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Aurika Mumbai, renovations hold the key for Lemon Tree

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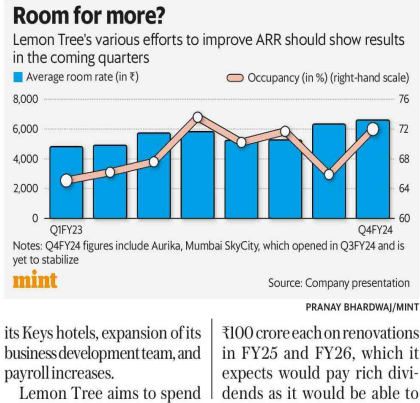
1 Investors in Lemon Tree Hotels Ltd shares will closely watch how its Aurika, Mumbai SkyCity hotel, among the country's largest, shapes up in 2024-25, its first full year of operation. A successful ramp-up of Aurika Mumbai, which opened in October, is key to Lemon Tree's earnings growth over the next couple of years.

For now, Aurika is not yet stable, Lemon Tree said while announcing its fourth-quarter and annual results. This cast a shadow on Lemon Tree's occupancy rate, which came in at 72%

in the fourth quarter ended 31 March, lower year-on-year, but up sequentially.

The occupancy rate and average room rate (ARR) at Aurika Mumbai was lower than expected, at about 66% and ₹9,000 per day, respectively. Its ARR was muted owing to the impact of a large base of airline crew rooms in Q4, the share of which the company plans to reduce and replace with segments such as corporate and retail.

Lemon Tree's consolidated revenue in Q4 was ₹327 crore, up 30% year-on-year. But its Ebitda margin, at 52.4%, contracted almost 300 basis points because of higher renovation expenses at



its Keys hotels, expansion of its business development team, and payroll increases.

Lemon Tree aims to spend ₹100 crore each on renovations in FY25 and FY26, which it expects would pay rich dividends as it would be able to

increase its room rates and improve its margins. The first Keys hotel to be more than 50% renovated, Keys Pimpri, Pune, saw its ARR rise to about ₹4,600 in Q4, up 21% from a year earlier.

Against this backdrop, FY25 and FY26 would be crucial for Lemon Tree as it reaps the rewards from its renovated portfolio and better occupancy rates at Aurika Mumbai. In FY24, on a high base, revenue and Ebitda growth rates had slowed.

Lemon Tree's debt rose to ₹1,889 crore in FY24 from ₹1,746 crore in FY23 due to borrowing against Aurika Mumbai. The company expects to be debt-free in four years. "Further conse-

quent debt repayment will be an added positive, bringing down interest costs," Dolat Capital Market said in a 30 May report.

Lemon Tree's high debt, moderation in ARR in Mumbai and Bengaluru, and the lower-than-expected performance of Aurika Mumbai are key risks, Dolat Capital said.

The company's shares have had a good run over the past one year, gaining close to 50%, suggesting that optimism in the stock is largely factored in. This, along with subdued demand due to the election and an extreme summer, can limit significant upsides for the stock in the near future.