More rooms to help Lemon Tree's growth

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The stock of Lemon Tree Hotels was up 7 per cent over the last two trading sessions after the company announced a licensing deal in Goa and expansion into the overseas markets. With a management contract for a 44-room property in Goa, the company has added its fifth property in that state, taking its room count there to 379.

Lemon Tree has also forayed into the international market with the addition of a 114-room property in Dubai. Both agreements are management contracts for running the hotels, which is in line with the company's asset-light strategy. This allows the company to grow at a steady pace, improve operating profit margins, and maintain a lean balance sheet.

While its overall inventory has increased 16 per cent in the FY15-19 period, managed hotel rooms have grown 61 per cent. About a third of its 5,800-plus rooms (excluding the Keys acquisition) are managed.

Among the triggers expected to boost sales are demand uptick and room additions. Analysts expect Lemon Tree's room count to increase to 10,000-plus by the end of FY22 from the current levels. Growth would be led by an uptick in the domestic hospitality industry, with industry occupancy crossing 65 per cent. Growth in occupancy is expected to improve room rates. Archana Gude and Sahil Vig of IDBI Capital believe that the hospitality industry is poised to benefit from a positive demand-supply situation in the domestic market. Key players like Lemon Tree, which has a 16 per cent market share in the mid-market segment, will be one of the key beneficiaries. The company's presence across segments, as well as key geographies, is also expected to aid its sales growth. Analysts expect sales to double to about ₹935 crore by FY22 on the back of healthy growth in occupancies and improvement in average room rates.

At the current price, the stock is trading at 44 times its FY21 estimates which is on the higher side. Investors can buy the stock on dips.

STRONG GROWTH

	Number of rooms	Net sales (₹ crore)	
FY19	5,411	549	
FY20E	8,381	754	
FY21E	9,644	826	
FY22E	10,739	953	

E: Estimates

Sources: Company, IDBI Capital