Lemon Tree's shake-up aims to unlock asset-light re-rating

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Lemon Tree Hotels Ltd is redrawing its corporate map with the proposed restructuring, separating hotel ownership from management. It makes the listed entity an asset-light management and franchise platform.

Owned and leased hotels, as well as under-construction and future hotels, will be integrated into Fleur Hotels, which will get a primary equity infusion of up to ₹960 crore from Warburg Pincus.

Lemon Tree wants investors to value its management business for its fee income and margins, rather than the debt and depreciation that accompany hotel ownership.

Nuvama Institutional Equities views the restructuring as value-neutral, but positively, as it reintroduces Warburg to the capital table via Fleur, de-risking future capital expenditure and ensuring a seamless path to Fleur's listing. "Conversely, value creation depends on the market assigning higher multiples to both the asset-light and asset-heavy segments, a tall ask given the recent multiple corrections of the market leader."

The management business earns Ebitda margin north of 70%, warranting a premium multiple. But the market will likely wait for evidence that the separation meaningfully improves numbers, governance and capital allocation.

Lemon Tree manages or franchises close to 90 hotels, with another 120-plus properties in the pipeline. Fee income has grown steadily, balance-sheet strain is limited, and incremental growth requires little capital.

Fleur will carry the heavier burden as its room count rises. Warburg's infusion eases leverage concerns and improves growth visibility. But development timelines, occupancy ramp-ups and the hotel cycle will determine results. Even modest delays could stretch valuation assumptions.

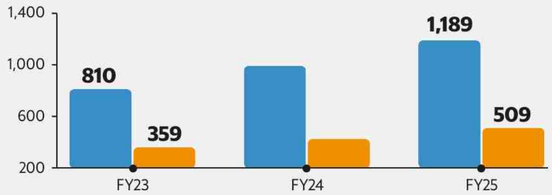
Lemon Tree's move looks more like overdue corporate housekeeping. With the stock trading at about 17.2 times estimated FY27 Ebitda, as per *Bloomberg*, any re-rating will depend on steady fee growth, disciplined capital deployment at Fleur and a supportive hotel sector cycle.

JM Financial estimates that valuing Fleur at about 17 times and Lemon Tree at around 30 times FY27 estimated Ebitda implies a combined valuation of roughly ₹14,700 crore, translating into about 23% upside from value unlocking. Remember that the restructuring and potential listing of Fleur will take over a year, asking investors to price in benefits that will emerge gradually.

Laying the base

Ahead of the restructuring, Fleur Hotels saw good growth in its revenue and Ebitda over FY23-FY25.

(in ₹ crore) Revenue Ebitda



Note: Ebitda is earnings before interest, tax, depreciation and amortization

Source: Company

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