

# Lemon Tree Hotels

## BUY

Healthy growth in ADR supported earnings

### Summary

Lemon Tree Hotels Ltd.'s (LTH) Q2FY25 net sales and EBTDA were in-line with our estimates while EBITDA margin and PAT were better than forecast. The company continued to spend on renovation of assets, which led to lower available inventory as well as subdued operating margin in Q2. The management guided Strong growth in H2FY25 as October-November is showing 15% revenue and 20% EBITDA growth on YoY. Wedding and banquet demand is growing, especially from destination weddings and social events. LTH is expecting a significant improvement in occupancy, targeting over 60% in Q3, up from 50% at Aurika Mumbai, by focusing on high-rate international crew business, which offers higher average rates and more predictable demand. We have marginally cut our EBITDA estimates for FY25E/FY26E. Maintain BUY with a revised TP of Rs145 (earlier Rs150), assigning 17x EV/EBITDA to FY26E.

### Key Highlights and Investment Rationale

- Another quarter of ADR driven sales growth:** LTH continued to focus on inventory renovation of Keys portfolio, which resulted in lower available rooms and higher expenses in Q2. The company reported 12% YoY increase in ADR at Rs5,902, while occupancy declined by 328bps YoY to 68.4%. RevPAR grew by 7% YoY to Rs4,035. Revenue came in at Rs2,680mn, higher by 21% YoY, while EBITDA stood at Rs1,151mn, increased by 10% YoY. PAT was at Rs201mn, down by 27% YoY.
- Aurika, Mumbai's performance would be closely watched, BUY with a TP of Rs145:** 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. Though FY25E will see challenges on margins front due to cost escalation, we expect revival in margins from FY26E. BUY with a TP of Rs145.

TP **Rs145**

**CMP Rs121**

Potential upside/downside **19%**

Previous Rating **BUY**

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.5)	2.1	3.7
Rel to Sensex	3.3	6.0	(13.9)

### V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	2.7	4.4
Consensus	2.6	3.8
% difference	2.2	15.1

### Key Stock Data

Bloomberg / Reuters	LEMONTRE IN/LEMO.BO
Sector	Hotels
Shares o/s (mn)	792
Market cap. (Rs mn)	96,218
3-m daily avg Trd value(Rs mn)	43.6
52-week high / low	Rs158 / 93
Sensex / Nifty	77,339 / 23,454

### Shareholding Pattern (%)

Promoters	22.8
FII	21.8
DII	18.6
Public	36.8

### Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,022	8,750	10,711	13,287	15,280
Change (yoy, %)	60	118	22	24	15
EBITDA	1,186	4,476	5,232	6,093	7,411
Change (yoy, %)	94	277	17	16	22
EBITDA Margin(%)	29.5	51.2	48.8	45.9	48.5
Adj.PAT	(875)	1,146	1,485	2,163	3,460
EPS (Rs)	(1)	1	2	2.7	4.4
Change (yoy, %)	(31.2)	(231.0)	29.6	46	60
PE(x)	(110.2)	84.2	64.9	44.6	27.9
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	95.2	25.4	21.9	18.4	14.6
RoE (%)	(10.0)	13.6	16.3	20.1	25.5
RoCE (%)	0.4	9.9	11	12.4	16.0

Source: IDBI Capital Research

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

- Lemon Tree witnessed an increase of 18%, 12%, and 7% YoY in total rooms, ARR, and RevPAR, respectively, reaching 10,318 rooms, Rs 5,902, and Rs 4,035. However, occupancy dropped by 302 bps to 68.4%, primarily due to higher inventory shutdowns for renovations.
- Management fees are expected to be around Rs 550-600mn for the year, lower than prior guidance of Rs 750-1000mn.
- Key portfolio's RevPAR is flat YoY, partly due to 25% of rooms being under renovation.
- Heavy investments in Delhi and Hyderabad have shown results (Lemon Tree Premier Delhi at Rs10,500–11,000 ARR). Bangalore saw flat ARR and lower occupancy due to room shutdowns.
- Renovations led to some room shutdowns, resulting in an estimated Rs100-120mn revenue loss.

**CAPEX**

- Renovation spend in FY25 is expected to be Rs1-1.1bn annually, with 60% focused on high-value properties (Delhi, Mumbai). Hyderabad's renovation is 60% complete, with rate hikes expected from Q3FY25.

**Aurika**

- The company is expecting a significant improvement in occupancy, targeting over 60% in Q3, up from 50% at Aurika Mumbai, by focusing on high-rate international crew business, which offers higher average rates and more predictable demand.
- Aurika Mumbai is targeting a 200-room mix between retail and corporate clients by H2FY25.
- The property is expected to achieve an EBITDA margin above 60+% in the H2FY25.

**Keys Portfolio**

- The key portfolio's RevPAR is flat YoY due to 25% of rooms under renovation. Post-renovation, the company expects a steady-state EBITDA of Rs 600mn, with Rs 6.5 lakh per room.

### Debt and Renovation

- The company plans to spend Rs 2.5-3bn over three years on renovations, much higher than usual. Renovation costs will ease after next year, with the aim to be debt-free in 3-3.5 years, or sooner if an IPO is launched earlier.
- Rs 900mn of debt was reduced in Q2FY25, with plans to use free cash flow from operations to further reduce debt in Q3/Q4FY25.

### Management Guidance

- Strong growth is expected, with October-November showing 15% revenue and 20% EBITDA growth YoY. Wedding and banquet demand is growing, especially from destination weddings and social events.
- Growth in third-party fees is expected to be ~35%, and seasonality will push it closer to Rs 700mn by year-end

### Others

- Renovations will cover ~4,500 rooms by FY27, focusing on high-demand markets. Investments are expected to generate 1.5x-2x incremental EBITDA, with a targeted Rs 1,250mn return on Rs 2,500mn investment.
- The IPO for Fleur is planned within the next 2-3 years.
- Delhi: 60-70% of renovations are complete, with the rest planned for FY26.
- Hyderabad: Lemon Tree Premier is 70% renovated, with Gachibowli and Red Fox under 50%. Renovations will continue into H1FY26.
- Bangalore: Renovations of Lemon Tree Premier and Whitefield properties will continue into FY26, with lower-value renovations.
- Renovation spend will be lower in Q3 and Q4 of FY25 but will rise again in FY26. Overall, capital allocated to renovations in FY25 and FY26 will be lower compared to FY24

**Exhibit 1: Financial snapshot**

Particulars (mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
<b>Total revenues</b>	<b>2,844</b>	<b>2,680</b>	<b>6.1</b>	<b>2,272</b>	<b>25.2</b>
Total expenditure	1,536	1,530	0.4	1,253	22.6
<b>EBIDTA</b>	<b>1,307</b>	<b>1,151</b>	<b>13.6</b>	<b>1,019</b>	<b>28.3</b>
<b>EBIDTA margin (%)</b>	<b>46.0</b>	<b>42.9</b>	<b>305bps</b>	<b>44.8</b>	<b>114bps</b>
Depreciation	348	346	0.6	226	53.9
Interest cost	513	517	(0.8)	473	8.4
Other income	5	4	33.7	29	(83.7)
PBT	451	291	54.9	348	29.5
Tax	102	91	12.5	86	18.2
<b>Adj. Net Profit</b>	<b>349</b>	<b>200</b>	<b>74.2</b>	<b>262</b>	<b>33.2</b>
Exceptional Item	2	1	28.2	2	(23.0)
Minority Interest	2	1	28.2	2	(23.0)
<b>Rep. PAT</b>	<b>350</b>	<b>201</b>	<b>73.9</b>	<b>264</b>	<b>32.8</b>
Adj. EPS (INR)	0.4	0	74	0	32.8

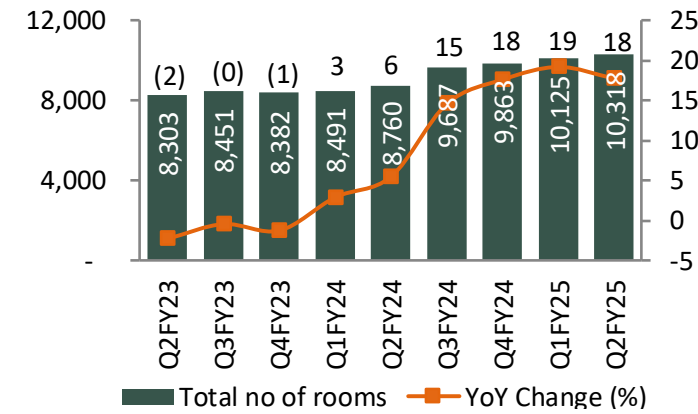
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs Estimates**

Particulars (mn)	Q2FY25A	Q2FY25E	Variance (%)
<b>Net Sales</b>	<b>2,844</b>	<b>2,868</b>	<b>(0.8)</b>
<b>EBITDA</b>	<b>1,307</b>	<b>1,255</b>	<b>4.2</b>
<i>EBITDA Margin</i>	<i>46.0</i>	<i>43.7</i>	<i>228bps</i>
<b>Net Profit</b>	<b>350</b>	<b>290</b>	<b>20.8</b>
EPS Rs.	0.4	0.4	20.8

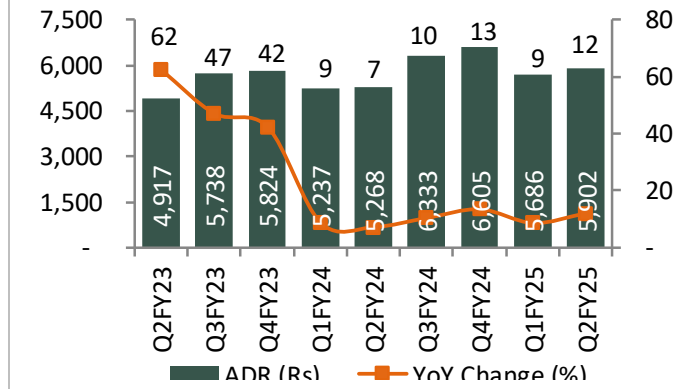
Source: Company; IDBI Capital Research

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



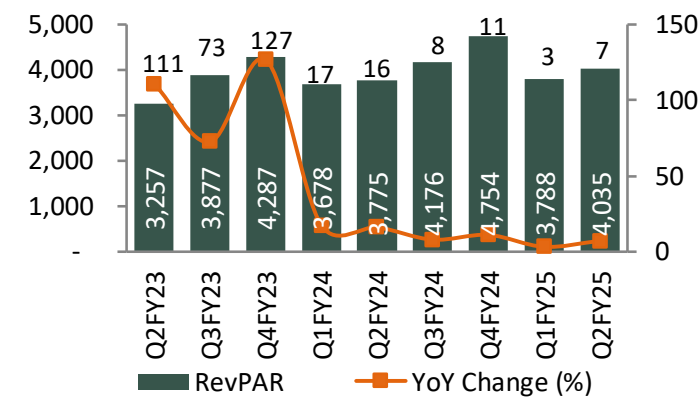
Source: Company, IDBI Capital Research

**Exhibit 4: ADR trend**



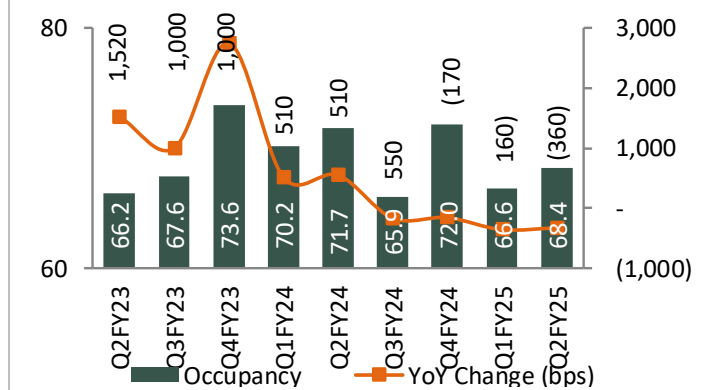
Source: Company, IDBI Capital Research

**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	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>2,517</b>	<b>4,022</b>	<b>8,750</b>	<b>10,711</b>	<b>13,287</b>	<b>15,280</b>
<i>Change (yoy, %)</i>	<i>(62.4)</i>	<i>60</i>	<i>118</i>	<i>22</i>	<i>24</i>	<i>15</i>
Operating expenses	(1,904)	(2,836)	(4,274)	(5,479)	(7,195)	(7,869)
<b>EBITDA</b>	<b>613</b>	<b>1,186</b>	<b>4,476</b>	<b>5,232</b>	<b>6,093</b>	<b>7,411</b>
<i>Change (yoy, %)</i>	<i>-74.8</i>	<i>94</i>	<i>277</i>	<i>17</i>	<i>16</i>	<i>22</i>
<i>Margin (%)</i>	<i>24.3</i>	<i>29.5</i>	<i>51.2</i>	<i>48.8</i>	<i>45.9</i>	<i>48.5</i>
Depreciation	(1,076)	(1,044)	(966)	(1,121)	(1,362)	(1,383)
<b>EBIT</b>	<b>(463)</b>	<b>143</b>	<b>3,510</b>	<b>4,111</b>	<b>4,730</b>	<b>6,028</b>
Interest paid	(1,817)	(1,740)	(1,772)	(2,016)	(1,852)	(1,425)
Other income	133	140	36	56	23	25
<b>Pre-tax profit</b>	<b>(2,147)</b>	<b>(1,457)</b>	<b>1,774</b>	<b>2,151</b>	<b>2,901</b>	<b>4,628</b>
Tax	322	72	(377)	(341)	(730)	(1,165)
<i>Effective tax rate (%)</i>	<i>15.0</i>	<i>5.0</i>	<i>21.3</i>	<i>15.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	554.8	509.7	(251.1)	(325.2)	(8.0)	(3.0)
<b>Net profit</b>	<b>(1,271)</b>	<b>(875)</b>	<b>1,146</b>	<b>1,485</b>	<b>2,163</b>	<b>3,460</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>(1,271)</b>	<b>(875)</b>	<b>1,146</b>	<b>1,485</b>	<b>2,163</b>	<b>3,460</b>
<i>Change (yoy, %)</i>	<i>1,550.3</i>	<i>(31)</i>	<i>(231)</i>	<i>30</i>	<i>46</i>	<i>60</i>
EPS	(1.6)	(1.1)	1.4	1.9	2.7	4.4
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout (%)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	<b>9,176</b>	<b>8,313</b>	<b>8,537</b>	<b>9,669</b>	<b>11,832</b>	<b>15,292</b>
Share capital	7,904	7,908	7,916	7,918	7,918	7,918
Reserves & surplus	1,272	404	621	1,750	3,913	7,373
<b>Total Debt</b>	<b>15,739</b>	<b>16,987</b>	<b>17,457</b>	<b>18,891</b>	<b>15,432</b>	<b>11,876</b>
Other liabilities	4,708	4,268	4,289	4,476	4,565	4,700
<b>Curr Liab &amp; prov</b>	<b>2,388</b>	<b>1,108</b>	<b>1,443</b>	<b>1,499</b>	<b>1,555</b>	<b>1,644</b>
Current liabilities	2,310	884	1,362	1,407	1,460	1,545
Provisions	78	224	81	92	95	100
<b>Total liabilities</b>	<b>22,835</b>	<b>22,362</b>	<b>23,189</b>	<b>24,866</b>	<b>21,552</b>	<b>18,221</b>
<b>Total equity &amp; liabilities</b>	<b>38,185</b>	<b>36,351</b>	<b>37,323</b>	<b>40,331</b>	<b>39,187</b>	<b>39,319</b>
Net fixed assets	28,131	28,041	29,196	31,391	30,505	29,697
Investments	74	114	73	151	194	258
Other non-curr assets	7,679	6,940	6,701	6,814	7,001	7,175
<b>Current assets</b>	<b>2,302</b>	<b>1,255</b>	<b>1,353</b>	<b>1,974</b>	<b>1,487</b>	<b>2,189</b>
Inventories	72	81	105	138	159	188
Sundry Debtors	308	291	560	715	858	1,012
Cash and Bank	1,411	543	275	537	(183)	237
Loans and advances	510	340	414	584	654	752
<b>Total assets</b>	<b>38,185</b>	<b>36,351</b>	<b>37,323</b>	<b>40,331</b>	<b>39,187</b>	<b>39,319</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	(2,147)	(1,457)	1,774	2,151	2,901	4,628
Depreciation	1,076	1,044	966	1,121	1,362	1,383
Tax paid	359	55	(361)	(324)	(730)	(1,165)
Chg in working capital	734	(1,226)	43	(131)	(107)	(94)
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>21</b>	<b>(1,583)</b>	<b>2,422</b>	<b>2,817</b>	<b>3,426</b>	<b>4,752</b>
Capital expenditure	(792)	(954)	(2,121)	(3,317)	(476)	(575)
Chg in investments	78	(40)	41	(78)	(43)	(64)
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(714)</b>	<b>(994)</b>	<b>(2,080)</b>	<b>(3,395)</b>	<b>(519)</b>	<b>(640)</b>
Equity raised/(repaid)	1	4	8	2	0	0
Debt raised/(repaid)	627	1,247	471	1,434	(3,460)	(3,555)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	1,170	12	(330)	(127)	-	-
Other financing activities	(101)	446	(759)	(469)	(168)	(137)
<b>Cash flow from financing (c)</b>	<b>1,697</b>	<b>1,709</b>	<b>(611)</b>	<b>841</b>	<b>(3,628)</b>	<b>(3,692)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,003</b>	<b>(868)</b>	<b>(268)</b>	<b>263</b>	<b>(721)</b>	<b>420</b>



### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	10.8	10	10	11	14	19
Adj EPS (Rs)	-1.6	-1.1	1.4	1.9	2.7	4.4
Adj EPS growth (%)	1,550.0	-31	-231	30	46	60
EBITDA margin (%)	24.3	29.5	51.2	48.8	45.9	48.5
Pre-tax margin (%)	-85.3	-36.2	20.3	20.1	21.8	30.3
Net Debt/Equity (x)	1.6	2.0	2.0	1.9	1.3	0.8
ROCE (%)	-1.3	0	10	11	12	16
ROE (%)	-13.3	-10	14	16	20	26

### DuPont Analysis

Asset turnover (x)	0.1	0.1	0.2	0.3	0.3	0.4
Leverage factor (x)	4.0	4.3	4.4	4.3	3.7	2.9
Net margin (%)	-50.5	-21.7	13.1	13.9	16.3	22.6

### Working Capital & Liquidity ratio

Inventory days	10	7	4	5	4	4
Receivable days	45	26	23	24	24	24
Payable days	151	75	57	57	45	43

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	-75.9	-110.2	84.2	64.9	44.6	27.9
Price/Book value (x)	11.3	12.5	12.2	10.7	8.6	6.6
EV/Net sales (x)	44.0	28.1	13.0	10.7	8.4	7.1
EV/EBITDA (x)	180.7	95.2	25.4	21.9	18.4	14.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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