

## Lemon Tree Hotels

BUY

Yet another robust quarterly performance

## Summary

Lemon Tree Hotels Ltd.'s (LTH) Q4FY25 result was broadly in-line with our estimates on net sales and EBTDA front, while PAT was beat to forecast. The company reported the best ever Q4 results, aided by healthy RevPAR growth. The management is confident to sustain this growth in coming quarters by focusing on growth levers such as growth in managed and franchised portfolio, timely completion of renovation in the current portfolio. Renovation expenses stood at 2.7% of revenue in FY25 as compared to 2.4% in FY24. This increased investment in renovation expenses will continue into FY26 and a lesser amount in FY27 until the entire portfolio of owned hotels has been fully renovated. Post that renovation expenses will be close to 1.5% of revenue on an ongoing basis which will help stabilize the EBITDA margin at 50%. We have marginally increased our operating margins estimates owing to better than expected FY25 earnings and positive commentary by the management. Maintain BUY rating on the stock with a revised TP of Rs177 (earlier Rs170), assigning 17x EV/EBITDA to FY27E.

## Key Highlights and Investment Rationale

- Impressive performance on operational parameters:** The company reported 7% YoY increase in ADR at Rs7,042, while occupancy expanded by 557bps YoY to 77.6%. RevPAR grew by 15% YoY to Rs5,462. Revenue came in at Rs3,785mn, higher by 15.6% YoY, while EBITDA stood at Rs2,041mn, increased by 19% YoY. PAT was at Rs1,081mn, healthy growth of 28.7% YoY.
- Poised for a healthy earnings growth, BUY with a TP of Rs177:** We continue to like LTH amongst the mid-scale hotels segment given its scale of operations and opening of Aurika, Mumbai, which will further boost the earnings. Further, the managements' robust outlook on inventory addition and balance sheet strengthening through debt repayment is encouraging. We believe LTH is poised to deliver consistent earnings growth in near future. BUY with a TP of Rs177.

TP **Rs177****CMP** **Rs139**

Potential upside/downside 27%

Previous Rating BUY

## Price Performance (%)

|               | -1m | -3m  | -12m  |
|---------------|-----|------|-------|
| Absolute      | 1.9 | 14.4 | 2.3   |
| Rel to Sensex | 0.4 | 3.1  | (7.8) |

## V/s Consensus

| EPS (Rs)     | FY26E  | FY27E |
|--------------|--------|-------|
| IDBI Capital | 3.1    | 4.5   |
| Consensus    | 3.6    | 4.8   |
| % difference | (13.8) | (6.4) |

## Key Stock Data

|                                |                     |
|--------------------------------|---------------------|
| Bloomberg / Reuters            | LEMONTRE IN/LEMO.BO |
| Sector                         | Hotels              |
| Shares o/s (mn)                | 792                 |
| Market cap. (Rs mn)            | 110,400             |
| 3-m daily avg Trd value(Rs mn) | 43.6                |
| 52-week high / low             | Rs162 / 111         |
| Sensex / Nifty                 | 81,451 / 24,751     |

## Shareholding Pattern (%)

|           |      |
|-----------|------|
| Promoters | 22.5 |
| FII       | 20.9 |
| DII       | 19.3 |
| Public    | 37.3 |

## Financial snapshot

(Rs mn)

| Year               | FY23    | FY24   | FY25   | FY26E  | FY27E  |
|--------------------|---------|--------|--------|--------|--------|
| Revenue            | 8,750   | 10,711 | 12,861 | 14,846 | 16,924 |
| Change (yoy, %)    | 118     | 22     | 20     | 15     | 14     |
| EBITDA             | 4,476   | 5,232  | 6,341  | 7,517  | 8,709  |
| Change (yoy, %)    | 277     | 17     | 21     | 19     | 16     |
| EBITDA Margin(%)   | 51.2    | 48.8   | 49.3   | 50.6   | 51.5   |
| Adj.PAT            | 1,146   | 1,485  | 1,966  | 2,485  | 3,537  |
| EPS (Rs)           | 1.4     | 1.9    | 2.5    | 3.1    | 4.5    |
| Change (yoy, %)    | (231.0) | 29.6   | 32.4   | 26     | 42     |
| PE(x)              | 95.9    | 74.0   | 55.9   | 44.2   | 31.1   |
| Dividend Yield (%) | -       | -      | -      | -      | -      |
| EV/EBITDA (x)      | 28.4    | 24.5   | 19.9   | 16.4   | 13.6   |
| RoE (%)            | 13.6    | 16.3   | 18.5   | 19.3   | 22.3   |
| RoCE (%)           | 9.9     | 11.0   | 13     | 15.0   | 17.7   |

Source: IDBI Capital Research

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**Concall Highlights:****Operating Performance:**

- Lemon Tree recorded its highest ever Q4 revenue in FY25. The revenue stood at Rs3.8bn and grew by 15.6% compared to Q4FY24.
- Fees from management and franchised contracts for third party owned hotels stood at Rs160mm in Q4FY25. This was up by 11% YoY and total management fees for lemon tree stood at Rs444mm for Q4FY25.
- Fees from Fleur Hotels stood at Rs283mn in Q4FY25, an increase of 19% Y-o-Y.
- Change in inventory for owned/leased rooms were flat at 5,759 rooms however, Managed/franchise inventory increased by 10% YoY to 4,510 rooms. The total increase in inventory for Q4FY25 was by 4% YoY to 10,269 rooms.
- Occupancy for the owned and leased hotels stood at 77.6% which is higher by +557bps YoY and +336bps QoQ.
- ARR for the quarter stood at Rs7,042 which was a 7% increase on YoY basis and 4% increase on a QoQ basis.
- RevPAR for lemon tree hotels in Q4FY25 stood at Rs5,462 which was 15% higher compared to Rs4,754 RevPAR of Q4FY24.
- The debt for the company decreased by Rs1900mn during the year from Rs18890mn in FY24 to Rs16990mn in FY25.
- On the asset-light side, in Q4 the company signed 15 new management and franchise contracts, adding 833 new rooms to the pipeline, and operationalized 2 hotels, adding 121 rooms to the operational portfolio.
- The company spent Rs1000mn on renovation during FY25.
- Aurika did over 80% occupancy during the quarter vs 65% in the similar period last year.
- A lot of inventory in Banjara Hills, Hyderabad was shut due to renovation. As a result, the gross ARR in Q4 '25 dropped by about 10% or 8%. And revenue also dropped by 20% in that market because occupancy was down and rate was down.

- The business was impacted by the recent geopolitical tensions as it has multiple hotels in the north and in Srinagar. However, these being managed hotels, capital at risk or EBITDA at risk was very low.

#### **Management Guidance**

- As of Mar'2025 the current total inventory for Lemon Tree stood at 85% of the 5-year target. Management is confident that it will add at least another 3,000 rooms to the pipeline in FY26, taking the total inventory above the 20,000 number; 3 years in advance to the CY28, 5-year target.
- The Expected capex outflow for FY26 is around Rs1300mn.
- Management intends to reduce the debt on its books. For FY25 debt repaid was Rs2000mn. They are expected to repay Rs3000mn in FY26 and Rs4000mn in FY27.
- The current focus of the management is getting to about 200 cities in India.
- Renovation expenses stood at 2.7% of revenue in FY25 as compared to 2.4% in FY24. This increased investment in renovation expenses will continue into FY26 and a lesser amount in FY27 until the entire portfolio of owned hotels has been fully renovated and refreshed, post which renovation expenses will be close to 1.5% of revenue on an ongoing basis which will help stabilize the EBITDA margin at 50%.
- The company relaunched its loyalty program recently, Infinity 2.0, along with technology upgrades to the website. With this, the retail demand share is expected to pickup which stood at 45% in FY25 against the target of 66% by CY28.

### Exhibit 1: Financial snapshot

| Particulars (mn)        | Q4FY25       | Q3FY25       | QoQ (%)     | Q4FY24       | YoY (%)     |
|-------------------------|--------------|--------------|-------------|--------------|-------------|
| <b>Total revenues</b>   | <b>3,785</b> | <b>3,552</b> | <b>6.6</b>  | <b>3,273</b> | <b>15.6</b> |
| Total expenditure       | 1,744        | 1,710        | 2.0         | 1,558        | 11.9        |
| <b>EBIDTA</b>           | <b>2,041</b> | <b>1,842</b> | <b>10.8</b> | <b>1,715</b> | <b>19.0</b> |
| <i>EBIDTA margin(%)</i> | 53.9         | 51.9         | 206bps      | 52.4         | 154bps      |
| Depreciation            | 349          | 351          | (0.6)       | 334          | 4.4         |
| Interest cost           | 472          | 503          | (6.1)       | 528          | (10.4)      |
| Other income            | 9            | 6            | 41.0        | 39           | (77.2)      |
| PBT                     | 1,229        | 994          | 23.6        | 892          | 37.8        |
| Tax                     | 141          | 197          | (28.3)      | 50           | 180.3       |
| <b>Adj. Net Profit</b>  | <b>1,088</b> | <b>798</b>   | <b>36.4</b> | <b>842</b>   | <b>29.3</b> |
| Share of Associates     | (6)          | 1            | (821.2)     | (2)          | 309.4       |
| <b>Rep. PAT</b>         | <b>1,081</b> | <b>798</b>   | <b>35.4</b> | <b>840</b>   | <b>28.7</b> |
| Adj. EPS (INR)          | 1.4          | 1            | 35          | 1            | 28.7        |

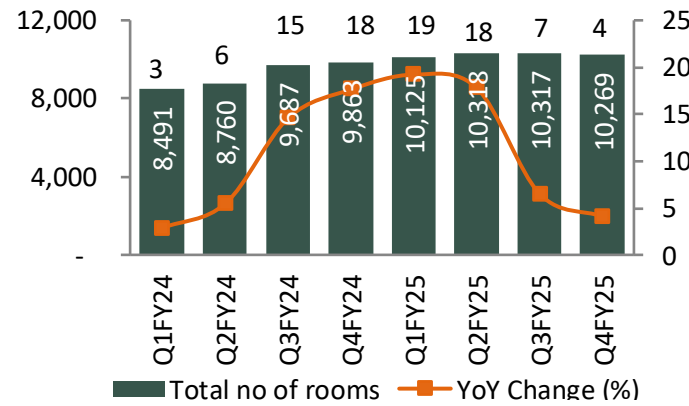
Source: Company; IDBI Capital Research

### Exhibit 2: Actual vs Estimates

| Particulars (mn)     | Q4FY25A      | Q4FY25E      | Variance (%) |
|----------------------|--------------|--------------|--------------|
| <b>Net Sales</b>     | <b>3,785</b> | <b>3,701</b> | <b>2.3</b>   |
| <b>EBITDA</b>        | <b>2,041</b> | <b>1,946</b> | <b>4.9</b>   |
| <i>EBITDA Margin</i> | 53.9         | 53           | 132bps       |
| <b>Net Profit</b>    | <b>1,081</b> | <b>783</b>   | <b>38.1</b>  |
| EPS Rs.              | 1.4          | 1.0          | 38.1         |

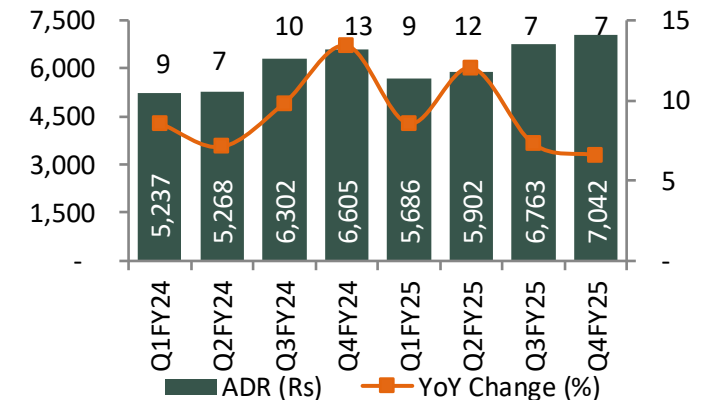
Source: Company; IDBI Capital Research

**Exhibit 3: Total no of rooms and YoY change**



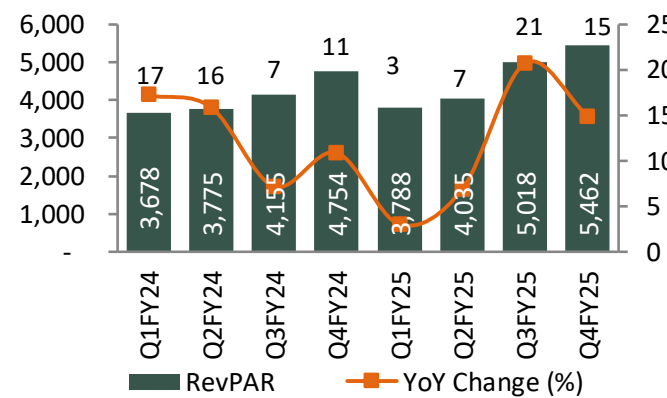
Source: Company, IDBI Capital Research

**Exhibit 4: ADR trend**



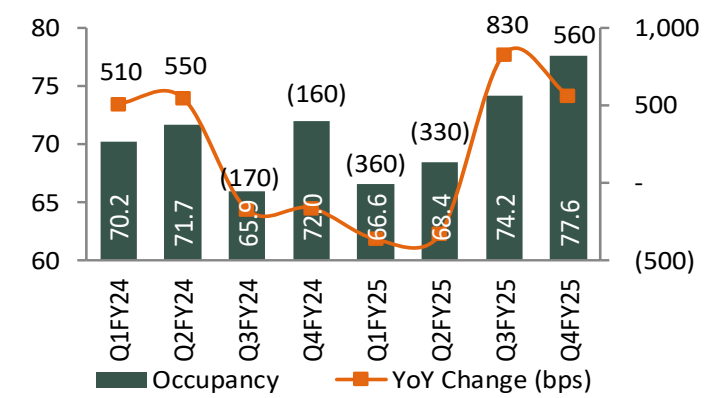
Source: Company, IDBI Capital Research

**Exhibit 5: RevPAR trend**



Source: Company, IDBI Capital Research

**Exhibit 6: Occupancy trend**



Source: Company, IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

| Year-end: March               | FY22           | FY23         | FY24          | FY25          | FY26E         | FY27E         |
|-------------------------------|----------------|--------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>              | <b>4,022</b>   | <b>8,750</b> | <b>10,711</b> | <b>12,861</b> | <b>14,846</b> | <b>16,924</b> |
| <i>Change (yoy, %)</i>        | 59.8           | 118          | 22            | 20            | 15            | 14            |
| Operating expenses            | (2,836)        | (4,274)      | (5,479)       | (6,520)       | (7,328)       | (8,215)       |
| <b>EBITDA</b>                 | <b>1,186</b>   | <b>4,476</b> | <b>5,232</b>  | <b>6,341</b>  | <b>7,517</b>  | <b>8,709</b>  |
| <i>Change (yoy, %)</i>        | 93.6           | 277          | 17            | 21            | 19            | 16            |
| <i>Margin (%)</i>             | 29.5           | 51.2         | 48.8          | 49.3          | 50.6          | 51.5          |
| Depreciation                  | (1,044)        | (966)        | (1,121)       | (1,393)       | (1,618)       | (1,668)       |
| <b>EBIT</b>                   | <b>143</b>     | <b>3,510</b> | <b>4,111</b>  | <b>4,948</b>  | <b>5,899</b>  | <b>7,041</b>  |
| Interest paid                 | (1,740)        | (1,772)      | (2,016)       | (2,007)       | (1,946)       | (1,416)       |
| Other income                  | 140            | 36           | 56            | 23            | 26            | 28            |
| <b>Pre-tax profit</b>         | <b>(1,457)</b> | <b>1,774</b> | <b>2,151</b>  | <b>2,965</b>  | <b>3,979</b>  | <b>5,653</b>  |
| Tax                           | 72             | (377)        | (341)         | (531)         | (1,002)       | (1,423)       |
| <i>Effective tax rate (%)</i> | 5.0            | 21.3         | 15.9          | 17.9          | 25.2          | 25.2          |
| Minority Interest             | 509.7          | (251.1)      | (325.2)       | (468.3)       | (493.0)       | (693.0)       |
| <b>Net profit</b>             | <b>(875)</b>   | <b>1,146</b> | <b>1,485</b>  | <b>1,966</b>  | <b>2,485</b>  | <b>3,537</b>  |
| Exceptional items             | -              | -            | -             | -             | -             | -             |
| <b>Adjusted net profit</b>    | <b>(875)</b>   | <b>1,146</b> | <b>1,485</b>  | <b>1,966</b>  | <b>2,485</b>  | <b>3,537</b>  |
| <i>Change (yoy, %)</i>        | (31.2)         | (231)        | 30            | 32            | 26            | 42            |
| EPS                           | (1.1)          | 1.4          | 1.9           | 2.5           | 3.1           | 4.5           |
| Dividend per sh               | -              | -            | -             | -             | -             | -             |
| <i>Dividend Payout (%)</i>    | -              | -            | -             | -             | -             | -             |

**Balance Sheet**

(Rs mn)

| Year-end: March                       | FY22          | FY23          | FY24          | FY25          | FY26E         | FY27E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Shareholders' funds</b>            | <b>8,313</b>  | <b>8,537</b>  | <b>9,669</b>  | <b>11,635</b> | <b>14,120</b> | <b>17,657</b> |
| Share capital                         | 7,908         | 7,916         | 7,918         | 7,918         | 7,918         | 7,918         |
| Reserves & surplus                    | 404           | 621           | 1,750         | 3,717         | 6,201         | 9,739         |
| <b>Total Debt</b>                     | <b>16,987</b> | <b>17,457</b> | <b>18,891</b> | <b>16,986</b> | <b>13,897</b> | <b>10,118</b> |
| Other liabilities                     | 4,268         | 4,289         | 4,476         | 4,512         | 4,645         | 4,828         |
| <b>Curr Liab &amp; prov</b>           | <b>1,108</b>  | <b>1,443</b>  | <b>1,499</b>  | <b>1,423</b>  | <b>1,508</b>  | <b>1,577</b>  |
| Current liabilities                   | 884           | 1,362         | 1,407         | 1,325         | 1,405         | 1,469         |
| Provisions                            | 224           | 81            | 92            | 99            | 103           | 108           |
| <b>Total liabilities</b>              | <b>22,362</b> | <b>23,189</b> | <b>24,866</b> | <b>22,922</b> | <b>20,051</b> | <b>16,523</b> |
| <b>Total equity &amp; liabilities</b> | <b>36,351</b> | <b>37,323</b> | <b>40,330</b> | <b>40,818</b> | <b>40,924</b> | <b>41,627</b> |
| Net fixed assets                      | 28,041        | 29,196        | 31,391        | 31,081        | 30,622        | 30,131        |
| Investments                           | 114           | 73            | 151           | 463           | 660           | 895           |
| Other non-curr assets                 | 6,940         | 6,701         | 6,814         | 6,724         | 6,891         | 7,075         |
| <b>Current assets</b>                 | <b>1,255</b>  | <b>1,353</b>  | <b>1,974</b>  | <b>2,550</b>  | <b>2,751</b>  | <b>3,526</b>  |
| Inventories                           | 81            | 105           | 138           | 138           | 163           | 196           |
| Sundry Debtors                        | 291           | 560           | 715           | 786           | 865           | 951           |
| Cash and Bank                         | 543           | 275           | 537           | 807           | 781           | 1,249         |
| Loans and advances                    | 340           | 414           | 584           | 819           | 942           | 1,130         |
| <b>Total assets</b>                   | <b>36,351</b> | <b>37,323</b> | <b>40,330</b> | <b>40,818</b> | <b>40,924</b> | <b>41,627</b> |

**Cash Flow Statement**

(Rs mn)

| Year-end: March                      | FY22           | FY23           | FY24           | FY25           | FY26E          | FY27E          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit                       | (1,457)        | 1,774          | 2,151          | 2,965          | 3,979          | 5,653          |
| Depreciation                         | 1,044          | 966            | 1,121          | 1,393          | 1,618          | 1,668          |
| Tax paid                             | 55             | (361)          | (324)          | (512)          | (1,002)        | (1,423)        |
| Chg in working capital               | (1,226)        | 43             | (131)          | (147)          | (19)           | (50)           |
| Other operating activities           | -              | -              | -              | -              | -              | -              |
| <b>Cash flow from operations (a)</b> | <b>(1,583)</b> | <b>2,422</b>   | <b>2,817</b>   | <b>3,699</b>   | <b>4,577</b>   | <b>5,848</b>   |
| Capital expenditure                  | (954)          | (2,121)        | (3,317)        | (1,082)        | (1,159)        | (1,177)        |
| Chg in investments                   | (40)           | 41             | (78)           | (312)          | (197)          | (235)          |
| Other investing activities           | -              | -              | -              | -              | -              | -              |
| <b>Cash flow from investing (b)</b>  | <b>(994)</b>   | <b>(2,080)</b> | <b>(3,395)</b> | <b>(1,394)</b> | <b>(1,356)</b> | <b>(1,412)</b> |
| Equity raised/(repaid)               | 4              | 8              | 2              | 0              | 0              | 0              |
| Debt raised/(repaid)                 | 1,247          | 471            | 1,434          | (1,905)        | (3,089)        | (3,779)        |
| Dividend (incl. tax)                 | -              | -              | -              | -              | -              | -              |
| Chg in minorities                    | 12             | (330)          | (127)          | (3)            | -              | -              |
| Other financing activities           | 446            | (759)          | (469)          | (168)          | (137)          | (156)          |
| <b>Cash flow from financing (c)</b>  | <b>1,709</b>   | <b>(611)</b>   | <b>841</b>     | <b>(2,076)</b> | <b>(3,226)</b> | <b>(3,935)</b> |
| <b>Net chg in cash (a+b+c)</b>       | <b>(868)</b>   | <b>(269)</b>   | <b>263</b>     | <b>229</b>     | <b>(6)</b>     | <b>501</b>     |

### Financial Ratios

| Year-end: March     | FY22  | FY23 | FY24 | FY25 | FY26E | FY27E |
|---------------------|-------|------|------|------|-------|-------|
| Book Value (Rs)     | 9.7   | 10   | 11   | 14   | 17    | 22    |
| Adj EPS (Rs)        | -1.1  | 1.4  | 1.9  | 2.5  | 3.1   | 4.5   |
| Adj EPS growth (%)  | -31.2 | -231 | 30   | 32   | 26    | 42    |
| EBITDA margin (%)   | 29.5  | 51.2 | 48.8 | 49.3 | 50.6  | 51.5  |
| Pre-tax margin (%)  | -36.2 | 20.3 | 20.1 | 23.1 | 26.8  | 33.4  |
| Net Debt/Equity (x) | 2.0   | 2.0  | 1.9  | 1.4  | 0.9   | 0.5   |
| ROCE (%)            | 0.4   | 10   | 11   | 13   | 15    | 18    |
| ROE (%)             | -10.0 | 14   | 16   | 18   | 19    | 22    |

### DuPont Analysis

|                     |       |      |      |      |      |      |
|---------------------|-------|------|------|------|------|------|
| Asset turnover (x)  | 0.1   | 0.2  | 0.3  | 0.3  | 0.4  | 0.4  |
| Leverage factor (x) | 4.3   | 4.4  | 4.3  | 3.8  | 3.2  | 2.6  |
| Net margin (%)      | -21.7 | 13.1 | 13.9 | 15.3 | 16.7 | 20.9 |

### Working Capital & Liquidity ratio

|                 |    |    |    |    |    |    |
|-----------------|----|----|----|----|----|----|
| Inventory days  | 7  | 4  | 5  | 4  | 4  | 4  |
| Receivable days | 26 | 23 | 24 | 22 | 21 | 21 |
| Payable days    | 75 | 57 | 57 | 34 | 32 | 30 |

### Valuations

| Year-end: March      | FY22   | FY23 | FY24 | FY25 | FY26E | FY27E |
|----------------------|--------|------|------|------|-------|-------|
| PER (x)              | -125.6 | 95.9 | 74.0 | 55.9 | 44.2  | 31.1  |
| Price/Book value (x) | 14.3   | 13.9 | 12.1 | 10.0 | 8.1   | 6.5   |
| EV/Net sales (x)     | 31.4   | 14.5 | 12.0 | 9.8  | 8.3   | 7.0   |
| EV/EBITDA (x)        | 106.5  | 28.4 | 24.5 | 19.9 | 16.4  | 13.6  |
| Dividend Yield (%)   | 0.0    | 0.0  | 0.0  | 0.0  | 0.0   | 0.0   |

Source: Company; IDBI Capital Research

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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