

Record Revenue, Strategic Renovations, and Promising Growth Outlook

Lemon Tree Hotels demonstrated robust growth in Q2 FY25, achieving record-high revenues despite inventory constraints due to renovations. The company's strategic focus on renovating key properties is already yielding a gradual ARR and EBITDA uplift. Debt reduction initiatives have progressed, supported by enhanced cash profits. Fees from Management & franchised contract stood at Rs 13.4 Cr, +28% YoY. Occupancy has been lower primarily due to inventory being shut due to renovation (~530 rooms). Post renovation significant repricing and repositioning of rooms is expected which will yield better ARR and margins. Demand growth continues to outpace supply growth which will lead to higher prices going forward.

Key Financials Highlights

- Revenue from Operations at 2,844 Mn, +25% YoY/+6% QoQ
- EBITDA (Excl. OI) reported at 1,307 Mn, +28% YoY/+14% QoQ
- EBITDA Margins (Excl. OI) saw a growth of +114 bps YoY & +305 bps QoQ to come at 46%
- Cash Profit of ~698 Mn against 490 Mn (Q2FY24), +42% YoY
- EPS at 0.37 for Q2FY25 vs 0.29 (+30% YoY)

Portfolio Highlights

- Operational inventory of 112 Hotels with 10,318 rooms
- Pipeline of 75 Hotels with 5220 rooms (74H & 5151 rooms under Managed & Franchised contract)
- Signed 19 new Management & Franchised contracts, 1373 rooms in Q2FY25
- Operationalized 5 Hotels adding 193 rooms to portfolio.

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	8,750	10,711	13,008	16,147	18,691
EBITDA	4,476	5,232	6,078	7,361	8,542
EBITDA margins	51.2	48.8	46.7	45.6	45.7
PAT (adj)	1,146	1,485	1,325	2,466	3,266
EPS	1.45	1.88	1.67	3.11	4.12
P/E (x)	85	65	73	39	30
P/B (x)	11	10	9	7	6
EV/EBITDA (x)	27	24	21	17	14
RoE (%)	13	15	12	18	19
ROCE (%)	14	15	15	19	21
RoIC (%)	11	13	11	14	18

Source: Dalal and Broacha

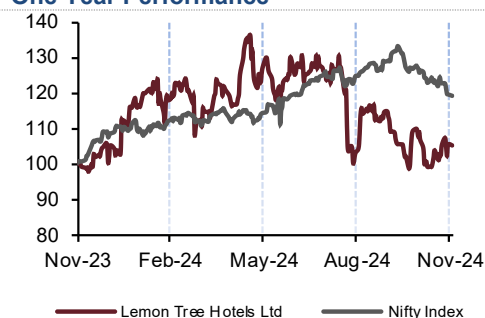
Rating	TP (Rs)	Up/Dn (%)
BUY	163	34

Market data

Current price	Rs	122
Market Cap (Rs.Bn)	(Rs Bn)	96
Market Cap (US \$ Mn)	(US \$ Mn)	1,141
Face Value	Rs	10
52 Weeks High/Low	Rs	158.05 / 111.8
Average Daily Volume	('000)	6,432
BSE Code		541233
Bloomberg		LEMONTRE.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	23	23
Public	77	77
Total	100	100

Source: BSE

Dhruv Shah

+91 22 67141414

dhruv.shah@dalal-broacha.com

Performance Quarter-wise

Particulars	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23
Gross ARR (Rs.)	5,902	5,686	6,605	6,333	5,268	5,237	5,824	5,738	4,917	4,822
Occupancy %	68.4%	66.6%	72.0%	65.9%	71.7%	70.2%	73.6%	67.6%	66.2%	65.1%
Revenue (Rs. Cr)	284.8	268.4	331.2	290.9	230.1	224.6	254.7	234.1	197.4	192.3
EBITDA (Rs. Cr)	131.2	115.4	175.3	141.9	104.8	106.8	141.9	127.0	94.3	92.6
EBITDA %	46.1%	43.0%	52.9%	48.8%	45.5%	47.6%	55.7%	54.3%	47.8%	48.2%
PBT (Rs. Cr)	45.3	29.2	89.0	55.5	35.0	36.2	73.4	59.2	25.0	20.7
PAT (Rs. Cr)	35.0	20.1	84.0	43.8	26.4	27.5	59.0	48.6	19.4	13.6
Cash Profit (Rs. Cr)	69.8	54.7	117.4	77.1	49.0	50.3	82.5	72.1	44.4	38.1

Quarterly Financials

(Rs.Mn)	Q2FY25	Q2FY24	YoY Growth (%)	Q1FY25	QoQ Growth (%)
Revenue from Operations	2,844	2,272	25%	2,680	6%
Other Income	5	29	-84%	4	34%
Total RM Cost	172	132	30%	164	4%
Employee Benefits Expense	543	463	17%	507	7%
Other Expenses	822	658	25%	858	-4%
Total Expenses	1,536	1,253	23%	1,530	0%
EBITDA (Excluding Other Income)	1,307	1,019	28%	1,151	14%
Depreciation and Amortisation Expenses	348	226	54%	346	1%
EBIT / PBIT	964	822	17%	808	19%
Net Finance Costs	513	473	8%	518	-1%
EBT/ PBT	451	348	29%	291	55%
Tax Expense	102	86	18%	91	13%
P&L from JV/associate	2	2	-23%	1	28%
Net Profit after Tax	350	264	33%	201	74%
Earning Per Share	0.37	0.29	31%	0.25	50%
Margins (%)			(In bps)		(In bps)
Gross Margins	94.0%	94.2%	-23	93.9%	10
EBITDA Margins (Excl Other Income)	46.0%	44.8%	114	42.9%	305
Adj. PAT Margins	11.2%	10.8%	41	8.2%	302
As a % to sales			(In bps)		(In bps)
RM as a % to sales	6.0%	5.8%	23	6.1%	-10
EE Cost as a % to sales	19.1%	20.4%	-128	18.9%	18
Other exps as a % to sales	28.9%	29.0%	-9	32.0%	-313
Key Operational Metrics					
Gross ARR	5,902	5,268	12%	5,686	4%
Occupancy	68.4%	71.7%	-330	66.6%	180
RevPAR	4,035	3,775	7%	3,788	7%

Source: Company, Dalal & Broacah Research

Operational Highlights Brand-wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)		
	Q2 FY25	Q2 FY24	Change (%)	Q2 FY25	Q2 FY24	Change (bps)	Q2 FY25	Q2 FY24	Change (%)
By Brand (#Rooms)									
Aurika Hotels & Resorts (808)*	4,726	5,576	-15%	50%	49%	125	9,491	11,487	-17%
Lemon Tree Premier (1,603)	5,366	5,044	6%	79%	80%	-75	6,802	6,334	7%
Lemon Tree Hotels (1562)	3,985	3,839	4%	73%	74%	-98	5,425	5,157	5%
Red Fox by Lemon Tree Hotels (952)	3,126	2,803	12%	70%	69%	108	4,458	4,059	10%
Keys by Lemon Tree Hotels (936)	2,071	2,085	-1%	56%	59%	-283	3,677	3,524	4%

Performance Region-Wise

Parameters	RevPAR (Rs.)			Occupancy Rate (%)			Average Daily Rate (Rs.)		
	Q2 FY25	Q2 FY24	Change (%)	Q2 FY25	Q2 FY24	Change (bps)	Q2 FY25	Q2 FY24	Change (%)
By Region (#Rooms)									
Delhi (636)	4,903	4,377	12%	78%	76%	156	6,318	5,757	10%
Gurugram (529)	4,137	3,582	15%	80%	74%	596	5,197	4,865	7%
Hyderabad (663)	4,957	4,929	1%	76%	85%	-890	6,483	5,775	12%
Bengaluru (874)	3,340	3,617	-8%	68%	74%	-595	4,897	4,878	0%
Mumbai (972)*	5,353	6,762	-21%	62%	87%	-2,490	8,642	7,786	11%
Pune (426)	4,056	3,565	14%	74%	71%	246	5,497	4,997	10%
Rest of India (1,659)	2,891	2,721	6%	60%	60%	63	4,780	4,546	5%
Total (5759)	4,035	3,770	7%	68%	72%	-328	5,902	5,262	12%

Source: Company, Dalal & Broach Research

- Flat ARR in Bangalore coupled with occupancy dip, ~10% of the inventory shut in the region. Recovery strategy also involves reducing dependence on IT hiring.
- 60% of the Hyderabad portfolio renovation is complete, with full completion expected by FY26.
- Delhi & Hyderabad - high renovation focus.

Performance break-up of LTH portfolio & Keys portfolio

Rs. Cr	Lemon Tree Consolidated excluding Keys Hotels					Keys Hotels					Lemon Tree Consolidated				
	Q2 FY25	Q1 FY25	Q2 FY24	QoQ Change	YoY Change	Q2 FY25	Q1 FY25	Q2 FY24	QoQ Change	YoY Change	Q2 FY25	Q1 FY25	Q2 FY24	QoQ Change	YoY Change
Inventory	4,823	4,823	4,154	0%	16%	936	936	936	-	-	5,759	5,759	5,090	-	13%
Gross ARR	6,246	6,023	5,573	4%	12%	3,677	3,542	3,524	4%	4%	5,902	5,686	5,262	4%	12%
Occupancy %	70.7%	68.7%	74.5%	197 Bps	-376 bps	56.3%	55.7%	59.1%	58 bps	-283 bps	68.4%	66.6%	71.7%	174 bps	-328 bps
RevPAR	4,417	4,140	4,150	7%	6%	2,071	1,975	2,085	5%	-1%	4,035	3,788	3,770	7%	7%
Revenue from Operations	263.4	247.5	209.1	6%	26%	21.0	20.5	20.3	3%	4%	284.4	268.0	229.4	6%	24%
Other Income	0.4	0.4	0.5	23%	-15%	0.0	0.0	0.2	-	-	0.5	0.4	0.7	34%	-34%
Total revenue	263.8	247.9	209.6	6%	26%	21.1	20.5	20.5	3%	3%	284.8	268.4	230.1	6%	24%
Total expenses	138.9	138.1	111.9	1%	24%	14.8	14.9	13.4	-1%	10%	153.6	151.2	125.3	2%	23%
EBITDA	124.9	109.8	97.7	14%	28%	6.3	5.6	7.1	12%	-12%	131.2	117.1	104.8	12%	25%
EBITDA Margin(%)	47.4%	44.3%	46.6%	306 bps	76 Bps	29.9%	27.3%	34.7%	252 bps	-480 bps	46.1%	43.6%	45.5%	242 bps	53 bps

Source: Company, Dalal & Broach Research

Summary on Renovation

- **Positioning & Pricing:** Aimed at repositioning hotels to achieve superior pricing and occupancy. Expected ARR uplift of 15–20% post-completion of renovations by FY27.
- Aggressively renovating **4,500 rooms** across the portfolio between FY24 and FY26.
- 9% of inventory (~530 rooms) was under renovation during Q2 FY25, impacting occupancy.
- **Renovation Expenses:** Q2 FY25: ₹13 crores, up from ₹5 crores in Q2 FY24. Renovation costs have increased to 4.6% of Q2 FY25 revenues compared to 2.2% in Q2 FY24.
- **Total Investment:** Total expected renovation expenditure of ₹250–300 crores by FY26. Renovation-related costs expected to stabilize to 1.5–1.6% of revenue post-completion.
- **Prioritization:** High-value properties in Delhi, Hyderabad, and Mumbai prioritized for aggressive renovations.
- **Payback-period:** 2 years
- **Long-Term Benefits:** Incremental EBITDA of ₹125 crores expected post-renovation.

Other Concall KTAs

- **Weddings & Banquets:** Strong demand observed in Aurika, Udaipur. Booked 21-22 weddings so far and more under negotiations. Company targeting ~25 weddings at the property. Renovation of banquet halls underway in high-demand cities.
- Excluding rooms under renovation, occupancy to be 10% points higher.
- In Q3 & Q4, excluding Keys portfolio, no rooms under renovation. High-value portfolio renovation completed in Q1 & Q2.
- Full portfolio of keys to be operationalized with ongoing renovations to complete by end for FY26
- **Debt reduction:** Debt reduced by ₹90 crores in Q2, standing at ₹1,822.6 crores as of September 2024, with plans to become debt-free in 3-4 years. Most of the cash flow generated during H2 to go towards debt reduction.
- Fees from managed hotels @ 13.4cr, +20% YoY
- Fleur expected to list within 2-3 years.
- ~230 rooms of keys under renovation

Aurika MIAL

- Current Occupancy: 50% with an ARR of Rs 9,000.
- Company has consciously let go of **low-rate crew business** to focus on more lucrative opportunities, such as high-rate international crew contracts
- Strategy of increasing the share of higher-margin retail & corporate bookings while retaining a portion of high-yield crew bookings for steady occupancy, targeting ~150/200 rooms for crew business.
- Targeting >60% EBITDA margins in H2FY25

Outlook and Valuations

With robust tailwinds in the mid-market segment and a significant uplift expected from renovation efforts by FY27, Lemon Tree Hotels is positioned for accelerated growth. The stabilization of newly added properties, coupled with strategic focus on high-demand markets, is set to drive ARR growth and enhance operational efficiencies. Management remains confident in achieving a 15–20% annual revenue growth trajectory and aims to be debt-free within the next 3–4 years. Once renovation expenses normalize, growth will be propelled by operating leverage as costs stabilize.

Lemon Tree's renovation initiatives mark a critical investment in repositioning its brand, enhancing pricing power, and ensuring sustainable long-term growth. The strategy adeptly balances short-term operational challenges with substantial future financial and market advantages.

With 75 hotels in the pipeline and renovations nearing completion, the company is poised for meaningful improvements in ARR and EBITDA margins by FY27. Additionally, the increasing discretionary spending and a favorable demand-supply dynamic for branded hotel rooms in India offer strong growth visibility and support for the hotel industry.

LemonTree Hotels at CMP of Rs. 122 trades at 14x EV/EBITDA FY27E; we have revised our estimates and rolled over to FY27 & value LTH at 18x FY27 EV/EBITDA multiple and assign a BUY rating with a target price of Rs. 163, implying an upside of 33%.

Financials

P&L (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	8,750	10,711	13,008	16,147	18,691
Operating Expenses	-499	-628	-806	-1,050	-1,178
Employee Cost	-1,497	-1,878	-2,439	-3,049	-3,738
Other Expenses	-2,278	-2,973	-3,684	-4,687	-5,233
Operating Profit	4,476	5,232	6,078	7,361	8,542
Depreciation	-966	-1,121	-1,661	-1,839	-2,155
PBIT	3,510	4,111	4,417	5,522	6,387
Other income	36	56	56	56	56
Net Interest (Exp)/Inc	-1,772	-2,016	-2,210	-1,735	-1,466
Profit before tax	1,774	2,151	2,263	3,844	4,977
Provision for tax	-377	-341	-566	-961	-1,244
Profit & Loss from Associates/JV	9	7	-	-	-
Reported PAT	1,405	1,817	1,697	2,883	3,733
MI	-260	-332	-372	-417	-467
Owners PAT	1,146	1,485	1,325	2,466	3,266
Adjusted Profit	1,146	1,485	1,325	2,466	3,266
Balance Sheet (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	7,916	7,918	7,918	7,918	7,918
Reserves	621	1,750	3,076	5,959	9,691
Net worth	8,537	9,669	10,994	13,877	17,610
MI	5,597	5,795	6,128	6,500	6,916
Non Current Liabilites	19,488	21,275	21,178	18,510	15,842
Current Liabilites	3,701	3,591	3,787	4,459	4,685
Total Equity & Liabilities	37,323	40,330	42,086	43,346	45,053
Non Current Assets	35,963	38,277	39,884	40,288	39,193
Fixed Assets	30,359	32,759	34,274	34,668	33,561
Right of Use Assets	4,036	3,907	3,779	3,779	3,779
Financial Assets	859	936	982	982	982
Deferred Tax Asset	365	358	311	311	311
Long Term Loans and Advances	186	229	324	324	324
Other Non Current Assets	158	88	214	225	236
Current Assets	1,360	2,053	2,203	3,057	5,860
Current investments	10	81	45	49	54
Inventories	105	138	178	231	260
Trade Receivables	560	715	927	1,150	1,280
Cash and Bank Balances	275	537	247	818	3,457
Short Term Loans and Advances	-	-	-	-	-
Other Financial Assets	36	32	24	27	27
Other Current Assets	375	550	783	783	783
TOTAL ASSETS	37,323	40,330	42,086	43,346	45,053

Cashflow (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,774	2,151	2,263	3,844	4,977
Depreciation	966	1,121	1,661	1,839	2,155
Net Chg in WC	-210	3	-41	-	-
Taxes	-269	-335	-566	-961	-1,244
Others	1,948	1,820	1,852	1,803	1,534
CFO	4,208	4,761	5,170	6,525	7,422
Capex	-116	-7,542	-2,500	-1,500	-
Net Investments made	-12	-148	-10	-4	-5
Others	-	-	-	-	-
CFI	-127	-7,690	-2,510	-1,504	-5
Change in Share capital	-	-	-	-	-
Change in Debts	489	1,590	-131	-2,997	-2,997
Div. & Div Tax	-	-	-	-	-
Others	-4,837	1,602	-2,819	-1,453	-1,781
CFF	-4,349	3,192	-2,950	-4,450	-4,778
Total Cash Generated	-268	263	-290	571	2,639
Cash Opening Balance	543	275	537	247	818
Cash Closing Balance	275	537	247	818	3,457

Ratios	FY23	FY24	FY25E	FY26E	FY27E
OPM	51.2	48.8	46.7	45.6	45.7
NPM	13.0	13.8	10.1	15.2	17.4
Tax rate	-21.3	-15.9	-25.0	-25.0	-25.0

Growth Ratios (%)

Net Sales	117.5	22.4	21.4	24.1	15.8
Operating Profit	277.2	16.9	16.2	21.1	16.0
PBIT	2,351.8	17.1	7.4	25.0	15.6
PAT	-202.3	29.3	-6.6	69.9	29.5

Per Share (Rs.)

Net Earnings (EPS)	1.45	1.88	1.67	3.11	4.12
Cash Earnings (CPS)	2.67	3.29	3.77	5.44	6.85
Dividend	-	-	-	-	-
Book Value	10.78	12.21	13.88	17.53	22.24
Free Cash Flow	4.62	-4.68	2.58	6.33	9.03

Valuation Ratios

P/E(x)	85	65	73	39	30
P/B(x)	11	10	9	7	6
EV/EBIDTA(x)	27	24	21	17	14
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	3.77	-3.82	2.11	5.17	7.37

Return Ratios (%)

ROE	13%	15%	12%	18%	19%
ROCE	14%	15%	15%	19%	21%
RoIC	11%	13%	11%	14%	18%

Source: Company, Dalal & Broacah Research

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | E-mail: equity.research@dalal-broacha.com