

Price: 144

Recommendation: Buy

Industry: Hotels & Resorts

Sector: Consumer Discretionary

Report Date: 03-Apr-2025

Lemon Tree Hotels is undergoing a strategic transformation with its "Lemon Tree 2.0" initiative, focusing on asset-light growth and digital transformation. The company plans to expand to over 20,000 rooms by CY28, emphasizing managed or franchised properties to enhance scalability and reduce capital expenditure. It aims to improve operational efficiencies and customer experience, positioning itself as a leader in the mid-market hotel segment.

Sales		Profit & Loss		Profitability Matrix	
Current Year	376 Cr	Operating Profit(Year)	194 Cr	Operating Profit Margin	51.4 %
Previous Year	310 Cr	Operating Profit(Quarter)	54.1 Cr	EBITDA Margin	54.79 %
Current Quarter	104 Cr	PAT (Year)	96.9 Cr	Net Profit Margin	27.1 %
Previous Quarter	86.9 Cr	PAT (Quarter)	28.5 Cr	EPS	1.26
Revenue (QYoY)	102 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	114	Sales Growth	7.48 %	Sales Growth	19.68 %
PEG Ratio	12.7	PAT Growth	23.13 %	Sales Growth QYoY	1.96 %
EV/EBITDA	59.1	EPS Growth	3.28 %	PAT Growth	46.91 %
P/B	9.55	Dividend Yield	0.00	PAT Growth QYoY	-15.68 %
Capital Allocation		Holdings		Leverage	
RoE	8.75 %	Promoter	22.8 %	Debt/Equity	0.38
RoA	5.84 %	FII	20.0 %	Debt	449 Cr
RoCE	11.4 %	DII	20.8 %	Market Cap	11397 Cr
RoIC	23.1 %	Public	36.4 %	Enterprise value	11839 Cr
		No of Shares	79.2 Cr	Cash Equivalents	7.31 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

Lemon Tree Hotels has embarked on a strategic transformation under its "Lemon Tree 2.0" initiative, focusing on asset-light growth and digital transformation. The company aims to expand its network to over 20,000 rooms by CY28, with a significant portion being asset-light, managed, or franchised properties. This strategy is designed to enhance scalability and reduce capital expenditure, allowing Lemon Tree to leverage its brand and operational expertise across a broader geographic footprint. The company is also investing in digital transformation to improve operational efficiencies and customer experience, positioning itself as a leader in the mid-market hotel segment.

The company's business strategy includes a focus on high-return investments and capital recycling. By transferring 100% owned assets to Fleur Hotels, Lemon Tree plans to unlock cash and improve its return on capital employed (ROCE). This move is part of a broader effort to simplify the group structure and enhance financial performance. The company is also exploring opportunities to monetize its owned portfolio through public markets or strategic investors, which will provide additional financial flexibility. Lemon Tree's commitment to environmental, social, and governance (ESG) principles is evident in its plans to achieve 100% green-certified buildings and significant reductions in energy and water consumption by FY26.

Lemon Tree's diversification schemes include expanding its brand portfolio to cater to different market segments, from economy to upscale. The company is also targeting the unbranded hotel market in India, aiming to bring these properties into the branded space under its various brands. This strategy is expected to drive significant growth in market share and revenue. The company's focus on loyalty expansion and personalized customer experiences is designed to enhance customer retention and increase repeat business, which currently accounts for over 40% of its customer base.

Looking ahead, Lemon Tree is well-positioned to capitalize on the growing demand in the Indian hospitality sector, driven by increasing consumer spending and a favorable demand-supply dynamic. The company's strategic initiatives are expected to result in stable EBITDA margins of 50% and a debt-free status by CY28. However, the success of these initiatives will depend on the company's ability to execute its expansion plans effectively and manage potential risks associated with market volatility and economic uncertainties. Overall, Lemon Tree's strategic focus on growth, efficiency, and sustainability provides a strong foundation for future success, but continuous innovation and adaptation will be crucial to maintaining its competitive edge.

LEMONTREE Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Mahindra Holiday	6181.64	45.94	24.03%	1.14%	6.87%	203.48%	230.86%
ITC Hotels	42982.40					39.62%	
EIH	23569.98	33.51	17.62%	35.85%	7.95%	102.47%	12.43%
Chalet Hotels	19081.13	188.70	16.36%	21.41%	22.51%	169.69%	36.68%
Ventive Hospital	16908.16	102.42	65.74%	20.73%	23.14%	59.29%	-23.65%

Aspect	Commentary
Revenue	The company shows a robust revenue increase, with a current year figure of 376 Cr compared to 310 Cr the previous year. This growth is also reflected in the quarterly figures, indicating a positive trend in sales performance. The revenue growth is a testament to the company's effective market strategies and expanding customer base.
Profit & Loss	Operating profit for the year stands at 194 Cr, with a quarterly figure of 54.1 Cr, reflecting strong operational efficiency. The PAT for the year is 96.9 Cr, indicating healthy profitability. These figures suggest the company is effectively managing its expenses and maximizing its profit margins.
Profitability Matrix	The company exhibits strong profitability with an operating profit margin of 51.4% and a net profit margin of 27.1%. The EBITDA margin is also high at 54.79%, indicating efficient cost management and strong earnings before interest, taxes, depreciation, and amortization.
Valuation Matrix	The valuation metrics show a trailing P/E of 114 and a PEG ratio of 12.7, suggesting high market expectations for future growth. The EV/EBITDA ratio of 59.1 and P/B ratio of 9.55 indicate the company's market valuation is significantly above its book value, reflecting investor confidence.
Growth (YoY)	Year-over-year growth metrics are positive, with sales growth at 7.48% and PAT growth at 23.13%. EPS growth is modest at 3.28%, indicating steady earnings improvement. These figures highlight the company's ability to grow its revenue and profits consistently over the year.
Growth (QoQ)	Quarter-over-quarter growth shows a sales increase of 19.68%, with PAT growth at 46.91%. However, PAT growth QYoY is negative at -15.68%, suggesting some volatility in quarterly earnings. Despite this, the overall quarterly growth trend remains positive, driven by strong sales performance.
Capital Allocation	The company demonstrates effective capital allocation with a RoE of 8.75% and RoCE of 11.4%. The RoIC is notably high at 23.1%, indicating efficient use of invested capital to generate returns. These metrics reflect the company's strategic focus on maximizing shareholder value.
Holdings	The shareholding pattern shows a diverse mix with promoters holding 22.8%, FII at 20%, DII at 20.8%, and public holding at 36.4%. This distribution indicates a balanced ownership structure, potentially reducing volatility and aligning interests across different investor groups.
Leverage	The company's leverage is moderate with a debt/equity ratio of 0.38, indicating a conservative approach to debt financing. The total debt stands at 449 Cr, with a market cap of 11397 Cr, suggesting a strong equity base. This financial structure supports stability and growth potential.

Analyst viewpoint: Lemon Tree Hotels is currently demonstrating a robust growth trajectory with impressive QoQ metrics, showcasing a sales increase of 19.68% and a PAT growth of 46.91%. This growth is buoyed by the company's strategic shift towards an asset-light model, digital transformation, and an emphasis on operational efficiency. The company's strong capital allocation, evidenced by a RoIC of 23.1%, further underlines their efficient use of resources to generate shareholder value. In comparison with industry peers, Lemon Tree stands out, given its aggressive expansion plans, aiming to scale its operations to over 20,000 rooms by CY28, thus boosting its competitive positioning in the mid-market hotel sector.

Our bullish outlook is further supported by Lemon Tree's current valuation metrics, which, despite a high trailing P/E of 114, reflect the market's confidence in its future growth prospects, especially when juxtaposed against its efficient cost management with EBITDA margins of over 54%. Additionally, the strategic initiatives like transferring assets to Fleur Hotels and potential monetization efforts indicate prudent capital recycling strategies, enhancing ROCE. While the company's P/B ratio of 9.55 suggests a valuation above its book value, it is crucial to keep an eye on the potential risks related to market volatility and economic uncertainties which might pose challenges to its ambitious plans.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (hereinafter referred to as the Regulations).

1. GOALZEN CAPITAL SERVICES PRIVATE LIMITED is a SEBI-Registered Research Analyst having SEBI registration number INH000013448. GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"), the research entity, is engaged in providing research services on securities and information on personal financial products. This Research Report (called Report) is prepared and distributed by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with brand name 'GoalFi' (brand name trademarked to research analyst and company director 'Robin Arya') and used by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with mutual consent.

2. GOALZEN CAPITAL SERVICES PRIVATE LIMITED, its partners, employees, directors or agents, do not have any material adverse disciplinary history as on the date of publication of this report.

3. I, Robin Arya, author/s and the name/s in this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any financial interest in the subject company.

4. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.

5. I, Robin Arya, do not hold this stock as part of my investment portfolio at the date of recommendation. I/analysts in the Company have not traded in the subject stock thirty days preceding this research report and will not trade within five days of publication of the research report as required by regulations.

6. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received any compensation from the subject company in the past twelve months. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not been engaged in market making activity for the subject company.

7. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Analyst Certification:

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclaimers:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent.

This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.

The investment discussed or views expressed may not be suitable for all investors. Certain transactions - including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of GOALZEN CAPITAL SERVICES PRIVATE LIMITED. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject GOALZEN CAPITAL SERVICES PRIVATE LIMITED to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees responsible for any such misuse and further agrees to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of GOALZEN CAPITAL SERVICES PRIVATE LIMITED only.

GOALZEN CAPITAL SERVICES PRIVATE LIMITED has a contractual arrangement with a vendor - Smallcase Technologies Private Limited (STPL) whereby STPL provides technology solutions and related back-end infrastructure along with support for back-office related operations & processes. STPL does not provide any investment advice or recommendation nor does it make any claim of returns or performance with respect to any advice or recommendation.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Terms & Conditions:

These Terms and Conditions govern the use of the research subscription services provided by GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"). By subscribing to our services, you agree to these terms, if you disagree with any part of the terms, you must not use our services.

Payment and Renewal:

The subscription fee is non-refundable. No such requests over email or any other channel requesting for refund or for pro-rata refund will be acknowledged if smallcase constituents or research provided is accessed by the user. Please do not subscribe if you disagree with any part of the terms. Subscription renewals will be charged the standard rate unless otherwise notified.

Limitation of Liability:

GoalFi provides research based on data and analysis. The subscriber acknowledges that all investment decisions carry inherent risks, and GoalFi shall not be liable for any losses incurred based on our research.

No Investment Advice:

The content provided under the subscription is purely for informational purposes and should not be construed as investment advice. GoalFi, being a SEBI Registered Research Analyst (RA), provides research insights and not investment advisory services.

Termination:

GoalFi reserves the right to terminate the subscription at any time due to non-compliance with these terms or any other reasons deemed appropriate by us and no refund will be made.

No Guarantee: While we strive to provide accurate and reliable research, there is no guarantee on the returns or performance of the recommendations. Investing in securities involves risks, and there's the potential for losing money.

Review and Update: Our research products are reviewed and updated periodically to reflect the latest market conditions and insights. However, market conditions can change rapidly, and there's no guarantee that the conditions on which recommendations and insights are based will remain the same.

Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

Customer having any query/feedback/ clarification/ In case of grievances for any of the services rendered by GOALZEN CAPITAL SERVICES PRIVATE LIMITED, write to hello@goalfi.app

Website: goalfiresearch.smallcase.com