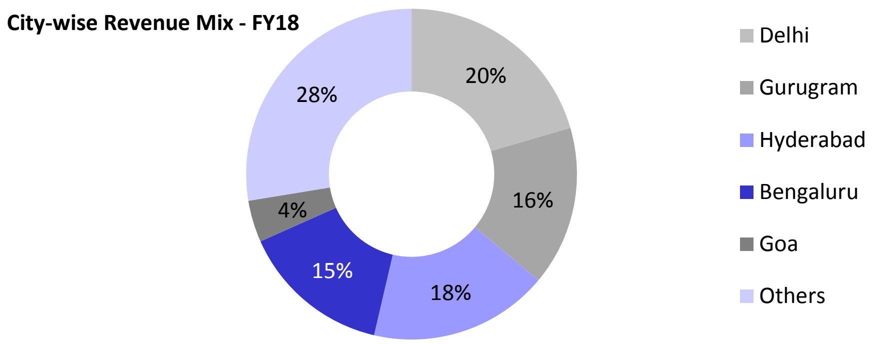
Source: Company, MOFSL

Exhibit 11: Own room mix, city-wise (FY21)



Source: Company, MOFSL

Exhibit 12: NCR occupies larger share in the revenue mix (FY18)



Source: MOFSL

Expect ARR CAGR of 12% over FY18-21

Upcoming hotels in the high ARR market to ensure ARR growth

- LEMONTRE's blended ARR across its brand currently stands at INR3,868, which has grown at 8% CAGR over FY15-18. 68% of the incremental room addition over FY18-21 is in the high ARR (>INR6,000) category, which should drive the overall ARR of the company, irrespective of the cycle playing out.

Exhibit 13: Strong pipeline of owned hotels expected to commence operations over FY19-21

Hotel Location	Brand	Opening Month	Opening in FY	Rooms
LTP, Pune	LTP	Dec-18	FY19	199
Red Fox Hotel, Dehradun	RFH	Sep-18	FY19	91
LTP, Andheri (East), Mumbai	LTP	May-19	FY20	303
LTP, Udaipur **	LTP	Oct-19	FY20	139
LTP, Kolkata	LTP	May-19	FY20	142
Lemon Tree Vembanad Lake Resort, Alleppey	LTH	Oct-20	FY21	10*
Lemon Tree Mountain Resort, Shimla	LTH	Dec-20	FY21	69
LTP, Mumbai Airport **	LTP	Mar-21	FY21	669
Total				**1,622**

* Rooms are added in the existing hotel | ** Plans to add hotel in new upscale brand Source: Company, MOFSL

Existing hotel's ARR to ride industry upcycle

- Over the last five years, demand growth outpaced supply growth, leading to higher occupancy rates. The hotel industry's occupancy rate was on an uptrend over the last six years (FY13-18); ARRs, though, remained flattish.
- Industry occupancy rate has already breached the optimum level of 65%. Historical data indicates a difference in the timing of a pick-up in ARR and occupancy growth– ARRs usually pick up after a lag. Thus, we expect industry-wide growth in ARRs once occupancy reaches optimum levels.
- In the last upcycle, as industry occupancy crossed the optimum level of occupancy, ARR grew at CAGR of 22% over FY04-08. We expect demand to grow at 10-12% as against supply growth of 5%, further driving up occupancy levels.
- ARR growth is likely to be lower in the impending upcycle at 8-10% CAGR compared to the previous upcycle (CAGR of 22% over FY04-08) due to a change in industry dynamics, which includes (a) easy price discovery through the digital platform, (b) entry of MNC hotel operators, (c) competition from homestays like AirBnb, etc., and (d) improving quality of 3/4 star hotels.
- Key micro markets like NCR, Bangalore, Hyderabad and Goa from where LEMONTRE generates ~69% of revenue (FY18) are already operating at >65% occupancy level, and are likely to see a pick-up in ARRs earlier than other markets.
- Apart from industry tailwinds and entering into high ARR markets, the company intends to increase its ARRs consciously by adopting the following measures:
  - **Increasing share of retail/ MSME customers to ensure higher ARRs:** Currently retail, MSMEs and large corporates occupy equal share in the overall customer mix of the company. However, the company is making a conscious effort to increase the share of higher yielding MSME and retail customers, which would aid ARR growth of the company.

- ➢ **Change in product mix:** Upgrading corporate customers to premium rooms due to unavailability of basic rooms is also expected to aid ARR growth.
- **Against this backdrop, we expect ARRs (across brands) to grow at 12% CAGR over FY18-21 to INR5,434.**

Exhibit 14: In the last upcycle (over FY04-08), as industry occupancy moved above 65%, ARRs increased at 22% CAGR

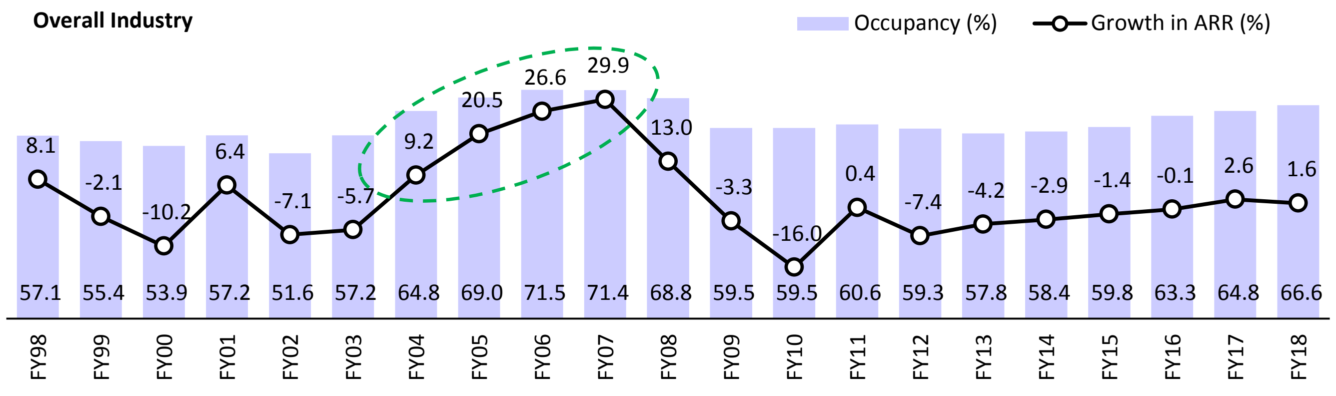


Exhibit 15: For the last six years, industry occupancy for hotels in India has been on an uptrend

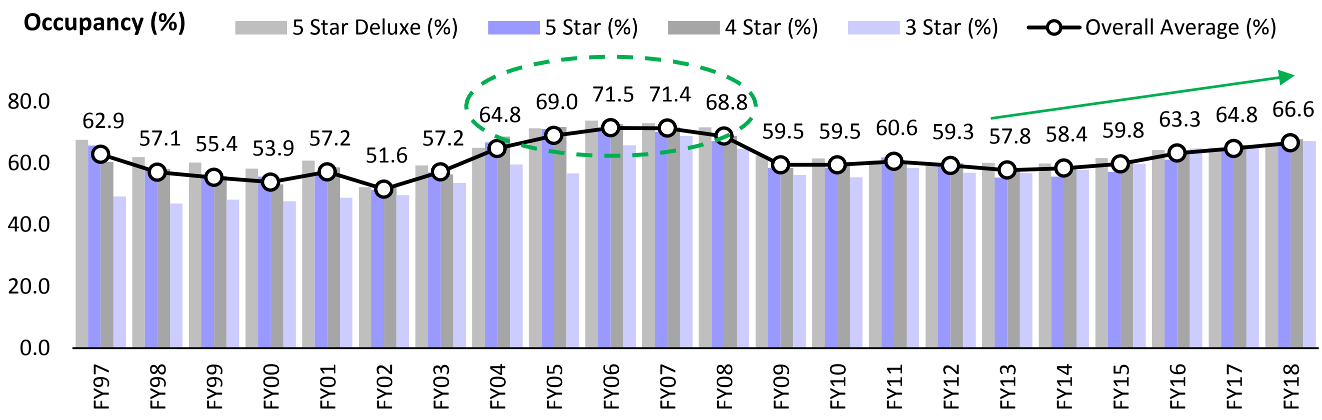
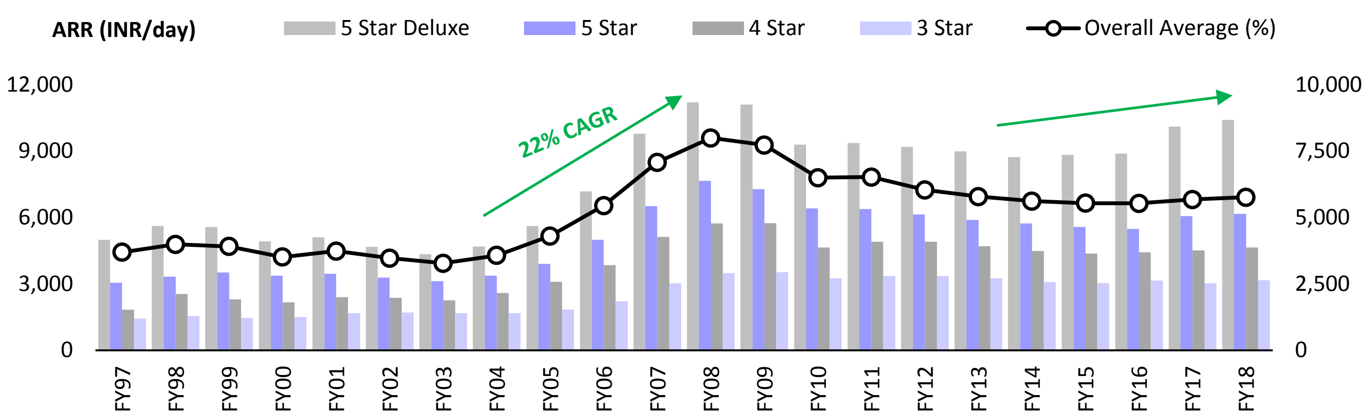
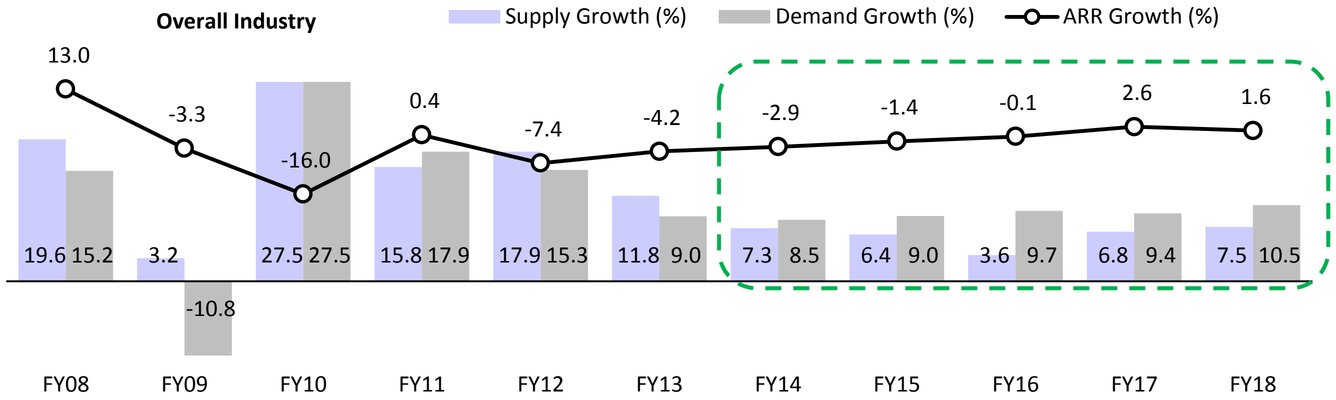


Exhibit 16: Industry ARRs have remained flattish over FY13-18, despite an improvement in occupancy



Source: HVS, Hotelivate, MOFSL

Exhibit 17: For last five years, demand growth has outpaced supply growth, while growth in ARRs have remained flat



Demand = Supply * Occupancy

Source: HVS, Hotelivate, MOFSL

Exhibit 18: City-wise demand and supply dynamics at a glance

Location	Key Demand Drivers	LEMONTREE rooms (FY18)	Industry Room Supply (FY18)	LEMONTREE's Market Sh. (%)	Occupancy (FY18) (%)	ARR (FY18)	Active Development of Supply (FY18-23)	Expected Room Demand Growth (%)	Room Supply Growth FY18-23E, %
India	**Rise in FTA, demand from MICE and increase in leisure spending**	**4,870**	**128,163**	**3.80**	**67**	**5,759**	**35,554**	**10-12**	**~5**
Mumbai	Business travel & MICE	0	13,726	*5.44	76	7,740	2,181	8-10	~3
Delhi	BFSI & PSU segment	636	14,724	4.32	71	6,586	1,298	7-9	~3
Gurugram	ITeS, BPO & telecom	711	5,920	12.01	68	6,132	1,451	7-9	~3
Noida	IT, BPO & consumer durables	195	1,515	12.87	54	5,285	481	7-9	~3
Bangalore	ITeS & BFSI - business travel	493	12,659	3.89	70	5,807	4,444	8-10	~6
Hyderabad	ITeS & pharma - business travel	662	6,772	9.78	66	4,929	885	7-9	~2.5-3
Goa	Leisure & MICE travel	99	6,741	1.47	69	7,844	1,726	6-8	~5
Pune	ITeS - business travel	124	6,330	1.96	69	4,411	796	7-9	~2.5

*FY23

Source: Company, HVS, MOFSL

Exhibit 19: Occupancy and ARR assumptions

Brand	Occupancy (%)						ARR (INR)					
	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY16	FY17	FY18	FY19E	FY20E	FY21E
Across Brands	**74.8**	**76.8**	**75.5**	**77.3**	**75.9**	**77.8**	**3,217**	**3,451**	**3,868**	**4,375**	**4,889**	**5,434**
Change (bp/%)		**203**	**-127**	**174**	**-139**	**194**		**7.3%**	**12.1%**	**13.1%**	**11.7%**	**11.2%**
LTP	78.0	75.0	77.0	80.6	74.5	76.6	3,834	4,123	4,773	5,330	5,841	6,377
Change (bp/%)		-300	200	356	-601	206		7.5%	15.8%	11.7%	9.6%	9.2%
LTH	73.0	77.0	74.0	74.5	75.5	76.5	3,321	3,522	3,848	4,252	4,592	4,914
Change (bp/%)		400	-300	50	100	100		6.1%	9.3%	10.5%	8.0%	7.0%
RFH	75.0	79.0	77.0	78.5	79.5	79.5	2,278	2,372	2,860	3,203	3,459	3,702
Change (bp/%)		400	-200	150	100	0		4.1%	20.6%	12.0%	8.0%	7.0%

Source: Company, MOFSL

Leveraging brand equity via management contracts

Co-living – a long-term play

- **After establishing a strong brand image by adding owned rooms, LEMONTRE now intends to leverage its brand and distribution network by focusing on adding hotels via management contract. After launching another property (owned) near Mumbai Airport, LEMONTRE intends to add rooms majorly through management contract.**
- **Thus, we expect income from management contract to grow at 62% CAGR over FY18-21 to INR378m, backed by room addition and improvement in the performance of existing hotels.**
- **Recently, LEMONTRE announced a JV with Warburg to explore opportunities in the co-living spaces in the Indian market; with a corpus of INR30b (in tranches). Several proposals are being evaluated by the company currently.**

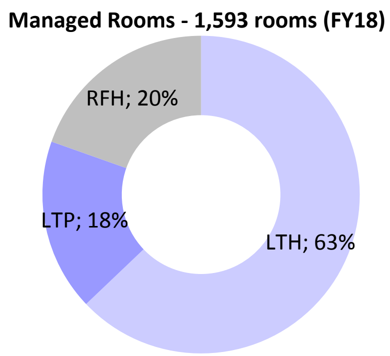
Leveraging strong brand & distribution network via management contract

- With the establishment of its strong brand in the mid-market segment, LEMONTRE has commenced its journey to add rooms under management contract. Management agreements enable LEMONTRE to benefit from the extension of its network and brand presence in certain geographies, while providing quality management and branding to third-party owned hotels.
- The company has indicated that incremental room addition will now happen under management contracts as it requires lower upfront financial investment v/s acquisition of properties.
- As at FY18, the company manages 20 hotels, which represent 1,593 rooms (33% of total rooms). LEMONTRE has added rooms under management contract at 75% CAGR over FY14-18, outpacing owned room addition growth of 8% CAGR over the same period.
- LEMONTRE operates management contract hotels mainly in Tier-2 and Tier-3 cities. LEMONTRE is typically entitled to a fixed percentage of the gross revenue of the hotel and also to a variable incentive fee based on performance linked to the gross operating profit of the hotel.

Management contract income structure:

- Management contract services are rendered by LEMONTRE's subsidiary, Carnation Hotels Private Limited (Carnation Hotels). Carnation Hotels was founded in collaboration with Mr. Rattan Keswani (not related to the promoter), in order to provide hotel management services to third party hotel owners. LEMONTRE owns 75% stake in Carnation Hotels; balance is held by Mr. Rattan Keswani.
- Net management fee income is ~7-8% of the sales of the property. Management revenue has three components; these include (i) base fee, (ii) incentive fees, and (iii) sales and marketing cost.

Exhibit 20: LTH brand dominates managed rooms



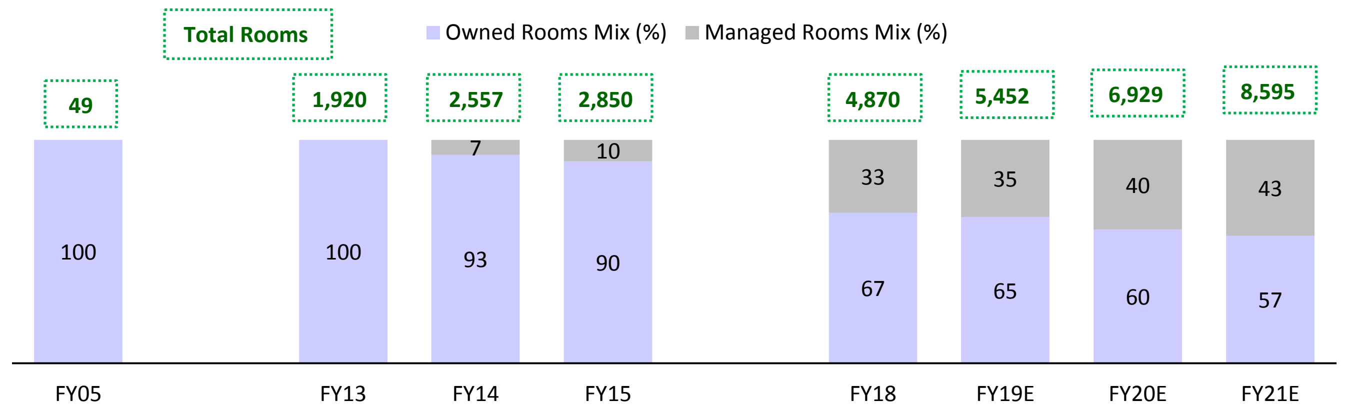
Source: Company, MOFSL

Exhibit 21: Management contact fee structure

Particulars	Fee structure
Base Fee:	**2-3% of total revenue**
Incentive Fees: Depending on hotel level EBITDA margin	
>45%	8-10% on EBITDA
35-45%	5-6% on EBITDA
25-35%	1-2% on EBITDA
<25%	No fees

Source: Company, MOFSL

Exhibit 22: Room addition under management contract to accelerate



Source: Company, MOFSL

Incremental room addition to be driven by management contract

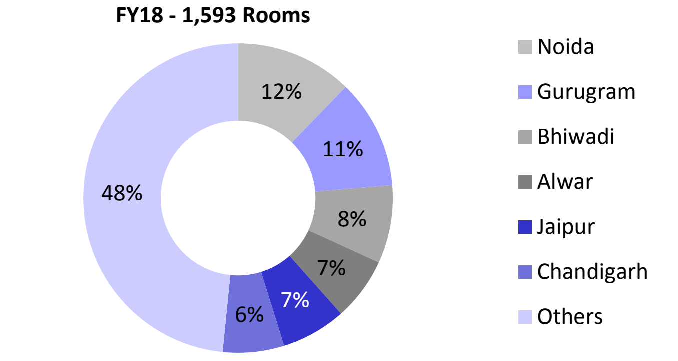
- After establishing a strong brand in the mid-priced hotel segment, LEMONTRE intends to leverage its brand equity and add incremental rooms under management contract.
- We expect management contract income to grow at 62% CAGR over FY18-21 to INR378m on account of room addition and stabilization of rooms that are already in operation.

Exhibit 23: Upcoming hotels under management contract

FY19			FY20			FY21		
Brand	**Location**	**Keys**	**Brand**	**Location**	**Keys**	**Brand**	**Location**	**Keys**
LTH	Lucknow	51	RFH	Alwar	49	LTH	Bokaro	70
LTH	Rishikesh	102	LTH	Shirdi	59	LTH	Gwalior	104
LTH	Pune	69	LTH	Amritsar	65	LTH	Manesar	260
LTH	Mumbai	70	RFH	Neelkanth	80	LTH	Sonamarg	40
			LTP	Rishikesh	102	LTH	Thimpu	38
			LTH	Gulmarg	35	LTH	Ludhiana	60
			LTP	Dwarka	108	LTP	Dindy	50
			LTH	Dubai	114	LTH	Mussoorie	40
			LTH	Jhansi	60	LTP	Bhubaneshwar	76
			LTH	Aligarh	68	LTH	Ranthambore	60
			LTP	Coorg	63	LTP	Vijaywada	120
			RFH	Vijaywada	90			

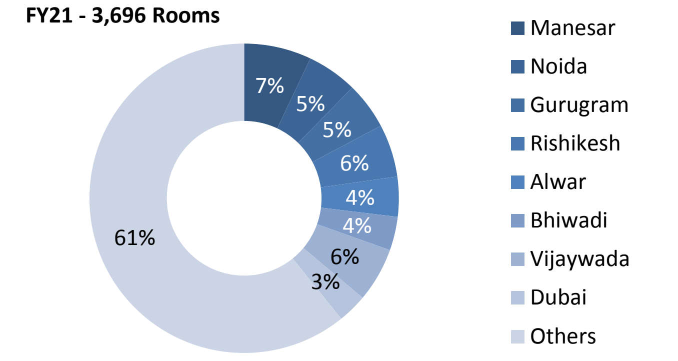
Source: Company, MOFSL

Exhibit 24: Managed room mix, city-wise – FY18



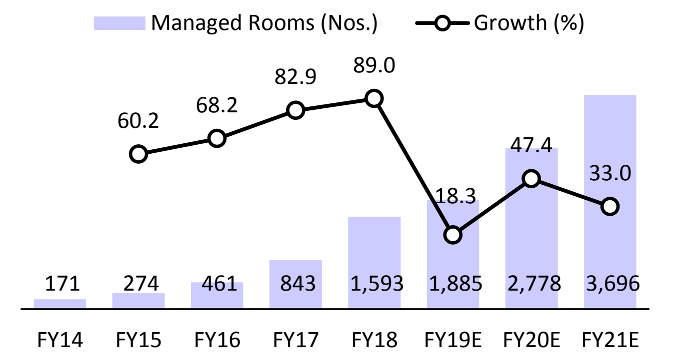
Source: Company, MOFSL

Exhibit 25: Managed room mix, city-wise – FY21



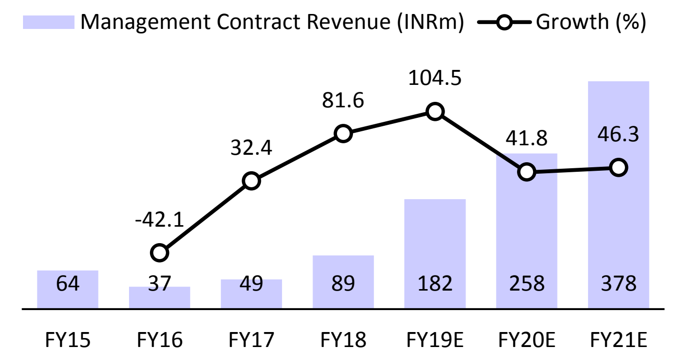
Source: Company, MOFSL

Exhibit 26: Room addition under management contract



Source: Company, MOFSL

Exhibit 27: Management contract revenue to grow at 62% over FY18-21



Source: Company, MOFSL

A new venture — Co-living with Warburg

- The company recently announced its intention to set up a joint venture with Warburg Pincus, to explore opportunities in the co-living segment in India. The Warburg Pincus affiliate/LEMONTRE will hold 68%/30% stake in the JV; with Mr. Patanjali Keswani, LEMOTRE's Chairman and Managing Director holding the balance 2% stake.
- The JV partners will invest INR30b in equity (in tranches) to develop rental housing projects through a combination of green-field purpose-built properties or by refurbishing existing properties. The platform aims to provide affordable and conveniently located co-living spaces for students and young professionals.
- We believe LEMONTRE's co-living venture is a huge opportunity in India and the company is well placed to capitalize on the same through the JV. Though, it's in the initial stage, management is evaluating various proposals to add properties under the platform.

Higher ARRs to foster EBITDA growth

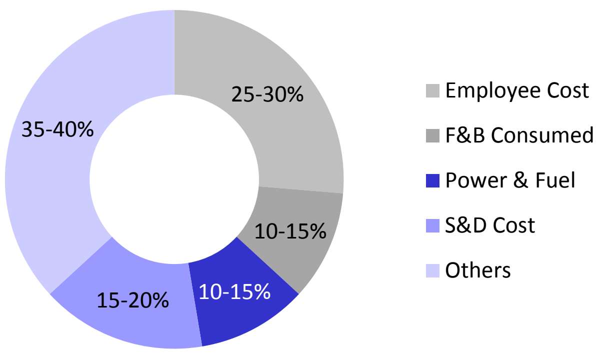
EBITDA to grow at 45% CAGR over FY18-21

- **Existing hotels of LEMONTRE are already operating at 75% occupancy (FY18) level, thus any increase in ARR will directly flow to the EBITDA (as 75-80% is fixed cost). The lean cost structure of the company provides further support to the EBITDA growth.**
- **Room addition in the high ARR market should help in driving EBITDA, as the cost to operate rooms will not increase in proportion to ARR. An increase would provide an additional lever for ARR growth.**
- **We expect the company to deliver EBITDA CAGR of 45% over FY18-21 to INR4,130m, primarily, on account of operating leverage and incremental ARR growth flowing to EBITDA.**
- **Additionally, LEOMONTRE is all set to acquire 'Keys Hotel' and chip in its distribution network which would aid in improving occupancy and ARRs thereby inching up EBITDA margins.**

Fixed cost dominates hotel industry's cost structure

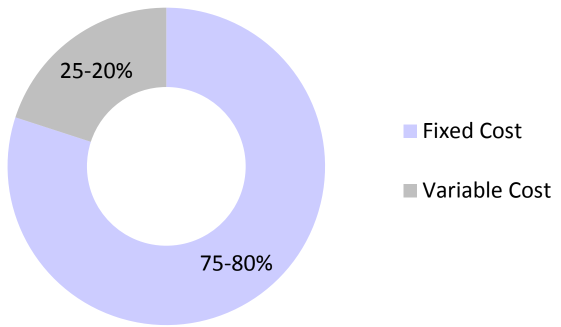
Existing hotels of LEMONTRE are already operating at 75% occupancy (FY18) level, thus, any increase in ARR will directly flow to the EBITDA (as 75-80% is fixed cost). In case of LEMONTRE, fixed cost formed 75-80% of the total cost in FY18; the higher fixed cost as compared to industry is on account of lower F&B income.

Exhibit 28: Hotel industry cost structure



Source: CARE, MOFSL

Exhibit 29: FC accounts for 75-80% of total cost for LEMONTRE



Source: Company, MOFSL

LEMONTRE being a cost-leader provides further support

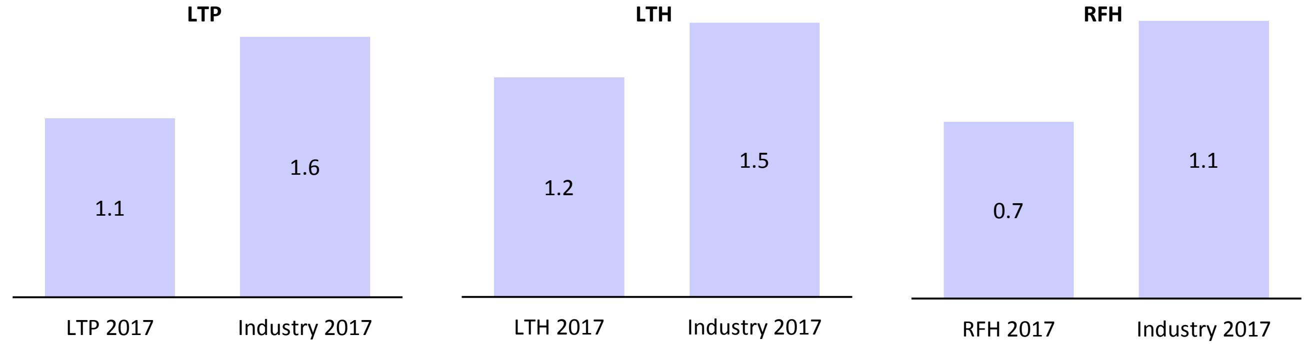
Hotels operating in the mid-pricing segment need to strike a balance; these have to maintain cost without compromising on the quality. Following are few instances of cost control measures employed by the company:

- LEMONTRE's rooms have wooden flooring rather than carpets, which are not only lower in cost but also save power (wooden flooring consumes less power).
- LEMONTRE's rooms have fixed beds. Therefore, room-cleaning time is saved leading to the number of rooms maintained by an employee increasing.
- According to a survey conducted by HVS, the average development cost/room for LEMONTRE's owned hotels during FY11-15 for the upper-midscale /midscale /economy hotel segments was INR5.9m/INR5.0m/INR4.5m — lower than the average of select hotels in the respective hotel segments for the same period (refer exhibit 32).

- LEMONTRE consciously allocates lower space for the lobby as this not only increases area for rooms, but also saves power costs (due to a smaller lobby).
- Similarly, the company also allots less space for restaurants in the hotel.

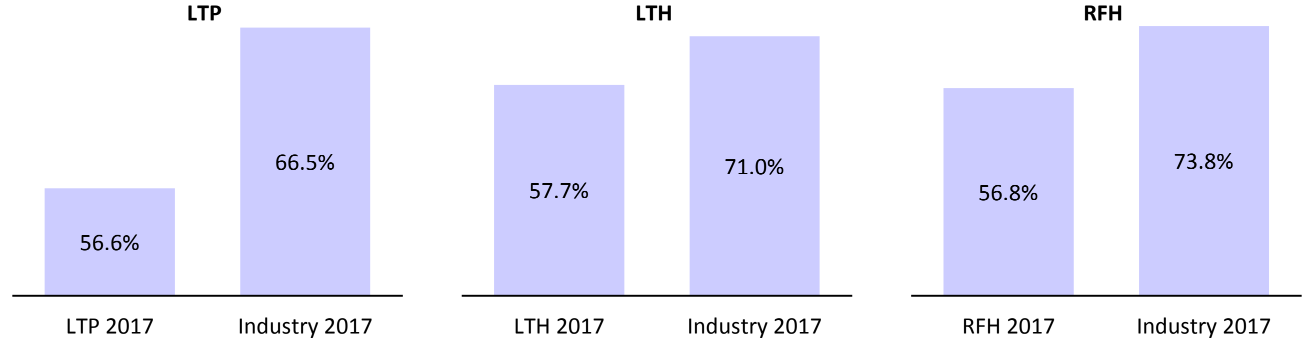
Typically, room revenues/F&B/other income contributes ~55%/35%/10% to the revenue mix of a 5-star hotel in India. However, in case of LEMONTRE, revenue mix is 73%/18%/9%.

Exhibit 30: LEMONTRE has a lower staff/room ratio (x) v/s industry



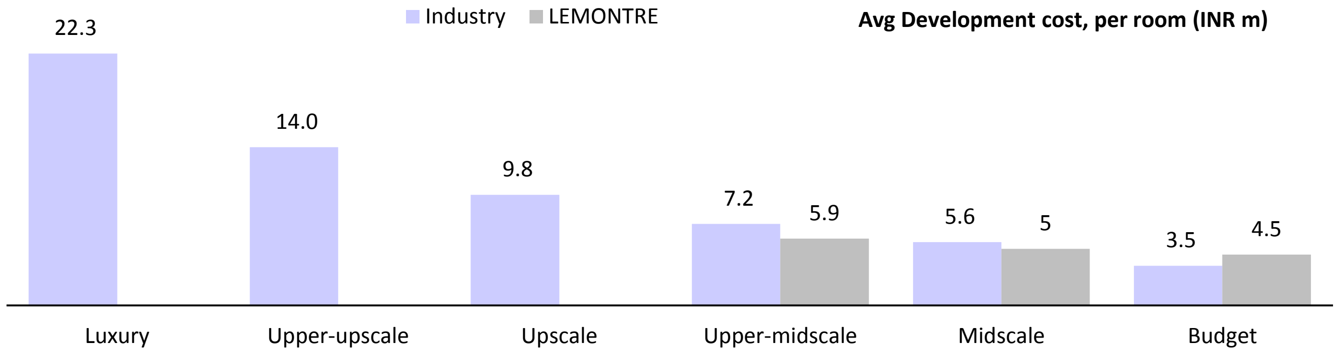
Source: Company, FHRAI, MOFSL

Exhibit 31: LEMONTRE has lower operating expense as a % of revenue v/s industry across brands



Source: Company, FHRAI, MOFSL

Exhibit 32: Lower development cost/room v/s peers



Source: Company, FHRAI, MOFSL

Growth in ARR to drive EBITDA

We expect the Indian hospitality industry's ARRs to grow at 8-10% in the impending upcycle. LEMONTRE is well poised to ride this upcycle in multiple ways:

- Imminent upcycle in the domestic hospitality industry should provide an additional lever for ARR growth, which would drive EBITDA of the company.
- Company is adding rooms not only in the high demand but also in the high yield (ARR) market, which would thus drive overall ARRs of the company. But, cost of operating rooms in a higher ARR market does not increase in proportion to the ARR increases. Thus, incremental ARR would directly flow to EBITDA.
- The Mumbai and Udaipur hotels are expected to operate at an EBITDA/occupied room of >INR4,000 v/s LEMONTRE's FY18 EBITDA/occupied room of INR1,444 (FY18). Thus, this should drive the overall EBITDA of the company.

Exhibit 33: EBITDA/occupied room is significantly higher in the upcoming hotels, which would aid in driving overall EBITDA

Particulars	Rooms	ARR		EBITDA/ occupied room (INR)	Revenue Contribution %		EBITDA Contribution %	
		FY18	FY22		FY18	FY22	FY18	FY22
Existing hotels				**FY18**				
All owned hotels		**3,868**	**6,079**	**1,444**				
Key operating hotels								
LTP, Delhi Airport	280	4,457	5,843	2,863	11%	5%	18%	7%
LTP, Hitec City, Hyderabad	267	4,175	5,271	3,149	8%	4%	16%	6%
LTP, Ulsoor Lake, Bangalore	188	3,990	5,037	2,922	6%	3%	13%	4%
Red Fox Hotel, Delhi Airport	207	3,031	3,973	1,779	5%	2%	8%	3%
LTH, Electronic City	175	3,376	4,262	2,437	5%	2%	9%	3%
LTH, Gachibowli	190	3,181	4,016	2,172	5%	2%	8%	3%
Upcoming key hotels				**FY22**				
LTP, Andheri (East), Mumbai	303		6,998	4,304		5%		6%
Udaipur **	139		11,025	7,194		4%		4%
Mumbai Airport **	669		7,500	4,200		11%		11%
LTP, Kolkata	142		5,618	4,214		2%		3%
LTP, Pune	199		5,955	4,466		3%		4%

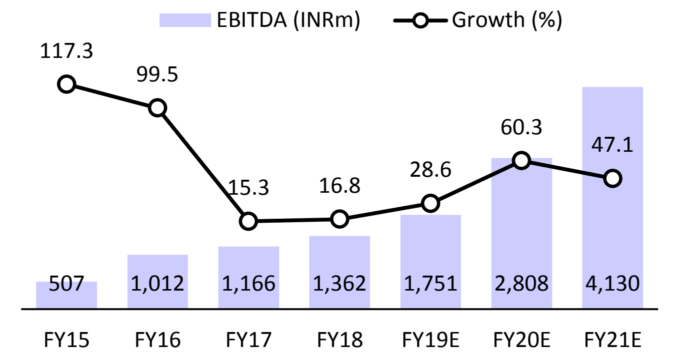
** Plans to add hotel in new upscale brand

Source: MOFSL

Expect EBITDA to clock 45% CAGR over FY18-21

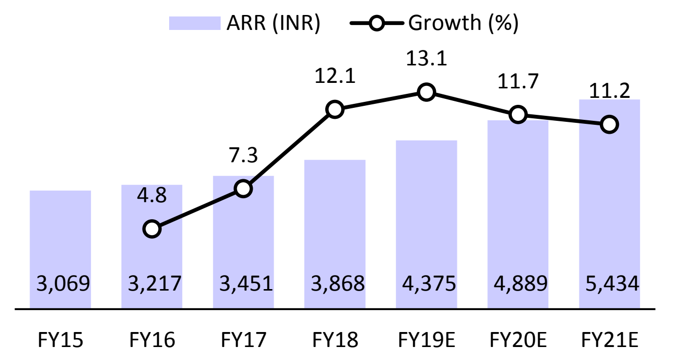
- We expect LEMONTRE to deliver revenue growth of 29% over FY18-21 to INR10,352m, while EBITDA is expected to grow at 45% over the same period to INR4,130m. EBITDA growth is expected to outpace revenue growth mainly on account of operating leverage and ARR growth.

Exhibit 34: EBITDA to grow at 45% CAGR over FY18-21



Source: Company, MOFSL

Exhibit 35: ARR to grow at 12% over FY18-21

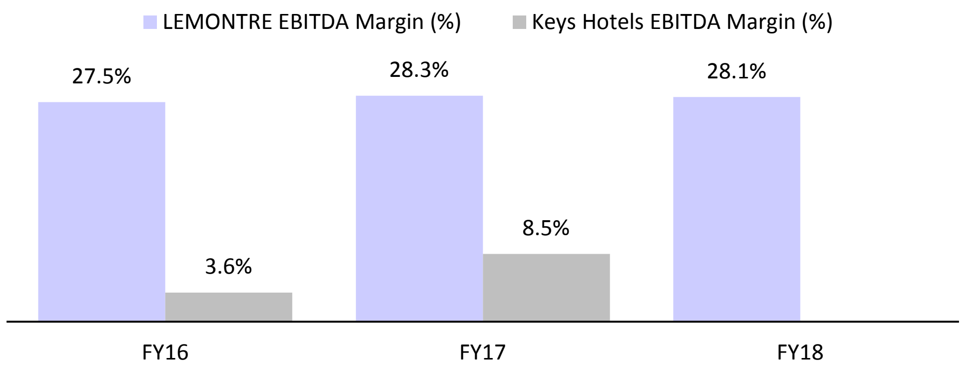


Source: Company, MOFSL

Expanding its wings – 'Keys Hotel' acquisition to add 936 owned rooms

- LEMONTRE has entered into a non-binding agreement to acquire the hotel portfolio of 'Keys Hotels'. Keys Hotels' operates 7 owned hotels (936 keys) and 14 managed hotels (975 keys). Additionally, it also owns two land parcels for hotel development in Goa and Raipur. Further clarifications on the acquisition are awaited from the company, and therefore, we have not factored in the same into our calculation. Thus, on completion of the acquisition, LEMONTRE will operate 4,506 owned rooms and 2,747 managed rooms.
- With the acquisition of Keys Hotel, LEMONTRE will not only strengthen its position in the Bangalore and Pune market, but it will also get entry into the new markets of Trivandrum, Vizag, Kochi and Ludhiana.
- However, given that the Indian hospitality industry is at the cusp of an impending upcycle, we do not expect the 'Keys Hotel' acquisition to happen at a lower valuation. But, we believe LEMONTRE will tap into its distribution network, which would aid in improving occupancies and ARRs, thereby increasing EBITDA margins.

Exhibit 36: EBITDA margin of LEMONTRE and Keys Hotel



Source: Company, MOFSL

Exhibit 37: Keys Hotel operates 936 owned rooms across six cities

City Name	Owned/ Lease	No. of hotels	Rooms	LEMONTRE's owned hotel located in the market
Bangalore	Owned	2	381	493
Pune	Owned	1	101	124
Trivandrum	Owned	1	101	0
Ludhiana	Owned	1	95	0
Kochi	Owned	1	151	0
Vizag	Long lease	1	107	0
Total		**7**	**936**	**617**

Source: Company, MOFSL

Revenue to grow at 29% CAGR over FY18-21

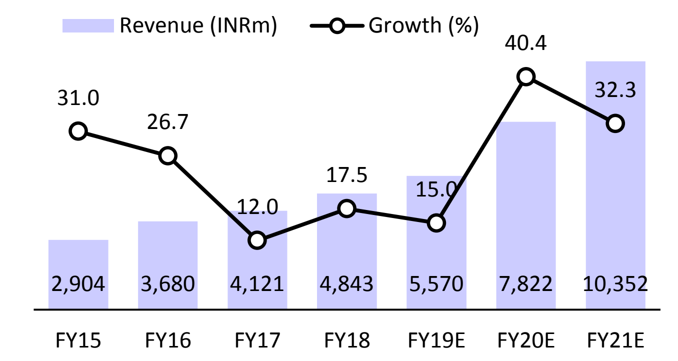
Adj. PAT to grow 10x by FY21

- **LEMONTRE is expected to deliver revenue CAGR (FY18-21) of 29% to INR 10,352m, mainly on account of room addition and ARR growth.**
- **We expect adjusted PAT to grow 10x to INR1,484m by FY21 (119% CAGR over FY18-21) mainly led by EBITDA growth.**
- **We expect total debt of LEMONTRE to peak out by FY22 as the company does not intend to add owned rooms. LEMONTRE is expected to generate strong CFO of INR5,623m over FY19-21, which is likely to be deployed towards capex.**
- **We expect RoE of the company to improve significantly from 1.8% in FY18 to 14.8% by FY21, mainly on account of an improvement in the net profit margin (from 3% in FY18 to 14% in FY21).**

Room addition and ARR growth to drive revenue

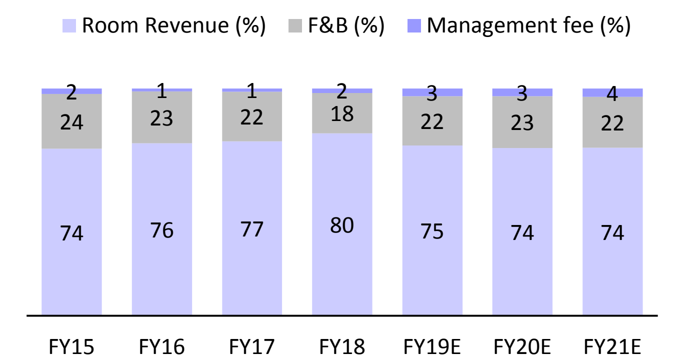
- We expect the company to deliver revenue CAGR of 29% over FY18-21 to INR10,352m, which is on account of owned room addition and ARR growth (12% CAGR over FY18-21 to INR5,434).
- Additionally, income from management contracts is expected to grow at 62% CAGR over FY18-21 to INR378m, led by room addition. This would also support EBITDA margin expansion as revenue would flow directly to EBITDA.

Exhibit 38: Expect revenue CAGR of 29% over FY18-21



Source: Company, MOFSL

Exhibit 39: Revenue mix trend

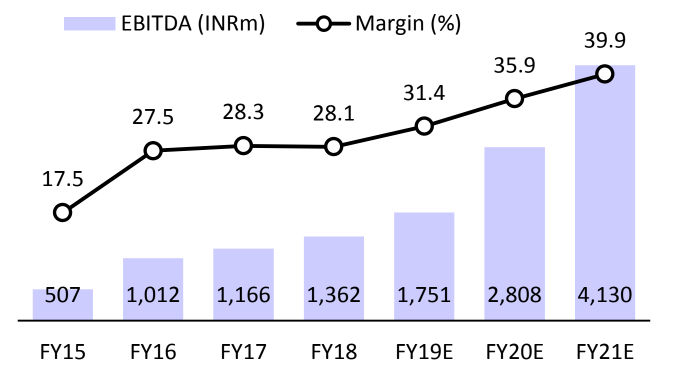


Source: Company, MOFSL

Adj. PAT to grow 10x by FY21

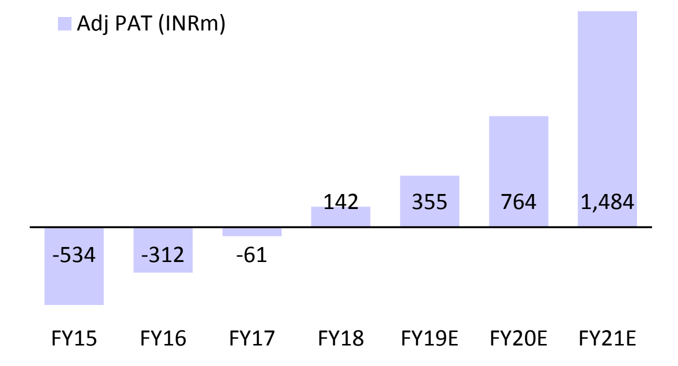
- In FY18, LEMONTRE's adjusted PAT turned positive for the first time since FY13 and stood at INR142m (adjusted PAT in 9MFY19 stood at INR204m). We expect Adj. PAT to grow 10x to INR1,484m by FY21 (119% CAGR over FY18-21), mainly led by EBITDA growth.

Exhibit 40: EBITDA to grow at 45% CAGR over FY18-21



Source: Company, MOFSL

Exhibit 41: Adj. PAT to grow 10x by FY21

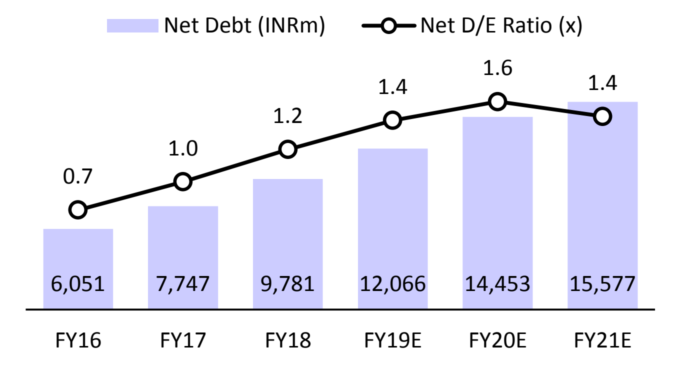


Source: Company, MOFSL

Post capex completion, net debt to peak in FY22

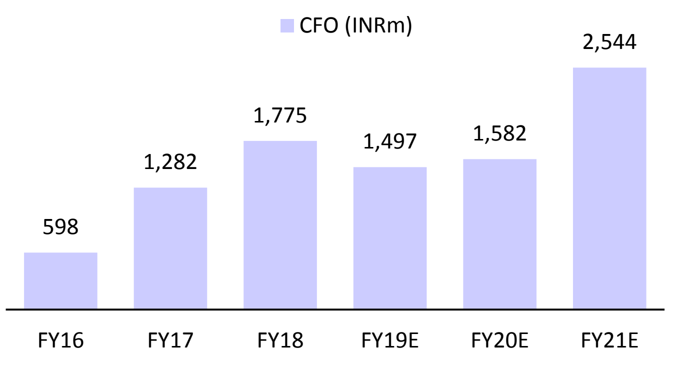
- Net debt is expected to peak in FY22 due to (a) capex for hotels in pipeline getting completed by FY22, and (b) intends to add rooms through the management contract model. Net debt is expected to decline post FY22 as cash flow from operational hotels will be used to repay debt. In our view, LEMONTRE should generate CFO of INR5,623m over FY19-21. We expect RoE of the company to improve significantly from 1.8% in FY18 to 14.8% by FY21 mainly on account of an improvement in the net profit margin (from 3% in FY18 to 14% in FY21).

Exhibit 42: Net debt to increase on account of capex



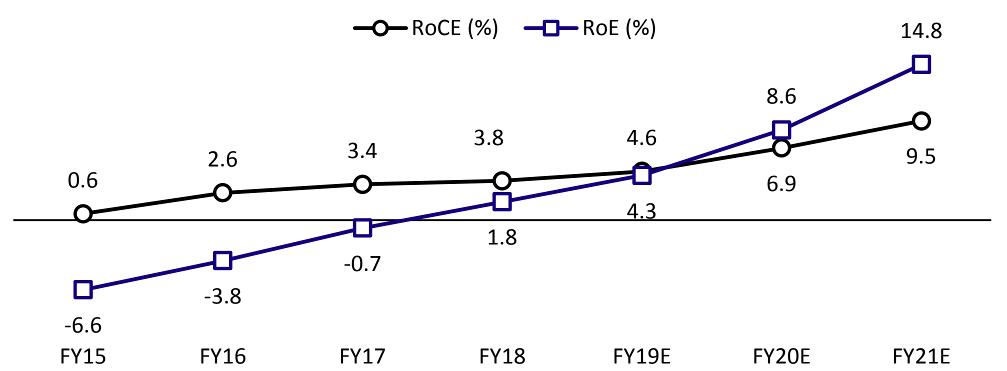
Source: Company, MOFSL

Exhibit 43: To generate CFO of INR5.6b over FY19-21



Source: Company, MOFSL

Exhibit 44: RoE and RoCE to improve



Source: Company, MOFSL

Valuation and view

Initiating with a Buy rating

- The Indian hospitality sector is at the cusp of an upcycle, as the industry is already operating at 67% occupancy (FY18), which is expected to inch up further on account of a favorable demand-supply scenario.
- We expect ARR growth to moderate to 8-10% in the impending upcycle (v/s ARR growth of 22% in FY04-08, which was the last upcycle) due to a change in industry dynamics, these include (a) better price discovery due to digital platform, (b) entry of global brands through management contract, (c) change in Foreign Tourist Arrival mix, (d) better availability of service apartments, (e) better air and road connectivity, and (f) competition from homestays like AirBnb.
- We believe that LEMONTRE is well placed to capitalize on the impending opportunity in the domestic hospitality industry and expected upcycle due to (a) a strong presence in the mid-priced hotel segment, (b) line-up of hotel launches in the high demand market (as well as high ARR market), and (c) increasing the number of rooms through management contract.
- Thus, we expect LEMONTRE to deliver revenue/ EBITDA CAGR of 29%/ 45% over FY18-21 to INR10.4b/INR4.1b.
- On one-year forward EV/EBITDA, Indian Hotels (IHIN) has historically traded at a 14-year average of 20x. Considering LEMONTRE's strong positioning and growth prospects, we ascribe one-year forward EV/EBITDA of 22x (10% premium to IHIN's one year forward EV/EBITDA multiple) and arrive at a target price of INR90. We initiate coverage on LEMONTRE with a **Buy** rating.

Exhibit 45: Initiate with Buy

Particulars	FY21
EBITDA (FY21)	4,130
EV/ EBITDA (x)	22.0
EV	90,855
Less: Net Debt (FY21)	(15,577)
Less: Minority Interest (FY21)	(4,598)
Target Value	70,680
No. of shares (m)	786
Target Price (INR)	**90**
CMP (INR)	74
Upside (%)	21

Source: MOFSL

Exhibit 46: Peer comparison

Company Name	MCap	EV/ EBITDA (x)		PE (x)		RoE (%)		Revenue CAGR % FY18-21E	EBITDA CAGR % FY18-21E
	(INR b)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E		
Indian Hotels Co	183	19.9	15.9	51.2	37.4	8.0	10.2	9.5	24.3
EIH Ltd	109	23.4	23.8	43.4	46.5	8.1	7.2	10.1	16.7
Chalet Hotels	64	18.9	15.9	46.6	30.7	8.8	11.6	11.5	20.3
Lemon Tree Hotels	**59**	**27.4**	**19.0**	**76.1**	**39.2**	**8.6**	**14.8**	**28.8**	**44.7**

Source: Bloomberg, MOFSL

- Our target price does not capture the value of its upcoming 669-room hotel near the Mumbai airport in FY22. We have assumed ARR of INR7,500 and occupancy of 65% in the first year of its operation (FY22). We value this hotel using the DCF method with value/share of INR11.

Exhibit 47: Potential Value from Mumbai airport hotel using DCF method

DCF Valuation - Valued at the end of FY20	
Terminal cash flow (INRm)	1,270
Terminal growth rate (%)	5.0%
Terminal value (INRm)	25,363
PV (Terminal Value)	10,531
PV (INRm)	4,412
Enterprise value (INRm)	14,943
Net debt (INRm)	
Minority Interest (INRm)	6,127
Equity value (INRm)	8,816
Equity Shares (m)	786
Value/share (INR)	**11**

Source: MOFSL

Exhibit 48: WACC Calculation

WACC Calculation	
Debt/Equity	1.0
Tax rate	33%
Risk free rate	8.0%
Beta	0.88
Market risk premium	15.0%
Cost of equity	14.2%
Cost of debt	9.5%
WACC	**10.3%**

Source: MOFSL

Bull & Bear case

Bull case

- ☑ The favorable demand-supply scenario in the Indian hospitality industry should aid in improving the occupancy of LEMONTRE; we have assumed an improvement in occupancy by 360bp over FY18-21 to 79% in FY21 and 13% ARR CAGR over FY18-21 to INR5,636 (v/s 12% ARR CAGR in the base case).
- ☑ Based on these assumptions, we expect revenue/EBITDA CAGR of 32%/53% over FY18-21.
- ☑ Target price in the base-case is INR90. However, the target price in our bull case stands at INR100, implying an upside of 34%.

Bear Case

- ☑ Occupancy levels might moderate if industry-wide occupancy fails to pick up on account of weak demand or/and an increase in supply. Thus, we have assumed a decline in occupancy by 120bp to 76.7% and have factored in ARR CAGR of 9% over FY18-21 to INR5,073 (v/s our base case 12% ARR growth over FY18-21).
- ☑ Based on the above assumptions, we expect revenue/EBITDA CAGR of 26%/ 36% over FY18-21.
- ☑ We have also factored in lower EV/EBITDA of 20x v/s 22x in our base-case scenario.
- ☑ Target price in the base-case is INR90. However, the target price in our bear case stands at INR59, implying downside of 20%.

Exhibit 49: Scenario Analysis - Bull Case (INR m)

Particulars	Amount
EBITDA (FY21)	4,518
EV/ EBITDA Multiple (x)	22.0
EV	99,398
Less: Net Debt (FY21)	(16,188)
Less: Minority Interest (FY21)	(4,616)
Target Value	78,593
No. of shares (m)	786
Target Price (INR)	**100**
CMP (INR)	74
Upside (%)	34

Source: MOFSL

Exhibit 50: Scenario Analysis - Bear Case (INR m)

Particulars	Amount
EBITDA (FY21)	3,401
EV/ EBITDA Multiple (x)	20
EV	68,011
Less: Net Debt (FY21)	(16,771)
Less: Minority Interest (FY21)	(4,560)
Target Value	46,680
No. of shares (m)	786
Target Price (INR)	**59**
CMP (INR)	74
Upside (%)	-20

Source: MOFSL

Company overview

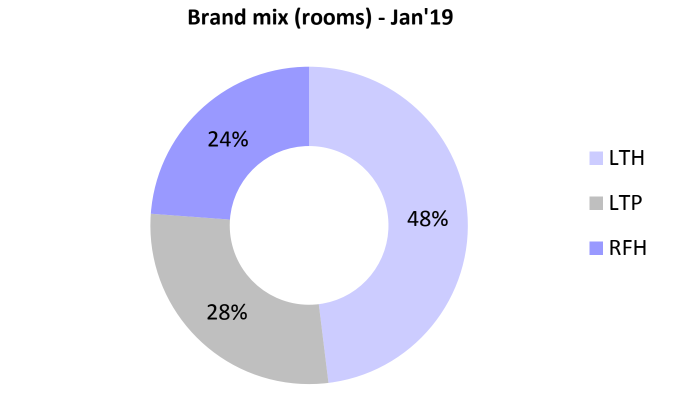
LEMONTRE is India's largest hotel chain in the mid-priced hotel sector (as of 30th Jun'17) according to Horwath HTL. The mid-priced hotel sector consists of upper-midscale, midscale and economy segments. The company commenced operation of its first hotel back in May'04 with 49 keys; currently it operates 5,342 rooms (as of Jan'19; including hotels operated under management contract). The company has carved a niche for itself by targeting the Indian middle class with differentiated yet superior service offerings; thus creating a value-for-money proposition.

Company operates through three hotel brands:

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

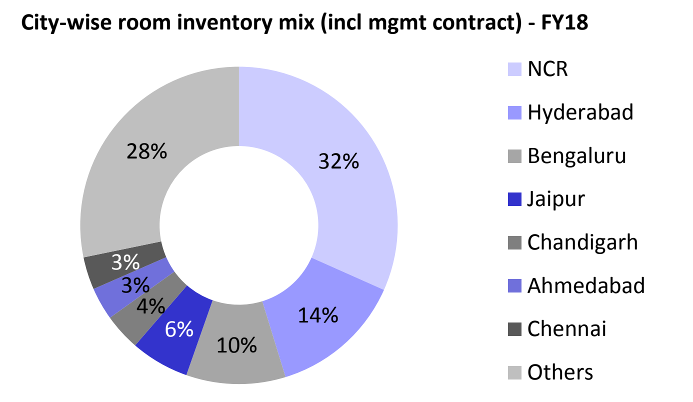
NCR, Bangalore and Hyderabad are the key markets for LEMONTRE as these cities constitute ~56% of its total room inventory (as of FY18; including management contract rooms). The company operates predominantly in the domestic market; however, it has recently forayed into the international market (Dubai) through the management contract route.

Exhibit 51: Brand-wise room inventory mix (5,342 keys)



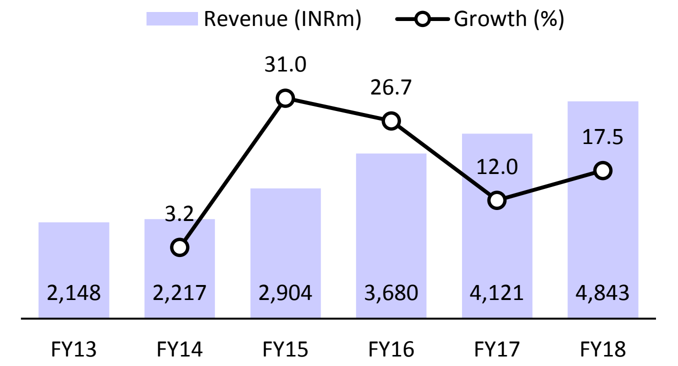
Source: Company, MOFSL

Exhibit 52: City-wise room inventory mix (4,870 keys)



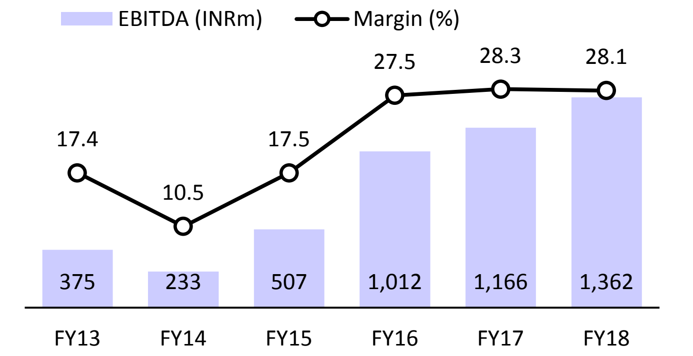
Source: Company, MOFSL

Exhibit 53: Revenue grew at 18% CAGR over FY13-18



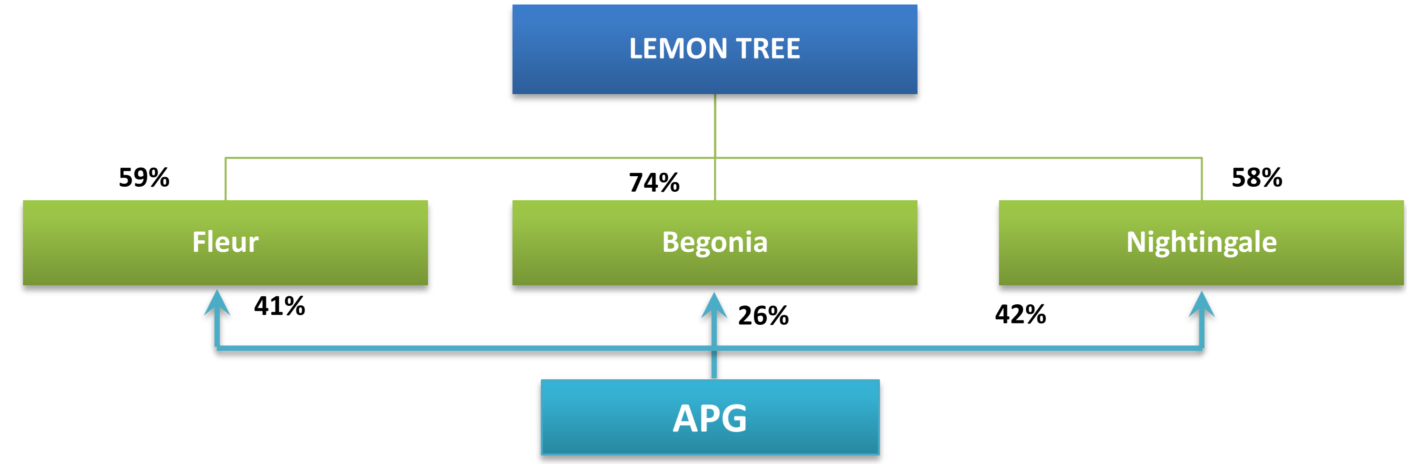
Source: Company, MOFSL

Exhibit 54: EBITDA grew at 29% CAGR over FY13-18



Source: Company, MOFSL

Exhibit 55: Corporate structure of LEMONTRE



Source: Company, MOFSL

SWOT Analysis

Key risks

The new hotels in Mumbai may fail to pick up as expected

LEMONTRE is planning to add 1,622 rooms over FY18-21, of this 60% will be located in the Mumbai market. The city of Mumbai is considered a high demand-dense region in India and has a hotel occupancy rate of 76% as at FY18 (according to HVS). The company's two hotels coming up in Mumbai market may fail to pick up as expected, which can have significant impact on earnings.

Seasonal and cyclical volatility may adversely affect operations

LEMONTRE operates in an industry, which is seasonal in nature. The period when hotel properties witness higher revenue varies; it depends primarily on the location and the customer base served. Seasonality and cyclicality in the hotel industry may contribute to fluctuations in its operational and financial performance.

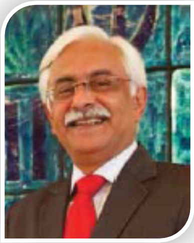
Economic slowdown in India/globally

Consumer demand for the hotel industry is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Decreased global or regional demand for hotel services can be especially pronounced during periods of economic contraction or low levels of economic growth. The recovery period in the industry may lag overall economic improvement.

Management overview

Mr. Patanjali Keswani, Chairman & Managing Director

Mr. Keswani holds a Bachelor's degree in Electrical Engineering from IIT, New Delhi and an MBA from IIM, Calcutta. He was a Tata Administrative Services Officer and was associated with the Taj Group of Hotels for a period of 17 years, including as its Senior Vice-President (Special Projects). He was also associated with A.T. Kearney Limited, New Delhi, as its Associate Consultant & Director. At present, he is also the Chairman of the Skill Council for Persons with Disability and a founding member of the Sector Skill Council for Hospitality, and the Travel & Tourism industry.



Mr. Rattan Keswani, Deputy Managing Director

He holds a Bachelor's degree in Commerce from DAV College, Punjab University. He also has a degree in Hotel Management from the Oberoi School of Hotel Management. Prior to joining the company, Mr. Keswani acted as the President of Trident Hotels, part of the Oberoi Group, where he spent ~30 years.

Mr. Kapil Sharma, CFO

Mr. Sharma holds a Bachelor's degree in Commerce from the University of Delhi and is a qualified Chartered Accountant. He has been associated with the company for the last 13 years. In the past, has been associated with Leroy Somer & Controls India Pvt Ltd as its Head of Finance & Accounts.

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Total Income from Operations	**2,217**	**2,904**	**3,680**	**4,121**	**4,843**	**5,570**	**7,822**	**10,352**
Change (%)	3.2	31.0	26.7	12.0	17.5	15.0	40.4	32.3
F&B Consumed	244	284	346	353	436	501	704	926
Employees Cost	646	782	854	969	1,096	1,206	1,486	1,760
Other Expenses	1,093	1,330	1,468	1,633	1,949	2,112	2,824	3,536
Total Expenditure	**1,984**	**2,397**	**2,668**	**2,955**	**3,481**	**3,819**	**5,015**	**6,222**
% of Sales	89.5	82.5	72.5	71.7	71.9	68.6	64.1	60.1
EBITDA	**233**	**507**	**1,012**	**1,166**	**1,362**	**1,751**	**2,808**	**4,130**
Margin (%)	10.5	17.5	27.5	28.3	28.1	31.4	35.9	39.9
Depreciation	310	517	522	510	526	543	708	823
EBIT	**-77**	**-10**	**490**	**656**	**836**	**1,208**	**2,100**	**3,307**
Int. and Finance Charges	488	725	720	776	784	828	1,186	1,450
Other Income	209	134	58	118	126	145	196	259
PBT bef. EO Exp.	**-356**	**-601**	**-172**	**-2**	**178**	**525**	**1,109**	**2,116**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**-356**	**-601**	**-172**	**-2**	**178**	**525**	**1,109**	**2,116**
Total Tax	37	31	126	48	38	127	266	508
Tax Rate (%)	-10.4	-5.2	-73.3	-2058.7	21.3	24.2	24.0	24.0
Minority Interest	100	-98	14	10	-2	43	79	124
Reported PAT	**-493**	**-534**	**-312**	**-61**	**142**	**355**	**764**	**1,484**
Adjusted PAT	**-493**	**-534**	**-312**	**-61**	**142**	**355**	**764**	**1,484**
Change (%)	NA	NA	NA	NA	NA	149.7	115.2	94.2
Margin (%)	-22.2	-18.4	-8.5	-1.5	2.9	6.4	9.8	14.3

Consolidated - Balance Sheet								(INR M)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**	**FY21E**
Equity Share Capital	1,286	7,764	7,780	7,812	7,864	7,864	7,864	7,864
Total Reserves	6,706	338	319	274	284	639	1,403	2,887
Net Worth	**7,992**	**8,102**	**8,099**	**8,086**	**8,148**	**8,503**	**9,267**	**10,751**
Minority Interest	2,895	4,223	4,277	4,284	4,286	4,349	4,450	4,598
Total Loans	5,589	5,710	6,248	7,987	10,110	12,270	14,690	15,840
Deferred Tax Liabilities	2	0	69	67	43	43	43	43
Capital Employed	**16,479**	**18,035**	**18,693**	**20,424**	**22,588**	**25,166**	**28,450**	**31,232**
Gross Block	12,781	14,095	12,823	15,114	16,044	17,794	23,844	24,544
Less: Accum. Deprn.	1,223	1,733	507	998	1,513	2,056	2,764	3,586
Net Fixed Assets	**11,558**	**12,362**	**12,316**	**14,116**	**14,531**	**15,738**	**21,080**	**20,957**
Goodwill on Consolidation	88	0	0	67	68	68	68	68
Capital WIP	1,349	1,671	2,593	3,508	5,591	6,841	3,791	5,591
Total Investments	**384**	**312**	**58**	**63**	**146**	**146**	**146**	**146**
Curr. Assets, Loans&Adv.	**3,940**	**4,617**	**5,092**	**4,363**	**4,247**	**4,624**	**6,445**	**8,465**
Inventory	46	49	54	49	54	63	89	119
Account Receivables	160	179	245	314	525	458	643	837
Cash and Bank Balance	724	301	139	176	210	204	237	263
Loans and Advances	3,010	4,088	4,654	3,823	3,458	3,899	5,476	7,246
Curr. Liability & Prov.	**840**	**926**	**1,366**	**1,694**	**1,994**	**2,250**	**3,079**	**3,995**
Account Payables	459	334	511	604	811	889	1,168	1,466
Other Current Liabilities	364	572	825	1,053	1,140	1,311	1,842	2,437
Provisions	17	21	29	36	43	49	69	91
Net Current Assets	**3,100**	**3,691**	**3,726**	**2,669**	**2,253**	**2,374**	**3,366**	**4,471**
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	**16,479**	**18,036**	**18,693**	**20,424**	**22,588**	**25,166**	**28,450**	**31,232**

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	**-0.6**	**-0.7**	**-0.4**	**-0.1**	**0.2**	**0.5**	**1.0**	**1.9**
Cash EPS	-0.2	0.0	0.3	0.6	0.9	1.1	1.9	3.0
BV/Share	10.2	10.4	10.4	10.4	10.4	10.9	11.9	13.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E			NA	NA	408.8	163.7	76.1	39.2
Cash P/E			277.2	129.2	87.0	64.7	39.5	25.2
P/BV			7.2	7.2	7.1	6.8	6.3	5.4
EV/Sales			18.6	17.0	14.9	13.4	9.8	7.6
EV/EBITDA			67.7	60.2	53.0	42.6	27.4	19.0
Dividend Yield (%)			0.0	0.0	0.0	0.0	0.0	0.0
FCF per share			-0.8	-1.4	-2.4	-1.8	-1.7	0.3
Return Ratios (%)								
RoE	-6.0	-6.6	-3.8	-0.7	1.8	4.3	8.6	14.8
RoCE	0.7	0.6	2.6	3.4	3.8	4.6	6.9	9.5
RoIC	-0.7	-0.1	5.4	86.9	4.0	5.3	7.6	10.2
Working Capital Ratios								
Fixed Asset Turnover (x)	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Asset Turnover (x)	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Inventory (Days)	8	6	5	4	4	4	4	4
Debtor (Days)	26	23	24	28	40	30	30	30
Creditor (Days)	76	42	51	54	61	58	54	52
Leverage Ratio (x)								
Current Ratio	4.7	5.0	3.7	2.6	2.1	2.1	2.1	2.1
Interest Cover Ratio	-0.2	0.0	0.7	0.8	1.1	1.5	1.8	2.3
Net Debt/Equity	0.6	0.6	0.7	1.0	1.2	1.4	1.5	1.4

Consolidated - Cash Flow Statement (INR M)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	-356	-601	-173	-25	178	525	1,109	2,116
Depreciation	310	517	523	510	526	543	708	823
Interest & Finance Charges	409	639	667	704	658	683	991	1,191
Direct Taxes Paid	60	-131	-122	-40	-38	-127	-266	-508
(Inc)/Dec in WC	-265	-875	-297	133	450	-127	-960	-1,078
CF from Operations	**158**	**-451**	**598**	**1,282**	**1,775**	**1,497**	**1,582**	**2,544**
Others	-130	-57	83	-66	-629	82	122	172
CF from Operating incl EO	**28**	**-508**	**681**	**1,216**	**1,145**	**1,580**	**1,704**	**2,716**
(Inc)/Dec in FA	-2,490	-1,621	-1,320	-2,343	-3,012	-3,000	-3,000	-2,500
Free Cash Flow	**-2,462**	**-2,129**	**-639**	**-1,127**	**-1,867**	**-1,420**	**-1,296**	**216**
(Pur)/Sale of Investments	1,624	139	271	-3	-82	0	0	0
Others	-185	-21	21	54	495	145	196	259
CF from Investments	**-1,051**	**-1,503**	**-1,028**	**-2,292**	**-2,600**	**-2,855**	**-2,804**	**-2,241**
Issue of Shares	129	116	25	1	52	0	0	0
Inc/(Dec) in Debt	1,939	2,164	847	1,739	2,124	2,160	2,420	1,150
Interest Paid	-457	-692	-687	-737	-784	-828	-1,186	-1,450
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	0	0	110	97	-63	-101	-148
CF from Fin. Activity	**1,611**	**1,588**	**185**	**1,113**	**1,489**	**1,269**	**1,133**	**-448**
Inc/Dec of Cash	**588**	**-423**	**-162**	**37**	**35**	**-7**	**33**	**26**
Opening Balance	136	724	301	139	176	211	204	237
Closing Balance	**724**	**301**	**139**	**176**	**211**	**204**	**237**	**263**

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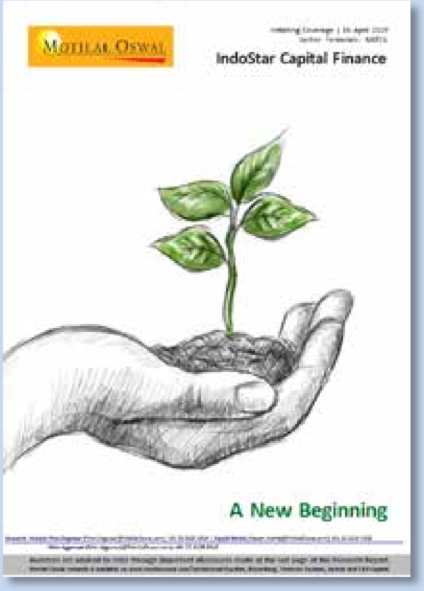

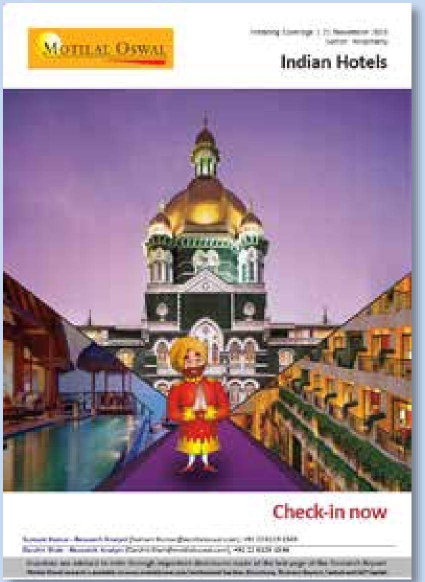

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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