

Lemon Tree Hotels Limited

19th November 2025

Renovation spend mutes margins; thesis Intact

In Q2 FY26, Lemon Tree Hotels (LTH) reported its highest-ever Q2 revenue of Rs. 3 Bn, up by 8% on a YoY basis. This topline growth was achieved despite a challenging environment, as H1 faced multiple headwinds, including geopolitical tensions, floods, tariff wars, airplane accidents, and GST revisions, which resulted in muted demand across the industry. This top-line growth was driven by an 8% increase in RevPAR and an 8% growth in management fees.

However, Net EBITDA remained flat on a YoY basis at Rs. 1.31 Bn, with EBITDA margins declining 330 bps to 42.7%. This margin compression was an expected outcome of a planned, front-loaded increase in renovation expenses. Renovation expenses, technology spending, and a one-time ex-gratia payment to employees collectively accounted for 8% of revenue, a significant step-up from 5% in Q2 FY25. Despite this, PAT grew 20% on a YoY basis to Rs. 419 Mn, aided by a 16% reduction in finance costs.

Rapidly expanding managed contracts pipeline

LTH continues to aggressively expand its asset-light portfolio, signing 15 new management and franchise contracts (1,138 rooms) in Q2 FY26. The Company also announced a major new partnership with RJ Corp to design, build, and manage large-scale hotels in Ayodhya (300 rooms) and Guwahati (300 rooms + 50 service apartments). LTH will earn Rs. 150 Mn in design-and-build fees for each project, in addition to its standard management fees, marking a significant enhancement to its asset-light earnings model. The total inventory now stands at 20,074 rooms, with 9,118 rooms remaining in the pipeline.

Renovation nearing completion to unlock margin and ARR growth

The Company is in the final phase of a major renovation cycle, having spent ~Rs. 3 Bn to upgrade 3,000 of its 4,600 owned rooms over the last 2.5 years. Management plans to spend another Rs. 1.30-1.40 Bn next year to complete the remaining 1,600 rooms. The payback is already visible: the first fully renovated Keys hotel in Pune (rebranded to Keys Prima) saw a 47% growth in RevPAR on a YoY basis, and the Red Fox Aerocity has been upgraded to a Lemon Tree Hotel, enabling higher repricing from Q3 FY26. This renovation expenses, which is currently depressing margins, is expected to normalize to ~2% of revenue by FY28E, driving LTH toward its 59% long-term EBITDA margin target.

Aurika Mumbai's strong performance and ARR upside potential

After successfully prioritizing occupancy (now stabilized at ~70-75%), management is now focused on "sifting" lower-value negotiated business to improve the ARR mix. The current blended ARR of ~Rs. 8,500 is held down by crew business (<Rs. 8,000) while retail is already strong (>Rs. 10,000). Management has provided clear guidance for an ARR ramp-up, expecting to cross Rs. 9,500 by Q3 FY26, Rs. 10,000 by Q4 FY26, and hit the long-term target of Rs. 11,000-12,000 by next winter (Q3 FY27).

Fleur demerger and new marquee project on the cards

The Company intends to demerge and list Fleur Hotels by end of CY27. The IPO is expected to unlock significant capital, enabling the Company to move towards a debt-free status (Debt as of Q2 FY26 is Rs. 16.58 Bn).

Simultaneously, Fleur Hotels won a bid for 2.25 acres in Nehru Place, New Delhi, to build a 500-550 room Aurika. Management is targeting an IRR of 15% and projects this single asset will generate Rs. 1.5 Bn in EBITDA.

BUY

CMP Rs. 157

TARGET Rs. 220 (+42.0%)

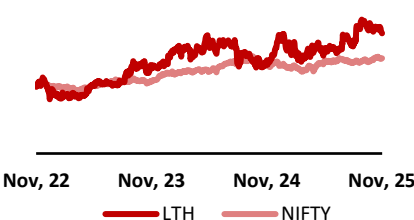
Company Data

Bloomberg Code	LEMONTRE IN
MCAP (Rs. Mn)	124,145
O/S Shares (Mn)	792
52w High/Low	162/111
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	682

Shareholding Pattern %

	Sep-25	Jun-25	Mar-25
Promoters	22.28	22.28	22.34
FIs	21.45	21.33	20.89
DIs	19.71	19.98	19.68
Non-Institutional	36.56	36.41	37.07

LTH vs NIFTY



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY25	FY26E	FY27E
Revenue	12.9	14.9	17.2
EBITDA	6.3	7.6	9.0
Net Profit	2.0	3.2	4.4
Total Assets	40.6	42.4	43.3
ROCE (%)	16%	18%	21%
ROE (%)	12%	16%	19%

Source: Company, Keynote Capitals Ltd Estimates

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View & Valuation

LTH's growth momentum was temporarily impacted during the quarter due to headwinds in H1 FY26. However, we believe this slowdown is short-lived, and that H2 FY26 will remain strong, supported by a growing pipeline of asset-light management contracts. Ongoing renovations across the owned portfolio are expected to drive improvements in ARR and occupancy, which should, in turn, expand EBITDA margins.

Additionally, the upcoming announcement detailing the Fleur demerger is expected to serve as a key catalyst. Backed by a healthier margin profile and sustained growth in the managed portfolio, we revise our estimates and reiterate our BUY rating with a target price of Rs 220, based on 20x FY27E EV/EBITDA.

Q2 FY26 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY26	Q2 FY25	Change % (Y-o-Y)	Q1 FY26	Change % (Q-o-Q)	H1 FY26	H1 FY25	Change % (Y-o-Y)	FY25
Revenue	3,063	2,844	8%	3,158	-3%	6,220	5,524	13%	12,861
Employee Cost	585	543	8%	580	1%	1,165	1,050	11%	2,185
F&B Cost	200	172	17%	198	1%	398	336	19%	762
Power & Fuel Cost	226	228	-1%	219	3%	444	461	-4%	878
Other Expenses	744	594	25%	756	-2%	1,500	1,218	23%	2,695
EBITDA	1,307	1,307	0%	1,405	-7%	2,712	2,458	10%	6,341
EBITDA %	42.7%	46.0%	-330 Bps	44.5%	-181 Bps	43.6%	44.5%	-90 Bps	49.3%
Depreciation	343	348	-1%	342	0%	685	693	-1%	1,393
EBIT	964	960	0%	1,063	-9%	2,027	1,765	15%	4,949
EBIT %	31.5%	33.7%	-227 Bps	33.7%	-219 Bps	32.6%	31.9%	64 Bps	38.5%
Finance Cost	451	538	-16%	480	-6%	930	1,080	-14%	2,112
Other Income	45	29	54%	49	-10%	94	58	64%	129
PBT	558	451	24%	633	-12%	1,191	742	61%	2,965
Tax	139	102	36%	148	-6%	287	193	48%	531
Profit from Associates/JV	0	2	-96%	-4	-101%	-4	3	-245%	-3
PAT	419	350	20%	481	-13%	900	552	63%	2,432
Minority Interest	-73	-54		-98		-171	-57		-466
Net Profit	346	296	17%	383	-10%	729	494	47%	1,966
EPS	0.44	0.37	-	0.48	-	0.92	0.62	-	2.48

Source: Company, Keynote Capitals Ltd.

Operating Metrics

Particulars	Q2 FY26	Q2 FY25	Change % (Y-o-Y)	Q1 FY26	Change % (Q-o-Q)	H1 FY26	H1 FY25	Change % (Y-o-Y)	FY25
Total Operational Rooms	10,956	10,318	6%	10,661	3%				10,269
Owned Rooms %	56%	58%	-231 Bps	56%	26 Bps				56%
Managed/ Franchised %	44%	42%	231 Bps	44%	-26 Bps				44%
Total Rooms in Pipeline	9,118	5,220	75%	7,770	17%				6,847
Total Rooms	20,074	15,538	29%	18,431	9%				17,116
ARR (Rs.)	6,247	5,902	6%	6,236	0%	6,242	5,794	7.7%	6,381
Occupancy %	69.8%	68.4%	140 Bps	72.5%	-270 Bps	71.2%	67.5%	365 Bps	72%
RevPAR (Rs.)	4,358	4,035	8%	4,523	-4%	4,441	3,912	13.5%	4,575
Management Fees (Rs. Mn)	342	318	8%	374	-9%	716	609	17.6%	1,489

Source: Company, Keynote Capitals Ltd.

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Q2 FY26 Conference Call Takeaways

Financial highlights

- **Revenue & Headwinds:** The company reported its highest-ever Q2 revenue of Rs. 3 Bn, an 8% increase on a YoY basis. This growth was achieved despite H1 facing multiple headwinds, including geopolitical tensions, floods, airplane accident, tariff wars and GST revisions, which led to muted demand.
- Management also noted that the festival calendar (Dussehra, Diwali, Chhath) concentrated in October this year which suppressed business demand in that month, but November had already recovered to mid-teens revenue growth versus last year by the time of the call.
- **EBITDA Margin:** Net EBITDA margin was 42.7%, a decline of 330 bps on a YoY basis. The margin decline was primarily driven by higher investments in renovation and technology and a one-time ex-gratia payout (COVID salary reimbursement) rather than underlying business weakness.
- These three items combined accounted for 8% of revenue in Q2 FY26, a significant increase from 5% in Q2 FY25. Management expects this to normalize to 5% of revenue in FY27 and 2% by FY28, implying a structural margin tailwind once the investment phase ends. Within that, renovation OpEx alone is currently ~6% of revenue, expected to fall to 1.5% of revenue post completion, and even to ~0.5% of revenue in FY28–FY30 as per management's expectation.
- The one-off payment of ~Rs. 200 Mn for the full year is being made to staff who had taken pay cuts during the COVID period.
- **GST Revision Impact:** Historically, ~50% of revenue was from rooms priced below Rs 7,500, and ~50% above. Loss of GST input credit on the sub-7,500 segment was initially assessed to impact EBITDA by ~3–3.5% of revenue.
- With ongoing price increases, management had targeted 7–8% revenue improvement to offset this. They now see this playing out, and expect the EBITDA drag to reduce from ~3.5% to ~2.5% by the end of Q3 FY26, and become largely neutral by next year as more rooms move above the Rs 7,500 threshold and benefit from both higher ARR and restored input credit.
- **Debt & Finance Cost:** Gross Debt stood at Rs. 16 Bn, down by Rs. 2 Bn on a YoY basis. Finance cost dropped by 16% on a YoY basis. Average cost of borrowing declined from 8.68% to 7.72% (–96 bps), aided by a rating upgrade from A to A+.

Operational & Portfolio highlights

- Signed 15 new management and franchise contracts, adding 1,138 rooms to the pipeline. Operationalised 5 hotels, adding 272 rooms to the operational portfolio. Total (operational + pipeline): 242 hotels, 20,074 rooms, across 145+ unique destinations.
- While there have been delays in scheduled openings of some managed/franchised hotels (factors beyond company control), management remains confident of accelerated growth in management fees given the strong pipeline and increasing number of asset-light contracts.

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- October 2025 was weak industry-wide as Dussehra, Diwali and Chhath Puja all fell in October (vs October–November last year), leading to ~4% lower occupancy on a YoY basis for Lemon Tree, though ARR was higher. In the first 15 days of November, the Company saw mid-teens revenue growth vs the previous year, more than offsetting October weakness.
- Management is guiding at least mid-teens revenue growth in Q3 FY26 at the portfolio level, assuming current trends sustain.
- **Aurika, Shimla:** This project was deliberately delayed for capital allocation reasons but is now being accelerated. A soft opening is expected in CY26.
- **Aurika, Shillong:** This project is on track to open in “mid 2027”.
- Management is actively expanding in the Navi Mumbai market. They are already operating one 100-room hotel and have signed another 150-room hotel. They plan to put 400-500 rooms around Navi Mumbai market considering commencement of new airport.

Aurika MIAL - performance and outlook

- Aurika Mumbai is now operating at 70%+ occupancy on a large room base; management’s strategy has been to first fill the hotel, then upgrade the business mix from lower-yield contracts to higher-yield segments.
- Current ARR is ~Rs 8,500. Management expects ARR to move above Rs 9,500 in Q3 FY26 and cross Rs 10,000 in Q4 FY26, with a medium-term stabilisation target of Rs 11,000–12,000 by Q3 FY27.
- Despite a strong base in the prior year, management expects Aurika Mumbai’s RevPAR growth to be upwards of 15% in Q3 FY26, reflecting both mix and pricing gains.

Renovations

- Over the last ~2–2.5 years, Lemon Tree has renovated ~3,000 rooms out of a legacy base of ~4,600 rooms (excluding new hotels). Cumulative renovation spend is just under Rs. 3 Bn, with “the majority” taken through the P&L as opex rather than capitalised, thereby depressing near-term reported margins.
- Management plans to spend another Rs. 1.30-1.40 Bn in FY26 and Rs. 1.30-1.40 Bn in FY27 to complete the remaining 1,600 rooms.
- Renovation cost buckets: Management categorized renovation into three spend tiers: a) High-value (Rs 1–1.2 Mn per room), b) Medium-value (Rs 0.6–0.8 Mn per room), and c) Low-value (~Rs 0.3 Mn per room). Investment hurdle for renovation program is 2 year payback.
- The first fully renovated Keys hotel in Pune, rebranded from Keys Select to Keys Prima, has reported a ~47% increase in RevPAR on a YoY basis post renovation and repositioning. The Red Fox Aerocity property in Delhi has been upgraded and rebranded as Lemon Tree Hotel Aerocity, enabling repricing from Q3 FY26 onwards. Similar upgrades have been completed in two hotels at Hitech City, Hyderabad, and in Whitefield and Electronic City, Bengaluru, with management expecting a uplift from Q3 FY26 as fewer rooms remain shut.

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- In markets such as Gurgaon and Delhi, management highlighted instances where 80–100 rooms had to be shut during H1 FY26 for renovation, leading to lost revenue and lower pricing due to construction disturbance (noise, disruption).
- Management expects far fewer rooms to be shut in H2 FY26, and believes Q3 FY26 will show a much clearer picture of the uplift from renovated inventory.

Aurika Nehru Place (Delhi) – Project Economics & Strategy

- Lemon Tree (via Fleur Hotels) has won a 2.25-acre DDA site in Nehru Place, New Delhi, through an auction, to build a 500–550-room Aurika hotel. Management views it as a long-term strategic asset in a prime, high-revenue, low-supply market.
- Annual lease payments start at Rs 240 Mn, escalating at 5% per year, which they see as roughly tracking inflation. On an implied land value of ~Rs 6 Bn (what they believe the plot would have fetched if sold), the effective rate is ~6%, with the upside captured via ARR and hotel economics.
- Lemon Tree Premier Delhi currently makes ~Rs 2.3–2.4 Mn EBITDA per room; applying this to a 550-room Aurika, management estimates ~Rs 1.50 Bn EBITDA at stabilisation, of which roughly one-sixth would go to DDA via lease payments. On conservative assumptions (hotel ready in ~4 years, with ARR of ~Rs 12,500 at opening), management expects an IRR of 15%+ on the project.
- The project is being executed on Fleur's balance sheet, aligning with the strategy of using Fleur as the primary vehicle for large lease-based assets.

Strategic tie-up with RJ Corp

- A major new asset-light partnership was announced with Ravi Jaipuria (RJ Corp) for two large hotels.
- Ayodhya – 300 rooms Lemon Tree Premier
 - Lemon Tree has been contracted to design and build the hotel, earning a design & build fee of Rs. 150 Mn; RJ Corp will fund the project capex.
 - Once operational, Lemon Tree will manage this hotel, adding a meaningful fee-income stream without deploying its own capital.
- Guwahati – healthcare led mixed-use complex with hotel & serviced apartments
 - RJ Corp is also developing a healthcare-anchored complex in Guwahati on ~5 acres, which will house a 600 bed multi specialty hospital, 100 bed children's hospital and 300 room Lemon Tree Premier hotel plus 50 serviced apartments.
 - Lemon Tree will design and build the hotel and serviced apartments, again for a Rs. 150 Mn design & build fee, with RJ Corp bearing the entire capex.
 - Once operational, Lemon Tree will manage this hotel, adding a meaningful fee-income stream without deploying its own capital.

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- Beyond this, RJ Corp will become 50% shareholder in Aurika, Shillong along side Lemon Tree's stake.
- This partnership will give Lemon Tree upfront design/build income of Rs. 300 Mn and recurring management fees from large, strategically located hotels where it has no capex at risk.

Others

- Management has painted a positive outlook for H2 FY26, expecting continued investments in renovation and technology to drive meaningful increases in occupancy and ARR across the portfolio from Q3 FY26 onwards.
- As renovation intensity normalises and GST impact fades, they expect EBITDA margins to structurally improve, with a medium-term ambition of net EBITDA margin $\geq 59\%$ by FY28 (ex-extraordinary costs).
- The Company is also undertaking a rebranding exercise within its own portfolio brands, which is expected to drive ARR growth.
- Management is strategically shifting its bookings from OTAs to direct channel as OTAs typically charge 13-16% commission on room bookings. On bookings routed through Lemon Tree's website and loyalty programme, the Company offers lower rates to guests vs OTAs, charges hotel owners $\sim 12\%$ as a distribution fee on such revenue and additional 4% for loyalty programme services.
- For owners, this is economically better than OTA business (lower effective cost of distribution), while Lemon Tree builds a "proprietary OTA"-like platform with direct customer relationships and data.
- At present, distribution/loyalty platform contributes only small amount to P&L, which can be scaled to Rs. 200-300 Mn fee income in next 2-3 years, as web and loyalty contribution rises and more owners route business through Lemon Tree's platform.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	10,711	12,861	14,934	17,213	19,348
Growth %		20%	16%	15%	12%
Raw Material Expenses	628	762	768	843	925
Employee Expenses	1,878	2,185	2,507	2,722	2,958
Other Expenses	2,973	3,573	4,101	4,638	5,121
EBITDA	5,232	6,341	7,557	9,011	10,344
Growth %		21%	19%	19%	15%
Margin%	48.8%	49.3%	50.6%	52.3%	53.5%
Depreciation	1,121	1,393	1,390	1,416	1,427
EBIT	4,111	4,948	6,167	7,595	8,917
Growth %		20%	25%	23%	17%
Margin%	38%	38%	41%	44%	46%
Interest Paid	2,085	2,112	1,634	1,394	1,074
Other Income & exceptional	125	129	299	431	100
PBT	2,151	2,965	4,832	6,632	7,943
Tax	341	531	1,208	1,658	1,986
PAT	1,810	2,434	3,624	4,974	5,957
Others (Minorities, Associates)	-325	-468	-466	-532	-584
Net Profit	1,485	1,966	3,158	4,442	5,374
Growth %		30%	32%	61%	41%
Shares (Mn)	792.2	792.2	792.2	792.2	792.2
EPS	1.87	2.48	3.99	5.61	6.78

Balance Sheet

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Cash, Cash equivalents & Bank	537	807	2,457	4,344	6,826
Current Investments	81	386	386	386	386
Debtors	715	786	896	1,033	1,161
Inventory	138	138	161	177	194
Short Term Loans & Advances	448	419	419	419	419
Other Current Assets	134	398	398	398	398
Total Current Assets	2,053	2,934	4,717	6,757	9,384
Net Block & CWIP	36,660	36,032	35,986	34,914	33,875
Long Term Investments	52	60	57	55	52
Other Non-current Assets	1,206	1,598	1,598	1,598	1,598
Total Assets	39,972	40,625	42,359	43,325	44,909
Creditors	859	616	1,195	1,721	1,935
Provision	60	64	64	64	64
Short Term Borrowings	2,125	2,052	2,052	2,052	2,052
Other Current Liabilities	2,647	2,733	2,733	2,733	2,733
Total Current Liabilities	5,690	5,465	6,043	6,570	6,784
Long Term Debt	14,668	12,911	10,911	6,911	2,911
Deferred Tax Liabilities	-306	-138	-138	-138	-138
Other Long Term Liabilities	4,456	4,475	4,475	4,475	4,475
Total Non Current Liabilities	18,818	17,248	15,248	11,248	7,248
Paid-up Capital	7,918	7,918	7,918	7,918	7,918
Reserves & Surplus	1,750	3,717	7,338	12,309	18,263
Shareholders' Equity	9,669	11,652	15,270	20,239	26,190
Non Controlling Interest	5,795	6,261	5,798	5,268	4,687
Total Equity & Liabilities	39,972	40,625	42,359	43,325	44,909

Cash Flow

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Pre-tax profit	2,151	2,962	4,829	6,629	7,940
Adjustments	3,070	3,371	2,263	1,849	1,820
Change in Working Capital	-218	-416	446	374	68
Total Tax Paid	-360	-502	-1,208	-1,658	-1,986
Cash flow from operating Activities	4,643	5,416	6,329	7,195	7,843
Net Capital Expenditure	-3,305	-932	-1,344	-344	-387
Change in investments	-242	-357	0	0	0
Other investing activities	-418	14	299	431	100
Cash flow from investing activities	-3,965	-1,274	-1,045	87	-287
Equity raised / (repaid)	5	0	0	0	0
Debt raised / (repaid)	1,418	-1,927	-2,000	-4,000	-4,000
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	-2,008	-1,996	-1,634	-1,394	-1,074
Cash flow from financing activities	-585	-3,923	-3,634	-5,394	-5,074
Net Change in cash	93	218	1,650	1,887	2,482

Valuation Ratios

	FY24	FY25	FY26E	FY27E	FY28E
Per Share Data					
EPS	1.9	2.5	4.0	5.6	6.8
Growth %		32%	61%	41%	21%
Book Value Per Share	20	23	27	32	39
Return Ratios					
Return on Assets (%)	4%	5%	8%	10%	12%
Return on Equity (%)	10%	12%	16%	19%	19%
Return on Capital Employed (%)	14%	16%	18%	21%	22%
Turnover Ratios					
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4
Sales / Gross Block (x)	0.3	0.3	0.3	0.4	0.4
Working Capital / Sales (x)	-36%	-24%	-13%	-3%	7%
Receivable Days	22	21	21	20	21
Inventory Days	71	66	71	73	73
Payable Days	26	21	22	31	34
Working Capital Days	67	67	70	63	59
Liquidity Ratios					
Current Ratio (x)	0.4	0.5	0.8	1.0	1.4
Interest Coverage Ratio (x)	2.0	2.4	4.0	5.8	8.4
Total Debt to Equity	1.1	0.8	0.6	0.4	0.2
Net Debt to Equity	1.1	0.8	0.5	0.2	-0.1
Valuation					
PE (x)	73.4	51.8	39.4	28.0	23.1
Earnings Yield (%)	1%	2%	3%	4%	4%
Price to Sales (x)	10.2	7.9	8.3	7.2	6.4
Price to Book (x)	11.3	8.7	8.1	6.1	4.7
EV/EBITDA (x)	23.9	18.2	18.2	15.3	13.3
EV/Sales (x)	11.7	9.0	9.2	8.0	7.1

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
26 th February 2024	BUY	142	+12.6%
4 th June 2024	BUY	133	+13.5%
12 th August 2024	BUY	121	+20.6%
19 th November 2024	BUY	121	+30.4%
7 th February 2025	BUY	139	+17.3%
3 rd June 2025	BUY	139	+18.9%
13 th August 2025	BUY	145	+17.2%
19 th November 2025	BUY	157	+42.0%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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