August 09, 2024

Lemon Tree Hotels Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	63.73	60.46	[ICRA]A(Positive); reaffirmed and outlook revised to Positive from Stable
Long-term/ Short -term – Unallocated Limits	82.27	85.54	[ICRA]A (Positive)/[ICRA]A2+; reaffirmed and outlook revised to Positive from Stable
Total	**146.00**	**146.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Lemon Tree Hotels Limited (LTHL), its subsidiaries, step-down subsidiaries, and associate companies, while assigning the credit ratings (together referred to as LTHL or the company), given the common management team and significant operational and financial linkages between the entities.

The revision in the outlook to Positive from Stable on the long-term rating factors in the healthy improvement in the operating performance of LTHL in FY2024 and expectation that the same would be sustained, going forward. Continued domestic leisure and business travel, along with an increase in foreign tourists, is expected to support LTHL's overall performance and help it report improved earnings. With no material capex plans, healthy cash accruals are expected to reduce the company's debt, resulting in a strong improvement in return and debt coverage indicators. LTHL posted revenues of Rs. 1,071.1 crore (a ~22% YoY growth) and a healthy operating profit margin (OPM) of ~49% in FY2024 (against 51% in FY2023). The portfolio average room rate (ARR) increased to ~Rs. 6,000 in FY2024 from ~Rs. 5,220 in FY2023, while the room occupancy stood at an average of 69% in FY2024 against 67% in the previous year.

ICRA also notes the completion of the entity's largest hotel, Aurika, Mumbai International Airport Limited (MIAL), which commenced operations from Q3 FY2024. ICRA expects the MIAL hotel to stabilise soon, given its favourable location, and aid in earnings growth for the company over the near-to-medium term. Led by healthy operating profits, the coverage indicators for the company improved with Total debt/OPBDITA (including operating lease liabilities) at 4.5 times in FY2024 against 4.9 times in FY2023. Even though LTHL continues to invest on refurbishment of a part of its portfolio (with a part of the renovation expenses being offset), the company's profit margins remained healthy. The debt on LTHL's books (excluding operating lease liabilities) increased on a YoY basis to ~Rs. 1,889.1 crore as of March 31, 2024 (Rs. 1,745.7 crore as of March 31, 2023), with the company drawing down debt towards Aurika (MIAL). As the company continues to target portfolio expansion through an asset-light route, its capex plans are expected to remain limited over the medium-to-long-term. An expectation of healthy earnings is likely to aid in material deleveraging over the medium term.

The ratings further continue to favourably factor in LTHL's diversified business profile, characterised by large scale (63 cities, 104 hotels, 9,863 rooms as on March 31, 2024), well-recognised brands across price points (economy, midscale, upper midscale and upscale) and extensive experience of its promoter and management team.

Key rating drivers and their description

Credit strengths

Well-recognised brands and geographically diversified product portfolio – LTHL is among India's largest hotel chains, with 104 operational properties across 63 cities as on March 31, 2024. It benefits from a robust distribution system, loyalty programmes and corporate relationships. The company has established and recognised midscale (Lemon Tree) and economy (Red Fox) brands. Moreover, with the successful launch of its upscale brand, Aurika, as well as the acquisition of the Keys brand in FY2020, it further diversified and consolidated its presence across price points. This diversified presence reduces the vulnerability of the Group's revenues to cyclical downturns to some extent. The favourable location of its properties in prominent business and tourist districts supports revenue growth and reduces concentration risk.

Experienced promoters and management team – LTHL is promoted by Mr. Patanjali Keswani, who has been associated with the hospitality industry for over 30 years. From two properties in 2004, the Group has expanded its portfolio to more than 100 properties (owned/leased and managed) under seven brands, as of March 31, 2024. This has been led by an experienced and professional management team, with a track record of delivering consistent performance through well planned refurbishments and project development, centralised sales and marketing, and disciplined cost control measures.

Strategy to expand through management contract route to limit capital requirement and minimise development risk – The company has been expanding its footprint through an asset-light model that involves leasing of properties or entering franchise agreements/ management contracts with property owners. As of March 31, 2024, almost 42% of its 9,863-room inventory was under management contracts (up from 35% in March 2020). A further inventory of 4,087 managed rooms across 62 properties is in the pipeline (as of March 2024). The management fee income for LTHL nearly tripled to Rs. 50.1 crore in FY2024 from Rs. 17.6 crore in FY2022 and is expected to grow at a healthy pace, going forward. These business models are expected to provide long-term operational benefits to LTHL as properties can be quickly put into operation with minimal (or nil) capex and limited project implementation risk.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of consumer spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, several non-metro markets also face seasonality in guest traffic. During the pandemic period, the performance of LTHL (and the entire hotel industry) was significantly impacted. Despite the potential impact on demand with further Covid waves, if any, ICRA expects the company to report a healthy revenue growth in FY2025 with stabilisation of Aurika hotel in Mumbai (the largest hotel in the portfolio of LTHL).

Subdued debt coverage metrices and return on capital employed; gradual improvement expected, aided by healthy underlying demand – The company's debt levels (excluding lease liabilities) increased to Rs. 1,889.1 crore as on March 31, 2024 (Rs. 1,745.7 crore in FY2022). The increment in debt was mainly owing to drawdown of term loan for the MIAL project (Rs. 368 crore drawn down in FY2024). As the company's profitability remained healthy, the debt coverage indicators witnessed an improvement. The DSCR remained stable at 1.3 times in FY2024 (1.4 times in FY2023), while TD/OPBDITA stood at 4.5 times (4.9 times in FY2023). Further, the RoCE increased to ~12% in FY2024, led by a higher profitability contribution from its nascent stage inventory (i.e., three to four years since commencement of operations). The return and credit metrics are expected to improve over the medium term, given no material debt-funded capex plans. The management's policy of availing the project debt towards later stages and its ability to raise relatively lower-cost debt continue to provide comfort.

Environmental and Social Risks

Environmental considerations: Akin to other hotel players, the Group is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances and may not materially impact the credit profile. The company has also been actively taking measures to improve its environmental impact through various measures, e.g., focus on becoming more energy efficient (target of 15% reduction in energy consumption by FY2026), adopting renewable energy (target to use 50% renewable energy by FY2026), mitigating and adapting to climate change (target of 40% reduction in greenhouse gas emissions, 100% certified green hotel buildings), conserving water and reducing waste. Overall, the company has relatively low environmental risk.

Social considerations: The company would need to adapt to the evolving social fabric (including changing consumer preferences and social trends) from time to time. The Covid-19 pandemic is an example of such risks, given its substantial implications on health and safety. As per its vision FY2026 ESG statement, LTHL has focused on an inclusive work environment (target set of 15% women and 30% opportunity deprived Indians across workforce) and empowerment of local communities. The Group is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

LTHL's liquidity is expected to remain **adequate**, supported by expectation of healthy net cash accruals, free cash and liquid investments of ~Rs. 62 crore and undrawn working capital limits of Rs. 50-55 crore as of March 31, 2024. It has term loan repayments of ~Rs. 220 crore and capex requirements of Rs. 90-100 crore in FY2025 (renovation and maintenance). With the expected retained cash flows of Rs. 300-350 crore per annum, the liquidity is likely to be sufficient in covering its debt repayment obligations in the near term. ICRA expects LTHL's large asset base, strategic partnerships, and financial flexibility with its lenders to continue to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators, leading to a significant improvement in leverage and coverage metrics, along with the liquidity profile, could trigger an improvement in the ratings. Specific metrics for ratings upgrade include Total Debt/OPBDITA reducing to less than 3.0 times on a sustained basis.

Negative factors – The outlook on the long-term rating could be revised downward if there is a deterioration in its debt metrics or any demand slowdown and weakening of operating metrics, resulting in sustained pressure on its earnings and profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LTHL, details of which are enlisted in Annexure-II.

About the company

Incorporated in 2002 by Mr. Patanjali Keswani, his friends and associates, LTHL is a publicly listed company that owns and operates 104 hotels with 9,863 rooms under seven brands across 63 cities in India and abroad as of March 31, 2024. The company's portfolio spans upscale, midscale and economy segments. Its brands include Aurika (upscale), Lemon Tree Premier and Keys Prima (upper midscale), Lemon Tree and Keys Select (midscale), and Red Fox and Keys Lite (economy). In terms of ownership, a ~23% stake in the company is held by the promoters (the Keswani family), a ~15% by APG (a Dutch pension fund) and the rest by foreign portfolio investors, mutual funds, employees and the public.

The company designs, develops and manages properties directly or under its subsidiaries (collectively referred to as the Lemon Tree Group). While most properties in its portfolio are owned by the company directly or through its subsidiaries, a few are operated on long-term lease basis. As on March 31, 2024, the Group had 41 owned and leased operational properties and one property under development. The total owned/leased inventory across the operational properties stood at 5,759 rooms with 69 rooms under development.

To facilitate rapid expansion of LTHL's brands across the country, the Group's subsidiary, Carnation Hotels Private Limited, enters management contracts with asset owners. As on March 31, 2024, 4,104 rooms across 63 properties were under management contracts with additional 4,087 rooms (62 properties) in the pipeline.

Key financial indicators (audited)

LTHL Consolidated	FY2023	FY2024*
Operating income	875.9	1071.1
PAT	139.7	181.0
OPBDIT/OI	51.2%	48.8%
PAT/OI	15.9%	16.9%
Total outside liabilities/Tangible net worth (times)	1.6	1.6
Total debt/OPBDIT (times)	4.9	4.5
Interest coverage (times)	2.5	2.5

*Source: Company, ICRA Research; * Limited Audit; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years		
Instrument	Type	Amount Rated (Rs Crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Aug 09, 2024	Aug 07, 2023	Jun 02, 2022	Aug 11, 2021
Term Loan	Long Term	60.46	**[ICRA]A(Positive)**	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)
Fund Based Working Capital	Long term/ Short term	-		-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Negative)/ [ICRA]A2+
Unallocated limits	Long term/ Short term	85.54	**[ICRA]A(Positive)/ [ICRA]A2+**	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Negative)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term/ Short-term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2021	NA	FY2028	7.60	[ICRA]A (Positive)
NA	Term Loan-II	FY2020	NA	FY2031	42.35	[ICRA]A (Positive)
NA	Term Loan-III	FY2017	NA	FY2027	10.51	[ICRA]A (Positive)
NA	Unallocated Limits	NA	NA	NA	85.54	[ICRA]A (Positive)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Lemon Tree Hotels Limited	(rated entity)	Full Consolidation
Carnation Hotels Private Limited	100%	Full Consolidation
Fleur Hotels Private Limited	59%	Full Consolidation
Lemon Tree Hotel Company Private Limited	100%	Full Consolidation
Canary Hotels Private Limited	100%	Full Consolidation
Oriole Dr Fresh Hotels Private Limited	100%	Full Consolidation
Red Fox Hotel Company Private Limited	100%	Full Consolidation
Sukhsagar Complexes Private Limited	100%	Full Consolidation
Nettle Hotels Private Limited (formerly known as Poplar Homestead Holdings Private Limited)	100%	Full Consolidation
Madder Stays Private Limited	100%	Full Consolidation
Arum Hotels Private Limited (formerly known as Jessamine Stays Private Limited)	100%	Full Consolidation
Totally Foxed Solutions Private Limited	100%	Full Consolidation
Hamstede Living Private Limited	100%	Full Consolidation
Manakin Resorts Private Limited (Subsidiary of PSK Resorts & Hotels Private Limited)	100%	Full Consolidation
Celsia Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Inovoa Hotels & Resorts Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
IORA Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Hyacinth Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Bandhav Resorts Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Ophrys Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Berggruen Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	59%	Full Consolidation
Mind Leaders Learning India Private Limited	37%	Equity Method
Pelican Facilities Management Private Limited (Subsidiary of Mind Leaders Learning India Private Limited)	37%	Equity Method
Glendale Marketing Services Pvt. Ltd. (Subsidiary of Pelican Facilities Management Private Limited)	37%	Equity Method
Mezereon Hotels LLP (Capital contribution by Fleur Hotels Private Limited & Celsia Hotels Private Limited)	59%	Full consolidation

Company Name	LTHL Ownership	Consolidation Approach
Krizm Hotels Private Limited Employee Welfare Trust		Full consolidation

Source: LTHL Q4FY24 results

Note: ICRA has taken a consolidated view of the parent (LTHL), its subsidiaries and associates while assigning the ratings.

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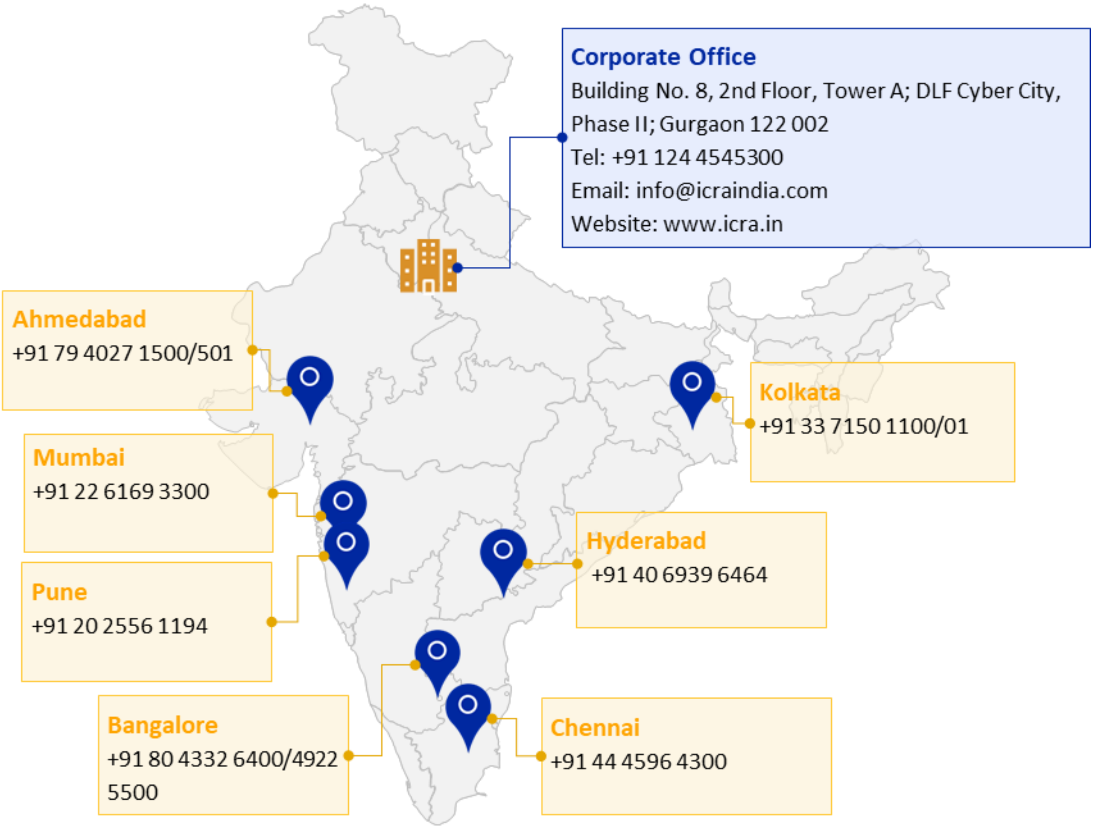

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