Asset light model-based expansion to benefit Lemon Tree Hotels

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Q3FY26 should see seasonal strength exhibited by the hospitality sector. November 2025 marked a structural milestone for the Indian hotels industry with revenue per available room (RevPAR) scaling a new peak of ₹7,344-7,696 (up 16-18 per cent year-on-year or Y-o-Y). A strong wedding season, healthy traction in the meetings, incentives, conferences, and exhibitions (MICE) segment and contribution from new openings will help hotels post strong Q3FY26 numbers with Y-o-Y RevPar growth of 12-15 per cent.

Lemon Tree Hotels (LTHL) may see average room rates (ARRs) increase 11.5 per cent Y-o-Y to ₹7,541 with an occupancy of 74 per cent.

The revenue growth should be 10.5 per cent Y-o-Y with an operating profit margin of 48.2 per cent, compressing 370 basis points. This is due to loss of input tax credit with reduction in goods and services tax (GST) rate from 12 per cent to 5 per cent on hotel rooms with ARRs of less than ₹7,500.

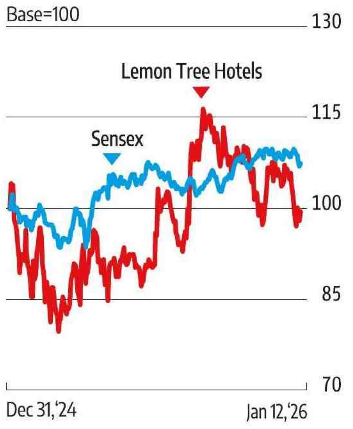
An ongoing renovation exercise is also likely to exert pressure on margins.

The hotel company will see a restructuring with separation of asset ownership from the brand and reorganisation, which will create two complementary platforms. Hotel assets currently owned by Lemon Tree (15 hotels/1,563 keys) will be transferred to Fleur, which would be separately listed.

Lemon Tree will transition to an "asset-light model" focused on growing its hotel management, franchising and digital business, retaining 41.03 per cent in Fleur. Lemon Tree, along with its shareholders, will have ownership worth ₹11,100 crore (74 per cent).

Warburg Pincus would acquire APG's entire 41 per cent stake in Fleur (proposed to be listed) while committing ₹960 crore of incremental primary investment in the future.

Management fees will increase with the commissioning of pipeline hotels and occupancy levels will remain elevated over FY26-28. Valuations have reduced but may offer somewhat limited upside given lower owned key additions compared to peers. However margin recovery could lead to upgrades. LTHL has signed 17 hotels with 1,855 rooms and opened 9 hotels with 646 rooms in Q3FY26. It aims to add 10,500 rooms across 130 hotels, taking the total inventory to 22,100



rooms across 260 hotels. Post renovation and technology expenses, margins should surge. Revenues and operating profit grew by 13 per cent and 10 per cent Y-o-Y, respectively, in H1FY26.

For Q3, the management has guided for mid-teens revenue growth, driven by a busy wedding season, surge in MICE activities, higher share from Aurika, Mumbai, the luxury brand of Lemon Tree Hotels, and incremental contribution from new hotels. RevPaR will be driven by ARR.

Long-term industry tailwinds, renovation of owned portfolio and addition of 10,500 rooms to the existing inventory of 11,600 will help LTHL's revenues and net profit post 13 per cent and 29 per cent annual growth, respectively, over FY25-28. LTHL ended H1FY26 with a total of 10,956 operational rooms in 121 hotels and a pipeline of 9,118 rooms in 121 hotels. Further, in Q3FY26, LTHL signed 17 hotels with 1,855 rooms and opened 9 hotels with 646 rooms. A large part of room inventory is via management contracts without stressing the balance sheet. The management expects FY26 operating profit margin to be the same as FY25 as revenue growth is expected to offset higher spends.

In H1FY26, margins fell 90 bps Y-o-Y and a further drop is expected in Q3.

Higher spends on renovation, technology and a one-time ex-gratia for employees linked to Covid-era salary cuts accounted for 8 per cent of revenue in Q2FY26. LTHL expects these expenses to reduce from 8 per cent to 5 per cent in FY27 and to 2 per cent from FY28 onwards. This implies operating profit margin rebound. Better operating leverage and incremental contribution from Aurika will support margins in future.