

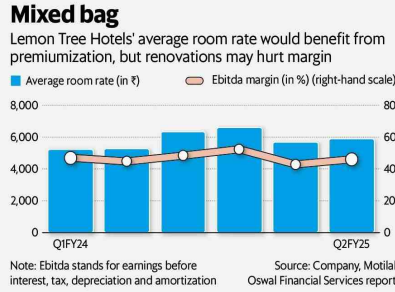
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Lemon Tree's renovation leaves little room for re-rating

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1 Lemon Tree Hotels Ltd has started to reap benefits from the growing demand for premium hotels, but its aggressive renovation plan is hurting its profitability. The ongoing premiumization in the mid-market hotels space boosted Lemon Tree's consolidated average room rate (ARR) by 12% year-on-year to ₹5,902 in the September quarter (Q2FY25), aiding revenue per available room, or RevPAR—a key measure of a hotel's performance. Meaningful ARR contribu-

tion came from Aurika Mumbai Skycity, the newest premium property in Lemon Tree's portfolio. Aurika Mumbai, India's largest hotel by room count (699 rooms), began operations in the October-December quarter of 2023-24 and has yet to scale up completely. This contributed to Lemon Tree's lower occupancy in the latest second quarter at 68.4%, down about 330 basis points year-on-year. The lower occupancy rate was also due to 9% of Lemon Tree's 5,800 rooms being closed for renovations during the September quarter. Lemon Tree embarked on an



ambitious renovation drive in FY24, targeting 4,500 rooms where it saw potential for subsequent price increases.

Its Keys Hotels brand, which operates in the economy segment, is also undergoing an overhaul, with 25% of

its portfolio under renovation. Post-renovations, the management expects the revenue from owned hotels to rise 15%. Lemon Tree plans to spend ₹300 crore on renovations over three years. Analysts estimate the company's Q2FY25 Ebitda margin would have been 200 basis points higher without renovation expenses. But its margin was still up 114 basis points year-on-year at 46%, as the company reduced exposure to the low-rate cabin crew business, increased its management fee for third-party property owners and reported robust corporate business across segments. Its

margin is higher than the hotel industry's average. Lemon Tree's stock has returned only 3% this year so far, underperforming Indian Hotels Co. Ltd's 80% and EIH Ltd's 42% gains. Full-scale benefits from better occupancy and higher ARR, along with listing of Lemon Tree's subsidiary, Fleur Hotels, could lead to a re-rating from FY27 onwards, Elara Securities (India) Pvt. Ltd said in an 18 November report. But before that, there may be an overhang from high renovation expenses. For an extended version of this story, go to [livemint.com](https://www.livemint.com).

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