IFSA

IIT Kharagpur

International Finance Student Association

October 2025

Equity Research Report

About The Company

Lemon Tree Hotels Ltd., founded in 2002, is one of India's largest hotel chains, prominent in the mid-priced sector. The company owns and operates a diverse portfolio of hotels, catering to almost all economic segments. The company's economics are primarily driven by revenue from accommodation, which constitutes the largest portion of its income. This is supplemented by earnings from food and beverage sales, as well as banquets.

Effect Of Budget

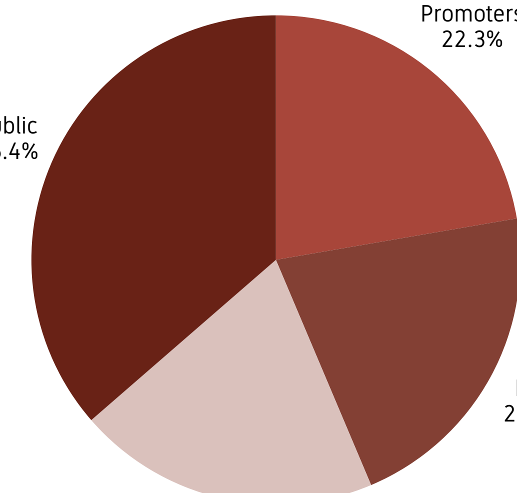
The Union Budget 2024-25 is expected to positively impact the hospitality sector, particularly benefiting Lemon Tree Hotels. Increased government spending on infrastructure, especially in states like Andhra Pradesh and Bihar, will improve connectivity and boost demand for hotel stays. The focus on promoting domestic tourism and developing new tourist destinations aligns well with Lemon Tree's presence in key markets. The budget's support for MSMEs could strengthen the hotel's supply chain, while the push for affordable housing may create new business travel opportunities in emerging urban areas. Additionally, the emphasis on digital payments will enhance booking and payment efficiency. However, lower yields on government securities could reduce returns on the company's cash reserves, presenting a minor challenge. Overall, the budget supports growth prospects for Lemon Tree amid evolving market conditions.

Key Data

DAY RANGE	₹167.62 - ₹171.48
YEAR RANGE	₹112.29 - ₹180.68
MARKET CAP	133.00B INR
AVG. VOLUME	4.28M
P/E RATIO	61.81

Stock Price Chart (1 Year)

Shareholding Pattern



Macroeconomic Tailwinds

- **GDP and Income Growth:**

India's robust GDP growth of 6-7% in FY25-26, alongside steady improvements in per capita and median household incomes, is fueling rising discretionary spending. The expanding middle class is prioritizing lifestyle experiences, including dining, leisure, and travel, rather than just essentials. This sustained growth in purchasing power is translating directly into higher room demand, food & beverage revenues, and a greater appetite for premium hospitality offerings across metros as well as emerging Tier-2 hubs.

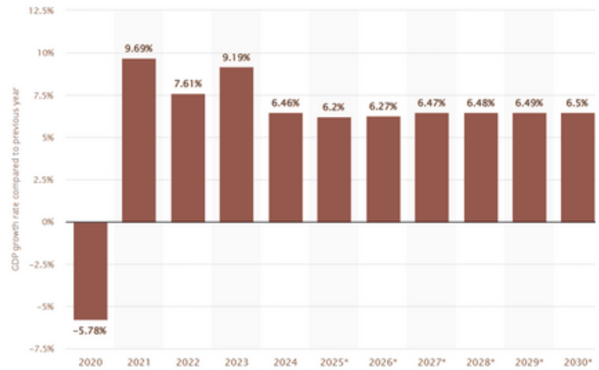
- **Tourism and Government Support:**

Tourism contributes nearly 9% to India's GDP, supported by ~1.7 billion annual domestic tourist visits and steadily recovering foreign arrivals (expected to cross pre-pandemic levels by FY26). Policy measures such as Dekho Apna Desh for domestic tourism promotion, UDAN for affordable regional air connectivity, and dedicated tourism circuits (Buddhist, Desert, Coastal) are improving last-mile access. This policy thrust is driving occupancy growth not only in major metros but also in cultural, spiritual, and adventure tourism destinations, expanding the addressable market for organized hotel chains.

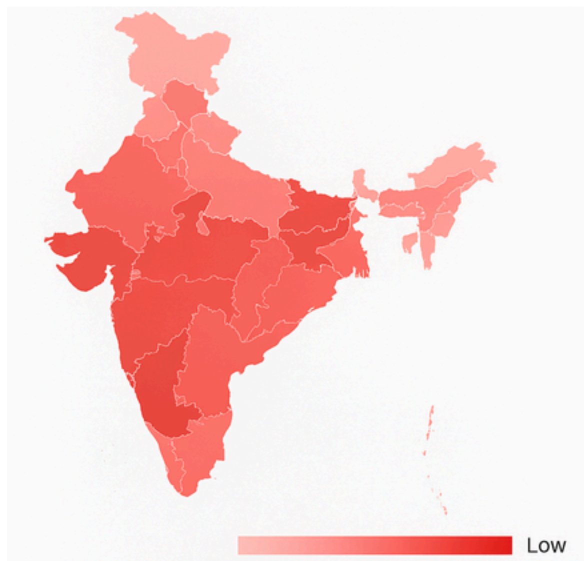
- **Inflation and Interest Rates:**

CPI inflation has moderated to ~5% in FY25, easing the burden on household budgets and improving consumer sentiment, especially for middle-income families who drive domestic travel volumes. On the supply side, the RBI's calibrated stance on interest rates affects hotel financing costs, where softer rates can accelerate greenfield projects, renovations, and asset acquisitions, while tighter liquidity periods may constrain pipeline expansion. For operators, this dual impact of higher consumer demand alongside fluctuating financing conditions, shapes both pricing power and capacity growth in the industry.

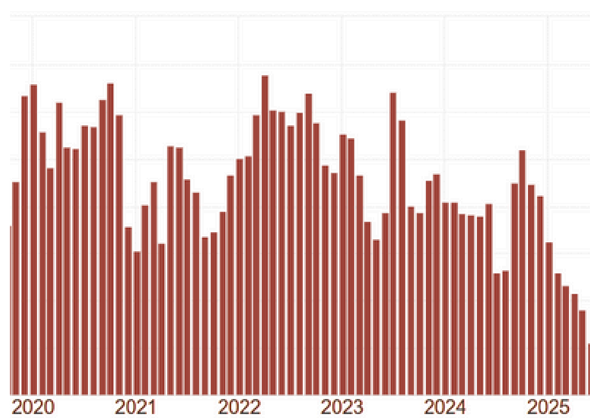
Dataviews



GDP GROWTH RATE



TOURISM HEATMAP ACROSS INDIA

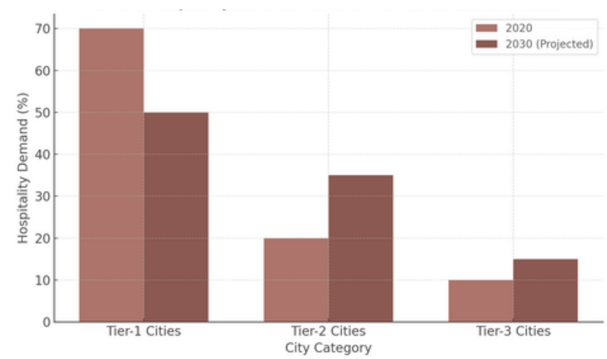


INFLATION OVER THE YEARS

Economic Analysis

Urbanization and Infrastructure Development:
Rapid urbanization, with India's urban population percentage expected to cross 40% by 2030, is creating new business and leisure clusters beyond the top eight cities. Large-scale infrastructure projects, such as high-speed rail corridors, metro expansions, and expressways like Delhi-Mumbai and Bengaluru-Chennai are reducing travel time and improving connectivity. This is accelerating the growth of hospitality demand in Tier-2/3 cities, especially for branded mid-scale and budget hotels, as corporates, MICE (Meetings, Incentives, Conferences, Exhibitions), and aspirational travelers increasingly seek organized accommodation.

Dataviews



SHIFT IN HOSPITALITY DEMAND 2020-2030

Industry Analysis

Regulatory & Policy Risks: The hotel industry is heavily regulated, making it susceptible to changes in government policies. Fluctuations in the GST rates can directly impact room tariffs and profitability. Additionally, acquiring licenses and permits for new hotel construction and operations (e.g., environmental clearances, liquor licenses) can be complex and subject to delays, potentially affecting expansion plans and increasing project costs.

Digital Influence: Digital platforms have amplified the speed at which guest feedback spreads, with social media capable of rapidly shaping brand perception. A single viral negative video or post can gain visibility within hours, potentially impacting reputation more quickly than traditional reviews. Maintaining high service standards and digital engagement are essential, although the fast-paced digital environment presents ongoing challenges that require vigilant reputation management.

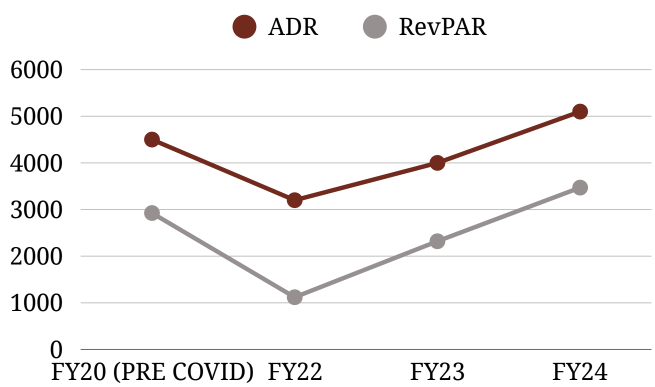
Competitive Positioning by ADR Segment: The Indian hotel industry is witnessing strong growth, with competition clearly defined across various Average Daily Rate (ADR) segments. In the luxury tier, Lemon Tree Hotels competes at the fringe with its Aurika brand against established giants like Taj, Oberoi, ITC, and Marriott's high-end portfolio. The company's Lemon Tree Premier brand targets the competitive upscale segment, challenging players like Vivanta, Westin, and Radisson Blu. However, Lemon Tree's primary market dominance is in the bustling midscale and economy sectors, where its flagship Lemon Tree Hotels and Red Fox brands are leaders, competing fiercely with IHCL's Ginger, Marriott's Fairfield, and Accor's Ibis. This presence allows Lemon Tree to effectively capture a wide spectrum of travelers across the value chain, from economy to entry-level luxury.

Industry Analysis

Post-COVID Recovery and KPI Performance

The post-pandemic recovery in the hospitality industry has been robust, underpinned by:

- Revival of domestic travel
- Work-from-anywhere trends
- A growing preference for experiential and wellness-oriented travel



Strategic Shift to Asset-Light Models:

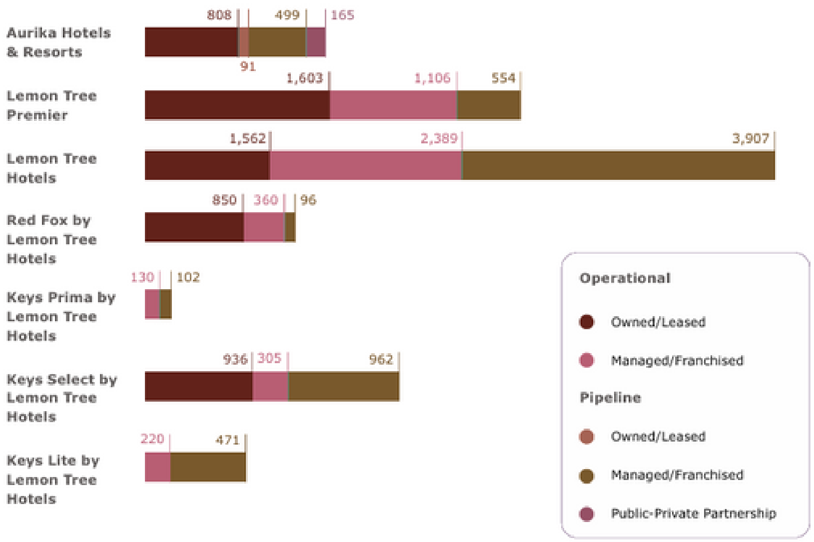
- Massive Reduction in Capital Expenditure: Building or buying hotels requires enormous upfront investment and ties up capital for decades. The asset-light model completely avoids this, freeing up cash for brands to invest in technology, marketing, and brand development instead of bricks and mortar.

- Higher Profit Margins and Predictable Fees: Revenue from managing or franchising a hotel comes in the form of fees. This is a very high-margin business, often with EBITDA margins of 70-85%, because the brand doesn't have to pay for the property's daily operating costs like staff salaries, utilities, or maintenance. This creates a stable and predictable stream of high-quality income.

- Improved Returns on Capital: Since very little capital is invested to get this fee-based income, the Return on Capital Employed (ROCE) is significantly higher than for owned properties. This makes hotel companies much more attractive to investors.

Strategic & Operational Benefits

- Rapid Scalability and Market Penetration: A brand can expand its footprint far more quickly by signing management or franchise agreements with property owners than by building new hotels from scratch. This allows for rapid entry into new markets and helps build a commanding brand presence in a short time.
- Transfer of Risk: All the risks associated with property ownership such as real estate market fluctuations, property damage, and long-term maintenance liabilities are borne by the hotel owner. The brand is insulated from these financial burdens and can focus purely on operations and brand standards.



Revenue Breakdown

Lemon Tree Hotels Limited operates on a business model that primarily generates revenue through room rentals and food and beverage (F&B) sales. The company offers a wide range of accommodation options across its various brands, catering to upscale, mid-scale, and economy segments.

The core of its income comes from guests paying for stays in their hotels. A significant secondary revenue stream is generated from its in-house restaurants, bars, room service, and banqueting services for events and conferences. Lemon Tree Hotels also earns revenue from ancillary services such as spas, laundry, and venue rentals. Additionally, the company generates income through management and franchise fees by operating hotels on behalf of other property owners.

Overall, Lemon Tree Hotels' revenue stream is driven by its core hospitality operations, products and services sold, and is diversified through a mix of owned, leased, and managed properties.

Business Model

The company's core strategy is to cater to the traditionally underserved, high-growth mid-market segment, which includes business and leisure travelers seeking high-quality, full-service accommodation at an affordable price point.
As of now, the company's total portfolio (operational and pipeline) stands at over 226 hotels and 18,400+ rooms

Core Business Model: The Three Pillars

- **Owned/Leased:** The company acquires land, develops the hotel, and operates it.
- **Managed:** A third-party builds the hotel, and LTHL is contracted to manage the entire operation under one of its brands.
- **Franchised:** LTHL licenses its brand, reservation system, and operating standards to an independent hotel owner, who manages the property themselves.

Brand Segmentation

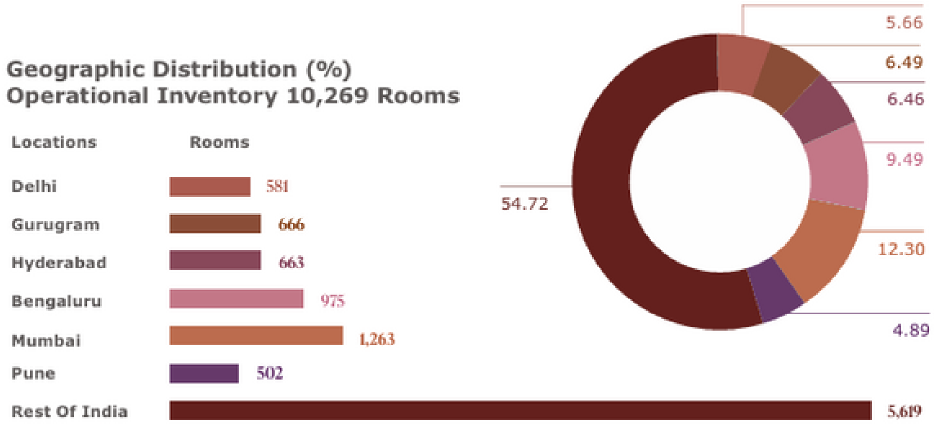
- Aurika Hotels & Resorts: Upscale, luxury brand
- Lemon Tree Premier: The upper-midscale brand
- Lemon Tree Hotels: The core midscale brand
- Red Fox Hotels: The economy brand
- Keys Hotels: An acquired brand that is being integrated and repositioned

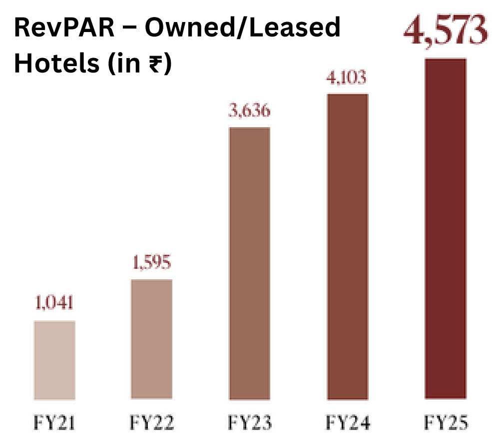
Revenue Streams

- Room Rentals (~75%)
- Food & Beverage (F&B) (~11-12%)
- Management/Franchise Fee and Other Services(~13-14%)

Outlook

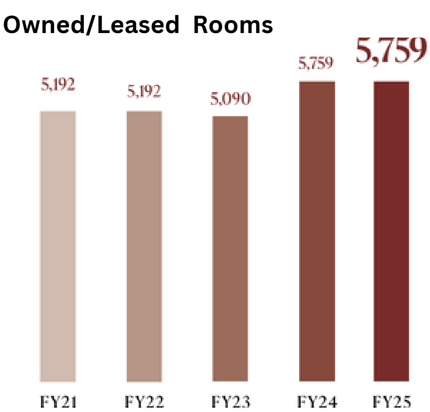
- Aggressive asset-light expansion from management contracts, giving more predictable, high-margin, low risk growth, not bound by capital limitations.
- Margin improvement through renovation and operational efficiency

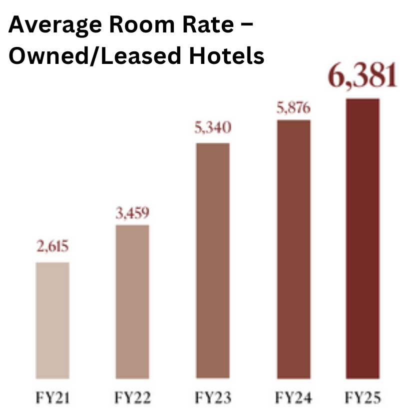


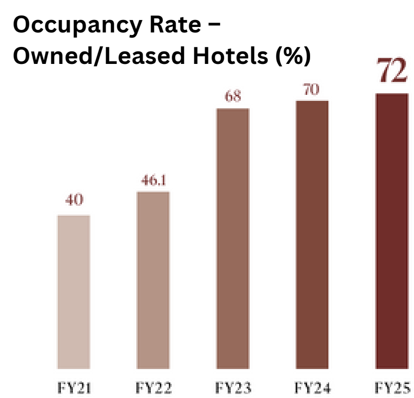


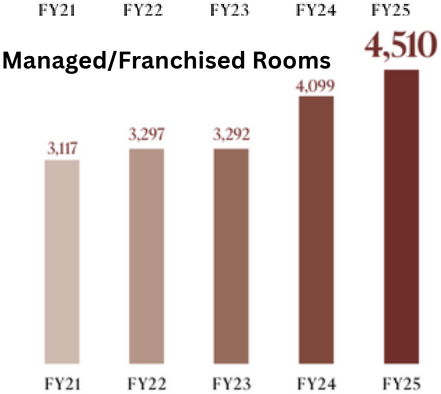
Strategic Restructuring Plan (By CY28)

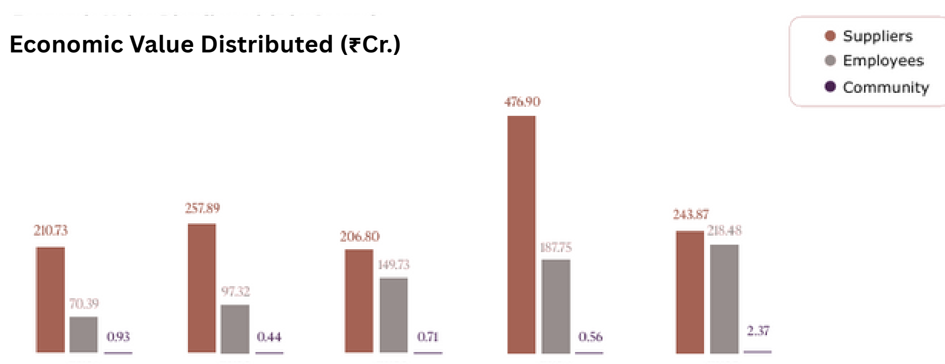
- **Transition to a Scaled OpCo/PropCo Model:** The group will pivot to an asset-light strategy, structuring Lemon Tree Hotels as the "Operator" (OpCo) set to manage and franchise a large portfolio of **300+** hotels with **20,000+** rooms. Its subsidiary, Fleur Hotels, will become the dedicated "Property Owner" (PropCo), consolidating and owning a valuable portfolio of 42 hotels with 5,800+ rooms.
- **Asset & Entity Consolidation:** The structure will be simplified by merging the 100%-owned management subsidiary (Carnation Hotels) into the parent and transferring Lemon Tree's **17** directly-owned hotels into Fleur Hotels. This move consolidates all property assets under a single entity.
- **Value Unlocking via IPO with Retained Control:** To recycle capital, Fleur Hotels is proposed for a public listing (IPO). Lemon Tree Hotels, which currently holds a **58.91%** stake, plans to retain a majority shareholding (**>50%**) post-listing, thereby unlocking the value of its real estate portfolio while maintaining control.



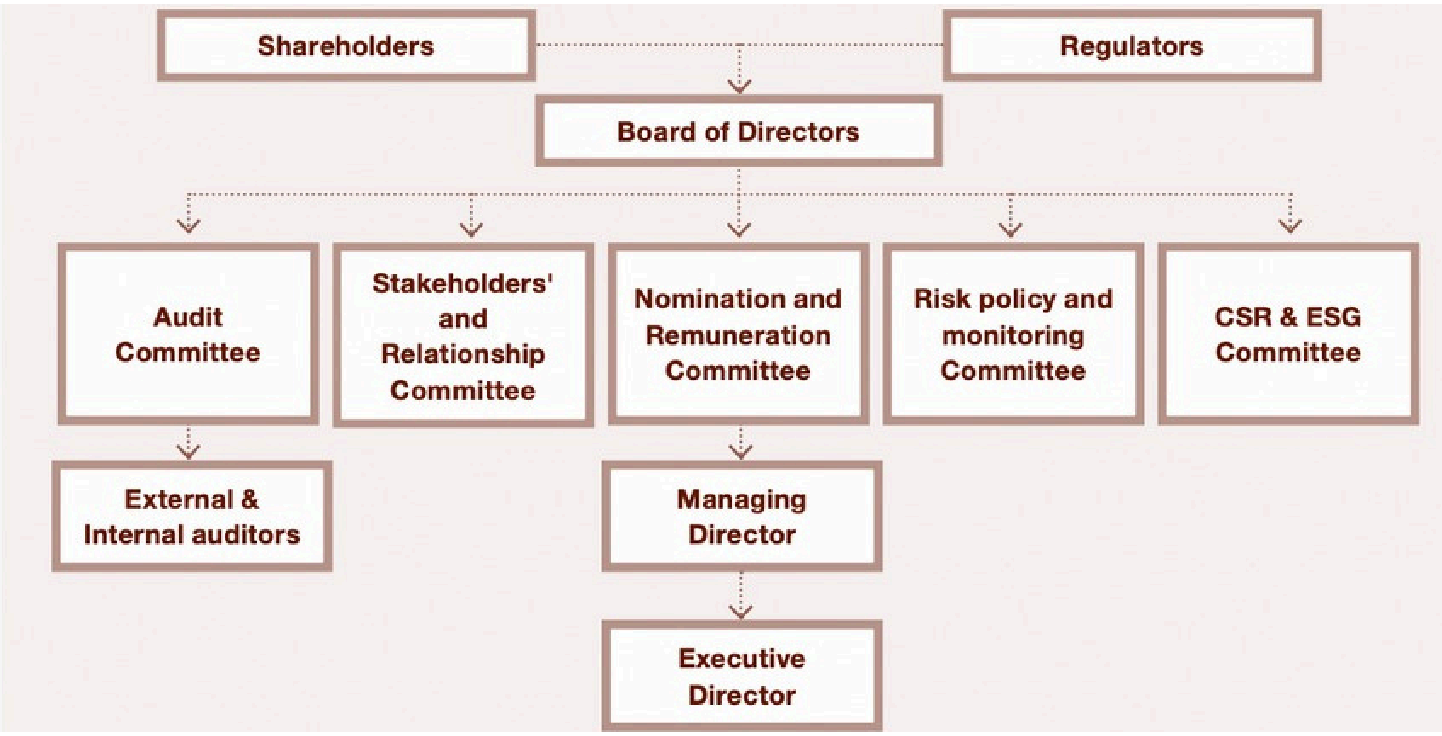








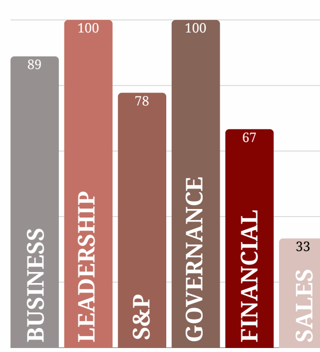
Governance



Management Analysis

- Experience: Patanjali Govind Keswani, co-founder and "category creator" of India's mid-market hotel segment, brings extensive experience from The Taj Group and has been the key driver of Lemon Tree Hotels' growth.
- Succession: From October 1, 2025, he will assume the role of Executive Chairman to focus on strategy and governance. Neelendra Singh becomes Managing Director, and Kapil Sharma is promoted Executive Director & CFO, ensuring leadership continuity.
- Focus: Mid-market segment through an asset-light model and deleveraging Fleur Hotels.
- Insight: Transition appears smooth with strong leadership continuity.

BOARD SKILLS AND EXPERTISE (%)



The board exhibits strong expertise in leadership, governance, and business, supported by solid capabilities in finance and strategic planning. However, sales and marketing expertise appears relatively limited, indicating scope for enhancing market-oriented perspectives within the board.

Lemon Tree Hotels uses integrated reporting and publishes ESG/BRSR disclosures. Promoter ownership is modest (~22%), with strong institutional (FII + MF) presence, ensuring balance between founder control and market oversight. Recent leadership changes (Aug 2025) signal an operational refresh, though the founder stays as executive chair. Succession and execution risks should be monitored.

Trading Comps Analysis

	Market Value				Financials			Valuation		
Company	Share Price	Dil. Shares Outstanding (Cr.)	Equity Value (Cr.)	Enterprise Value (Cr.)	Revenue (Cr).	EBITDA (Cr).	Net Income (Cr).	EV/Revenue 2025	EV/EBITDA 2025	P/E 2025
LEMON TREE	₹ 175.15	79.26	₹ 13,882.39	₹ 22,569.22	₹ 1,286.78	₹ 636.46	₹ 243.15	17.54	35.46	57.10
Royal Orchid Hotels Ltd.	₹ 359.55	2.74252	₹ 986.07	₹ 4,115.93	₹ 339.27	₹ 103.38	₹ 44.14	12.13	39.81	22.34
Samhi Hotels Ltd.	₹ 217.00	22.2	₹ 4,817.40	₹ 6,920.26	₹ 1,130.01	₹ 406.24	₹ 84.99	6.12	17.03	56.68
Indian Hotels Company Ltd (IHCL)	₹ 776.05	155.2	₹ 120,442.96	₹ 123,443.56	₹ 8,334.54	₹ 2,273.25	₹ 2,038.09	14.81	54.30	59.10
Chalet Hotels Ltd.	₹ 1,024.30	21.86	₹ 22,391.20	₹ 42,536.73	₹ 1,626.56	₹ 764.25	₹ 171.57	26.15	55.66	130.51
Juniper Hotels	₹ 292.45	22.25	₹ 6,507.01	₹ 16,148.78	₹ 818.02	₹ 497.17	₹ 80.27	19.74	32.48	81.06
High								26.15134	55.65814	130.50765
75th Percentile								19.19080	50.68041	75.57205
Average								**16.08314**	**39.12521**	**67.79784**
Median								**16.17519**	**37.63707**	**58.09550**
25th Percentile								12.80156	33.22619	56.78723
Low								6.12407	17.03491	22.33967

Lemon Tree Valuation	EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value	20695.46	24901.63	16484.73
Net Debt	8686.83	8686.83	8686.83
Implied Market Value	12008.63	16214.80	7797.90
Shares Outstanding	79.26	79.26	79.26
Implied Value Per Share	**151.5093115**	**204.577356**	**98.38381708**

Competitive Landscape

Industry Structure: The Indian hospitality sector can be segmented into luxury, upscale, mid-scale, and economy categories, where a mix of large, established hotel chains and smaller, independent operators is seen. Over the last decade, branded mid-scale hotel chains, including Lemon Tree Hotels, have significantly expanded their footprint and market share, which has been possible due to their strategic focus on the mid-market segment, high operational efficiency, and a strong value proposition for customers.

Key Players: Major players in the sector include **Indian Hotels Company Ltd (IHCL), Chalet Hotels, Lemon Tree Hotels, Juniper Hotels, Samhi Hotels,** and **Royal Orchid Hotels.** The market's focus on industry leader IHCL's sheer scale creates a compelling opportunity in the more operationally efficient and undervalued Lemon Tree Hotels, whose high EBITDA margin drives superior profitability and returns.

Regulatory Environment: The government's supportive policies for tourism and investment create a stable and growing market in this sector. This stable backdrop makes Lemon Tree's relative valuation even more compelling, especially when compared to the market leader, IHCL. Investors are currently paying a premium for IHCL's size, as seen in its high EV/EBITDA of **54.30x**, which is well above the peer average. Lemon Tree possesses a much more attractive EV/EBITDA of **35.46x**. Lemon Tree's P/E ratio of **57.10x** is nearly identical to IHCL's, despite Lemon Tree's superior efficiency and potentially higher growth trajectory.

Financial Performance: IHCL, as the market leader, demonstrates significant scale with revenues of **₹8,334.54 crores**. However, Lemon Tree's superior EBITDA margin of nearly **50%** (generating **₹636.46 Cr** of EBITDA from **₹1,286.78 Cr** of revenue) signals a fundamentally stronger business model than IHCL, which operates at a margin closer to **27%**. The high margin provides a crucial operational cushion, making Lemon Tree more resilient to economic shocks or rising costs than its lower-margin competitors. Furthermore, the robust EBITDA of **₹636.46 Cr** for Lemon Tree is vital for servicing its existing debt. This also allows for a healthy conversion to a Net Income of **₹243.15 Cr**, providing a substantial pool of internal funds for reinvestment and growth.

Bottom Up Beta

	Company Name	Beta	Debt-Equity
1	Indian Hotels Company Ltd. (Taj Group)	0.8846	0.2821
2	ITC Hotels Ltd. (Demerged entity from ITC)	1.0142	0.1334
3	EIH Ltd. (Oberoi Group Flagship)	0.91	0.2309
4	Chalet Hotels Ltd.	0.7001	0.8794
5	Lemon Tree Hotels Ltd.	0.881	1.2
6	Mahindra Holidays & Resorts India Ltd.	0.7691	3.969
7	Juniper Hotels Ltd.	0.8011	0.4131
8	SAMHI Hotels Limited	1.0521	1.9669
9	Royal Orchid Hotels Ltd.	1.0073	1.0464
10	Apeejay Surrendra Park Hotels Ltd. (The Park Hotels)	1.2086	0.1306
11	India Tourism Development Corporation Ltd.	1.4879	0.3236
12	Ventive Hospitality Limited	2.3464	1.4049
13	Taj GVK Hotels & Resorts Ltd.	0.4713	0.1974
14	Oriental Hotels Ltd. (Associate of IHCL)	1.2809	0.2874
15	EIH Associated Hotels Ltd. (Associate of EIH)	1.1663	0.0559
16	Advani Hotels & Resorts (India) Ltd.	1.1978	0.0839
17	HLV Ltd.	0.6612	0.0876
18	Kamat Hotels (India) Ltd.	0.8419	0.7309
19	Sinclairs Hotels Limited	0.4873	0.1775
20	The Byke Hospitality Ltd.	1.5274	0.4896
21	Country Club Hospitality & Holidays Ltd.	1.3058	0.4519
22	Apollo Sindoori Hotels Ltd.	0.6721	0.6456
23	Viceroy Hotels Ltd.	0.2351	0.2461
24	Asian Hotels (East) Ltd.	-0.004	1.4049
25	TGB Banquets and Hotels Ltd.	0.9672	0.1513
		0.9549	0.6796

Unlevered Beta (Tax rate = 0.30)	0.6471
Lemon Tree Hotels Ltd. (D/E ratio)	1.2
Lemon Tree Hotels Ltd, (Tax rate)	0.1791

Levered Beta (LTHL)	1.2845

WACC

Cost of Capital			
			(in Rs. Lakh)
Equity Value	1294214		
Risk Free Rate	4.28%	Total Debt	214764.98
Bottom-up Beta	1.2845	Tax Rate	17.91%
Mature ERP	4.33%		
Lambda	1.3889	Cost of Debt (Pre-Tax)	7.28%
Country Risk	2.93%		
		% of Debt	14.23%
Cost of Equity	13.91%	% of Equity	85.77%
WACC			12.78%

WACC Insights

- **Moderate Cost of Capital Reflects Balanced Risk Profile**: The **12.78%** WACC for Lemon Tree Hotels indicates a moderately high capital cost, typical for mid-cap Indian hospitality firms, reflecting domestic operations and industry cyclicality.
- **Equity-Heavy Capital Structure**: With **85.77%** equity, LTHL is conservatively financed, offering flexibility but slightly increasing the WACC compared to more leveraged peers.
- **High Cost of Equity Driven by Country Risk**: The **13.91%** cost of equity is high due to a relatively high beta and full exposure to India's **2.93%** country risk premium, reflecting investor expectations for higher returns in domestic hospitality.
- **Efficient Debt Utilization**: The **7.28%** cost of debt is reasonable for the Indian sector. Post-tax debt cost marginally lowers the overall WACC, suggesting optimal leverage balancing financial risk and tax shields.

Methodology

- **Risk Free Rate** is 10Y GOI Bond **(6.46%) -** Default Spread **(2.18%)**.
- **Cost of deb**t is taken as Risk Free Rate + Synthertic Credit Rating **B2/B** Spread **(3.0%)**.
- The **mature ERP** was taken from the **Damodaran Database (USA)**.
- For **Lambda** calculation: **100%** revenue from India for LTHL. **72%** revenue from India for the average firm.
- **CRP of India** was taken from the **Damodaran Database**.

Revenue & Operating Profit Model

	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenue	**159269.04**	**183104.92**	**209526.09**	**237771.69**	**267781.89**	**311104.53**	**331575.42**	**368629.06**	**406091.89**	**446112.90**
%growth	**23.62%**	**14.97%**	**14.43%**	**13.48%**	**12.62%**	**16.18%**	**6.58%**	**11.18%**	**10.16%**	**9.86%**
REVby(owned/leased/ppp)	109697.54	122861.25	136375.99	150013.59	163514.81	188364.95	188762.68	203883.69	218173.05	233462.67
REVby(managed/franchised)	10018.89	13195.19	17643.40	22813.33	28912.28	36040.57	43906.93	52878.60	62483.83	73225.15
REVbyFleurHotels	10366.20	12024.79	13828.51	15764.50	17813.89	19951.55	22146.23	24360.85	26553.32	28677.59
%growth	17.00%	16.00%	15.00%	14.00%	13.00%	12.00%	11.00%	10.00%	9.00%	8.00%
REVof(managed/franchised)	104472.26	137593.20	183977.04	237886.64	301483.59	375814.03	457840.82	551393.11	651551.89	763557.37
Owned/Leased/PPP rooms	5816.00	5816.00	5816.00	5816.00	5816.00	6163.00	6163.00	6163.00	6163.00	6163.00
Managed/Franchised rooms	6817.00	8162.00	9921.35	11769.30	13684.14	15649.50	17652.99	19685.26	21739.28	23809.71
RevPAR										
managed/franchised	4198.70	4618.57	5080.43	5537.67	6036.06	6579.30	7105.64	7674.10	8211.28	8786.07
owned/leased	5167.49	5787.59	6424.22	7066.65	7702.64	8395.88	9067.55	9792.96	10478.46	11211.96
Occupancy rate										
managed/franchised	65.00%	66.00%	67.00%	68.00%	69.00%	70.00%	71.00%	72.00%	73.00%	74.00%
owned/leased	73.00%	74.00%	75.00%	76.00%	77.00%	77.00%	77.00%	77.00%	77.00%	77.00%
In Pipeline										
Owned/Leased	91	91	91	91	91	0	0	0	0	0
Managed/Franchised	6405	7181	7543	7816	8022	8178	8295	8384	8451	8501
Public Private Partnership	165	165	165	165	165	0	0	0	0	0
New in pipeline										
Owned/Leased	0	0	0	0	0	0	0	0	0	0
Managed/Franchised	2121	2121	2121	2121	2121	2121	2121	2121	2121	2121
Public Private Partnership	0	0	0	0	0	0	0	0	0	0
Turned Operational										
owned/leased	0	0	0	0	0	91	0	0	0	0
%turned	0	0	0	0	0	1				
Managed/Franchised	2307	1345	1759	1848	1915	1965	2003	2032	2054	2070
%turned	35.00%	21.00%	24.50%	24.50%	24.50%	24.50%	24.50%	24.50%	24.50%	24.50%
REVby(sale_of_prod&sevice)	29,186.41	35,023.69	41,678.19	49,180.27	57,540.91	66,747.46	76,759.58	87,505.92	98,881.69	1,10,747.49
% of rev	18.33%	19.13%	19.89%	20.68%	21.49%	21.45%	23.15%	23.74%	24.35%	24.82%
%growth	21.00%	20.00%	19.00%	18.00%	17.00%	16.00%	15.00%	14.00%	13.00%	12.00%
COGS	11148.83	12817.34	14666.83	16644.02	18744.73	21777.32	23210.28	25804.03	28426.43	31227.90
%revenue	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Operating Expenses	86005.28	98876.66	113144.09	128396.71	144602.22	167996.44	179050.73	199059.69	219289.62	240900.97
%revenue	54.00%	54.00%	54.00%	54.00%	54.00%	54.00%	54.00%	54.00%	54.00%	54.00%
EBIT	62114.93	71410.92	81715.18	92730.96	104434.94	121330.77	129314.41	143765.33	158375.84	173984.03

The company's total revenue is calculated by aggregating four distinct income streams. The primary source is the income from **owned and leased rooms**, which is determined by multiplying the number of these rooms by their specific Revenue Per Available Room (RevPAR) and annualizing it for 365 days. A similar method is used for **third-party owned rooms**, where the number of rooms is multiplied by the RevPAR for managed/leased properties and annualized; this subtotal is then multiplied by a factor of 0.0959, which represents the company's commission or revenue share. The total revenue is further supplemented by adding the **management fees** received from Fleur Hotels and, finally, incorporating the revenue generated from the sale of other products and services

DCF Valuation

Income Statement Items *(in L)*		2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenue		107676.2	128,841.2	159269.0	183104.9	209526.1	237771.7	267781.9	311104.5	331575.4	368629.1	406091.9	446112.9
	%growth	22.56%	19.66%	23.62%	14.97%	14.43%	13.48%	12.62%	16.18%	6.58%	11.18%	10.16%	9.86%
	conservative			159269.0	181905.4	207681.4	235089.4	263795.7	305156.9	323524.4	358005.2	392942.5	430033.1
	base			159269.0	183104.9	209526.1	237771.7	267781.9	311104.5	331575.4	368629.1	406091.9	446112.9
	optimistic			159269.0	184305.6	214350.6	247218.5	284624.3	334499.8	362150.9	407144.1	455705.1	508742.3
EBITDA		52888.1	63,645.7	75833.2	85129.2	95433.5	106449.3	118153.3	135049.1	143043.0	157493.9	172104.4	187712.6
	%ofRevenue	*49.12%*	*49.40%*										
D&A		11213.1	13929.7	13718.3	13718.3	13718.3	13718.3	13718.3	13718.3	13728.6	13728.6	13728.6	13728.6
	% of CapEx	*33.86%*	*145.43%*	90.91%	90.91%	90.91%	90.91%	90.91%	90.91%	90.91%	90.91%	90.91%	90.91%
	%ofRevenue	*10.41%*	*10.81%*	8.61%	7.49%	6.55%	5.77%	5.12%	4.41%	4.14%	3.72%	3.38%	3.08%
EBIT		41675.0	49716.0	62114.9	71410.9	81715.2	92731.0	104434.9	121330.8	129314.4	143765.3	158375.8	173984.0
	%revenue	*38.70%*	*38.59%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*	*39.00%*
	conservative			62114.9	70943.1	80995.7	91684.8	102880.3	119011.2	126174.5	139622.0	153247.6	167712.9
	base			62114.9	71410.9	81715.2	92731.0	104434.9	121330.8	129314.4	143765.3	158375.8	173984.0
	optimistic			62114.9	71879.2	83596.7	96415.2	111003.5	130454.9	141238.8	158786.2	177725.0	198409.5
PBT		21,583.2	29,622.6										
Taxes		3,350.5	3,632.8										
	% tax rate	*15.52%*	*12.26%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*	*15.00%*
Cash Flow Items *(in L)*		**2024**	**2025**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**	**2035E**
CapEx		33,117.5	9,578.2	15090.2	15090.2	15090.2	15090.2	15090.2	15090.2	15101.4	15101.4	15101.4	15101.4
	%ofRevenue	*30.76%*	*7.43%*	*9.47%*	*8.24%*	*7.20%*	*6.35%*	*5.64%*	*4.85%*	*4.55%*	*4.10%*	*3.72%*	*3.39%*
NWC		2582.9	3769.3	4040.2	5132.7	6478.2	7816.8	9275.0	10728.4	12424.8	14414.2	16758.4	19533.9
Change in NWC		1842.5	1186.4	270.9	1092.5	1345.5	1338.6	1458.2	1453.5	1696.4	1989.4	2344.2	2775.5
	%ofRevenue	1.71%	0.92%	0.17%	0.60%	0.64%	0.56%	0.54%	0.47%	0.51%	0.54%	0.58%	0.62%
Free Cash Flow (Unlevered)		11,458.6	46,784.2	47385.6	54194.7	61607.9	69632.7	78122.9	91030.9	96119.6	106413.5	116488.2	126979.7
Period				0.24									
Discount Period				0.12	0.62	1.62	2.62	3.62	4.62	5.62	6.62	7.62	8.62
Present Value of FCF				46602.9	49749.6	49272.3	48519.2	47425.6	48145.6	44290.8	42720.1	40742.8	38693.5
Sum of PV of FCF		**456,162.5**											

Target Price

Capital Structure		
Current Share Price	₹	173.40
Basic Shares Outstanding		791,846,625
Diluted Shares Outstanding		791,846,625

Implied Value-Multiples Method		
P/E Multiple		102.5223259
EPS	₹	3.07
Implied Equity Value P/E*(in L)*	₹	2,492,286.10
Implied Share Price P/E	₹	314.74
Premium/(Discount) to Current	₹	141.34

Implied Value-Growth Method		
Growth Rate		6.00%
WACC		12.78%
Terminal Value*(in L)*	₹	1,984,642.33
(+) PV of Terminal Value*(in L)*	₹	596,052.25
(+) Sum of PV of Cash Flows*(in L)*	₹	489,717.91
Implied Entreprise Value*(in L)*	₹	1,085,770.16
Cash and cash equivalents*(in L)*	₹	5,542.32
Total Debt*(in L)*	₹	207,790.78
Minority Interest*(in L)*	₹	62,608.36
Implied Equity Value*(in L)*	₹	820,913.34
Implied Share Price	₹	103.67
Premium/(Discount) to Current	₹	-69.78

Forecasting Methodology

$$\begin{aligned}\text{Revenue} = \; & (\text{no. of owned/leased rooms}) \times \text{RevPAR}_{\text{owned/leased}} \times 365 \\ & + (\text{no. of third party owned rooms}) \times \text{RevPAR}_{\text{managed/leased}} \times 365 \times 0.0959 \\ & + (\text{Management fees from Fleur Hotels}) \\ & + (\text{Revenue by sales of other products and services})\end{aligned}$$

- 0.0959 represents the share of revenue earned that Lemon Tree gets as management fees, calculated using historical data.
- The no. of rooms were forecasted using current opening schedules and the number of rooms in pipeline, which were in turn were forecasted using historical data of new rooms added to pipeline every year.
- Sales of other products and services were forecasted using a linear decrease in their current growth rates, which aligned with the expectation of them growing as a percent of revenue along the years.

Sensitivity Analysis

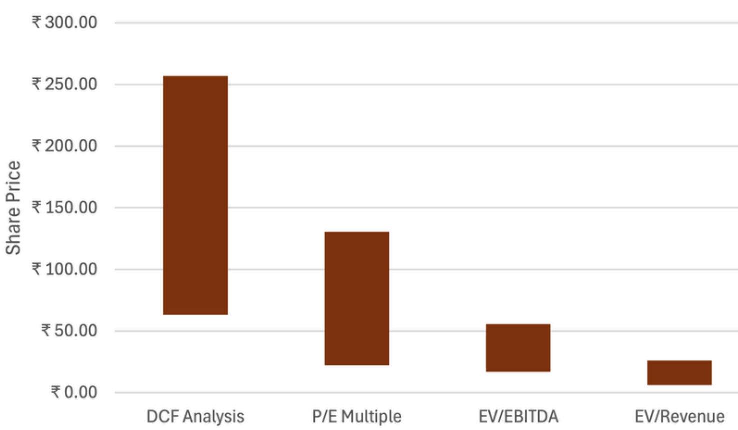
		WACC								
	₹ 88.52	10.78%	11.28%	11.78%	12.28%	**12.78%**	13.28%	13.78%	14.28%	14.78%
	4.00%	₹ 121.6	₹ 110.6	₹ 101.1	₹ 92.8	**₹ 85.5**	₹ 78.9	₹ 73.1	₹ 67.9	₹ 63.1
	4.50%	₹ 129.1	₹ 116.8	₹ 106.3	₹ 97.2	**₹ 89.2**	₹ 82.1	₹ 75.9	₹ 70.3	₹ 65.2
	5.00%	₹ 137.9	₹ 124.0	₹ 112.3	₹ 102.2	**₹ 93.4**	₹ 85.7	₹ 79.0	₹ 72.9	₹ 67.5
	5.50%	₹ 148.3	₹ 132.5	₹ 119.2	₹ 107.9	**₹ 98.2**	₹ 89.8	₹ 82.4	₹ 75.9	₹ 70.1
Terminal Growth Rate	**6.00%**	**₹ 160.9**	**₹ 142.5**	**₹ 127.3**	**₹ 114.5**	**₹ 103.7**	**₹ 94.4**	**₹ 86.3**	**₹ 79.2**	**₹ 72.9**
	6.50%	₹ 176.5	₹ 154.6	₹ 136.9	₹ 122.3	**₹ 110.1**	₹ 99.7	₹ 90.7	₹ 83.0	₹ 76.1
	7.00%	₹ 196.3	₹ 169.6	₹ 148.6	₹ 131.6	**₹ 117.6**	₹ 105.8	₹ 95.8	₹ 87.2	₹ 79.7
	7.50%	₹ 222.0	₹ 188.6	₹ 163.0	₹ 142.8	**₹ 126.5**	₹ 113.0	₹ 101.7	₹ 92.1	₹ 83.8
	8.00%	₹ 257.0	₹ 213.3	₹ 181.2	₹ 156.6	**₹ 137.2**	₹ 121.6	₹ 108.6	₹ 97.8	₹ 88.5

Future Growth Drivers

- Lemon Tree Hotels expects robust revenue growth, fueled by an **asset-light expansion**, and **positive industry trends**. Revenue comes from owned/leased hotels and management/franchise fees from third-party properties.
- **Catering to the growing mid-tier segment market**
  - Lemon Tree is well-positioned to capitalize on the rising travel aspirations of India's middle class in underserved Tier 2, 3, and 4 cities. Its diverse hotel portfolio, from economy to upscale, allows it to meet this growing demand and solidify its leadership in India's mid-market hotel sector.
  - India's hospitality sector is experiencing a robust upcycle, with **demand projected to grow by 9.7%** from FY23-FY28, significantly outpacing the **5.9% increase in new supply**. So **significant improvements** are expected in **Occupancy Rates** and hence in **RevPAR**, especially for owned/leased rooms, driving up the total revenue.
- **Expansion of managed properties**
  - As per the Lemon Tree 2.0 strategy, the company plans to build an asset light operating model. Thus most of their future expansions and revenue growths are expected to be from signing new management contracts, hence massively reducing capital expenditure and future depreciation expenses, increasing profits. More than 70% of rooms are expected to be managed/franchised by FY29, with a total of 20,000+ rooms.
- The company has set a target to increase its retail demand share to 65%, a significant jump from 45% in FY25. Infinity 2.0 was also launched to reward customers for loyalty and increase customer retention.

Football Field Analysis

Valuation Method	Low End	High End	Range
DCF Analysis	₹ 63.10	₹ 257.00	₹ 193.90
P/E Multiple	₹ 22.34	₹ 130.51	₹ 108.17
EV/EBITDA	₹ 17.03	₹ 55.66	₹ 38.62
EV/Revenue	₹ 6.12	₹ 26.15	₹ 20.03



Key Takeaways

- The DCF model is **highly sensitive** to the assumptions of TGR and Discount rate.
- There is a **huge discrepancy** between the intrinsic valuation of the company and relative valuation.
- There is an absence of a consistent overlap in valuation range, implying a lack of "Valuation Consensus".

Relative Analysis

- **The DCF analysis** gave the most bullish valuation, by a large margin. This suggests that the assumptions used are far more aggressive than what the current market implies.
- **EV/Revenue** is the lowest, suggesting that for every rupee of sales, the company generates very little enterprise value.
- **The P/E Multiple** has the highest and widest range among the relative metrics.

Worst Scenario

- Represented by the **EV/Revenue** multiple, which yields the lowest valuation range. This deeply bearish case is further supported by the low ends of the **EV/EBITDA** and **P/E** multiple, which collectively suggest that if the company is judged purely on its revenue or its profitability, its value is perceived to be very low.

Du-Pont Analysis

RETURN ON EQUITY(ROE)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit (₹ Cr)	56.38	-13.05	-186.54	-137.36	140.54	181.71	243.14
Avg. Share Holder Equity(₹ Cr)	1307.21	1544.76	1534.96	1398.88	1413.42	1546.42	1789.6
Return on Equity(ROE)	**4.31%**	**-0.84%**	**-12.15%**	**-9.82%**	**9.94%**	**11.75%**	**13.59%**

ROE - DUPONT EQUATION	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit (₹ Cr)	56.38	-13.05	-186.54	-137.36	140.54	181.71	243.14
Revenues (₹ Cr)	559.44	675.22	264.98	416.27	878.57	1076.76	1288.41
Net Profit Margin (A)	**10.08%**	**-1.93%**	**-70.40%**	**-33.00%**	**16.00%**	**16.88%**	**18.87%**
Revenues (₹ Cr)	559.44	675.22	264.98	416.27	878.57	1076.76	1288.41
Avg. Total Asset (₹ Cr)	2771.84	3762.75	3814.82	3635.03	3732.32	4033.04	4081.79
Asset Turnover Ratio (B)	**0.20**	**0.18**	**0.07**	**0.11**	**0.24**	**0.27**	**0.32**
Avg. Total Asset (₹ Cr)	2771.84	3762.75	3814.82	3635.03	3732.32	4033.04	4081.79
Avg. Share Holder Equity(₹ Cr)	1307.21	1544.76	1534.96	1398.88	1413.42	1546.42	1789.6
Equity Multiplier (C)	**2.12**	**2.44**	**2.49**	**2.60**	**2.64**	**2.61**	**2.28**
RETURN ON EQUITY(ROE) (A*B*C)	**4.31%**	**-0.84%**	**-12.15%**	**-9.82%**	**9.94%**	**11.75%**	**13.59%**

RETURN ON ASSET (ROA)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit (₹ Cr)	56.38	-13.05	-186.54	-137.36	140.54	181.71	243.14
Avg. Total Asset(₹ Cr)	2771.84	3762.75	3814.82	3635.03	3732.32	4033.04	4081.79
Return on Asset (ROA)	**2.03%**	**-0.35%**	**-4.89%**	**-3.78%**	**3.77%**	**4.51%**	**5.96%**

ROA - DUPONT EQUATION	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit (₹ Cr)	56.38	-13.05	-186.54	-137.36	140.54	181.71	243.14
Revenues (₹ Cr)	559.44	675.22	264.98	416.27	878.57	1076.76	1288.41
Net Profit Margin (A)	**10.08%**	**-1.93%**	**-70.40%**	**-33.00%**	**16.00%**	**16.88%**	**18.87%**
Revenues (₹ Cr)	559.44	675.22	264.98	416.27	878.57	1076.76	1288.41
Avg. Total Asset (₹ Cr)	2771.84	3762.75	3814.82	3635.03	3732.32	4033.04	4081.79
Asset Turnover Ratio (B)	**0.20**	**0.18**	**0.07**	**0.11**	**0.24**	**0.27**	**0.32**
RETURN ON ASSET (ROA) (A*B)	**2.03%**	**-0.35%**	**-4.89%**	**-3.78%**	**3.77%**	**4.51%**	**5.96%**

Du-Pont Summary

- **ROE for the company** has shown a remarkable recovery, swinging from **-9.82%** in **FY2022** to a strong **13.59%** in **FY2025**. This turnaround was primarily driven by a sharp improvement in net profit margins and a steady increase in asset utilization post-pandemic.
- **Net Profit Margin** increased dramatically from **-33.00%** in **FY2022** to **18.87%** in **FY2025**. This highlights a significant rebound in profitability, reflecting renewed pricing power, effective cost control measures, and a strong recovery in occupancy rates.
- The **Asset Turnover ratio** saw a consistent improvement, rising from a low of **0.11x** in **FY2022** to **0.32x** in **FY2025**. This indicates growing operational efficiency and a stronger ability to generate revenue from its extensive asset base as the hospitality sector recovered.
- **Financial Leverage** remained stable at approximately **2.6x** from **FY2022** to **FY2024** before declining to **2.28x** in **FY2025**. This recent decrease suggests a move towards strengthening the balance sheet and reducing reliance on debt, creating a more resilient financial structure.
- **ROA** followed a similar recovery trajectory to ROE, turning from **-3.78%** in **FY2022** to a healthy **5.96%** in **FY2025**, supported by the combined positive trends in both net margin and asset turnover.

Remarks

- **Profitability is the Core Driver:** The dramatic **post-2022** recovery in **Net Profit Margin** has been the principal engine for the rebound in *ROE* and *ROA*. Sustaining these healthy margins through strategic pricing and operational discipline is critical for future performance.

- **Efficiency Gains are Crucial:** While improving, the **Asset Turnover of 0.32x** is characteristic of the capital-intensive hotel industry. A continued focus on increasing occupancy rates and optimizing revenue per available room (RevPAR) is vital to further enhance asset utilization.

- **Prudent Leverage Management:** The recent reduction in the **Equity Multiplier to 2.28x** is a positive sign of deleveraging and risk reduction. Maintaining this balanced approach to financing will enhance financial stability and support sustainable growth.

- **Future Growth Focus:** To continue driving shareholder returns, management should focus on leveraging its strong brand to improve asset turnover while maintaining margin discipline. The strengthened balance sheet provides a solid foundation for future expansion and navigating economic cycles.

Conclusion

- **Lemon Tree Hotels** stands at an inflection point, with strong tailwinds from India's mid-market hospitality boom and a strategic pivot toward an asset-light expansion model. The company's focus on scaling managed and franchised properties is expected to unlock higher-margin growth while curbing capex and depreciation burdens. Its ability to tap into the rising travel aspirations of Tier 2–4 cities, coupled with initiatives like "**Infinity 2.0**," strengthens its competitive positioning and brand stickiness.
- However, despite these structural positives, the valuation signals **caution**. The DCF-implied value of **₹105** versus the CMP of **₹166** indicates that market expectations may be overly optimistic, likely pricing in aggressive growth assumptions. Furthermore, a **low EV/Revenue** and **wide P/E dispersion** reflect uncertainty around the sustainability of current profitability levels.
- While deleveraging and margin improvements are encouraging, the company's low asset turnover underscores the inherent capital intensity of the hotel industry. Going forward, consistent RevPAR growth, disciplined cost management, and prudent balance sheet management will be key to sustaining returns.
- **Verdict: Lemon Tree is well-positioned for long-term structural growth in India's mid-market hospitality space, but the current valuation appears stretched relative to fundamentals. Investors may consider awaiting a more attractive entry point before accumulating.**