

**Price:** 129

**Recommendation:** Buy

**Industry:** Hotels & Resorts

**Sector:** Consumer Discretionary

**Report Date:** 17-Mar-2025

Lemon Tree Hotels Limited has achieved its highest Q3 revenue at Rs. 355.8 crore, a 22% growth YoY. Net EBITDA grew by 30% to Rs. 184.8 crore, with a margin of 51.9%. The occupancy rate rose to 74.2%, boosting RevPAR by 21%. The company is expanding with new projects, including Aurika, Shillong, and aims for 20,000 rooms by 2027. Its asset-light strategy and focus on mid-market hotels in Tier 2 and 3 cities align with market trends.

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	102	Sales Growth	7.48 %	Sales Growth	19.68 %
PEG Ratio	11.4	PAT Growth	23.13 %	Sales Growth QYoY	1.96 %
EV/EBITDA	53.0	EPS Growth	3.28 %	PAT Growth	46.91 %
P/B	8.59	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	10192 Cr
RoIC	23.1 %	Public	36.4 %	Enterprise value	10634 Cr
		No of Shares	79.2 Cr	Cash Equivalents	7.31 Cr

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

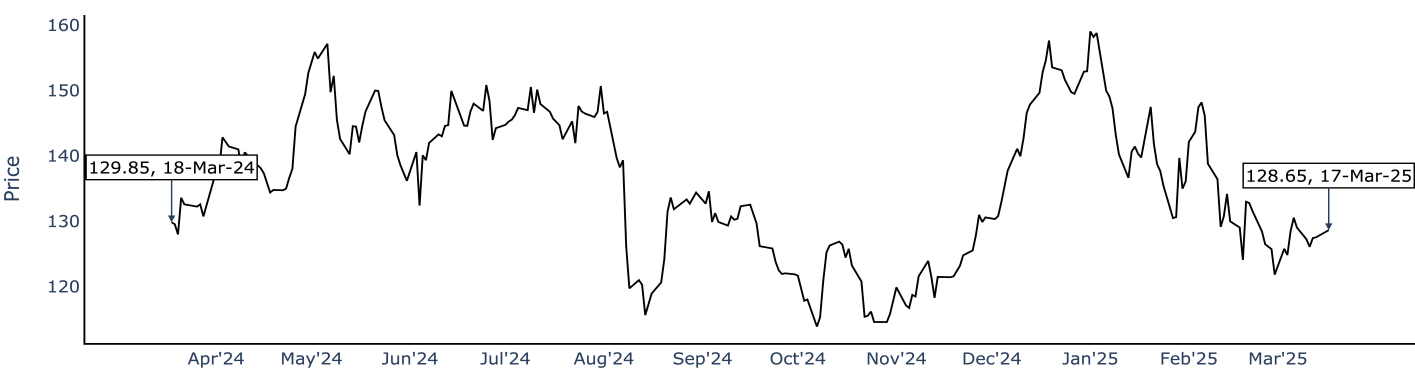
Lemon Tree Hotels Limited has reported a robust performance in Q3 and 9M FY25, achieving its highest ever third quarter revenue at Rs. 355.8 crore, marking a 22% growth compared to the previous year. The net EBITDA grew by 30% YoY to Rs. 184.8 crore, translating into a net EBITDA margin of 51.9%, an increase of 316 basis points YoY. The occupancy rate for the quarter stood at 74.2%, an increase of 826 basis points YoY, resulting in a RevPAR of Rs. 5,018, which increased by 21% YoY. The company also saw a significant increase in management fees, with total fees standing at Rs. 43.7 crore, a 35% increase YoY. The profit after tax was Rs. 79.9 crore, an 82% increase YoY, and cash profit stood at Rs. 114.9 crore, a 49% increase YoY.

In terms of new initiatives, Lemon Tree has embarked on a significant project in Shillong, receiving a letter of award for the redevelopment of the Orchid Hotel under a PPP model. This project, to be redeveloped as Aurika, Shillong, will feature 120 rooms and is expected to be operational within 2.5 to 3 years. The project qualifies for substantial capital subsidies and incentives, including full GST reimbursement and interest subvention under the Meghalaya Industrial and Investment Promotion Policy. Additionally, the company has signed 13 new management and franchise contracts, adding 766 new rooms to its pipeline, and operationalized one hotel, adding 38 rooms to its portfolio. As of December 31, 2024, the total inventory stood at 200 hotels with 16,385 rooms.

Looking ahead, Lemon Tree is confident in sustaining its growth trajectory by focusing on expanding its management and franchise portfolio and completing renovation activities in its owned portfolio to improve ARR and occupancy. The company plans to invest in renovations, which will continue into FY26 and FY27, aiming to position Lemon Tree as the largest and preferred brand in the mid-market segment. The company is also targeting a portfolio expansion to 20,000 rooms by 2027, with a focus on capturing demand in Tier 2 and Tier 3 cities. The management is optimistic about the demand from asset owners and expects to exceed the 20,000-room target.

On the positive side, Lemon Tree's strategic focus on asset-light growth and leveraging government incentives for new projects is commendable. The company's ability to maintain high occupancy rates and increase RevPAR indicates strong operational efficiency. However, there are areas for improvement, such as ensuring timely completion of renovation projects and managing potential slippages in the pipeline due to funding issues by hotel owners. The company's strategy to focus on mid-market hotels and expand its presence in Tier 2 and Tier 3 cities is well-aligned with the expected growth in discretionary spending on branded mid-market hotels in India.

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	5946.38	44.19	24.03%	1.14%	6.87%	203.48%	230.86%
ITC Hotels	34838.81					39.62%	
EIH	22728.91	32.31	17.62%	35.85%	7.95%	102.47%	12.43%
Ventive Hospital	16916.60	102.50	65.74%	20.73%	23.14%	59.29%	-23.65%
Chalet Hotels	16821.04	166.31	16.36%	21.41%	22.51%	169.69%	36.68%

Aspect	Commentary
Revenue	The company shows a strong revenue growth with a 22% YoY increase, indicating robust demand and effective sales strategies. The quarterly revenue also reflects a positive trend, supporting the company's expansion plans and market positioning.
Profit & Loss	Operating profit and PAT have shown significant growth, reflecting efficient cost management and strong operational performance. The increase in PAT suggests improved profitability, enhancing shareholder value.
Profitability Matrix	High operating and EBITDA margins indicate strong cost control and pricing power. The net profit margin is healthy, suggesting effective management of expenses and revenue generation.
Valuation Matrix	The high P/E ratio suggests market optimism about future growth, while the PEG ratio indicates potential overvaluation. The EV/EBITDA and P/B ratios reflect the company's market position and asset utilization.
Growth (YoY)	The company exhibits strong YoY growth in sales and PAT, indicating successful strategic initiatives and market expansion. The EPS growth, though modest, supports long-term value creation.
Growth (QoQ)	Quarterly growth in sales and PAT highlights effective short-term strategies and market responsiveness. However, the negative PAT growth QYoQ suggests potential volatility in earnings.
Capital Allocation	The company demonstrates efficient capital allocation with strong RoE and RoCE, indicating effective use of equity and capital employed. The high RoIC reflects strong investment returns.
Holdings	The diverse shareholder base with significant promoter and institutional holdings suggests confidence in the company's prospects. The public holding indicates broad market interest and liquidity.
Leverage	The low debt/equity ratio indicates prudent financial management and low financial risk. The manageable debt level supports the company's growth initiatives without over-leveraging.

**Analyst viewpoint:** Lemon Tree Hotels Limited has showcased impressive growth and operational robustness, making it a favorable candidate for bullish investment in the short to mid-term. The company's recent performance highlights a 22% YoY revenue growth and a remarkable 46.91% quarterly PAT growth, reflecting both strategic strength and adaptability in market dynamics. An increase in EBITDA by 30% YoY coupled with efficient capital allocation is evident through a high RoIC of 23.1%, underscoring strong investment returns. Lemon Tree's asset-light strategy complemented by its expansion in strategic Tier 2 and Tier 3 cities aligns well with its growth ambitions, targeting 20,000 rooms by 2027, enhancing market share and sustaining long-term growth.

Despite these positives, potential volatility in earnings as seen in a slight decline in QoQ PAT growth suggests areas for caution. Nevertheless, the company's focus on maintaining high occupancy rates and embracing government incentives positions it strategically within the competitive landscape, particularly against peers like Mahindra Holiday and ITC Hotels. The high P/E ratio signals a strong market confidence in future earnings. However, investors should consider this alongside the company's valuation metrics, which indicate a potential overvaluation. Overall, Lemon Tree Hotels continues to demonstrate a potent mix of growth potential and strategic industry positioning, making it a promising investment.

Please read detailed disclosure on next page.





