

CMP: ₹139

Target ₹ 165 (19%)

Target Period: 12 months

BUY

June 2, 2025

Strong Q4, margin improvement to sustain ...

About the stock: Lemon Tree Hotels (LTHL) is India's largest hotel chain in the mid-priced hotel sector and the third largest overall, based on controlling interest in owned and leased rooms. LTHL currently operates 10,269 rooms in 111 hotels in India and abroad, under its various brands viz. Aurika Hotels & Resorts, Lemon Tree Premier, Lemon Tree Hotels, Red Fox Hotels and Keys etc. When the current pipeline becomes operational, LTHL will operate 17,116 rooms in 212 hotels in India and abroad.

Q4FY25 performance: Lemon Tree Hotels (LTHL) reported double-digit consolidated revenue growth of 15.6% YoY to Rs.378.5cr in Q4FY25. EBITDA margin improved by 154bps to 53.9% while EBITDA grew by 19% YoY to Rs.204.1cr. Occupancy witnessed improvement by 557bps to 77.6% in Q4FY25 vs 72.0% in Q4FY24. Average room rentals (ARR) grew by 7% YoY to Rs.7042/night. RevPAR witnessed double digit growth of 15% YoY to Rs.5462 in Q4FY25. Management contract revenues grew by 16% YoY to Rs.44.4cr. Interest cost witnessed double digit decline by 10.4% YoY due to debt repayment. Lower Tax led to 47% YoY growth in PAT to Rs.108.8cr in Q4FY25.

Investment Rationale:

- Occupancy continues to expand:** LTHL's occupancy ratio improved by 557bps in Q4FY25 to 77.6% (up 336bps on QoQ basis). Aurika Hotels and Resorts reported strong uptick in occupancy rate with occupancies standing at 83% in Q4FY25 vs 66% in Q4FY24 and improving sequentially from 71% in Q3FY25. For FY25, gross occupancies stood at 71.7% (improved by 180bps yoy) while gross ARR grew by ~9%yoy to Rs6,381 per room. Q1FY26 started on good note with demand growth growing by 21% in Apr,25. However it moderated to 14% in May,25 due escalation at border. Management room demand to remain strong in the near term. Aurika is expected to 80%+ occupancy in Q1FY26 despite covid related headwinds. Higher occupancies in key brands and ARR growth of high single digit in existing hotels coupled with strong growth in management room revenues will help the company's revenues to grow at CAGR of 16% over FY25-27E.
- Management targets EBITDA margins to be at 55% in FY28:** LTHL consolidated EBITDA margins improved by 50bps yoy to 49.3% in FY25. Management expects renovation cost to reduce substantially by FY27 with 70% of room inventory has already been renovated. Rest of the room inventory is expected to be renovated by end of FY26. Post renovation, the incremental revenues generated through higher room rentals and increase in contribution from Aurika, Mumbai will help overall EBITDA margins to improve to 55% by FY28. Aurika, Mumbai's EBITDA margins stood at 68% in Q4FY25 (improved by 368bps yoy).

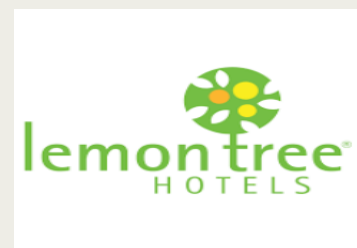
Rating and Target Price

We expect LTHL's revenues and PAT to grow at CAGR of 16% and 33% respectively over FY25-27E. We recommend Buy with a price target of Rs165, valuing it at 22x its FY27E EV/EBITDA (adjusting for 59% stake in Fleur Hotel).

Key Financial Summary

Key Financials (₹ Crore)	FY23	FY24	FY25	2 year CAGR (FY23-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenues	875.0	1071.1	1286.1	21.2	1501.9	1724.6	15.8
EBIDTA	447.6	523.2	634.1	19.0	750.9	872.3	17.3
EBIDTA Margins(%)	51.2	48.8	49.3		50.0	50.6	
Adjusted PAT	139.7	181.0	243.4	32.0	316.1	428.0	32.6
EPS (Rs.)	1.8	2.3	3.1		4.0	5.4	
PE (x)	78.7	60.7	45.1		34.8	25.7	
EV to EBITDA (x)	29.4	25.4	20.6		16.9	14.2	
Price to book (x)	12.9	11.4	9.5		7.4	5.8	
RoE (%)	16.6	19.9	22.9		23.9	25.2	
RoCE (%)	10.0	11.1	12.6		15.3	17.8	

Source: Company, ICICI Direct Research



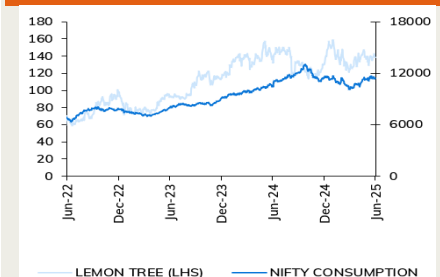
Particulars

Particular	Amount
Market Capitalisation (₹ crore)	11,007
Debt (FY25) - ₹ crore	2,176
Cash (FY25) - ₹ crore	125
EV (Rs crore)	13,057
52 week H/L (₹)	162 / 112
Equity capital (₹ crore)	791.8
Face value (₹)	10

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	22.8	22.8	22.8	22.5
FII	27.6	21.8	20.0	20.9
DII	15.2	18.9	20.8	19.7
Others	34.4	36.6	36.4	36.9

Price Chart



Key risks

- Room demand getting impacted by global slowdown or any black swan event.
- Delay in reduction in debt.

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Q4FY25 – Key Performance highlights

- Consolidated revenues grew in double digits by 15.6% YoY to Rs.378.5cr. Growth was primarily aided by better occupancy leading to double digit RevPAR growth.
- EBITDA margin expanded by 154bps by to 53.9% aided by better growth in premium hotels. EBITDA grew by 19% YoY to Rs.204.1cr.
- Overall occupancy stood at 77.6% witnessing 557bps YoY expansion, improvement was aided by strong growth across the portfolio, Aurika recorded 83% occupancy in Q4FY25 vs 66% in Q4FY24. Lemon Tree hotels occupancy in Q4FY25 stood at 78% vs 74% last year while Red Fox occupancy jumped from 76% in Q4FY24 to 80% in Q4FY25. Keys by Lemon tree also witnessed 600bps YoY improvement in occupancy to 61% in Q4FY25.
- LTLH's average room rentals stood at Rs.7042 growing by 7% YoY in Q4FY25. Aurika hotels & Resorts ARR stood flat at Rs.10566/night while Lemon tree premier grew in high single digits by 8% YoY to Rs.8156/night. Lemon Tree hotels registered marginal growth of 2% YoY in ARR while Red Fox and Keys witnessed double-digit growth of 14% and 12% YoY respectively in Q4FY25.
- Strong Occupancy growth led to double-digit growth in RevPAR of 15% YoY to Rs.5462 in Q4FY25.
- Management Fees grew by 16% YoY to Rs.44.4cr in Q4FY25. Management fees from Fleur Hotels grew by 19% YoY to Rs.28.3cr while Management/Franchise Fees from 3rd party hotels registered 11% YoY growth to Rs.16cr.
- Lower Tax led to 47% YoY growth in PAT to Rs.108.8cr in Q4FY25.

Expansion through management contracts

- LTHL is planning to add 4787 rooms over FY26-27 with 2975 rooms to be added in FY26 and 1812 rooms to added in FY27 through managed and franchisee contract.
- Large room addition of 2,748 rooms (57% of the total room addition) will happen under the Lemon Tree Hotels brand.

Exhibit 1: Expected opening of inventory in pipeline of managed & franchised contracts

Brands	FY26	FY27	FY28	FY29	FY30	To be announced (TBA)	Total Rooms (Hotels)
Aurika Hotels & Resorts	-	-	132 (1)	82 (1)	175 (1)	110 (1)	499 (4)
Lemon Tree Premier	462 (5)	50 (1)	-	92 (1)	-	-	604 (7)
Lemon Tree Hotels	1,594 (24)	1,154 (17)	323 (5)	156 (3)	80 (1)	550 (6)	3,857 (56)
Red Fox Hotels	50 (1)	46 (1)	-	-	-	-	96 (2)
Keys by Lemon Tree Hotels	869 (19)	562 (9)	104 (2)	-	-	-	1,535 (30)
Total Rooms (Hotels)	2,975 (49)	1,812 (28)	559 (8)	330 (5)	255 (2)	660 (7)	6,591 (99)

Source: Company, ICICI Direct Research

Q4FY25 Earnings call highlights

- **Revenue & Margin Guidance**
 - The management guided for mid-teen revenue growth in FY26.
 - The Management expects the EBITDA margin at 55% by FY28 supported by renovation and operating leverage.
 - The renovation expenses are expected to normalise/stabilise in the next 2 years. The incremental amount will add back to EBITDA driving the margins.
- **Growth Outlook**
 - The total inventory including pipeline stands at 17116 rooms and 212 rooms. Management has revised the FY30 guidance of 20000 rooms to be completed in FY26.
 - Company has achieved 85% of the five-year expansion goal.
 - New tech enhancements to reduce the dependence on OTAs, with growing demand company is focused on tapping the direct booking space.
 - Focused on improving the non-negotiated business share from current 45% to 65% by FY28.
 - The Management sees growth in Tier 2 and Tier 3 markets and are exploring underserved urban areas to capture untapped markets. It expects demand structural tailwinds to sustain for next 5-7 years.
- **Q1FY26 Performance commentary**
 - The Management has guided for improvement in Q1FY6 profitability despite summer season and temporary headwinds. Occupancy rate expected to be above 70% in Q1FY26.
 - March and April have witnessed 20% and 21% YoY growth respectively while May has grown by 14% YoY, moderation due to geopolitical tensions and Covid-related news. Aurika occupancy is expected to be close to 80% in Q1FY26.
- **Aurika Hotel**
 - The Aurika Hotel occupancy has improved to 83% in Q4FY25 from 66% last year. The management expects the occupancy to stabilise at this level and now will explore growth through ARR as occupancy levels are sustainable. The management expects the ARR to cross Rs.11000-12000 in the winter of FY26.
 - The Aurika recorded Rs.42cr EBITDA with margins at 67% in Q4FY25.
 - The Management views satisfactory performance as the brand recorded 5% return on Rs.880cr investment after its opening 1.5 years ago.
- **Red Fox and Keys Hotel Revamp**
 - The Management is continuing to focus on full-scale renovation, especially for Keys and Red Fox.
 - The Company achieved guided margins of 40% in Q4FY25 for "Keys"
 - The Management targets Rs.60cr+ EBITDA in "Keys" Portfolio by FY27 after renovations.
 - Keys brands will be used for smaller franchise hotels while the management plans to reposition or absorb Red Fox into Lemon Tree or Keys to standardize brand position.
- **Renovation Plans and Progress**
 - FY25 renovation stood at 2.7% of total revenue and the management has guided the renovation expenses to be more than 3% in FY26.
 - 70% of the owned portfolio renovation has been completed while the rest 30% is expected to be completed by FY26. Small scale

renovations to continue into FY27. 1000-1500 rooms are currently under renovation.

- The company spent Rs.100cr as renovation capex in FY25. Expects to spend Rs.130cr in FY26 and thereby expects the renovation capex to drop in FY27.
- The renovation expenses are expected to stabilise post FY26. The management expects renovation to drop to 1%-1.5% from FY27 onwards.

- **Debt Repayment Strategy**

- The company reduced debt by Rs.190cr in FY25, now stands at Rs.1699cr.
- Debt/Equity has witnessed improvement from 3.57x in FY24 to 2.67x in FY25.
- The Management guided for Rs.300cr debt repayment in FY26 which is expected to ramp up to Rs.400cr in FY27 owing to lesser renovation expenditures.

- **Tax Rate Adjustment**

- Lower effective tax rate in Q4FY25 was driven by deferred tax asset recognition.
- The Management guided that the tax rate adjustment will be seen in Q4 every year as it includes annual deferred tax adjustments in line with accounting policies.

- **Fleur Hotels – Proposed Listing and Impact on Lemon Tree**

- The management is still evaluating the listing of Fleur Hotels, its asset ownership arm. 60% is owned by Lemon Tree Hotels while 40% is held by Dutch Pension fund.
- The management expects Lemon Tree's stake to reduce post listing of Fleur and also hinted at potential deconsolidation of Fleur from Lemon Tree's books.
- Post Listing, Fleur to become the asset development and ownership arm with majority pipeline. While, Lemon Tree will focus on fully asset-light model, focusing on brand, technology and management.
- Lemon Tree's debt post the de-consolidation is expected to decline sharply. Expected to impact the bottom line through lesser finance cost.
- The Management guided on the long-term vision of Lemon Tree which is expected to become a Dividend-distributing company and will have minimal capex.

Revision in earnings estimates

We have revised upwards our earnings estimate for FY26 and FY27 by 7% and 8% respectively to factor in better than earlier expected EBIDTA margins and lower interest cost in view of consistent reduction in debt in the coming years.

Exhibit 2: Changes in headline estimates

(₹ crore)	FY26E			FY27E		
	Old	New	% Chg	Old	New	% Chg
Net Revenues	1496.9	1501.9	0.3	1699.4	1724.6	1.5
EBIDTA	731.3	750.9	2.7	841.6	872.3	3.6
EBIDTA margin (%)	48.9	50.0		49.5	50.6	
PAT	296.8	316.1	6.5	397.3	428.0	7.7
EPS (Rs.)	3.8	4.0	5.1	5.0	5.4	8.1

Source: Company, ICICI Direct Research

Exhibit 3: Key Operating Assumptions

Particulars	FY24	FY25	FY26E	FY27E
<u>Aurika Hotels -revenues (Rs. Cr)</u>	97.2	184.9	237.4	261.3
Rooms	808.0	808.0	808.0	808.0
Occupancy ratio (%)	51	63	75	77
ARR (Rs)	10693	9894	10800	11518
<u>Lemon Tree Premier - revenues (Rs. Cr)</u>	320.2	346.3	366.0	402.4
Rooms	1603.0	1603.0	1603.0	11517.8
Occupancy ratio (%)	79	81	79	82
ARR (Rs)	6929	7342	7873	8402
Room revenues	827.6	973.3	1086.6	1186.6
yoy% growth	20.0	17.6	11.6	9.2
Management fees	121.9	149.0	223.2	317.1
yoy% growth	18.3	22.3	49.7	42.1
F&B revenues	120.8	163.7	192.1	220.9
yoy% growth	46.6	35.5	17.3	15.0
Total revenues	1070.3	1286.1	1501.9	1724.6
yoy% growth	22.3	20.2	16.8	14.8

Source: Company, ICICI Direct Research

Exhibit 4: SoTP Valuation

Particulars	FY27E
Lemon Tree Consolidated EBIDTA	872
Adjusting EBIDTA - Fleur APG (41% stake)	195
Adjusted EBITDA (Rs. Cr)	678
EV/EBIDTA (x)	22
Enterprise value (Rs. Cr)	14,910
Adjusted Debt (Rs. Cr)	1,692
Cash & Cash equivalent	81
Equity Value (Rs. Cr.)	13,298
Equity shares (in Cr.)	79
Target price (Rs.)	165

Source: Company, ICICI Direct Research

Exhibit 5: Q4FY25 consolidated result snapshot (₹ crore)

Particulars	Q4FY25	Q4FY24	y-o-y %	Q3FY25	q-o-q %
Net revenue	378.5	327.3	15.6	355.2	6.6
Cost of food and beverages consumed	23.0	20.5	12.0	19.6	17.1
Employee cost	57.0	49.9	14.4	56.4	1.1
Power & fuel	20.2	19.7	2.3	21.5	-6.0
Other expenditure	74.2	65.7	12.9	64.9	14.2
Total expenditure	174.4	155.8	11.9	162.5	7.3
EBITDA	204.1	171.5	19.0	192.7	5.9
Other income	0.9	3.9	-77.2	0.6	41.0
Interest expenses	47.2	52.8	-10.4	50.3	-6.1
Depreciation	34.9	33.4	4.4	35.1	-0.6
Profit Before Tax	122.9	89.2	37.8	107.9	13.9
Tax	14.1	15.2	-7.2	21.8	-35.4
Adjusted PAT	108.8	74.0	47.0	86.1	26.4
Extra-ordinary gain / loss	0.0	10.2	-100.0	-6.3	
Reported PAT	108.1	84.0	28.7	79.8	35.4
Adjusted EPS (Rs.)	1.4	0.9	47.0	1.1	26.4
Margins	Q4FY25	Q4FY24	bps	Q3FY25	bps
GPM (%)	93.9	93.7	20	94.5	-55
EBITDA Margin (%)	53.9	52.4	154	54.3	-33
NPM (%)	28.7	22.6	613	24.2	450
Tax rate (%)	11.5	17.0	-556	20.2	-876

Source: Company, ICICI Direct Research

Exhibit 6: Q4FY25 brand wise performance

Brands	No. of rooms	RevPAR (Rs.)			Occupancy (%)			Gross ARR (Rs.)		
		Q4FY25	Q4FY25	Q4FY24 Chg (%)	Q4FY25	Q4FY24	Chg (bps)	Q4FY25	Q4FY24	Chg (%)
Aurika Hotels & Resorts	808.0	8756	6984	25.4	83	66	1700.0	10566	10553	0.1
Lemon Tree Premier	1603.0	6775	6126	10.6	83	81	200.0	8156	7565	7.8
Lemon Tree Hotels	1562.0	4789	4448	7.7	78	74	400.0	6171	6036	2.2
Red Fox	952.0	4351	3623	20.1	80	76	400.0	5457	4796	13.8
Keys by Lemon Tree Hotels	936.0	2500	2018	23.9	61	56	550.0	4068	3637	11.9
Lemon Tree Consolidated	5759.0	5462	4754	14.9	78	72	560.0	7042	6605	6.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Operating Income	1071.1	1286.1	1501.9	1724.6
Growth (%)	22.4	20.1	16.8	14.8
Cost of food and beverages consumed	62.8	76.2	82.6	94.9
Gross Profit	1008.3	1209.9	1419.3	1629.7
Employee Expenses	187.8	218.5	253.4	291.5
Power & fuel	78.0	87.8	96.6	106.2
Other Expenditure	219.3	269.5	318.3	359.7
Total Operating Expenditure	547.9	652.0	750.9	852.3
EBITDA	523.2	634.1	750.9	872.3
Growth (%)	16.9	21.2	18.4	16.2
Interest	201.6	200.7	183.5	150.5
Depreciation	112.1	139.3	145.5	150.8
Other Income	5.6	2.3	3.5	5.0
PBT	215.1	296.5	425.5	576.1
Less Tax	34.1	53.1	109.3	148.0
Adjusted PAT (before exceptional item)	181.0	243.4	316.1	428.0
Growth (%)	29.6	34.5	29.9	35.4
Minority interest / profit from associates	0.7	-0.3	1.0	1.0
Exceptional item	0.0	0.0	0.0	0.0
Reported PAT	181.7	243.1	317.1	429.0
Growth (%)	29.3	33.8	30.4	35.3
EPS (Adjusted)	2.3	3.1	4.0	5.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	175.4	241.1	312.6	423.0
Add: Depreciation & Amortization	112.1	139.3	145.5	150.8
Other income	5.6	2.3	3.5	5.0
Changes in the working capital	-29.5	-67.7	94.4	11.1
CF from Operating activities	263.6	315.0	556.1	589.9
(Purchase)/Sale of Fixed Assets	-339.2	-87.5	-210.0	-210.0
Investments & Bank balances	-24.1	-36.4	-85.2	-105.0
Others	-3.7	-11.7	0.0	0.0
CF from Investing activities	-367.1	-135.6	-295.2	-315.0
(inc)/Dec in Loan	159.0	-159.6	-286.7	-286.3
Change in equity & reserves	-67.8	-46.8	1.0	1.0
Dividend paid	0.0	0.0	0.0	0.0
Other	22.3	48.7	-1.0	-1.0
CF from Financing activities	113.4	-157.7	-286.7	-286.3
Net Cash Flow	10.0	21.8	-25.8	-11.4
Cash and Cash Equivalent (opening)	23.7	33.6	55.4	29.6
Cash	33.6	55.4	29.6	18.2
Free Cash Flow	-75.6	227.6	346.1	379.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity Capital	791.8	791.8	791.8	791.8
Reserve and Surplus	175.0	371.7	688.8	1117.8
Total Shareholders funds	966.9	1163.5	1480.6	1909.7
Minority Interest	579.5	626.1	625.1	624.1
Total Debt	2335.8	2176.0	1889.3	1603.0
Deferred Tax Liability	5.3	7.2	7.2	7.2
Long-Term Provisions	3.2	3.4	3.4	3.4
Total Liabilities	3890.8	3976.2	4005.6	4147.3
Gross Block - Fixed Assets	3706.9	3794.6	3863.1	4073.1
Accumulated Depreciation	590.9	730.2	875.7	1026.4
Net Block	3116.0	3064.4	2987.5	3046.7
Capital WIP	24.8	58.6	200.0	200.0
Leased Assets	390.7	365.1	365.1	365.1
Fixed Assets	3531.5	3488.0	3552.5	3611.8
Goodwill & Other intangible assets	135.1	126.8	126.8	126.8
Investments	13.3	44.6	45.0	50.0
Other non-Current Assets	155.7	167.4	167.4	167.4
Inventory	13.8	13.8	20.6	23.6
Debtors	71.5	78.6	102.9	118.1
Other Current Assets	55.0	80.7	80.7	80.7
Loans & Advances	3.3	1.2	1.2	1.2
Cash	33.6	55.4	29.6	18.2
Bank balance	20.1	25.3	110.0	210.0
Total Current Assets	197.4	255.0	345.0	451.9
Creditors	85.9	61.6	185.2	212.6
Provisions	6.0	6.4	6.4	6.4
Other Current Liabilities	50.4	37.3	39.1	41.1
Total Current Liabilities	142.3	105.3	230.7	260.1
Net Current Assets	55.2	149.7	114.2	191.7
Application of Funds	3890.8	3976.5	4005.9	4147.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Adjusted EPS	2.3	3.1	4.0	5.4
Cash EPS	3.7	4.8	5.8	7.3
BV per share	12.2	14.7	18.7	24.1
Cash per Share	0.8	1.6	2.3	3.5
Operating Ratios (%)				
Gross Profit Margins	94.1	94.1	94.5	94.5
Operating EBITDA margins (%)	48.8	49.3	50.0	50.6
PAT Margins	16.9	18.9	21.0	24.8
Cash Conversion Cycle	-40	-13	-15	-15
Return Ratios (%)				
RoE	19.9	22.9	23.9	25.2
RoCE	11.1	12.6	15.3	17.8
Valuation Ratios (x)				
P/E	60.7	45.1	34.8	25.7
EV / EBITDA	25.4	20.6	16.9	14.2
EV / Net Sales	12.4	10.2	8.5	7.2
Market Cap / Sales	10.3	8.6	7.3	6.4
Price to Book Value	11.4	9.5	7.4	5.8
Solvency Ratios (x)				
Debt / EBITDA	4.5	3.4	2.5	1.8
Debt / Equity	2.4	1.9	1.3	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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