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Lemon Tree investors must watch debt after a good FY25

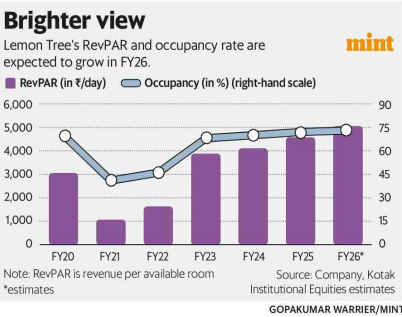
Pallavi Pengonda
pallavi.pengonda@livemint.com

Lemon Tree Hotels Ltd's FY25 benefitted from a full-year contribution of Aurika, Mumbai SkyCity, which opened in the third quarter of FY24. FY25 consolidated revenue and Ebitda each rose about 20% year-on-year to ₹1,286 crore and ₹634 crore, respectively. Growth was aided by an 11% increase in revenue per available room (RevPAR) to ₹4,575 per day and an improvement in occupancy rate to 71.7% from 69.9%.

The stabilization of Aurika and further ramp-up are vital

for earnings growth, while renovation expenses could hurt profitability. FY25 renovation expenses stood at 2.7% of revenue, a 30 basis point rise over FY24.

The company said this increased investment in renovation expenses will continue into FY26, followed by a smaller amount in FY27, so that the entire portfolio of owned hotels is fully renovated and refreshed. Post this, renovation expenses will drop close to about 1.5% of revenue, eventually aiding Ebitda margin. Ebitda stands for earnings before interest, taxes, depreciation, and amortisation.



Led by the stabilization of Aurika and an improvement in RevPAR amid the ongoing renovation exercise, PL Capital estimates revenue and Ebitda CAGR of 12% and 15%, respectively, over FY25-FY27. In addition, as no major capex

is lined up in the near term, barring in Shimla and Shillong, the broking firm expects debt reduction to gather pace FY26 onwards, translating into a profit after tax CAGR of 32% over the next two years.

Lemon Tree's debt fell from nearly ₹1,900 crore at FY24-end to ₹1,700 crore at FY25-end. It expects debt to drop to negligible levels over the next few years. The listing of subsidiary Fleur Hotels is likely to help; the management would come up with a definite plan by the next board meeting.

Lemon Tree's total inventory at FY25-end was 212 hotels and 17,116 rooms split into 10,269 rooms and 111 hotels being operational and the rest in pipeline. Within operational rooms, about 5,760 were owned/leased, and the rest were managed/franchised. It is confident of adding at least another 3,000 rooms to its pipeline in FY26.

Meanwhile, FY26 has begun well. Revenue grew 21% on-year in April, but moderated to 14% in May amid rising fears of covid-19 and geopolitical tensions. Lemon Tree's shares are up 8% so far in FY26, but down 9% in 2025. Investors must track RevPAR growth and debt trajectory to place their bets on the stock.

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