

HSIE Results Daily

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- Lemon Tree:** Lemon Tree Hotels (LTH) recorded a healthy Q2FY25 as it focusses on renovation and repositioning of the portfolio to command premium rates. Revenue grew 24% YoY to INR2.8bn, led by a healthy 12% ARR growth but subdued occupancy of 68.4% in Q2FY25, leading to a modest RevPAR growth of +7% YoY. In our view, key growth drivers for LTH are: (1) ramp-up of Aurika, Mumbai; (2) full availability of renovated “Keys” portfolio leading to ARR/occupancy increase; and (3) growth in fee income from managed portfolio. We believe first two drivers will show its true potential starting from FY26 and FY27 respectively; hence, we have reduced the EBITDA estimates for FY25E and FY26E and introduced FY27E estimates. We expect LTH to continue to benefit from buoyant discretionary spending and demand tailwinds of the sector. We maintain a BUY rating and roll forward to FY27E with an EV/EBITDA multiple of 17x FY27E to arrive at a TP of INR 155.
- Ahluwalia Contracts:** Ahluwalia Contracts (AHLU) reported a revenue/EBITDA/APAT miss of 0.0/28.4/36.7%. EBITDA margin stood at 7.3% (-270/+68bps YoY/QoQ, vs. our estimate of 10.1%). RPAT/APAT: INR 384mn (-30.6/+25.3% YoY/QoQ, a miss of 36.7%). Execution for AHLU has been affected by elections causing labour scarcity and extended monsoon, resulting in project sites operating at subdued execution levels. AHLU guided growth of 15/20% for FY25/26 revenue and an EBITDA margin of single/double digit for FY25/26, respectively. The total FYTDFY25 order inflow (OI) stands at INR 77.9bn. The order book (OB) as of Sep’24 stood at INR 161.9bn (~4.2x FY24 revenue). AHLU has guided for further OI of INR 10bn for the remaining FY25 (FY26 OI guided at INR 50-60bn). AHLU is effectively debt-free, with a negligible gross debt of INR 0.1bn and total cash and cash equivalents of over INR 7.6bn, as of Sep’24. Given the slowdown in execution and weak margins (FY25 – 9% EBITDA margin guidance, FY26- double digit) we revise our EPS/target price lower and maintain our ADD rating with TP to INR 1,111 (16x Dec-26E EPS).

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Lemon Tree

Focus on premium positioning

Lemon Tree Hotels (LTH) recorded a healthy Q2FY25 as it focusses on renovation and repositioning of the portfolio to command premium rates. Revenue grew 24% YoY to INR2.8bn, led by a healthy 12% ARR growth but subdued occupancy of 68.4% in Q2FY25, leading to a modest RevPAR growth of +7% YoY. In our view, key growth drivers for LTH are: (1) ramp-up of Aurika, Mumbai; (2) full availability of renovated "Keys" portfolio leading to ARR/occupancy increase; and (3) growth in fee income from managed portfolio. We believe first two drivers will show its true potential starting from FY26 and FY27 respectively; hence, we have reduced the EBITDA estimates for FY25E and FY26E and introduced FY27E estimates. We expect LTH to continue to benefit from buoyant discretionary spending and demand tailwinds of the sector. We maintain a BUY rating and roll forward to FY27E with an EV/EBITDA multiple of 17x FY27E to arrive at a TP of INR 155.

- Q2FY25 consolidated highlights:** Revenue grew 24% YoY to INR2.8bn, in line with consensus. EBITDA rose commensurately by 26% YoY to INR 1.3bn, 4% ahead of consensus. ARR for this quarter was INR 5,902 (+12% YoY). This came with a below-expectation occupancy of 68.4% (-328 bps YoY) which resulted in a modest RevPAR growth of 7% to INR 4,035. The operational performance was subdued due to the unavailability of ~33% of the under-renovation Keys portfolio and the ongoing ramp-up at Aurika, Mumbai. Despite this, the EBITDA margin improved by 60 bps YoY to 46.0%, although it was impacted by higher renovation expenses. As a result, the adjusted PAT rose by 28% YoY to INR 296mn.
- Brand-wise performance in Q2FY25:** Aurika's ARR declined 17%YoY as occupancy remained flat at ~50%, leading to a 15% lower RevPAR of INR 4,726. Aurika, Mumbai is ramping up steadily and management expects it to stabilize and start contributing meaningfully by FY25-end. Lemon Tree Premier has reached near-peak occupancy, maintaining it at ~79% (-75 bps YoY), and increased ARR by 7% YoY to INR 6,802. Lemon Tree Hotel's ARR grew by 5% YoY to INR 5,425, with a healthy occupancy of 73% (-98 bps YoY), resulting in modest RevPAR growth of 4%. Red Fox and Keys had an average ARR of INR4,458 (+10%YoY) and INR3,677 (+4% YoY) at occupancy rates of 70% (+108 bps YoY) and 56% (-283 bps YoY) respectively. The Keys portfolio is undergoing renovation for brand repositioning, which is impacting its occupancy levels. LTH expects to complete the ongoing renovations by FY26-end, post which occupancy and ARR of Keys will rise. The FY27 and FY28 EBITDA from this renovated portfolio is expected to compensate for its renovation expenses for the last three years.
- Outlook:** LTH has a strong expansion plan to build a portfolio of 15,538 rooms across 187 hotels by FY30, with ~80% of these expected by FY27. This represents a sharp leap from an operational portfolio of 10,318 rooms across 112 hotels (owned & leased: 5,759 rooms across 41 hotels). Going forward, the entire pipeline of room additions (except 69 rooms at Aurika, Shimla) is expected to be through the managed/franchised route. This reflects a clear focus by management on asset-light growth and maximising returns from existing owned assets. We expect the ramp-up of Aurika, Mumbai, and mid-single-digit growth in ARR led by renovated rooms to support a 15%+ EBITDA CAGR over the next two years.

Financial Summary

(INR mn, Mar YE)	2Q FY25	2Q FY24	YoY (%)	1Q FY25	QoQ (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Net Revenues	2,844	2,294	24%	2,680	6%	8,392	10,711	13,228	15,211	16,624
EBITDA	1,307	1,041	26%	1,151	14%	4,476	5,237	6,301	7,482	8,610
APAT	296	226	31%	198	50%	1,144	1,485	2,082	2,850	3,642
Diluted Consol EPS (INR)	0.37	0.29	28%	0.25	48%	1.45	1.88	2.64	3.82	4.84
P/E (x)						83.2	64.1	45.7	33.4	26.1
EV/EBITDA						26.5	22.7	18.9	15.9	13.8
RoE (%)						13.6%	16.3%	18.3%	20.3%	22.4%

Source: Company, HSIE Research

BUY

CMP (as on 18 Nov 2024)	INR 121
Target Price	INR 155
NIFTY	23,454

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR152	INR155
	FY25E	FY26E
EPS Change %	-19%	-12%

KEY STOCK DATA

Bloomberg code	LEMONTRE IN
No. of Shares (mn)	792
MCap (INR bn) / (\$ mn)	96/1,141
6m avg traded value (INR mn)	570
52 Week high / low	INR 158/112

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.2	(17.3)	3.7
Relative (%)	4.4	(23.2)	(14.1)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	22.8	22.8
FIs & Local MFs	15.2	18.9
FPIs	27.6	21.8
Public & Others	34.4	36.5
Pledged Shares	-	-

Source : BSE

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Ahluwalia Contracts

Margin miss; weak execution

Ahluwalia Contracts (AHLU) reported a revenue/EBITDA/APAT miss of 0.0/28.4/36.7%. EBITDA margin stood at 7.3% (-270/+68bps YoY/QoQ, vs. our estimate of 10.1%). RPAT/APAT: INR 384mn (-30.6/+25.3% YoY/QoQ, a miss of 36.7%). Execution for AHLU has been affected by elections causing labour scarcity and extended monsoon, resulting in project sites operating at subdued execution levels. AHLU guided growth of 15/20% for FY25/26 revenue and an EBITDA margin of single/double digit for FY25/26, respectively. The total FYTDFY25 order inflow (OI) stands at INR 77.9bn. The order book (OB) as of Sep'24 stood at INR 161.9bn (~4.2x FY24 revenue). AHLU has guided for further OI of INR 10bn for the remaining FY25 (FY26 OI guided at INR 50-60bn). AHLU is effectively debt-free, with a negligible gross debt of INR 0.1bn and total cash and cash equivalents of over INR 7.6bn, as of Sep'24. Given the slowdown in execution and weak margins (FY25 – 9% EBITDA margin guidance, FY26-double digit) we revise our EPS/target price lower and maintain our ADD rating with TP to INR 1,111 (16x Dec-26E EPS).

- Q1FY25 financial highlights:** Revenue: INR 10.1bn (+12.2/+10% YoY/QoQ, in line). EBITDA: INR 734mn (-18.3/+21.4% YoY/QoQ, a miss of 28.4%). EBITDA margin: 7.3% (-270/+68bps YoY/QoQ, vs. our estimate of 10.1%). RPAT/APAT: INR 384mn (-30.6/+25.3% YoY/QoQ, a miss of 36.7%). Margins were impacted by several factors: a) delay in CSMT project due to design changes causing a revenue miss; b) Heavy monsoon; and c) labour shortages leading to weaker execution. AHLU guided for 15/20% FY25/26 revenue growth, with EBITDA margin (incl. other income) upwards of 10%+ in H2FY25.
- With a robust OB; execution becomes a key focus:** The total YTFY25 order inflow stands at INR 77.9bn. The OB as of Sep'24 stood at INR 161.9bn (~4.2x FY24 revenue) to be executed in the next 2-2.5 years. AHLU has guided for further OI of INR 10bn for the remaining FY25. The overall bid pipeline stands at INR 50-55bn with awarding expected to pick up from H2FY25. Moreover, amidst healthy order book, AHLU won't bid aggressively and rather its focus has now shifted towards private sector due to high demand and better margin mix.
- Robust net cash position:** AHLU is effectively debt-free, with a negligible gross debt of INR 0.1/0.5bn and total cash and cash equivalents of over INR 7.6/7.8bn, as of Sep'24/Mar'24. Planned capex for FY25 has been revised from INR ~1.75bn to INR ~1.4bn, and capex incurred in H1FY25 is INR 1.01bn.

Standalone Financial Summary (INR mn)

Particulars	2Q	2Q	YoY (%)	1Q	QoQ	FY24	FY25E	FY26E	FY27E
	FY25	FY24		FY25	(%)				
Net Sales	10,115	9,015	12.2	9,193	10.0	38,553	44,780	54,184	66,105
EBITDA	734	898	(18.3)	605	21.4	3,885	4,075	5,798	7,338
APAT	384	553	(30.6)	306	25.3	2,439	2,422	3,779	4,941
Diluted EPS (INR)	5.7	8.3	(30.6)	4.6	25.3	36.4	36.2	56.4	73.8
P/E (x)						31.9	26.8	17.2	13.2
EV / EBITDA (x)						18.2	16.3	10.8	8.5
RoE (%)						17.2	14.7	20.2	21.4

Source: Company, HSIE Research

Change in Estimates (INR mn)

Particulars	FY25E			FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net Revenues	44,780	44,780	-	54,184	55,975	(3.2)	66,105	69,409	(4.8)
EBITDA	4,075	4,568	(10.8)	5,798	6,773	(14.4)	7,338	8,399	(12.6)
Margins (%)	9.1	10.2	(110.0)	10.7	12.1	(140.0)	11.1	12.1	(100.0)
APAT	2,422	2,843	(14.8)	3,779	4,571	(17.3)	4,941	5,896	(16.2)

Source: Company, HSIE Research

ADD

CMP (as on 18 Nov 2024)	INR 967
Target Price	INR 1,111
NIFTY	23,454

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target (INR)	1,273	1,111	
EPS Change %	FY25E -14.8	FY26E -17.3	FY27E -16.2

KEY STOCK DATA

Bloomberg code	AHLU IN
No. of Shares (mn)	67
MCap (INR bn) / (\$ mn)	65/767
6m avg traded value (INR mn)	181
52 Week high / low	INR 1,542/748

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(26.7)	(19.6)	25.8
Relative (%)	(24.5)	(25.6)	8.1

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	55.32	55.32
FIs & Local MFs	25.32	24.96
FPIs	13.25	12.85
Public & Others	6.11	6.87
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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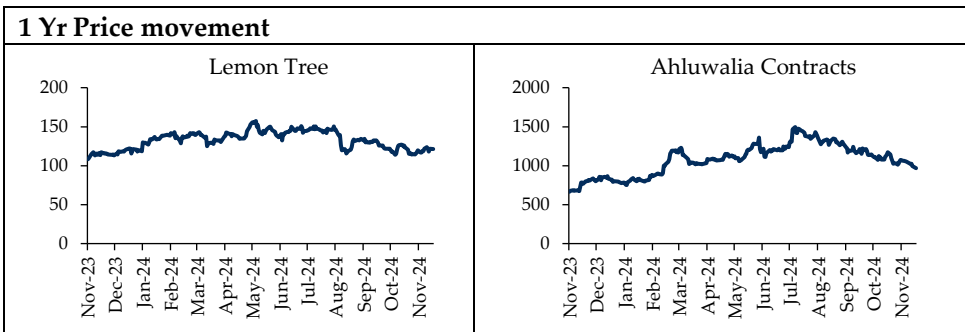
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Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Amit Kumar	Lemon Tree	CFA	NO
Parikshit Kandpal	Ahluwalia Contracts	CFA	NO
Aditya Sahu	Ahluwalia Contracts	MBA	NO
Jay Shah	Ahluwalia Contracts	CA	NO



Disclosure:

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