MIRAE ASSET Sharekhan

Lemon Tree Hotels Ltd

Reorganising to unlock future value

Reco/View: **Positive**	CMP: **Rs. 136**	Upside Potential: **53%**

Quick Snapshot

- The restructuring splits the LTHL group into two focused entities: **LTHL** (asset-light brand platform) and **Fleur Hotels** (asset ownership platform), simplifying the corporate structure to sharpen strategic focus and unlock value for shareholders.
- Outlook is strong driven by a robust portfolio, rising margins, zero debt and a likely higher dividend payout.
- Management has guided for ~80% EBITDA margins in LTHL (ex-Fleur) by FY28 (~1,000 bps rise) led by better operating leverage and robust cost structure.
- We stay Positive and expect an upside of 53% in LTHL. Stock trades at 14x/12x/11x its FY26E/27E/28E EV/EBIDTA, respectively.

Result overview

- LTHL's and Fleur Hotels (Fleur's) boards have approved a scheme of arrangement with an aim to simplify the group structure, enhance strategic focus and unlock long-term shareholder value.
- After restructuring, **Lemon Tree Hotels (LTHL)** would transform into a pure-play, asset-light company focused on hotel management, brand monetisation, loyalty, distribution, and digital capabilities, while **Fleur Hotels (Fleur)** would be an asset-heavy platform, comprising owned and leased hotels, development capabilities, acquisitions, and all group debt.
- APG's existing stake in Fleur Hotels would be sold to Warburg Pincus prior to completion of scheme. Further, Warburg Pincus to invest Rs. 960 crore as primary capital, which will provide growth capital.

Our Call

Stay Positive; expect 53% upside: Restructuring of LTHL would unlock value for shareholders through creation of two separate entities. We will review our estimates and make any changes in the same post its Q3FY26 results. Stock trades at 14x/12x/11x its FY26E/FY27E/FY28E EV/EBITDA, respectively. We retain our Positive view and expect an upside of 53%.

Key Risks

Drop in room demand or delay in launch of new hotels would be key risks to our estimates.

Valuations (Consolidated) — Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Revenue	1,071	1,286	1,479	1,682	1,851
EBITDA margin (%)	48.8	49.3	51.2	52.4	52.4
Adjusted PAT	181	243	328	441	522
Adjusted EPS (Rs.)	2.3	3.1	4.1	5.6	6.6
P/E (x)	59.4	44.2	32.8	24.4	20.6
P/B (x)	11.1	9.3	7.2	5.6	4.4
EV/EBIDTA (x)	20.9	17.1	14.3	12.0	10.5
RoNW (%)	19.9	22.9	24.7	25.8	23.8
RoCE (%)	11.1	12.7	15.4	17.9	18.6

Source: Company; Mirae Asset Sharekhan estimates

lemon tree HOTELS

VIEWPOINT

Company Update

SECTOR

Consumer Discretionary

COMPANY DETAILS

Market cap:	Rs. 10,743 cr
52-week high/low:	Rs. 181 / 111
NSE volume: (No of shares)	34.3 lakh
BSE code:	541233
NSE code:	LEMONTREE
Free float: (No of shares)	61.6 cr

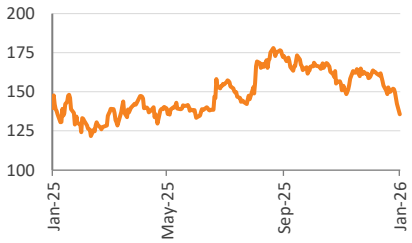
Source: NSE, BSE, Mirae Asset Sharekhan Research

SHAREHOLDING (%)

Promoters	22.3
FII	37.9
DII	19.5
Others	20.4

Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE CHART



Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE PERFORMANCE

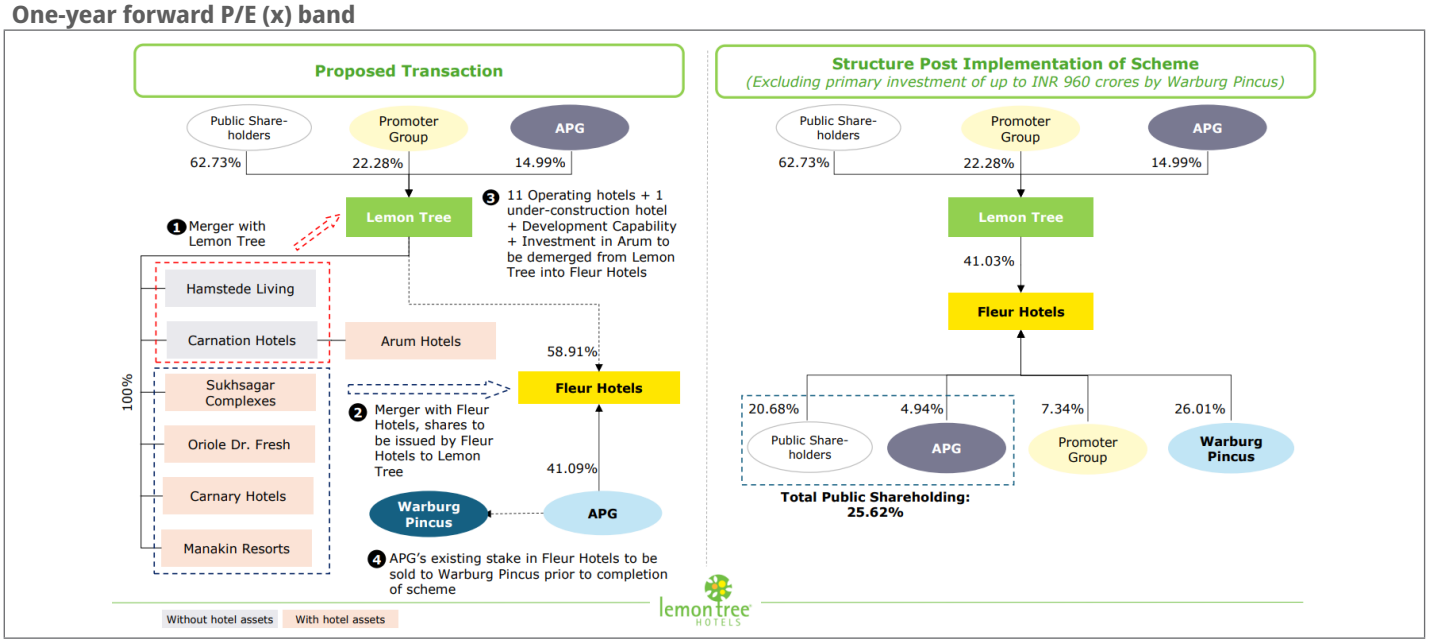
(%)	1m	3m	6m	12m
Absolute	-15.2	-18.4	-12	-3
Relative to Sensex	-13.2	-17.1	-14	-12

Source: Mirae Asset Sharekhan Research, Bloomberg

Key concall highlights

- After the restructuring, LTHL will emerge as a zero-debt, high-margin, high-growth, asset-light entity. The business will focus on fee income from hotel management, brand licensing and digital services, distribution capabilities and technology platforms. LTHL currently operates ~130 hotels with ~11,700–12,000 rooms and targets ~260 hotels/~22,000 rooms over the next 3–4 years and a longer-term aspiration of ~30,000–40,000 rooms, including the pipeline.
- LTHL's (ex-Fleur) EBITDA margin is currently at ~70%. The management has guided for ~80% EBITDA margins in LTHL by FY28 (~1,000 bps expansion) driven by better operating leverage with a steady increase in the management fee income and robust cost structure.
- Further, with the transfer of assets and debt to Fleur Hotels, lower depreciation and finance costs are expected to boost LTHL's bottomline. The management expects the PAT margins to be at 54-55% in FY28. Moreover, with no major capex planned, incremental free cash flows will be utilised for higher dividend payout.
- Post restructuring, Fleur will be the group's hotel ownership, leasing, and development platform, consolidating key assets including airport hotels and premium properties across major Indian markets. Fleur will assume all group debt, estimated at ~Rs. 1,300 crore post the demerger. Shares of Fleur will be listed on NSE/BSE post restructuring in next 15 months.
- Completion of ongoing construction projects (e.g. Shimla, Shillong, Nehru Place) and an active acquisition and development pipeline with visibility on 2,500 rooms under discussion are key growth drivers of Fleur.
- Total deployable capital (equity and debt) prior to listing could be ~Rs. 3,000 crore with further access to capital markets post the listing. Out of the Rs. 3,000 crore capital, Rs. 300 crore will be cash on books in Fleur, Rs. 960 crore will be infusion by Warburg and balance will be through debt for funding the ~2,500 room expansion plan in Fleur Hotels.
- Both companies will have separate management and governance structure which will result in improved regulatory and operational efficiency and expertise.
- As per the current structure of Fleur Hotels; LTHL owns 58.91% stake while APG owns 41.09% stake. Warburg Pincus will be acquiring APG's stake in Fleur Hotels before the restructuring takes effect. Warburg Pincus is also set to invest Rs. 960 crore as primary capital which will further increase its stake in Fleur Hotels in the coming years.
- As per the Part A of the restructure, five subsidiaries of LTHL will be merged with Fleur against which Fleur will be issuing 0.58 crore shares to LTHL as per the defined ratio.
- Further, in Part B, LTHL's shareholders will be allotted 20 shares of Fleur for every 311 shares of LTHL. As per the ratio 5.09 crore shares of Fleur shall be issued to LTHL's shareholders.
- After the restructuring, the equity base of Fleur hotels will expand from 9.78 crore shares to 15.46 crore shares with ownership split between LTHL (41.03%), Lemon Tree Hotels shareholders (32.96%) and Warburg Pincus (26.01%). This shareholding will be excluding the investment of Rs. 960 crore by Warburg Pincus. Overall, directly and indirectly, Lemon Tree Shareholders will own 73.99% stake in Fleur Hotels.
- Apart from the issuance of shares, 15 operating hotels with 1,563 keys will be merged with Fleur Hotels. Also, 3 under construction hotels (Aurika Shimla, Shillong and New Delhi) will be housed under Fleur hotels along with transfer of exclusivity on all future developments/ leases/ownership.
- The management indicated that EBITDA margins in FY26 and FY27 are expected to be lower than normal range due to certain one-offs such as 1) Implementation of new labour code (~Rs. 16-20 crore), 2) Loss of GST input credit (on rooms below ARR of Rs. 7,500) and 3) one time property tax to be paid to Delhi airport (~Rs. 8–10 crore). These one-offs will result in incremental EBIDTA margin dip of 400-500 bps in FY26 and FY27. This will be over and above the higher renovation cost impact of 300-400 bps on the margins.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

One-year forward P/E (x) band

As part of scheme, the following 4 hotels which are housed in 100% subsidiaries of Lemon Tree are getting directly merged with Fleur Hotels (PART A)

Hotels	No.of operating rooms	No.of operating hotels
Lemon Tree Hotels	82	2
Red Fox by Lemon Tree Hotels	277	2
Total	**359**	**4**

For PART A, 0.58 Cr shares of Fleur Hotels are issued to Lemon Tree

As part of scheme, the following are getting demerged from Lemon Tree and then getting merged with Fleur Hotels (PART B)

Hotels	No.of operating rooms	No.of operating hotels
Lemon Tree Premier	330	3
Lemon Tree Hotels	753	7
Red Fox by Lemon Tree Hotels	121	1
Total	**1,204**	**11**

(+) One under-construction hotel **Aurika, Shimla** (91 rooms)

(+) Investment in one under construction hotel in **Aurika, Shillong** (165 rooms)

(+) Exclusivity on all future Development / Ownership / Leasing of hotel assets and **transfer of Development Capability / Team**

For PART B, 5.09 Cr shares of Fleur Hotels are issued to Lemon Tree's shareholders

In summary, the following are moving from Lemon Tree to Fleur Hotels:

- 1,563 operating rooms (in 15 hotels)
- Investment in one under construction hotel in Aurika, Shillong (165 rooms)
- One under-construction hotel Aurika, Shimla (91 rooms)
- Exclusivity of all future Development / Ownership / Leasing on hotel assets and transfer of Development Capability / Team

All figures in Cr. and relating to Fleur Hotels	Current No.of Shares	Current Shareholding	(+) PART A	(+) PART B	Resultant No.of Shares	Resultant Shareholding
Lemon Tree	5.76	58.91%	0.58	-	6.34	41.03%
APG / Warburg Pincus	4.02	41.09%	-	-	4.02	26.01%
Lemon Tree Shareholders	-	-	-	5.09	5.09	32.96%
Total	**9.78**	**100%**	**0.58**	**5.09**	**15.46**	**100%**

Above shareholding is excluding any primary investment of up to INR 960 crores by Warburg Pincus

Source: Company; Mirae Asset Sharekhan Research

Additional Data

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Stichting pensioenfonds ABP	14.99
2	Franklin Resources Inc.	6.03
3	SBI Funds Management Ltd.	4.98
4	Vanguard Group Inc.	2.63
5	L&T Mutual Fund Trustee Ltd.	2.43
6	Nomura India Investment Fund Mother Fund	2.35
7	Nomura Holdings	2.35
8	Nippon Life India AMC	1.74
9	Blackrock Inc.	1.29
10	Allianz SE	1.14

Source: Bloomberg

Key management personnel

Name	Designation
Patanjali Govind Keswani	Chairman and Executive Director
Kapil Sharma	Executive Director and Chief Financial Officer
Pawan Kumar Kumawat	Company Secretary and Compliance Officer

Source: Company Website

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