

## Sales Note

### Lemon Tree Hotels Ltd.

CMP: Rs. 135 | TARGET PRICE: Rs. 188 (39.3%)

#### Company Profile

Lemon Tree Hotels Ltd is one of the largest hotel chains in India within the mid-priced sector. The company operates across a wide spectrum of categories, including upscale, upper-midscale, midscale, and economy segments, catering to a diverse clientele. To meet varying guest preferences, it offers seven distinct brands: Lemon Tree Premier, Lemon Tree Hotels, Red Fox Hotels, Aurika Hotels & Resorts, Keys Prima, Keys Select, and Keys Lite. The group has a strong presence in major metropolitan areas such as the NCR, Mumbai, Kolkata, Bengaluru, Hyderabad, and Chennai, along with a growing footprint in numerous tier I, II, and III cities across the country. In addition to its domestic operations, Lemon Tree Hotels has also expanded internationally, with properties launched in Dubai, Bhutan, and Nepal over the past five years.

#### Investment Rationale

**Repositioning in the Mid-Market Segment:** Lemon Tree Hotels is one of the leading players in India's mid-priced hotel segment (~13% market share), reporting an Average Room Rate (ARR) of ₹6,763 and an occupancy rate of 74.2% as of Q3 FY2025. In response to the rising demand, the company has undertaken a systematic renovation of its hotel portfolio to capture better pricing and position itself as the preferred brand of choice in the mid-market segment. This renovation will enhance both ARR and occupancy levels. The early impact of these efforts is visible at its fully renovated Keys hotel in Pune, ARR increased by 24% and occupancy rate increased to 80-90%, demonstrating the potential upside of the refurbishment strategy. Of the total 6,000-room portfolio, ~75% (4,500 rooms) are earmarked for renovation. The company renovated approximately 1,000 rooms in FY2024 and an additional ~1,300 rooms (29% of the target) in the first nine months of FY2025. It aims to complete renovations of 2,600 rooms by the end of FY2025, with the remaining work scheduled for FY2026 and minor spill-overs into FY2027. Upon completion, the renovation program is expected to drive low to mid-teens growth in ARR and an improvement of approximately 150 basis points in occupancy rates.

**EBITDA Margin Expansion Driven by Strategic Renovations:** LEMONTREE witnessed a substantial improvement in its EBITDA margins, expanding from 23% in FY21 to 49% in FY24. At the property level, in Q3 FY2025, Aurika, Lemon Tree Premier, and Red Fox generated industry-leading EBITDA margins in excess of 60%, while Lemon Tree Hotels and Keys operate at relatively lower, yet healthy, margins of ~50% and ~40%, respectively. Over the past two years, the company's cost structure experienced several disruptions, primarily due to rising wage expenses and increased capital allocation towards hotel renovations. These developments resulted in a temporary compression of EBITDA margins. EBITDA margin in FY2023 was 51.9% compared to 49.1% in FY2024. However, with the gradual completion of renovation projects, margins have begun to recover and are expected to continue improving in the coming quarters. Margin expansion is anticipated in the coming quarters, driven by higher revenues, improved occupancy rates, and the elimination of renovation-related costs.

#### Company Detail

Industry	Hospitality
BSE Code	541233
NSE Code	LEMONTREE
Bloomberg Code	LEMONTRE IN
Market Cap (INR Cr)	10,909
Promoter Holding (%)	22.8%
52wk Hi/Lo	162 / 112
Avg. 20 Daily Volume (NSE)	3.2 Mn

#### Shareholding Pattern (%)

Category	Dec-2024	March-2025
Promoter	22.77	22.50
FII	20.01	20.89
DII	20.80	19.68
Public	36.37	36.87

#### Public Holding More than 1% (Mar-25)

Name	% of Shares
APG Strategic real Estate Pool	15.0%
Franklin India Smaller Compa-	7.2%
SBI Small Cap Fund	5.0%
HSBC Small Cap Fund	2.6%
Nomura India Investment Fund	2.4%
Allianz Global Investors GMBH	1.1%

#### Share Price Performance



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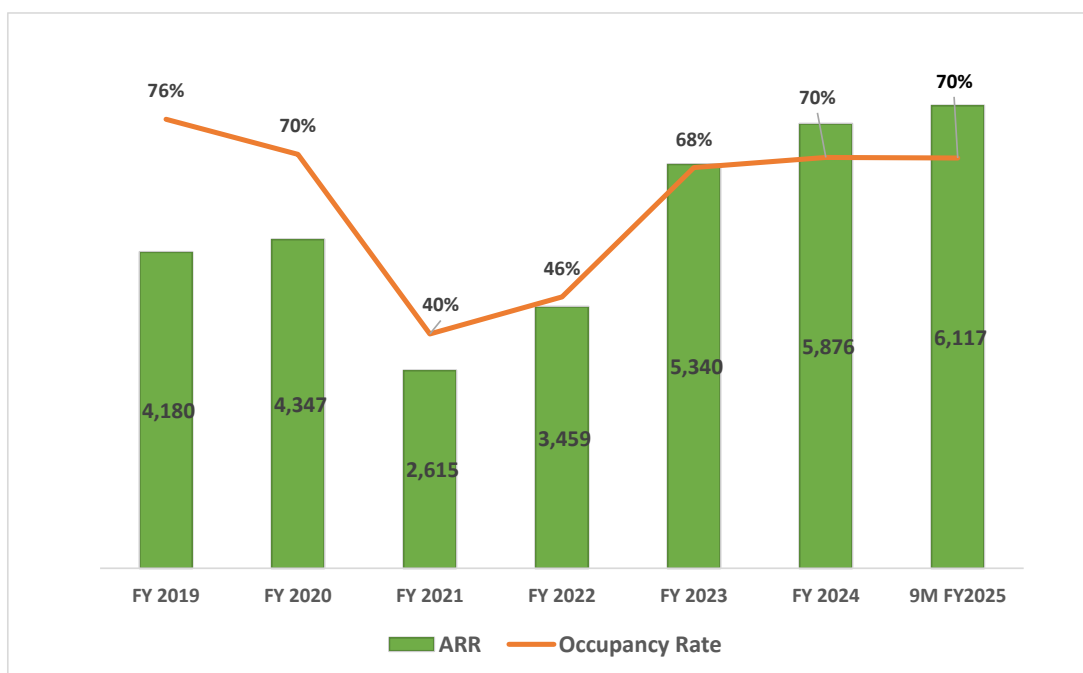
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**Lemon Tree Hotels Ltd.**

Date: 15 May, 2025

**Strategic Deleveraging Through Business Simplification:** As of December 2024, LEMONTREE reported a consolidated debt of ₹1,760 crore, comprising ₹300 crore at the parent company level and ₹1,460 crore at its subsidiary, Fleur Hotels. The company has articulated a deleveraging roadmap over the next three years, anchored on internal cash generation and simplification of group structure. Once the hotels are completely renovated, the company should be able to generate cash profits as the renovation expenses will be eliminated. These cash profits will be utilized to repay some part of the debt. However, the major chunk of the company's debt will be repaid through the listing of Fleur hotels as a separate entity on the stock exchange. LEMONTREE currently holds a 59% stake in Fleur, with the remaining 41% held by APG Strategic Real Estate. As part of this restructuring, LEMONTREE will transfer all its owned hotel assets to Fleur, positioning Fleur as a pure-play asset ownership company. Post-restructuring, LEMONTREE will focus exclusively on operating and managing/franchising the entire hotel portfolio.

**Favourable Supply-Demand Dynamics To Drive Multi-Year Growth:** The Indian hospitality sector is currently experiencing a structural upcycle, supported by healthy domestic tourism, rising household incomes, and sustained government-led infrastructure development. The Union Budget recently outlined plans to develop 50 key tourist destinations in collaboration with state governments, with additional focus on promoting religious, spiritual, and medical tourism, which are the key drivers of footfall across regions. Over the next three years, hotel room demand is projected to grow at a CAGR of 9.7%, outpacing the supply growth of 6% CAGR. This persistent supply-demand imbalance is expected to drive sustained growth in Average Room Rates (ARR) and occupancy levels. Additionally, the growing momentum from domestic and inbound travel, alongside an uptick in large-format events, concerts, and MICE (Meetings, Incentives, Conferences, and Exhibitions) activity, is set to further fuel demand for hotel rooms.

**Exhibit 1: Average Room Rate (ARR) and Occupancy Rate**

Source: GEPL Capital, Company data

## Exhibit 2: Operational Performance by Brands

Particulars	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Average Daily Rate (Rs.)</b>						
Aurika Hotels & Resorts	-	-	9,842	13,574	14,639	10,643
Lemon Tree Premier	5,126	5,207	2,756	3,658	6,464	6,929
Lemon Tree Hotels	4,088	4,199	2,681	3,418	5,154	5,531
Red Fox by Lemon Tree Hotels	3,131	3,339	2,006	2,657	4,025	4,426
Keys by Lemon Tree Hotels	-	-	1,885	2,177	3,332	3,518
<b>Occupancy Rate (%)</b>						
Aurika Hotels & Resorts			23%	36%	49%	53%
Lemon Tree Premier	78%	76%	53%	59%	76%	79%
Lemon Tree Hotels	74%	72%	37%	46%	69%	73%
Red Fox by Lemon Tree Hotels	78%	73%	36%	41%	70%	71%
Keys by Lemon Tree Hotels			27%	30%	54%	56%
<b>RevPAR (Rs.)</b>						
Aurika Hotels & Resorts	-	-	2,293	4,941	7,173	5,641
Lemon Tree Premier	4,019	3,942	1,472	2,169	4,913	5,474
Lemon Tree Hotels	3,037	3,032	1,003	1,583	3,556	4,038
Red Fox by Lemon Tree Hotels	2,430	2,447	722	1,095	2,818	3,142
Keys by Lemon Tree Hotels	-	-	507	649	1,799	1,970

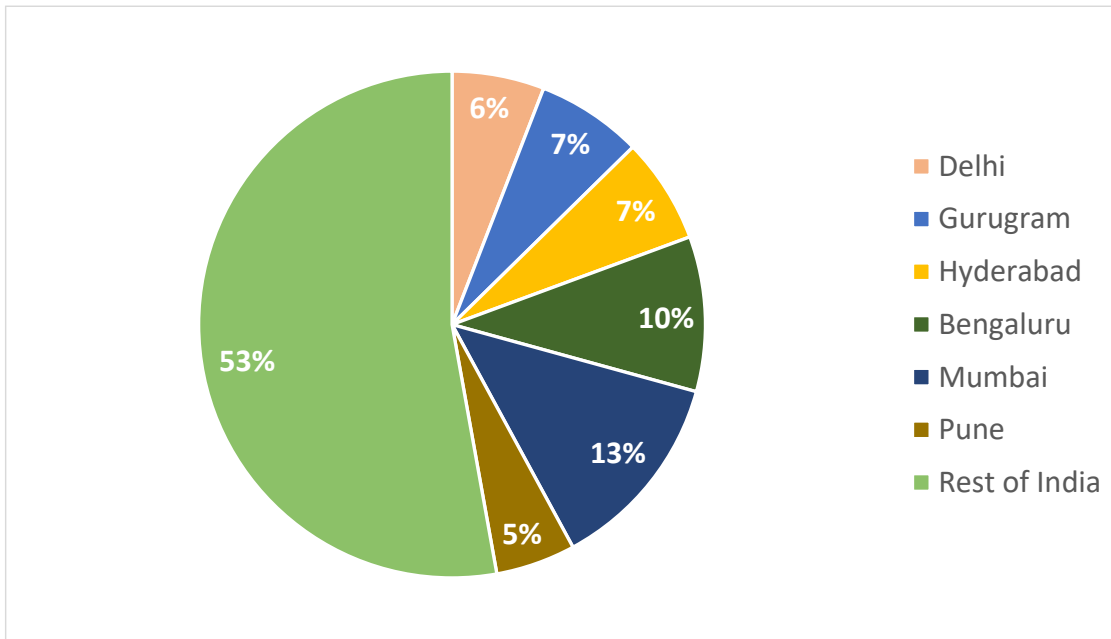
Source: GEPL Capital, Company data

## Exhibit 3: Inventory Break-up by Brands

Particulars	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	9MFY2025
<b>Owned/Leased Rooms</b>							
Aurika Hotels & Resorts	-	132	132	132	139	808	808
Lemon Tree Premier	1,158	1,603	1,603	1,603	1,603	1,603	1,603
Lemon Tree Hotels	1,562	1,138	1,138	1,138	1,562	1,562	1,562
Red Fox by Lemon Tree Hotels	850	952	952	952	850	850	850
Keys by Lemon Tree Hotels	-	936	936	936	936	936	936
<b>Managed / Franchised Rooms</b>							
Aurika Hotels & Resorts	-	-	-	55	55	55	55
Lemon Tree Premier	539	604	911	911	911	1,004	1,121
Lemon Tree Hotels	879	1,084	1,305	1,305	1,409	2,095	2,408
Red Fox by Lemon Tree Hotels	423	471	471	551	440	440	440
Keys by Lemon Tree Hotels	-	655	430	475	477	505	534
<b>Total Rooms</b>							
Aurika Hotels & Resorts	-	132	132	187	194	863	863
Lemon Tree Premier	1,697	2,207	2,514	2,514	2,514	2,607	2,724
Lemon Tree Hotels	2,441	2,222	2,443	2,443	2,971	3,657	3,970
Red Fox by Lemon Tree Hotels	1,273	1,423	1,423	1,503	1,290	1,290	1,290
Keys by Lemon Tree Hotels	-	1,591	1,366	1,411	1,413	1,441	1,470

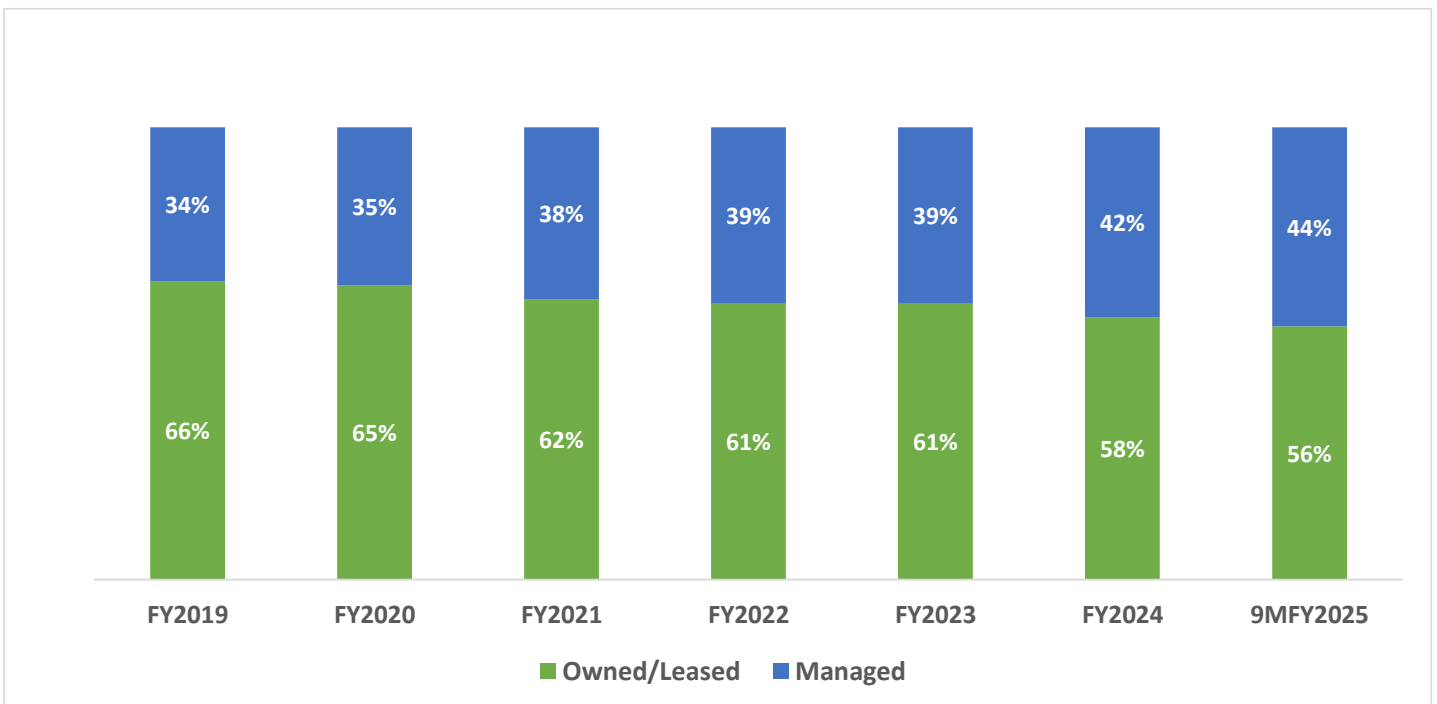
Source: GEPL Capital, Company data

Exhibit 4: Geographic Distribution Based on Operational Inventory



Source: GEPL Capital, Company data

Exhibit 5: Lemon Tree's Hotel Inventory Mix



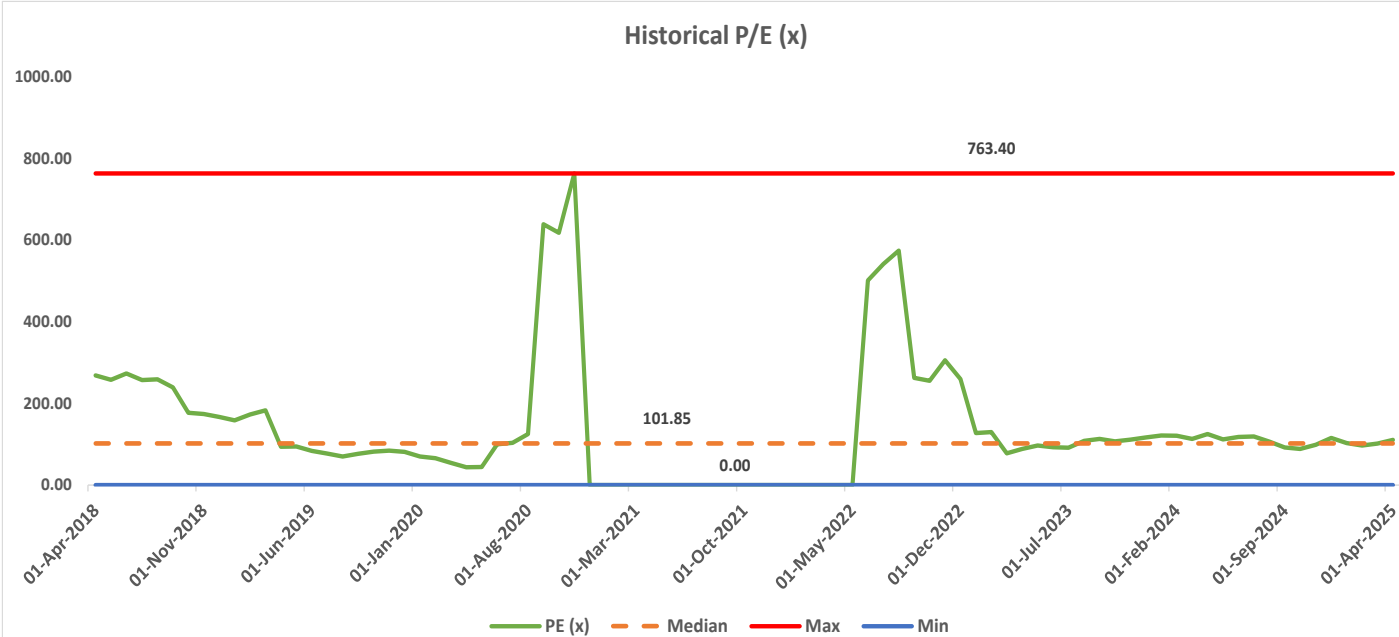
Source: GEPL Capital, Company data

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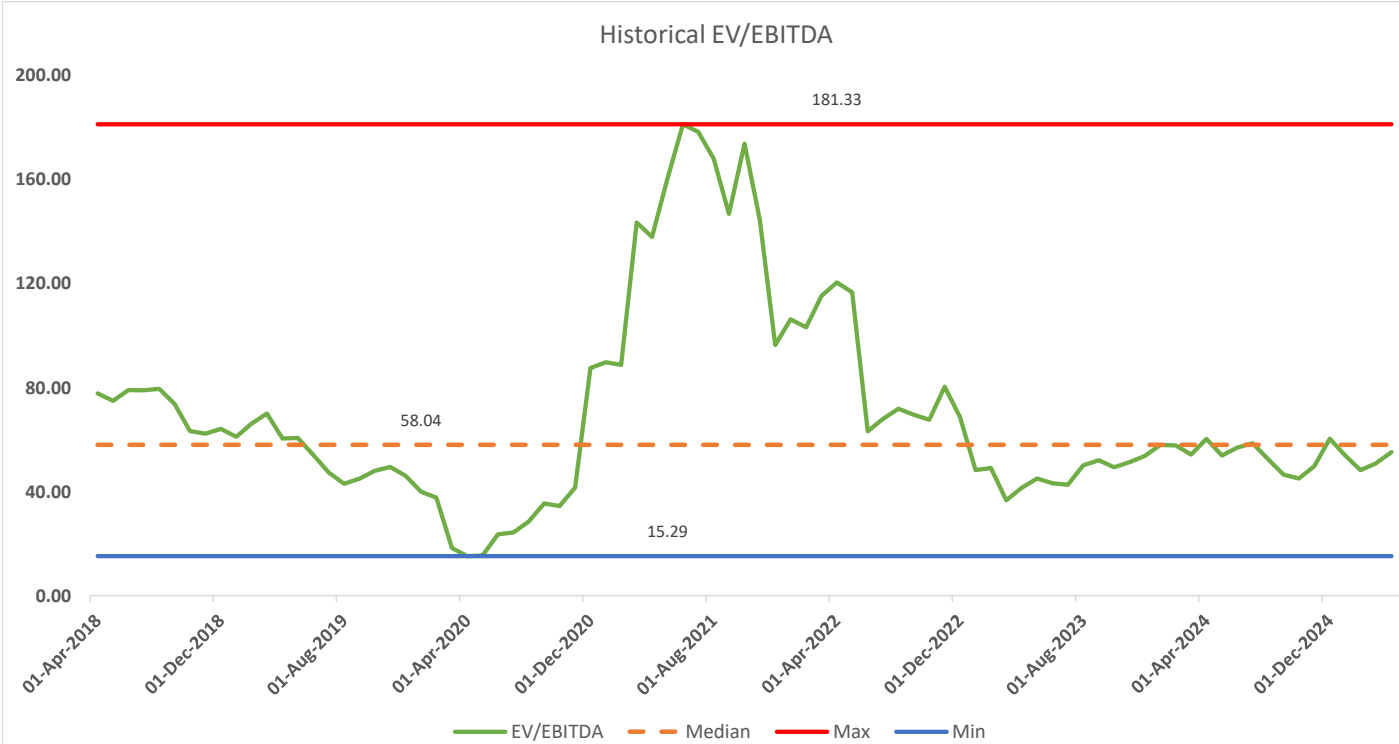


P/E trading close to historical median levels aids comfort.



Source: GEPL Capital, Ace Equity

EV/ EBITDA trading below historical levels



Source: GEPL Capital, Ace Equity

## Profit and Loss Statement

Particulars (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
<b>Revenue from operations</b>	<b>402</b>	<b>875</b>	<b>1,071</b>	<b>1,262</b>	<b>1,478</b>	<b>1,710</b>	<b>1,980</b>
Growth (%)	60%	118%	22%	18%	17%	16%	16%
Cost of food and beverages consumed	28	50	63	76	89	94	109
<b>Gross Profits</b>	<b>374</b>	<b>825</b>	<b>1,008</b>	<b>1,186</b>	<b>1,389</b>	<b>1,616</b>	<b>1,871</b>
GPM%	93.1%	94.3%	94.1%	94.0%	94.0%	94.5%	94.5%
Employee benefit expense	97	150	188	227	266	308	356
Power and Fuels	44	69	78	88	103	128	148
Other expenses	115	159	219	265	281	291	337
<b>EBITDA</b>	<b>119</b>	<b>448</b>	<b>523</b>	<b>606</b>	<b>739</b>	<b>889</b>	<b>1,030</b>
EBITDA%	29.5%	51.2%	48.9%	48.0%	50.0%	52.0%	52.0%
Other Income	14	4	6	13	15	17	20
Depreciation and amortization expense	104	97	112	122	127	131	133
<b>EBIT</b>	<b>28</b>	<b>355</b>	<b>417</b>	<b>497</b>	<b>627</b>	<b>775</b>	<b>916</b>
Financial costs	174	177	202	240	214	213	69
<b>Profit before tax</b>	<b>-146</b>	<b>177</b>	<b>215</b>	<b>257</b>	<b>413</b>	<b>563</b>	<b>846</b>
Taxes	-7	38	34	41	66	90	135
<b>Profit for the year</b>	<b>-137</b>	<b>141</b>	<b>181</b>	<b>216</b>	<b>347</b>	<b>473</b>	<b>711</b>

Source: GEPL Capital, Company data

## Balance Sheet

ASSETS (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Property, Plant & Equipment	2,510	2,450	3,114	3,203	3,299	3,280	1,664
Right of Use- Assets	430	404	391	430	473	521	573
Intangible Assets	17	19	40	83	98	127	198
Goodwill	95	95	95	95	95	95	95
<b>Total Non Current Assets</b>	<b>3,504</b>	<b>3,596</b>	<b>3,828</b>	<b>4,026</b>	<b>4,227</b>	<b>4,389</b>	<b>2,990</b>
Trade receivables	29	56	71	70	80	80	80
Cash, Cash equivInt., Bank balance	54	27	54	64	186	357	783
Other Current Assets	40	42	66	151	177	256	356
<b>Total Current Assets</b>	<b>131</b>	<b>136</b>	<b>205</b>	<b>301</b>	<b>458</b>	<b>713</b>	<b>1,240</b>
Assets Classified As Held For Sale							
<b>TOTAL ASSETS</b>	<b>3,635</b>	<b>3,732</b>	<b>4,033</b>	<b>4,326</b>	<b>4,684</b>	<b>5,102</b>	<b>4,230</b>
LIABILITIES (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Equity Share Capital	791	792	792	792	792	792	792
Other Equity	40	62	175	371	698	1,150	1,841
Equity Attributable to shareholder	831	854	967	1,163	1,489	1,942	2,633
Non- Controlling Interest	568	560	580	600	620	640	660
<b>Total Equity</b>	<b>1,399</b>	<b>1,413</b>	<b>1,546</b>	<b>1,762</b>	<b>2,109</b>	<b>2,581</b>	<b>3,293</b>
Non-Current Liabilities							
Borrowings	1,553	1,517	1,677	1,727	1,675	1,625	-
Lease Liabilities	425	425	442	442	464	487	512
<b>Total Non Current Liabilities</b>	<b>1,983</b>	<b>1,949</b>	<b>2,127</b>	<b>2,177</b>	<b>2,155</b>	<b>2,128</b>	<b>531</b>
Borrowings	145	228	212	223	234	246	251
Lease Liability	5	6	4	6	7	8	9
Trade Payables	59	67	86	90	100	100	100
Other Liabilities	25	64	50	63	74	34	40
<b>Total Current Liabilities</b>	<b>253</b>	<b>370</b>	<b>359</b>	<b>387</b>	<b>420</b>	<b>393</b>	<b>407</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,635</b>	<b>3,732</b>	<b>4,033</b>	<b>4,326</b>	<b>4,684</b>	<b>5,102</b>	<b>4,230</b>

Source: GEPL Capital, Company data

## Cash Flow Statement

Particulars (Rs Crs.)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Profit before tax and extraordinary items	-145	178	216	257	413	563	846
Add: Depreciation	104	97	112	122	127	131	133
Add: Finance Costs	179	177	202	240	214	213	69
Others	-4	-6	-8	5	5	5	5
<b>Operating Profit Before Working Capital Changes</b>	<b>134</b>	<b>447</b>	<b>523</b>	<b>623</b>	<b>759</b>	<b>911</b>	<b>1,054</b>
Adjustment For :							
Core Working Capital	3	-41	-22	4	-	-5	-
Tax Payment	-2	-21	-36	-41	-66	-90	-135
<b>Net Cash From Operating Activities (A)</b>	<b>135</b>	<b>385</b>	<b>465</b>	<b>587</b>	<b>693</b>	<b>816</b>	<b>919</b>
<b>Cash Flow From Investing Activities</b>							
Purchase Of Property ,Plant And Equipment, Intangibles Etc	-68	-162	-331	-250	-266	-160	-169
Others	22	-121	-65	-50	-70	-120	-120
<b>Net Cash Used In Investing Activities (B)</b>	<b>-45</b>	<b>-283</b>	<b>-397</b>	<b>-300</b>	<b>-336</b>	<b>-280</b>	<b>-289</b>
<b>Cash Flow From Financing Activities</b>							
Payment towards reduction of outstanding lease liability	-37	-38	-39	-40	-40	-100	-100
Proceeds From long term Borrowings	260	178	367	100	50	0	0
Repayment of long term borrowings	-223	-153	-171	-100	-50	-50	0
(Repayment)/proceeds of short term borrowings (net)	-24	22	-55	-30	-30	-50	-50
Interest Paid	-140	-143	-162	-187	-167	-166	-54
<b>Net Cash Used In Financing Activities (C)</b>	<b>-163</b>	<b>-132</b>	<b>-59</b>	<b>-256</b>	<b>-236</b>	<b>-365</b>	<b>-203</b>
<b>Net Increase/ (Decrease) In Cash And Cash Equivalents ( A + B + C )</b>	<b>-73</b>	<b>-31</b>	<b>10</b>	<b>31</b>	<b>121</b>	<b>171</b>	<b>426</b>
Cash And Cash Equivalents As At (Opening Balance)	127	54	24	34	64	186	357
<b>Cash And Cash Equivalents As (Closing Balance)</b>	<b>54</b>	<b>24</b>	<b>34</b>	<b>64</b>	<b>186</b>	<b>357</b>	<b>783</b>

Source: GEPL Capital, Company data

## VALUATION &amp; RECOMMENDATION

- Lemon Tree Hotel Ltd's stock is trading at EV/EBITDA multiple of 12.2(x) of forward EBITDA for FY28E.
- We estimate a CAGR of 16.6% growth in Total Revenue during FY 24-FY28E period.
- EBITDA of Rs 1,030 crore is estimated for FY28E. We Applied a EV/EBITDA (x) multiple of 17(x) and arrive at a Enterprise Value of Rs. 17,510 cr. (current Enterprise Value Rs 12,566 cr).
- A 39.3% upside is visible as per valuations.
- We have a 'BUY' rating on 'Lemon Tree Hotels Ltd' with a fair price of Rs. 188/share.



## Notes

Recommendation Rating	Expected Absolute Return (%) over 12 months
BUY	>=15%
ACCUMULATE	>=10% and < 15%
NEUTRAL	>=-5% and < 10%
REDUCE	>=-20% and < -5%
SELL	<-20%

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