

### Result Update – Q3FY25

<b>Sector</b>	<b>Ratings</b>
Hotels	BUY
<b>Current Price</b>	<b>Target</b>
Rs.139	Rs. 194
<b>Potential upside</b>	<b>Holding</b>
39%	12 months

Stock Information	
Sensex/Nifty	77,860/ 23,560
Bloomberg	LEMONTRE:IN
Equity shares (Cr)	79.22
52-wk High/Low (Rs)	162 / 112
Face value (Rs)	10
M-Cap (Rs Cr)	11,005
2-wk Avg Volume (Qty)	4,713,090

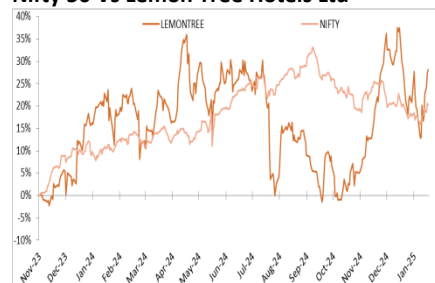
### Shareholding pattern %

Particulars	Jun-24	Sep-24	Dec-24
Promoters	22.8	22.8	22.8
DII	27.6	21.8	20.0
FII	15.2	18.9	20.8
Public	34.4	36.6	36.4

### Financial Summary (Rs. crs.)

Summary P&L	FY24	FY25E	FY26E
Revenue	1,071	1,215	1,512
EBITDA	523	645	855
EBITDA %	48.8	53.1	56.6
EBIT	411	502	674
EBIT %	38.4	41.3	44.6
PAT	148	186	309
PAT %	13.9	15.3	20.5
P/E (x)	74.1	59.2	35.6
P/B (x)	11.4	9.5	7.5
EV/EBITDA (x)	24.5	19.5	14.4

### Nifty 50 Vs Lemon Tree Hotels Ltd



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## Lemon Tree Hotels Ltd

07<sup>th</sup> January 2025

### Lemon Tree Hotels Reports Strong Q3 FY25 Performance with Robust Revenue Growth, Margin Expansion, and Pipeline Expansion

Lemon Tree Hotels delivered strong financial performance in Q3FY25, with revenue rising 25% QoQ and 22% YoY to Rs. 355.2 Crs. EBITDA grew by 41% QoQ and 30% YoY to Rs.184.8 Crs, with EBITDA margins expanding by 588 bps QoQ and 316 bps YoY to 51.9%. Profit After Tax (PAT) surged by 128% QoQ and 82% YoY to Rs. 79.9 Crs, while cash profit increased by 65% QoQ and 49% YoY to Rs.114.9 Crs. Management and franchise fees from third-party-owned hotels stood at Rs. 18.4 Crs, reflecting a 24% YoY growth, while fees from Fleur Hotels reached Rs.25.3 Crs, marking a 45% YoY increase. Consequently, total management fees grew by 35% YoY to Rs.43.7 Crs. Operationally, the Gross Average Room Rate (ARR) rose 15% QoQ and 7% YoY to Rs.6,763, while occupancy improved by 582 bps QoQ and 826 bps YoY to 74.2%. Revenue per available room (RevPAR) grew by 21% QoQ and 24% YoY to Rs.5,018. Additionally, the company signed multiple hotel agreements in Q3 FY25 under managed and franchised contracts, adding a pipeline of 766 keys expected to be completed by FY29, bringing the total pipeline to 5,879 keys.

### Accelerates Luxury Expansion with Aurika Hotels in Shillong, Mumbai, and Varanasi

Lemon Tree Hotels has secured a Letter of Award from the Meghalaya Tourism Directorate to redevelop and operate the Orchid Hotel in Shillong under the DBFOT model. Rebranded as Aurika, Shillong, the 120-room luxury hotel will feature premium dining, banquet spaces, and recreational facilities. Strategically located in Polo Market, it is set to become a landmark destination. The project benefits from capital subsidies, GST refunds, and a 5% interest subvention, reducing borrowing costs to 3-3.5%. In partnership with RJ Corporation, the company requires a total investment of ~Rs. 120 Cr, of which Rs. 70-80 Cr will be raised through debt. It will receive Rs. 15 Cr as a capital subsidy on the day the hotel opens, equity investment will likely be Rs. 20 Cr.

Meanwhile, Aurika, Mumbai, is projected to achieve an ARR of over Rs.11,000 in H1 FY26, with occupancy expected to reach 85%. Additionally, the property attract 15-20% foreign guests, enhancing its revenue mix.

In Varanasi, the company is in the final stages of securing a long-term lease for a premium Aurika property in a market where hotel rates command up to Rs.50,000 per night. Notably, this upcoming Aurika property is expected to be priced at more than five times the current Aurika rates, marking a significant expansion into the luxury hospitality segment for the brand.

The company anticipates that demand growth will outpace supply growth in the coming years, supported by structural tailwinds in the discretionary consumption of branded rooms that India is beginning to experience. Their increased investment in renovations will enable them to better position their hotels for superior pricing and establish Lemon Tree as the preferred brand in the mid-market segment moving forward. Hence we expect the company to perform well going ahead due to gap in demand and supply of hotel rooms and healthy pipeline of projects which will aid the company growth ahead. We recommend a BUY rating on the stock based on 27x FY26E EV/EBITDA on an EBITDA of Rs 616 cr (excl. Fleur share) and give a target price of Rs 194 giving an upside of 39%.

## Brief Financial Snapshot

### Exhibit 01:

DESCRIPTION	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24
Sales	355.18	284.37	290.19	25%	22%	907.56	743.81
Other Income	0.62	0.47	0.68			1.45	1.78
<b>Total (A+B)</b>	<b>355.80</b>	<b>284.84</b>	<b>290.87</b>	<b>25%</b>	<b>22%</b>	<b>909.02</b>	<b>745.59</b>
<b>Expenditure</b>							
Cost of Services & Raw Materials	19.63	17.16	16.64			53.22	42.26
Power & Fuel	21.48	22.76	19.94			67.61	58.32
Other Expense	73.44	59.40	63.38			195.28	153.57
Employee Benefit Expenses	56.43	54.30	48.99			161.44	137.89
<b>Total Expenditure</b>	<b>170.97</b>	<b>153.62</b>	<b>148.95</b>	<b>11%</b>	<b>15%</b>	<b>477.55</b>	<b>392.04</b>
<b>EBITDA (Excl Other Income)</b>	<b>184.20</b>	<b>130.74</b>	<b>141.23</b>	<b>41%</b>	<b>30%</b>	<b>430.01</b>	<b>351.77</b>
<b>EBITDA Margin %</b>	<b>52%</b>	<b>46%</b>	<b>49%</b>			<b>47%</b>	<b>47%</b>
<b>EBITDA (Inclu. Other Income)</b>	<b>184.83</b>	<b>131.22</b>	<b>141.92</b>	<b>41%</b>	<b>30%</b>	<b>431.46</b>	<b>353.55</b>
Interest Exp (Adjusted to Interest Income)	50.33	51.33	53.38			153.42	148.87
<b>Profit Before Depreciation and Tax</b>	<b>134.49</b>	<b>79.89</b>	<b>88.54</b>	<b>68%</b>	<b>52%</b>	<b>278.04</b>	<b>204.69</b>
Depreciation	35.07	34.78	33.34			104.42	78.74
Share of profit of associates	0.09	0.15	0.34			0.36	0.85
<b>Profit Before Tax</b>	<b>99.51</b>	<b>45.26</b>	<b>55.55</b>	<b>120%</b>	<b>79%</b>	<b>173.98</b>	<b>126.80</b>
<b>Total Tax</b>	<b>19.66</b>	<b>10.23</b>	<b>11.75</b>	<b>92%</b>	<b>67%</b>	<b>38.98</b>	<b>29.09</b>
<b>Tax Rate</b>	<b>20%</b>	<b>23%</b>	<b>21%</b>			<b>22%</b>	<b>23%</b>
<b>Profit After Tax</b>	<b>79.84</b>	<b>35.04</b>	<b>43.80</b>	<b>128%</b>	<b>82%</b>	<b>135.00</b>	<b>97.71</b>

Source: Company, Systematix PCG Research

## Key Conference Call Takeaways:

### Inventory

As of December 31, 2024, the total inventory stands at 112 operational hotels with 10,317 rooms, and the company plans to add 88 more hotels with 6,068 rooms in the coming years.

### Aurika Shilog

Lemon Tree Hotels secured a Letter of Award from the Directorate of Tourism, Government of Meghalaya, for the redevelopment, operation, and maintenance of the existing Orchid Hotel in Shillong. This project will be undertaken under the Design, Build, Finance, Operate, and Transfer (DBFOT) model as part of a Public-Private Partnership. Upon redevelopment, the property will be rebranded as Aurika, Shillong, and is expected to become operational within the next three years. The hotel will feature 120 elegantly designed rooms and suites, an all-day dining restaurant, Mirasa, and a bar, Ariva. Additionally, it will offer expansive banquet spaces and premium recreational facilities, including a well-equipped fitness center and a spa. Strategically located in Polo Market, directly opposite the Chief Minister's Bungalow, the property is set to become a prominent hospitality destination in the region.

The project is eligible for a capital subsidy and various incentives, including GST reimbursement, as outlined in the Meghalaya Industrial and Investment Promotion Policy 2024 and the Uttar Poorva Transformative Industrialisation Scheme 2024.

5% interest subvention. So instead of borrowing money at 8% to 8.5%, company will get debt at 3% to 3.5%

ARR of ~Rs. 12,000 to 13,000 is expected.

The company requires a total investment of ~Rs. 120 Cr, of which Rs. 70-80 Cr will be raised through debt. It will receive Rs. 15 Cr as a capital subsidy on the day the hotel opens, equity investment will likely be Rs. 20 Cr.

The company will receive a 100% GST refund, from central for seven years and state for ten years—boosting EBITDA margins to approximately 65%. With this advantage, the equity payback for both the partners is expected within 1.5 years. This presents a lucrative opportunity, potentially generating over Rs. 10 Crs annually for Lemon Tree over the next 45 years.

### **Aurika Mumbai**

Company expects ARR of Aurika Mumbai will be Rs. 11,000+ for the H1FY26. In the January month, occupancy has reached to 85%.

### **Aurika Varanasi**

The company is nearing the finalization of a long-term lease for an exceptional Aurika property in Varanasi, a market commanding rates of Rs. 50,000 per night. It is noteworthy that, for a mid-market hotel chain, this Aurika property is expected to be priced at more than five times the current Aurika rates.

### **Keys Hotel**

Pune: Occupancy is currently at 80 to 90%, ARR is up 24% post renovation.

The cost to build a hotel room, including land, is lower in Pune compared to other locations.

Company is accelerating renovations in areas with pricing power and demand, such as Keys Pimpri, Pune, and Keys Whitefield, to capitalize on the existing demand.

The company aims to achieve an EBITDA of Rs. 60 Crs from its Keys portfolio, translating to approximately Rs. 6.5 lakh per key. Currently, the EBITDA for the Keys portfolio stands at Rs. 1 lakh per quarter, or around Rs. 3.5 lakh per year. The company is focused on doubling this figure.

### **Fleur IPO**

Fleur IPO is expected to list at the EBITDA of \$100 Million. Lemon tree will be the major shareholder in the Fleur Hotel. Discussion is on advance stage, company will give clarity in next 2 to 3 months regarding the listing and holding. The company's agreement with Fleur stipulates that for every asset developed, it receives a fee ranging from 10% to 12% of the investment.

### **Renovation**

The company has 640 rooms in Lemon Tree Premier Bombay, Pune, and Calcutta that require no renovation. Of the remaining 4,500 rooms in the portfolio, 900 are keys and 3,600 belong to other hotels. Key properties identified for renovation include Lemon Tree Premier Delhi, Hyderabad, Bangalore, Gachibowli, and Electronic City, with 70% of these already renovated. This year, the company has renovated approximately 1,300 rooms, following 1,000 renovations last year. By the end of the financial year, around 2,600-2,700 rooms will be completed, with high-value hotels expected to be renovated by next year. The company plans renovations through FY26-27, after which annual costs will stabilize at ~1.8% of revenue.

## Outlook

Lemon Tree Hotels remains confident in its ability to sustain growth in the coming quarters by leveraging key strategic initiatives. This include accelerated expansion of its management and franchised portfolio, leading to a proportional increase in fee-based income, and the timely completion of renovation projects across its owned properties to enhance Gross ARR and occupancy levels. The company anticipates continued investment in renovations through FY26 to FY27 until the entire owned portfolio is fully upgraded. Thereafter, annual renovation expenses are expected to stabilize at approximately 1.8% of revenue. With demand growth projected to outpace supply in the coming years and increasing discretionary spending on branded hotels in India, these investments will strengthen Lemon Tree's positioning as a leading brand in the mid-market hospitality segment.

Company does not expect any major impact from the Navi Mumbai Airport. Any rise for the demand and supply will be absorbed the industry at the phased manner.

Rise in demand will be with the growth in highways, airports and the discretionary spending. Demand growth is expected to outpace supply in the mid-market hotel segment in India.

Only 2% of Indian households (around 6 million) currently consume branded hotel rooms. If India's GDP grows 6-7% in real terms for the next 6-7 years, the number of households consuming luxury items will increase from 1-1.5 million to 6-7 million, and mid-market households consuming branded hotel rooms will grow from 3.5-4 million to 30 million. The company is focused on capturing future demand in 160-170 Indian cities with 0.5 million plus population, where they can strategically place hotels to create a competitive moat through a network effects.

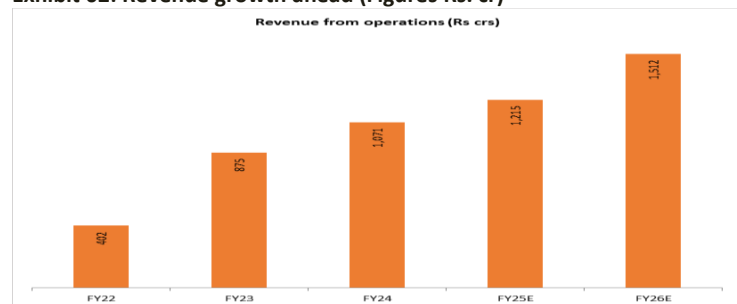
The company is trying to remove lower-price business and replace it with higher-price business, such as increasing retail prices to Rs. 15,000 to Rs. 16,000 and corporate prices to Rs. 10,000 to Rs. 11,000. Growth in RevPAR will be in the mid-teens.

Company is expecting to be debt free in the next 3 years. Debt to EBITDA will be under 1.7 by the end of next year.

**Management Fee & EBITDA Margin:** The company expects management fee income to double in the next two years. Management income will cover the corporate expenses which will help to achieve the EBITDA margin of 60%.

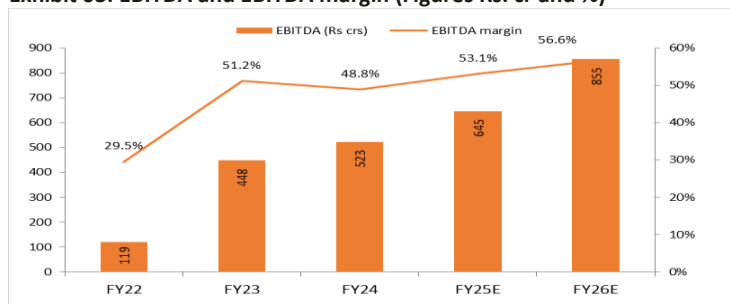
## Story In Charts

**Exhibit 02: Revenue growth ahead (Figures Rs. cr)**



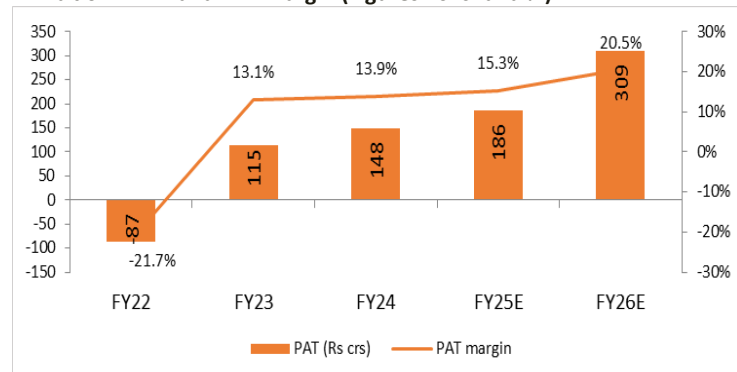
Source: Company, Systematix PCG Research

**Exhibit 03: EBITDA and EBITDA margin (Figures Rs. cr and %)**



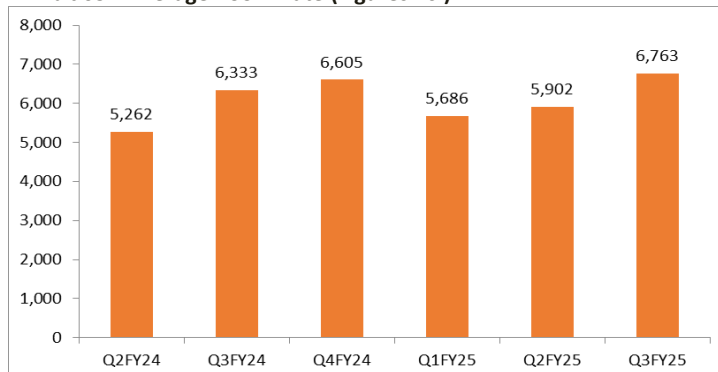
Source: Company, Systematix PCG Research

**Exhibit 04: PAT and PAT margin (Figures Rs. cr and %)**



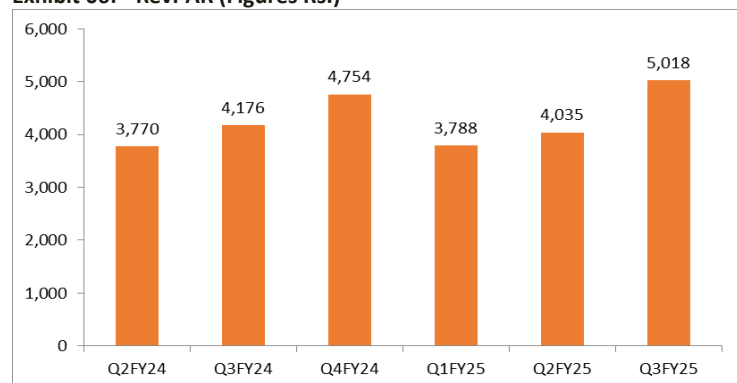
Source: Company, Systematix PCG Research

**Exhibit 05: Average Room Rate (Figures Rs.)**



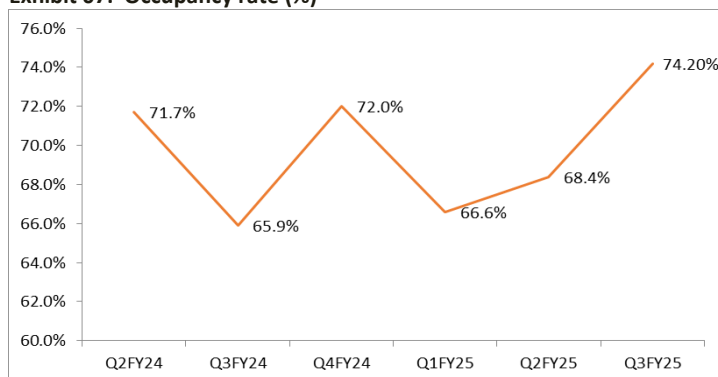
Source: Company, Systematix PCG Research

**Exhibit 06: RevPAR (Figures Rs.)**



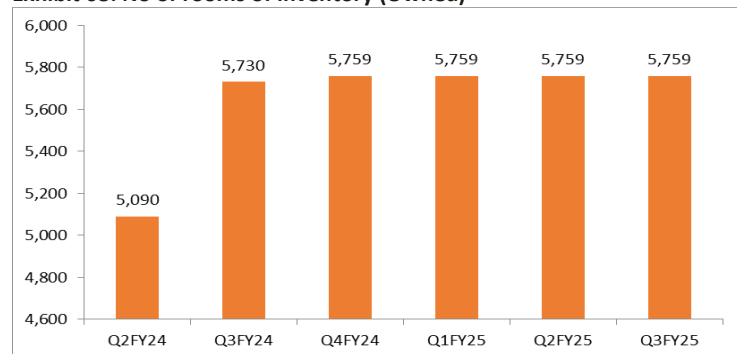
Source: Company, Systematix PCG Research

**Exhibit 07: Occupancy rate (%)**



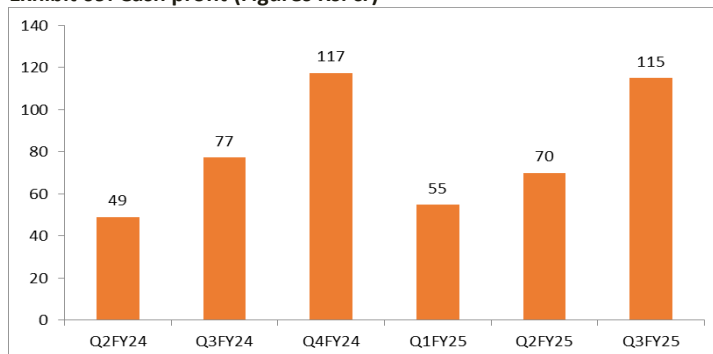
Source: Company, Systematix PCG Research

**Exhibit 08: No of rooms of inventory (Owned)**



Source: Company, Systematix PCG Research

**Exhibit 09: Cash profit (Figures Rs. cr)**



Source: Company, Systematix PCG Research

## Financial Summary

Income Statement (Rs crs)	FY22	FY23	FY24	FY25E	FY26E
Revenue from Operations	402	875	1,071	1,215	1,512
Expenses	284	427	548	570	657
<b>EBITDA</b>	<b>119</b>	<b>448</b>	<b>523</b>	<b>645</b>	<b>855</b>
Depreciation and Amortisation	104	97	112	143	181
<b>EBIT</b>	<b>14</b>	<b>351</b>	<b>411</b>	<b>502</b>	<b>674</b>
Net Interest Cost	174	177	202	216	222
Other income	14	4	6	7	7
Share of Profit/ (Loss) from associate	1	1	1	1	1
<b>PBT</b>	<b>-145</b>	<b>178</b>	<b>216</b>	<b>294</b>	<b>459</b>
Tax expense	-7	38	34	75	117
<b>PAT including minority interest</b>	<b>-137</b>	<b>141</b>	<b>182</b>	<b>219</b>	<b>342</b>
Attributable to minority interest	-50	26	33	33	33
<b>Net Profit attributable to owners</b>	<b>-87</b>	<b>115</b>	<b>148</b>	<b>186</b>	<b>309</b>
<b>Balance Sheet (Rs crs)</b>					
Fixed Assets including investment property	2,806	2,921	3,141	3,140	3,127
Intangible Assets incl right of Use of assets & goodwill	542	518	526	526	526
Investments & Other non current assets	9	20	14	20	20
Loans & other Financial Assets	76	81	88	81	81
Non current tax Assets including deferred tax assets	71	55	59	55	55
<b>Total Non Current Assets</b>	<b>3,504</b>	<b>3,596</b>	<b>3,828</b>	<b>3,822</b>	<b>3,809</b>
Cash & Cash equivalents including bank balances	54	27	54	52	170
Inventories	8	11	14	12	13
Receivables	29	56	71	73	91
Investments	6	1	8	1	1
Other current assets incl financial assets	34	41	58	41	41
<b>Total Current Assets</b>	<b>131</b>	<b>136</b>	<b>205</b>	<b>179</b>	<b>315</b>
<b>Total Assets</b>	<b>3,635</b>	<b>3,732</b>	<b>4,033</b>	<b>4,002</b>	<b>4,125</b>
Share capital	791	792	792	792	792
<b>Net worth including minority interest</b>	<b>1,399</b>	<b>1,413</b>	<b>1,546</b>	<b>1,732</b>	<b>2,042</b>
Long Term Borrowings	1,553	1,517	1,677	1,436	1,205
Non current Lease liabilities and provisions	427	428	446	445	445
Non current deferred tax liabilities	2	4	5	4	5
<b>Total Non Current Liabilities</b>	<b>1,983</b>	<b>1,949</b>	<b>2,127</b>	<b>1,884</b>	<b>1,655</b>
Trade Payables	59	67	86	83	87
Short Term borrowings	145	228	212	227	266
Current Lease liabilities and provisions	24	11	10	11	11
Other current liabilities incl financial liabilities	25	64	50	64	64
<b>Total Current Liabilities</b>	<b>253</b>	<b>370</b>	<b>359</b>	<b>385</b>	<b>428</b>
<b>Total Equity and Liabilities</b>	<b>3,635</b>	<b>3,732</b>	<b>4,033</b>	<b>4,002</b>	<b>4,125</b>
<b>Cash Flow Statement (Rs crs)</b>					
CF before working capital changes	134	446	523	620	829
Changes in working capital	3	-40	-22	0	-18
Cash from operations	137	406	501	620	811
Direct taxes paid	-2	-21	-36	-75	-117
<b>Net cash from operations</b>	<b>135</b>	<b>385</b>	<b>465</b>	<b>545</b>	<b>695</b>
<b>Net cash from investing activities</b>	<b>-45</b>	<b>-283</b>	<b>-397</b>	<b>-315</b>	<b>-305</b>
<b>Net cash from financing activities</b>	<b>-163</b>	<b>-132</b>	<b>-59</b>	<b>-216</b>	<b>-272</b>
Net change	-73	-31	10	15	118
Opening cash	127	54	24	34	48
<b>Closing Cash</b>	<b>54</b>	<b>24</b>	<b>34</b>	<b>48</b>	<b>166</b>

Basic Ratios (Rs.)	FY22	FY23	FY24	FY25E	FY26E
EPS	-1.1	1.4	1.9	2.3	3.9
Growth (%)	31.2	230.9	29.6	25.2	66.3
Book Value	11	11	12	15	18
Growth (%)	-9.5	2.6	13.2	19.2	26.8
<b>Valuation Ratios</b>					
P/E (x)	-125.6	96.0	74.1	59.2	35.6
P/CEPS (x)	649.5	2.6	75.1	114.8	257.1
P/BV (x)	13.2	12.9	11.4	9.5	7.5
EV/Sales (x)	31.4	14.5	12.0	10.4	8.1
EV/EBITDA (x)	106.4	28.4	24.5	19.5	14.4
<b>Profitability Ratio (%)</b>					
ROE (%)	-10.0	13.6	16.3	17.5	23.7
ROA (%)	-2.3	3.1	3.8	4.6	7.6
ROCE (%)	0.6	13.5	14.4	17.8	23.0
<b>Margin (%)</b>					
EBITDA	29.5	51.2	48.8	53.1	56.6
EBIT	3.6	40.1	38.4	41.3	44.6
PBT	-35.9	20.4	20.2	24.2	30.4
PAT	-21.7	13.1	13.9	15.3	20.5
<b>Leverage Ratios</b>					
Interest Coverage Ratio (x)	0.1	2.0	2.0	2.3	3.0
Net D/E (x)	2.0	2.0	1.9	1.4	0.9
Net Debt/ EBITDA (x)	13.9	3.8	3.5	2.5	1.5
Financial Leverage (x)	4.3	4.4	4.3	3.8	3.1
<b>Liquidity Ratios</b>					
Current Ratio	0.5	0.4	0.6	0.5	0.7
Quick Ratio	0.5	0.3	0.5	0.4	0.7
Cash Ratio	0.1	0.0	0.1	0.0	0.1
<b>Working Capital</b>					
Inventory days	7	4	5	4	3
Trade Receivable Days	26	23	21	22	22
Trade Payable Days	53	28	29	25	21
<b>Working Capital Cycle</b>	<b>-19</b>	<b>0</b>	<b>-4</b>	<b>1</b>	<b>4</b>
<b>Growth Ratio (%)</b>					
Sales	59.8	117.5	22.4	13.5	24.4
Expenses	48.9	50.7	28.2	4.1	15.2
EBITDA	93.7	277.2	16.9	23.3	32.5
Interest Cost	-4.3	1.8	13.8	7.0	3.0
PBT	33.9	223.3	21.1	36.1	56.3
PAT	31.2	231.0	29.6	25.2	66.3
Cash EPS	186.6	1147.2	23.4	26.4	49.0

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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

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