

Lemon Tree Hotels Ltd : Weak Issue

IPO Note : Mid priced hotel Sector, Growth at sales but loss making due to finance cost : Ranking*



Issue details

Price band (Rs)	Rs.54-Rs.56
IPO Opening Date	26/03/18
IPO Closing Date	28/03/18
Issue Size	Rs.1038.68 Cr.

Recommendation

Total revenue grew at a **CAGR of 17.76%** from Rs.217.43 Cr for the FY 2013 to Rs.418.13 Cr for FY 2017 and it has reported losses for FY13 to FY17. For the nine months ended on 31.12.17, it has earned net profit of Rs.2.84 cr. on a turnover of Rs.352.87 cr. For last three fiscals it has posted an average EPS of Rs. -0.30. Based on negative earnings so far, its P/E remains negative. Its peer EIH Ltd and The Indian Hotels Company Ltd are currently trading at a P/E of 85 and 235 respectively. **Its current debt is Rs.1003.72 (Jan.2018) crore, And its debt equity ratio stood at 1.24 based on FY2017 net worth of Rs.805.40 crore. Being a offer for sale, the company will not receive any proceeds from the Offer and all proceeds shall go to the Selling Shareholder. Investment in this stock should be made after reviewing next 2-3 quarterly results.**

Highlights

- **Lemon Tree Hotels Ltd. (LTHL) is India's largest hotel chain in the mid-priced hotel sector, and the third largest overall**
- **It is the ninth largest hotel chain in India in terms of owned, leased and managed rooms**
- **It had 4,697 rooms in 45 hotels (including managed hotels) across 28 cities in India.**

Company Introduction

Incorporated in 1992, Delhi based 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-mid-scale 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.

As of July 31, 2017, 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



www.lemontreehotels.com

Financial Summary (Rs. In Crore)

Particulars	Nine month ended Dec. 2017	FY2017	FY2016	FY2015
Total Income	352.87	418.14	370.07	291.57
Net Profit	2.84	-7.17	-29.80	-63.23
EPS (Rs)	0.03	-0.09	-0.37	-0.8

*EPS not annualized

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

Subsidiary, Grey Fox Project Management Company Private Limited (“Grey Fox”).

Lemon Tree employed 3,070 personnel as of July 31, 2017 across its owned and leased or licensed properties

Company Promoters:

The Promoters of the Company are Mr. Patanjali Govind Keswani and SMSPL. The Promoters hold, in the aggregate, 184,784,311 Equity Shares which constitutes 23.49% of the Company’s pre-Offer paid-up Equity Share capital.

SMSPL was incorporated on November 5, 2004 and is primarily engaged in the business of designing, managing, supervising and executing hotel projects. Mr. Patanjali Govind Keswani is the natural person in control of SMSPL.

The object of the issue

The objects of the Offer are to-

1. Achieve the benefits of listing the Equity Shares on the Stock Exchanges
2. Sale of up to 185479400 Equity Shares by the Selling Shareholders.

IPO Issue Proceed

To achieve the benefits of listing and to provide exit to selling stakeholders, LTHL is coming out with a maiden IPO of 18.55 equity shares of Rs.10 each via book building route with a price band of Rs. 54 – Rs. 56 to mobilize Rs. 1001.59 cr. – Rs. 1038.68 cr. (based on lower and upper price bands). Entire issue is by way of Offer for Sale and thus no fund is going to the company. Issue opens for subscription on 26.03.18 and will close on 28.03.18. Minimum application is to be made for 265 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. Post issue it’s paid up equity capital remains same at Rs. 786.41 crore as it is having a secondary issue.

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