August 17, 2026

Lemon Tree Hotels Limited: Ratings upgraded to [ICRA]AA-(Stable)/[ICRA]A1+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial Sector Regulator#
Long-term – Fund-based – Term loans	44.75	34.91	[ICRA]AA- (Stable); upgraded from [ICRA]A+(Positive); outlook revised to stable from positive	RBI
Long-term/short-term – Unallocated limits	101.25	111.09	[ICRA]AA- (Stable)/ [ICRA]A1+; upgraded from [ICRA]A+(Positive)/ [ICRA]A1; outlook revised to stable from positive	RBI
Total	**146.00**	**146.00**		

**Instrument details are provided in Annexure I*

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Rationale

The upgrade in the ratings of Lemon Tree Hotels Limited (LTHL) factors in the expectation of a sustained improvement in the company's credit profile, supported by an expanding operational footprint in terms of number of hotel properties and a track record of strengthening operating metrics, on the back of favourable hospitality industry dynamics where supply continues to lag demand. Over FY2021 to FY2026, the overall operational room inventory has increased at a steady CAGR of 7% while the managed room inventory rose at a CAGR of around 14%. LTHL reported a sustained improvement in average room rates (ARRs) to about Rs. 7,457 in FY2026 from Rs. 4,530 in FY2020 coupled with steady occupancy levels, leading to a healthy increase in cash flows. Going forward, the continued strength in domestic leisure and business travel is expected to support LTHL's operating performance and earnings generation. With calibrated capex plans, healthy cash accruals are expected to facilitate debt reduction, leading to an improvement in the company's leverage and debt coverage metrics. The Total Debt/OPBDITA is expected to moderate to 2.4-2.5 times by FY2027 from 4.9 times in FY2023. The rating action also favourably factors in the company's strategy to pursue portfolio expansion primarily through an asset-light model, which is expected to keep capital expenditure requirements low over the medium to long term and support further deleveraging.

The ratings continue to reflect LTHL's diversified business profile, characterised by large scale (80+ locations, 135 hotels, 11,946 rooms as on June 30, 2026), well-recognised brands across price points (economy, midscale, upper midscale, upscale and upper upscale) and extensive experience of its promoter and management team.

Aided by strong demand and sustained cost-control measures, LTHL posted revenues of Rs. 1,444.5 crore (a 12% YoY growth) and a healthy operating margin (OPM) of 47.8% in FY2026 (OPM of 49.5% in FY2025). The portfolio average room rate (ARR) increased on a YoY basis in FY2026 owing to positive benefits arising from renovation expenses incurred in the recent past, while the room occupancy stood at an average of 73.5% in FY2026 against 71.7% in the previous financial year. The company's revenues are expected grow at steady pace on a YoY basis (9% YoY growth in Q1 FY2027) in FY2027 with an expectation of improvement in operational metrics and higher management fee from managed and franchise hotels.

Aided by healthy operating profits, the debt protection indicators for the company witnessed an improvement with Total Debt /OPBDITA at 2.9 times in FY2026 against 3.4 times in FY2025. The debt on LTHL's books (excluding operating lease liabilities) reduced on a YoY basis to Rs. 1,500.3 crore as on March 31, 2026 (Rs. 1,695.8 crore as on March 31, 2025) and is expected to continue to reduce over the medium term.

ICRA notes that in January 2026, the board of directors announced a group reorganisation plan involving LTHL, its material subsidiary viz., Fleur Hotels Limited (FHL)[1], and its wholly-owned subsidiaries viz., Carnation Hotels Private Limited (Carnation), Hamstede Living Private Limited (Hamstede), Oriole Dr. Fresh Hotels Private Limited, Canary Hotels Private Limited, Sukhsagar Complexes Private Limited, and Manakin Resorts Private Limited (Manakin). The implementation of the reorganisation scheme is subject to various stakeholder/regulatory approvals and is expected to be completed in the next 9-12 months.

Post the completion of the reorganisation, LTHL will emerge as a pure-play asset-light company focused on offering hotel management, brand & loyalty, distribution and digital services, while FHL will become large-scale hotel ownership/leasing platform with end-to-end in-house development capabilities and a potentially large pipeline of room inventory with a significant pool of available capital. A majority of the hotel assets held under LTHL will be transferred to FHL post the requisite approvals, with plans to subsequently list FHL on the stock exchanges.

The management has indicated plans to expand owned/leased inventory at FHL level with addition of 2,500+ keys through organic/inorganic expansion for which equity portion would be partly funded from the Rs. 960 crore committed by Warburg Pincus. The scale of expansion and the funding mix adopted for the same would remain monitorable.

ICRA notes that LTHL's reported revenues would reduce substantially[2] post the implementation of the new structure as going forward, Fleur which contributes about 70% of LTHL's consolidated revenues, will not be fully consolidated. LTHL will emerge as a high margin, high RoCE, and a debt-free entity which will focus only on management and franchise business via management fee and would operate a portfolio of around 12,000 operational room inventory and more than 10,000 rooms in the pipeline by FY2030. In effect, although LTHL's scale of operations will reduce post the reorganisation, the evolution of its operating model and balance sheet is likely to enhance its resilience to downside risks in a sector that is inherently vulnerable to demand shocks. The above factors support the rating upgrade by ICRA. That said, in case the company's financial policy changes in a way that suggests a much higher tolerance for financial leverage, it could weigh on the ratings and therefore, remains monitorable. Further, ICRA will track LTHL's strategy for extending funding support to FHL, as needed, for growth or any other requirement.

Further, even in an alternative scenario that the aforesaid group reorganisation does not go through for any reason, ICRA's assessment suggests that the consolidated profile of LTHL (including the asset-heavy FHL vertical and other operating subsidiaries of LTHL) would further strengthen over the medium term, supporting the rating upgrade.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company will continue to benefit from favourable medium-term demand sentiments, which coupled with its well-recognised brands would help it to record healthy operational metrics and earnings, thereby leading to a sustenance of credit metrics.

Key rating drivers and their description

Credit strengths

Well-recognised brands and geographically diversified product portfolio – LTHL is among India's largest hotel chains, with 135 operational properties in more than 80 locations as on June 30, 2026. It benefits from a robust distribution system, loyalty programmes and corporate relationships. The company has established and recognised midscale (Lemon Tree), upper midscale (Lemon Tree Premier) and economy (Red Fox) brands. Moreover, with the successful stabilisation of its upscale brand, Aurika, as well as the acquisition of the Keys brand in FY2020, it further diversified and consolidated its presence across price points. This diversified presence reduces the vulnerability of the Group's revenues to cyclical downturns to some extent. The favourable location of its properties in prominent business and tourist districts supports revenue growth and reduces concentration risk.

[1] *LTHL hold 58.9% stake in Fleur Hotels Limited (FHL) which is the asset-heavy vertical of LTHL group and operates 24 hotels with a room inventory of about 4,000 rooms as of June 30, 2026. The remaining stake in FHL is held by Coastal Cedar Investment B.V., an affiliate of Warburg Pincus which took over the stake from APG Strategic Real Estate Pool N.V. (APG) in May 2026.*

[2] *As per the Q4 FY2026 investor presentation and on Pro-forma basis, LTHL recorded revenues of about Rs. 247 crore as against reported consolidated revenues of Rs. 1,444.5 crore for FY2026 while it also generated PAT of Rs. 160 crore against reported consolidated PAT of about Rs. 289 crore.*

Experienced promoters and management team – LTHL is promoted by Mr. Patanjali Keswani, who has been associated with the hospitality industry for over 30 years. From two properties in 2004, the Group has expanded its portfolio to 135 properties (owned/leased and managed) under seven brands, as on June 30, 2026. This has been led by an experienced and professional management team, with a track record of delivering consistent performance through well-planned refurbishments and project development, centralised sales and marketing, and disciplined cost-control measures.

Strategy to expand through management contract route to limit capital requirement and minimise development risk – The company has been expanding its footprint through an asset-light model that involves leasing of properties or entering franchise agreements/ management contracts with property owners. As on June 30, 2026, almost 51% of its 11,946-room inventory was under management contracts (up from 35% in March 2020). A further inventory of 10,561 managed rooms across 140 properties is in the pipeline (as on June 30, 2026). The management fee income for LTHL more than quadrupled to Rs. 73.9 crore in FY2026 from Rs. 17.6 crore in FY2022 and is anticipated to grow at a healthy pace, going forward, as most of the company's expansion is likely to be through the asset-light (franchise) model. This business model is expected to provide long-term operational benefits to LTHL as properties can be quickly put into operation with minimal (or nil) capex and limited project implementation risk.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of consumer spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, several non-metro markets also face seasonality in guest traffic. During the pandemic period, the performance of LTHL (and the entire hotel industry) was significantly impacted.

Moderate debt coverage metrices and return on capital employed; gradual improvement expected, aided by healthy underlying demand – The consolidated debt levels on LTHL level (excluding lease liabilities) reduced to Rs. 1,500 crore as on March 31, 2026 (Rs. 1,899 crore as on March 31, 2024). The reduction in debt was led by a scheduled repayment of its term debt obligations. As the company's profitability remains healthy, the leverage and debt coverage indicators have improved. The DSCR improved to 1.7 times in FY2026 (1.3 times in FY2024), while Total Debt/OPBDITA improved to 2.9 times (3.4 times in FY2025). Further, the RoCE increased to around 14% in FY2026, led by a higher profitability contribution from its nascent stage inventory (i.e., 3-4 years since commencement of operations). The return and credit metrics are expected to improve in the near to medium term, given no material debt-funded capex plans. The management's policy of availing the project debt towards later stages and its ability to raise low-cost debt continue to provide comfort. Further, the asset-light model expansion plan will keep the overall debt under check, going forward.

Environmental and social risks

Environmental considerations: Akin to other hospitality players, the Group is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances and may not materially impact the credit profile. The company has also been actively taking measures to improve its environmental impact through various measures, e.g., focus on becoming more energy efficient, adopting renewable energy, mitigating and adapting to climate change (target of 40% reduction in greenhouse gas emissions, 100% certified green hotel buildings), conserving water and reducing waste. Overall, the company has low environmental risk.

Social considerations: The company would need to adapt to the evolving social fabric (including changing consumer preferences and social trends) from time to time. The Covid-19 pandemic is an example of such risk, given its substantial implications on health and safety. As per its vision, LTHL has focused on an inclusive work environment (target of employing 15% women and 30% opportunity deprived Indians across workforce) and on empowerment of local communities. The Group is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

LTHL's liquidity is expected to remain adequate, supported by healthy net cash accruals, free cash and liquid investments of Rs. 164 crore and undrawn working capital limits of Rs. 45 crore as of March 2026. It has term loan repayments of about Rs. 186 crore and capex requirements of Rs. 250-300 crore in FY2027. With expected retained cash flows of Rs. 450-500 crore in FY2027, the liquidity is estimated be sufficient in covering its obligations in the near term. ICRA expects LTHL's large asset base, strategic partnerships, and financial flexibility with its lenders to continue to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – Post the completion of a business reorganisation scheme, a significant increase in management fee/contracted rooms, while maintaining a robust financial risk profile, will remain key for a further improvement in ratings. In the interim, a sustained improvement in operational metrics and profitability indicators leading to material improvement in leverage and coverage metrics along with liquidity profile, could be a trigger for an improvement in the rating.

Negative factors – Post the completion of a business reorganisation scheme, any material debt undertaken resulting in a weakness in the financial risk profile could lead to a rating downgrade. In the interim, a material demand slowdown or any significant debt-funded capex plan, leading to a material weakness in the capital structure and coverage indicators could exert pressure on the ratings. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBITDA of more than 2.8 times on sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LTHL, its subsidiaries, step-down subsidiaries and associates under the assumption of continuation of the existing group structure. At the same time, ICRA has assessed how the credit profile of LTHL might take shape upon the consummation of the ongoing group restructuring, and the potential of reduced financial linkages between LTHL and FHL. Note: The rating action represents an outcome that is valid upon the application of either of the analytical approaches, each of which corresponds to a different set of scenarios, one where the group restructuring transaction does not go through and the other where it does.

About the company

Incorporated in 2002 by Mr. Patanjali Keswani, his friends and associates, LTHL is a publicly listed company that owns and operates 135 hotels with 11,946 rooms under seven brands in more than 80 locations in India and abroad, as on June 30, 2026. The company's portfolio spans upscale, midscale and economy segments. Its brands include Aurika (upscale), Lemon Tree Premier and Keys Prima (upper midscale), Lemon Tree and Keys Select (midscale), and Red Fox and Keys Lite (economy). In terms of ownership, ~23% stake in the company is held by the promoters (the Keswani family), ~15% by APG (a Dutch pension fund) and the rest by foreign portfolio investors, mutual funds, employees and the public.

The company designs, develops and manages properties directly or under its subsidiaries (collectively referred to as the Lemon Tree Group). While most properties in its portfolio are owned by the company directly or through its subsidiaries, a few are operated on long-term lease basis. As on June 30, 2026, the Group had 41 owned and leased operational properties and four

properties under development. The total owned/leased inventory across the operational properties stood at 5,759 rooms with 875 rooms under development.

To facilitate rapid expansion of LTHL's brands across the country, the Group's subsidiary, Carnation Hotels Private Limited, enters management contracts with asset owners. As on June 30, 2026, 6,187 rooms across 94 properties were under management contracts with additional 10,561 rooms (140 properties) in the pipeline.

Key financial indicators (audited)

LTHL Consolidated	FY2025	FY2026*
Operating income	1,286.1	1,444.5
PAT	243.4	289.3
OPBDIT/OI	49.5%	47.8%
PAT/OI	18.9%	20.0%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	3.4	2.9
Interest coverage (times)	3.0	3.9

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Based on abridged financial statements for FY2026**

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2027)			Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Aug 17, 2026**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term Loan	Long term	34.91	**[ICRA]AA- (Stable)**	Jul 15, 2025	[ICRA]A+ (Positive)	Aug 09, 2024	[ICRA]A (Positive)	Aug 07, 2023	[ICRA]A (Stable)
				Jan 20, 2026	[ICRA]A+ (Positive)	-	-	-	-
Unallocated limits	Long term /Short term	111.09	**[ICRA]AA- (Stable)/ [ICRA]A1+**	Jul 15, 2025	[ICRA]A+ (Positive)/ [ICRA]A1	Aug 09, 2024	[ICRA]A (Positive)/ [ICRA]A2+	Aug 07, 2023	[ICRA]A (Stable)/ [ICRA]A2+
				Jan 20, 2026	[ICRA]A+ (Positive)/ [ICRA]A1	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loans	Simple
Long-term/ Short-term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook	Financial Sector Regulator#
NA	**Term Loan-I**	FY2021	NA	FY2028	1.21	[ICRA]AA- (Stable)	RBI
NA	**Term Loan-II**	FY2020	NA	FY2031	30.73	[ICRA]AA- (Stable)	RBI
NA	**Term Loan-III**	FY2017	NA	FY2027	2.96	[ICRA]AA- (Stable)	RBI
NA	**Unallocated Limits**	NA	NA	NA	111.09	[ICRA]AA- (Stable)/ [ICRA]A1+	RBI

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company name	LTHL ownership	Consolidation approach
Lemon Tree Hotels Limited	100.00%	Full Consolidation
Fleur Hotels Limited	58.91%	Full Consolidation
Hyacinth Hotels Private Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full Consolidation
Iora Hotels Private Limited (Subsidiary of Fleur Hotels Limited)	59.91%	Full Consolidation
Canary Hotels Private Limited	100.00%	Full Consolidation
Sukhsagar Complexes Private Limited	100.00%	Full Consolidation
Oriole Dr Fresh Hotels Private Limited	100.00%	Full Consolidation
Lemon Tree Hotel Company Private Limited	100.00%	Full Consolidation
Red Fox Hotel Company Private Limited	100.00%	Full Consolidation
Nettle Hotels Pvt Ltd (formerly Poplar Homestead Holdings Private Limited)	100.00%	Full Consolidation
Madder Stays Private Limited	100.00%	Full Consolidation
Arum Hotels Pvt Ltd (formerly Jessamine Stays Private Limited)	100.00%	Full Consolidation
Carnation Hotels Private Limited	100.00%	Full Consolidation
Manakin Resorts Private Limited	100.00%	Full Consolidation
Hamstede Living Private Limited	100.00%	Full Consolidation
Berggruen Hotels Private Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full consolidation
Celsia Hotels Private Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full Consolidation

Company name	LTHL ownership	Consolidation approach
Inovoa Hotels & Resorts Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full Consolidation
Ophrys Hotels Private Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full Consolidation
Bandhav Resorts Private Limited (Subsidiary of Fleur Hotels Limited)	58.91%	Full Consolidation
Mind Leaders Learning India Private Limited	36.56%	Equity Method
Pelican Facilities Management Private Limited (Subsidiary of Mind Leaders Learning India Private Limited)	-	Equity Method
Glendale Marketing Services Private Limited	-	Equity Method
Totally Foxed Solutions Pvt ltd	100.00%	Full Consolidation
Mezereon Hotels LLP (Subsidiary of Fleur Hotels Limited)	58.91%	Equity Method
Krizm Hotels Pvt Ltd Employee Welfare Trust	-	Equity Method

Source: LTHL Q1 FY27 results; Note: ICRA has considered consolidated financials of the parent (LTHL) while assigning the ratings

NOTE: The analytical approach, including the entities to be considered for consolidation, will be reviewed upon the completion of the group reorganization transaction.

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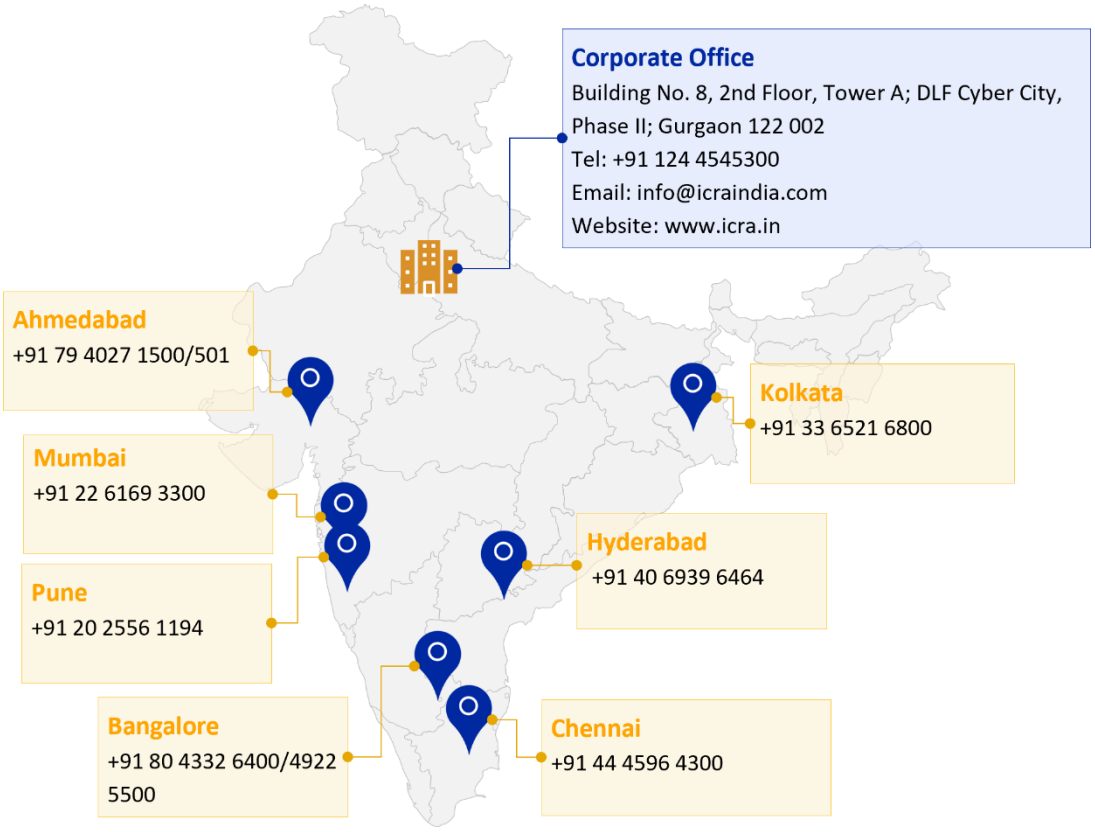
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