



June 7, 2024

**National Stock Exchange of India Limited  
Exchange Plaza, Bandra Kurla Complex,  
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Mumbai – 400 051**

**BSE Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai – 400 001**

**Name of Scrip: LEMONTREE**

**BSE Scrip Code: 541233**

**Subject: Disclosure under Regulation 30(6) of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

**Ref: Outcome of Conference Call with Analysts/Institutional Investors**

Dear Sir/Madam

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and in continuation to the disclosure made on June 3, 2024 w.r.t the audio recording of the conference call on financial results for the quarter and Year ended March 31, 2024 held on Monday, June 3, 2024 at 4:00 PM IST, please find enclosed herewith the transcript of the conference call with investors/analysts.

This is for your information and record.

Thanking You

For **Lemon Tree Hotels Limited**

**Jyoti Verma  
Group Company Secretary  
Cum Compliance Officer  
M. No.: F7210**

Encl: a/a

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## Lemon Tree Hotels Limited

### Q4 & FY24 Earnings Conference Call Transcript

June 03, 2024

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Lemon Tree Hotels Limited Earnings Conference Call.

I now hand the call over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, Mr. Poojari.

**Anoop Poojari:** Thank you. Good evening, everyone, and thank you for joining us on Lemon Tree Hotels Q4 & FY24 Earnings Conference Call. We have with us Mr. Patanjali Keswani, Chairman and Managing Director; and Mr. Kapil Sharma, Chief Financial Officer of the company. We would like to begin the call with opening remarks from the management, following which we will have the forum open for an interactive question-and-answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the results presentation that was shared with you earlier.

I would now request Mr. Keswani to make his opening remarks.

**Patanjali Keswani:** Good afternoon, everyone, and thank you for joining us on the call. I will be covering the business highlights and the financial results for Q4 FY24 and for the full year. Post which, we will open the forum for your questions and suggestions. In Q4, Lemon Tree Hotels continued its growth momentum from the previous year. Q4 FY24 has been the best ever Q4 performance in terms of Gross ARR, Revenue, EBITDA, PBT and PAT. Q4 FY24 recorded a Gross ARR of Rs. 6,605, which increased by 13.4% Y-o-Y and 4.3% Q-o-Q. Occupancy for the quarter stood at 72%, which decreased by 163 bps Y-o-Y and increased by 605 bps Q-o-Q. This translated into a RevPAR of Rs. 4,754, which increased by 10.9% Y-o-Y and 13.9% Q-o-Q. Total revenue for the company in Q4 was Rs. 331.2 crore, which was higher by 30% Y-o-Y and 13.9%

Q-o-Q. The total revenue for the full year was Rs. 1,076.8 crore for the company which increased by 23% over FY23.

The net EBITDA margin for the company in Q4 FY24 stood at 52.9%, which decreased by 278 bps Y-o-Y and increased 415 bps Q-o-Q. The decrease in EBITDA margin Y-o-Y was mainly owing to planned increase in renovation expenses above that spent in Q4 FY23 as well as expansion of our business development team and overall payroll increases due to inflation. The Keys portfolio EBITDA margin % decreased by ~16 percentage points Y-o-Y due to a big increase in renovation expenses over Q4 FY23. The investment in renovation has allowed us to position the Keys brand to capture better pricing and demand. Please refer to Slide 40 in the annexures which showcases a case study on how renovation of the Keys Pimpri, Pune, which is the first Keys hotel to be more than 50% renovated, translated into an ARR of Rs. 4,577, which was an increase of Rs. 800 over Q4 FY23.

The net EBITDA margin for the full year stood at 49.1%, which reduced by 278 bps over FY23.

Fees from management and franchised contracts from 3<sup>rd</sup> party owned hotels stood at Rs. 14.4 crore in Q4 FY24 up 34% from Rs. 10.7 crore in Q4 previous year. Total management fees for Lemon Tree in Q4 were up 48% Y-o-Y at Rs. 41.2 crore compared to Rs. 27.8 crore in Q4 FY23. The total management fee for the full year stood at Rs. 134.3 crore, which is up 30% over FY23.

Owned hotel level revenue for the quarter from the owned portfolio increased by 28% Y-o-Y and the Network Revenue for Lemon Tree, which is the total system revenue of owned including Aurika, MIAL and third-party managed and franchised hotels increased by 31% Y-o-Y. Total network revenue for the full year stood at Rs. 1,621 crore for FY24 as compared to Rs. 1,330 crore in FY23, which translates to an increase of 22%.

The debt for the company increased by Rs. 143.3 crore or about 8% from Rs. 1,745.7 crore in FY23, which was owing to borrowing against Aurika, Mumbai Skycity. The cash profit for the company increased 24% Y-o-Y from Rs. 237.1 crore in FY23 to Rs. 293.8 crore in FY24.

During Q4, we signed 12 new management and franchise contracts which will add 667 new rooms to our pipeline and operationalized 4 hotels added 176 rooms. As of 31st March 2024, the inventory for the group stands at 104 hotels operational, with 9,863 rooms, and our pipeline comprises an additional ~4,000 rooms. In fact, as of today, we are pleased to announce that our operational inventory has crossed

10,000 rooms. We expect our operational inventory to be about 120+ hotels with over 11,000 rooms by end of FY25.

With this, I come to the end of my opening remarks. I would ask moderator to open the forum for any questions you may have.

**Moderator:** The first question is from the line of Karan Khanna from Ambit Capital.

**Karan Khanna:** Congratulations to the entire team for completing 20 years in the business and 100+ hotels with 10,000+ rooms. My first question, if you look at the trends so far across most of the listed hotel companies, I think in fourth quarter, we have seen that the overall ARR growth has seen some amount of deceleration, especially for the upscale and the luxury hotels while players like you have still managed to deliver mid-teens to low teens kind of an ARR growth. So how should we read this as we enter FY25? The part of the question is if you look at FY25, are you seeing some sort of a down trading overall in the industry where people are now pressuring, perhaps from a luxury or upscale going to a mid-scale or/and how should we read FY25? What kind of expectations do you have on overall FY growth for the industry and for yourselves?

**Patanjali Keswani:** There is a base effect coming into play. After COVID, in the first year, there was a fairly significant price hike by nearly every player in the hotel industry. So, this was exceptional because, normally, pricing hikes occur after demand improvement, but this was a counterintuitive call, which amazingly happened in a very fragmented market of ours, which is the hotel industry. If you look back on FY23, there were large price hikes, us included, across the industry in India. Obviously, in FY24, while there was some improvement in pricing in this higher base, and there is after all, a limit to how much you can increase pricing on an ongoing basis. That is the first point.

My forward view is, now I think the whole industry will wait for the upcycle, which is imminent in my opinion. At which point, you will see further significant hikes. Otherwise, typically, the hikes you will see will be depending on the market and depending on the quality of hotel, it could be anywhere from 5% to 12%. So that is the kind of price hikes you will see going forward. Now coming to Lemon Tree and down-trading, see, I think what you have seen is early stages of a structural shift in demand by consumers in India as the GDP moves from this current place. If you look at India's GDP today, well I know people do not like these comparisons. But it is the same as China in 2006 and Indonesia in 2007. Let me give you a very interesting example. There are 6 high-frequency indicators which demonstrated a real structural shift in discretionary consumption moving towards nondiscretionary for very large cohorts of consumers there. Both these countries were at India's GDP

per capita then and had a very small base of, what I would call, wealthy, which is say households earning over \$100,000 per household. If I remember right, India itself has, from the last study I read a few years ago, 3-4 years ago, India had only 1 million such households, which are real consumers of luxury.

And then there were about 3.5 million to 4 million households, which earned more than Rs. 30 lakhs, going up to Rs. 85 lakhs. So, this was the situation in India 3-4 years ago. And this was identical to what China had in 2006 and Indonesia in 2007. Now what happened after that was 5 high-frequency indicators were, first, that the air traffic started taking off. And that you can see in India. In fact, I think some very encouraging signs are coming from the airline industry, because airlines have ordered capacity, which is roughly 3x of their current capacity, which will be operationalized in the next 5 years.

So that should tell you how we are looking at air travel demand in the next half decade. Number of airports; India has 150 airports that would increase to 250 but the number of runways are going to double from the current level. Four-lane highways have doubled over the last 5 years, and I expect it to double in the next 5 years. SUV demand has increased enormously in India, identical to what happened in China and Indonesia. When you look at these high frequency indicators and the current income, GDP per capita and then household income. We are at that cusps where we will start following those trendlines, with China and Indonesia with this, which were roughly 22% CAGR growth in branded hotel rooms for 6 years. That was the boom in the hotel industry that these 2 countries saw at this point in the GDP with these kinds of high-frequency indicators.

The first point is that the segment that took off first, because it had the lowest base, was luxury and 2 years lag, then mid-market took off. I think we are seeing the same thing in India. You will notice luxury operators are showing a much higher growth in ARR than the mid-market. But this, to me, is a precursor to the mid-market. So, to answer your point in a very, I guess, in a long way, I do think that there will be a big growth in mid-market, but that will not necessarily be at the cost of luxury because both these consuming segments or cohorts of Indian customers are going to increase in the next 5 years.

**Karan Khanna:**

Just as a follow-up to this. Is it safe to assume that FY25 possibly, because we have seen a fairly high growth in FY23 and FY24 ARRs, we could see some moderation in terms of the overall growth. Let's say, FY26-FY27 as demand picks up, potentially the growth cycle further pickup in that period?

- Patanjali Keswani:** Well, I would say that rate growth this year should not be less than last year.
- Karan Khanna:** Despite the fact that in first quarter, I think we have seen some election and heatwaves and all other aspects. And likewise, if second quarter itself is traditionally a soft quarter, you're confident about a fairly robust rate growth in FY25 v/s FY24 as well?
- Patanjali Keswani:** Yes. I think it's fairly safe to say that.
- Karan Khanna:** My second question on the Aurika Mumbai, if you can talk more about how the ARR, occupancies, customer mix for Aurika during the fourth quarter? And what's your expectation for FY25?
- Patanjali Keswani:** Fourth quarter, we did, I think, about 66%. Let me just pull out the figures for the Aurika, yes, we did about 66%. ARR was about Rs. 9,000. This was because, as I said, we had a large base of crew rooms which we had taken opportunistically. Going forward, Aurika did well in April. I think May has been same, excluding Aurika, it has been same as last year in terms of occupancies and ARR, because it was a very soft month because of this extreme heat wave and this election. This election also had a deflationary impact on demand for hotel rooms. But I see June is showing a significant pickup. On a quarter basis, I think Aurika will do as we expected. I do not want to give any specific guidance on it. But it is doing as well as we expected, and we are gradually taking out the crew base. We will replace it with the segments that we really want to target, which is corporate, retail, meeting and incentives. As far as for the owned company goes, I think Q1 will certainly be much better than Q1 last year.
- Karan Khanna:** Last question, given the success you have seen at Keys Select post renovation in Pune, do you believe you can replicate the similar sort of success in the rest of Keys portfolio? And what's your expectation for overall RevPAR growth for your Keys portfolio in FY25 and FY26?
- Patanjali Keswani:** FY25 is still a work in progress because we did a bunch of renovation in Keys, but it is early stages because that's not visible in the sense that it is parts of the hotel. So, I was very specific when I said that you can look at Keys Pimpri because that is one hotel we have renovated. I think we gave you an illustration of what happens when we renovate a hotel more than 50%. Keys Pune was renovated first. This year, we are going to now start renovating all of that. And I think the full impact will be visible only from October the following year. But you will see early signs of it from this October, this coming October. What do I expect? Very simple. Our target EBITDA

for Keys would be Rs. 60 crore a year, minimum. And I think we will be getting there certainly by next October. And some signs of it will be visible from this October.

**Moderator:** The next question, which is from the line of Chetan Sharma from Systematix Shares and Stocks Limited.

**Chetan Sharma:** You mentioned that on industry wide in the coming quarter, the price hike of 5% to 10% can be seen. Sir, my question is what will be the focus area of industry in terms of ARR and occupancy for FY25 and FY26? What will be the strategy for it, as we can see ARR going on a single digit or double-digit on Y-o-Y basis, but the occupancy is falling down. What will be the focus area?

**Patanjali Keswani:** Well, occupancy is not falling down. You are seeing the weighted average impact of Aurika Mumbai because that is obviously not at the level of the rest of the company. Lemon Tree as a group may have done 72%, but it is 3 parts. There is Aurika which did 66%, there is Keys which did 56%, and then there is Lemon Tree without Keys and without Aurika, which did over 75%. And I certainly do not feel this occupancy will reduce. I'm talking Q4, if you look at next year and so on, or this coming year. What I think will happen is that, depending on micro markets and its hotels across India, demand in each of those micro markets, my view is that there will be different mixes of occupancy hikes and ARR hikes. What I can say is for Lemon Tree certainly, we will see at least a 15% increase in revenue every year for the next 3 years. And this will partly be led by ARR increase, partly by occupancy and partly by management contract business increasing. The minimum, we expect is 15% increase.

**Moderator:** The next question is from the line of Kunal Lakhan from CLSA.

**Kunal Lakhan:** Just want to understand, what would have been the same-store ARR growth, excluding Aurika?

**Patanjali Keswani:** So you are saying Q-o-Q.

**Kunal Lakhan:** No, Y-o-Y.

**Patanjali Keswani:** Y-o-Y, if I look at Lemon Tree without Keys, grew by north of 10%, it will do north of 5%. ARR on a Y-o-Y basis, as the group if you notice went up from to Rs. 5,800 to Rs. 6,600. Now if I take out Keys then Lemon Tree with Aurika grew by over 10%, Keys grew by 5%. That gives you an idea without MIAL the ARR grew by 8%.

**Kunal Lakhan:** Okay. So, without MIAL, ARR, but it's including Keys you're saying?

**Patanjali Keswani:** Yes, because Keys is a deflator for us on an aggregate base.

**Kunal Lakhan:** 8% growth in ARR's excluding MIAL.

**Kapil Sharma:** Excluding, that's right.

**Kunal Lakhan:** Understood. And this is what you're expecting for the industry would grow at 5%-10% but what would be your assumption be on the same-store ARR growth for Lemon Tree?

**Patanjali Keswani:** You're talking revenue management business. So, while I understand the higher the ARR growth, the more the operational leverage. But the fact is that I cannot give you an indicator of what will grow more. It is completely a function of how the market is behaving. What I said was that I would expect revenue to grow 15%. This would be a 10% growth in ARR and a 5% growth in occupancy, or the other way round. It is entirely a function of the market and how it operates from each H1 this year.

**Kunal Lakhan:** My second question was on the debt side. And I think this will be the peak debt levels.

**Patanjali Keswani:** That's right. So, debt reduction will start from this year. And there are 2 views, as I have said earlier. We are very confident that our debt will be 0 within the next 4 years, we will be net debt 0 but should we list Fleur before that, which is something we're thinking about then obviously we will be debt free much earlier because Fleur has roughly 75% of the total debt of the company and while it is consolidated, we own 60% of that company. So, we are looking at various options, and it is at the very latest that we will do debt free in 4 years, but we could very well go debt free in the next -- in shortly.

**Kunal Lakhan:** And any timeline on this restructuring?

**Patanjali Keswani:** No. We are really discussing it. There is no specific timeline.

**Moderator:** The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited.

**Jinesh Joshi:** Sir, I just need one clarification on the debt level. We have stated that the debt increased by about Rs. 140-odd crore pertains to Aurika. But I believe this was the second quarter of operations and the capex would have already been incurred. And only after that, the inauguration is possible. If you can just clarify what led to this increase of 140-odd crore?

**Patanjali Keswani:** Well, we do not pay every fee upfront, we have lines of credit from our contractors and so on. So, in many cases, fee expenditure in a pre-opening a hotel



while you may build a hotel over 3-4 years, 60% to 70% of your capex clearly acquires in the last 1 year, okay. And more than half of that is in between the last quarter. So, we have what is called lines of credit, we have also guarantee and so on. We pay it advance, made advance payments, but the balance was met after the hotel was operationalized. That's really common by the way.

**Jinesh Joshi:** Any balance, which is pending as of now?

**Patanjali Keswani:** No.

**Jinesh Joshi:** Sir, secondly, if I look at your pipeline of managed room inventory over the 3 years, I see a fall in the number of signed in, which you have given in the PPT. Are we facing any fresh challenges in new signed ins? And any comment on that?

**Patanjali Keswani:** On the contrary, what you are referring to there is no fall. Let me just tell you, if I look at this year and Q 4, we signed 667 rooms and we opened 176 rooms. The preceding quarter, we signed another 9 hotels with 620 rooms and opened about 300 rooms in 5 hotels. If I look at Y-o-Y, in Q4 we see signed 9 hotels with 538 rooms and open 1 small hotel. So, the trendline is positive. I do not think this is guidance when I say that we are very confident that we have 2,000-3,000 more rooms on our pipeline this year. And our endeavour is very simple, I can say it will be between from 1,200-2,000. Those are the rooms we should open this year. Because there are delays which are outside our control. But if we open up to 2,000 rooms, what I can guarantee is that we will have signed more than 2,000 rooms. So, what you will constantly see is more opening, more signings. And in each case, the signings will be more than the openings so that we keep building the pipeline.

**Jinesh Joshi:** One last question from my side. I mean if I look at our airline share, it is at about 13% in this quarter. And if I remember right, in the last earnings call, you had highlighted that roughly about 100 rooms will be reserved for the crew business. But if I look at the total airline share, it is up from about 8% to 13%. So, is it that the crew business at Aurika has increased from the last quarter?

**Patanjali Keswani:** Not particularly. See, we had about 200-250 crew rooms in the Q4. If I just take it over the base of, say 6,000 rooms, it is about 4%, which is most of the height that you see in the airline. But going forward, once we have built demand from the other segments, we will automatically reduce airline business and back to historic level of 8% to 10% because it's a good business. But going forward, I think you will see airlines demand in about roughly close to 10% for our company.

**Moderator:** The next question is from the line of Achal Kumar from HSBC Securities & Capital Markets (India) Private Limited.

**Achal Kumar:** First of all, I just want to understand the tables on Slide 15, where you have shown the city-wise ARR, occupancy and the brand-wise. So, first of all, on Aurika, what happened, I mean, why your ARR is down 35%?

And then on the city side, if I see, I think there was a sort of a quite a sharp decline, particularly in Bangalore occupancy rates. And then otherwise, like Mumbai really the ARR was flat. What's happening in the different markets? I mean if you could please highlight about your brand and the city wise, please?

**Patanjali Keswani:** First point, let me talk Aurika. What you are seeing in Aurika in this slide is for the full inventory of Aurika, which includes Aurika Mumbai. If I look at Aurika Mumbai, which did about 65%-66% occupancy this year, and then I overlay it with Aurika Udaipur, the fact is that the occupancy from Q4 last year to Q4 this year has hardly fallen, if you notice that number. Now Aurika Udaipur has a much higher average rate than Aurika Mumbai, because Aurika Mumbai is, say, Rs. 9,000 and Aurika Udaipur which is 1/5 is inventory, has a much higher rate. What you are seeing is the weighted average rate of Rs. 10,500, which really tells you that if you go by the ratio of 1:4, Aurika Udaipur did about Rs.15,000 - Rs.16,000, and Aurika Mumbai did about Rs. 9,000 and the weighted average is Rs. 10,500. Then you take the 10.5 multiply it by the occupancy and that's your RevPAR. Does that make sense to you?

**Achal Kumar:** Yes.

**Patanjali Keswani:** This is a weighted average thing. Because Aurika Mumbai it's 5x inventory of Aurika Udaipur. Now coming to city-specific, you are asking for Bangalore. We have a very large inventory in Bangalore in the IT-heavy markets, which is Electronic City and Whitefield. So that impact, you are seeing still, a lot of our business used to be new joiners, the mid-level managers and so on. And tech companies, as you must have read in the papers and I'm sure you cover, you will see their hirings have slowed down significantly, and that is the impact you are seeing in our occupancy there.

As far as Mumbai goes, Mumbai, our Lemon Tree Premier, in fact, did better this year than the previous year. But what you are seeing is the weighted average impact again of Aurika Mumbai, which is a new hotel and at 66% occupancy. So, when you see that, keep in mind that Aurika Mumbai is 2.2x the inventory of Lemon Tree Premier Mumbai, which is 300 rooms, which is why you're seeing a weighted average occupancy of 73% and ARR of about Rs. 9,000, which tells you that actually Lemon Tree Premier was close to Rs. 9,000 also.

**Achal Kumar:** My next question is about the ARR. I think market was a bit surprised in terms of the slowing down of ARR. Of course, we understand that, I mean, there is a limit to which we can increase the prices. But I mean, if you talk about the bottom end of the category like Keys and Red Fox, I guess if you look at the ARR, I think pretty much Rs. 3,600 or Rs. 4,500 which you reported. I mean given the strong demand, given how the GDP is growing, how the per capita is growing and the preference for the travel leisure is growing, don't you think there is a significant potential, especially in the bottom category of the rooms? How do you see the potential increase in the ARR going forward, especially in bottom category? Of course, I can understand Aurika is only Rs. 10,000, but they are also, again, it's a mix impact. But otherwise, on the bottom side of this, don't you think there is a huge potential, how do you see the market, how do you see potential for yourself and the rate hike?

**Patanjali Keswani:** I actually feel that price sensitivity as you go down the pyramid is more and more. The person who stays in a Keys is far more price-sensitive than a person who stays in an Lemon Tree Premier, and similarly, a person who stays in Aurika. See, if I look at Aurika Mumbai, Aurika Mumbai's ARR net of crew is about Rs. 11,500. It is the weighted average of the 2 that brings you to Rs. 9,000 - Rs.9,100, whatever it is. But Aurika's ability to reprice is much higher and so is Lemon Tree Premier than Keys. And overlay this with the fact that this is not a renovated product, you see we bought it just a few months before COVID and we are now renovating it. So, while I agree with you, there is enormous ability to reprice Keys, it is only when we renovate it, and it will not be at the rate at which we can reprice the higher categories. As far as our long-term view goes, here is what I have said earlier that once Keys is renovated, its average rate will move to Rs. 4,500, which was what roughly Red Fox's rate is. So, within the next 2 rate cycles, that is by October next year, you will see Keys gradually moving up to Rs. 4,500. Red Fox in my opinion, will move to north of Rs. 5,000 and Lemon Tree and Lemon Tree Premier and all, each of them will be north of Rs. 7,000. So that is roughly the trend lines that we see.

These will not be dramatic price hikes every quarter, but there will be 3 more price hikes. One will be in October; one will be in January for different segments, and one will be in October the following year. At which point, I'm reasonably sure that if you look at Slide 15, Keys by Lemon Tree will move towards Red Fox. Red Fox will move towards Lemon Tree Hotel's ARR and Lemon Tree will move towards Premier and Premier and Aurika will be significantly north of what you see.

**Achal Kumar:** Right, I think that's quite an interesting point you said. But then, that means you're talking about 15%-20% increase in the rates. But I mean, do you see that's the only cues left out in the system? And then that's the maximum potential? Or do you see

apart from that, there are some other opportunities for you to increase the rates or maybe better traffic mix? I mean how should we look at here the maximum potential here, from here on?

**Patanjali Keswani:** Let me give you a number, Achal. In 2006, 2007, 2008 and 2009 until the global financial crisis, the average rate of Lemon Tree which did not have a Lemon Tree Premier, it only had Lemon Trees and Red Foxes, the ARR was Rs. 9,000. Actually, we are below what was there 15-18 years ago. And that is true, by the way, for every hotel company that had hotels there. There is an ability to reprice. I am talking about pari-passu, everything being equal, we will continue in this price line. But if the demand parameters change, then every number I have given you is too low.

**Achal Kumar:** My last question is about the competitive landscape. How do you see the competitive landscape for the overall industry and for Lemon Tree basically?

**Patanjali Keswani:** I do not see much competition very frankly because of a very basic reason, it is that demand is growing. When demand grows, then everybody runs like horses. It does not matter what you were in your previous avatar, but everybody becomes a racehorse. Obviously, there is competition in terms of similar hotels going after similar accounts and retail customers. I can sense the early tide of a rising wave of demand. And I think that's going to quite distinctly get demonstrated in the next 15 months. At which point, the question will be how much can you reprice? Why have you not repriced more? And so, I do not know if I'm answering your question. I do not see competition as the issue. I just see this enormous opportunity of rising demand.

**Moderator:** The next question is from the line of Sumant Kumar from Motilal Oswal.

**Sumant Kumar:** Is there any event residue to Q2 FY25 due to general election in Q1 FY25? So, have you seen demand spill over from Q1 to Q2?

**Patanjali Keswani:** I do not see any demand spilling over from Q1 to Q2. I think that there was a slowdown in demand in May partly due to weather, partly due to elections, and that is galloping back actually in June. Q2 is traditionally weaker than Q1. But last year too and the previous year too, Lemon Tree did better in Q2 than Q1. And I think that trend is very clear this year, too.

**Sumant Kumar:** So, there is no indication of any event that is spilling from Q1 to Q2?

**Patanjali Keswani:** No.

**Moderator:** The next question is from the line of Hardik Doshi from White Whale Partners.

**Hardik Doshi:** Yes. I just wanted to ask a bit more about the renovation costs. I do not know if I missed it, but can you break out how much of the renovation costs in the Q4? And how much of it was the CAPEX v/s OPEX? And also, what are you expecting for the Q1 and Q2?

**Patanjali Keswani:** Renovation is ongoing. It is higher every quarter, frankly, than the preceding year same quarter. But bottom line is that this year, I have said this earlier, we will spend Rs. 100 crores on renovation and next year too. And at the end of it, by October CY25, the entire company will be new hotels. And as a percentage of revenue, this year, Q4, it was about 2%. And last year, Q4, it was 0.6%.

**Hardik Doshi:** It's about a 1.4% impact on overall EBITDA.

**Patanjali Keswani:** That is correct.

**Hardik Doshi:** You think Rs. 100 crores for FY25 and then another Rs. 100 crores for FY26, is that correct?

**Patanjali Keswani:** More or less. Part of it will be CAPEX. Normally, OPEX is about 60-65%. The numbers you see as a percentage of company revenue are about 2/3 of the actual renovation spend, because 1/3 is capex. When I say Rs. 100 crores, it means that the hit to the EBITDA will be, I think, maybe Rs. 65 crores.

**Hardik Doshi:** On the Rs. 100 crore a year on FY25 and FY26, is that fairly even through the quarter? Or is it like more first half?

**Patanjali Keswani:** We average it out. Basically, we spend more in H1 than in H2 because that's the low season and we can shut more rooms off.

**Hardik Doshi:** The ratio is, what about 60:40 or 70:30?

**Patanjali Keswani:** It depends. Because the question is how are you financially accounting for it. It's an allocation, so I assume it's equalized. Though cash flow, it may be different.

**Hardik Doshi:** Just a follow-up on the Hyderabad and Bangalore market, I think you mentioned a bit about the IT slowdown and impacting you. The impact has been pretty stark on Bangalore in particular where your occupancy has fallen by almost 500 bps and then your EBITDA margin has fallen by 15%. How much of that is related to renovations and how much of it is just your weak demand.

**Patanjali Keswani:** We shut 100 rooms of Keys in Whitefield for renovation. Of the total Whitefield inventory, which is 350 rooms, operating was only about 250. 58% is on the full inventory. It is true that there was some opportunity cost to this. But I think

it will be more than compensated by the average rate hikes we will be able to get. That's the largest micro market for us in terms of rooms in Bangalore. Then we have another 325 rooms in Electronic City in Hosur, of which I think about 30-40 rooms were shut, so about 10%. And that too is a very IT dependent market. So, you are seeing the impact of both. Nothing to worry about because we have been giving early indications that IT hiring should start in Q3 onwards. I guess we are quite dependent on that. That's a very large segment for us.

**Hardik Doshi:** Q3 onwards, I guess Q1 and Q2, these kinds of trends will continue in Bangalore, at least?

**Patanjali Keswani:** Yes. And we are also quite clear that that's an opportunity for us in that adversity to renovate as many rooms as we can.

**Hardik Doshi:** What about Hyderabad, is that a similar impact because of IT?

**Patanjali Keswani:** Yes. In Hyderabad, out of the 663 rooms, we have shut about 80-90 rooms. And that happened in summer and in winter too, by the way. It's ongoing renovation. Hyderabad is a very high-demand market. But we have taken a conscious call that we want the entire company to be completely new and renovated by October next year, which means that we will continue to renovate through winter and summer. About 12%-15% of Hyderabad will be shut at any given time.

**Hardik Doshi:** Last question from me is on Aurika Mumbai. I guess, in a few quarters out, 10 months, Fairmont is also going to open up in the same region. I know that is a bit more premium. But how are you looking at that from an occupancy and ARR perspective?

**Patanjali Keswani:** Let me give you an anecdotal information. When we built our hotel in Delhi, which is where I'm sitting, everybody told me at least that, listen, 5,000 rooms are going to come up in 3 years. And how is this market going to absorb this amount of inventory. If I include the hotels that came up in Dwarka, in this micro market, 6,000 rooms opened over the space of 3.5 years and all the supply was absorbed because the rate of growth of airline traffic more than match the rate of growth of supply for the whole city. The same thing is happening in Mumbai, Mumbai is a larger demand market than Delhi. And when I look at it from that perspective, why is the Lemon Tree Premier doing 90% occupancy and Rs. 9,000 ARR even in a relatively subdued, when all the occupancies are in the mid-60's. It's because it's a very deep micro market. And I have some experience of Mumbai. Whenever a new supplier has come, it has always gotten absorbed. I'm not really bothered about the supply that is

coming up because I have this confidence that the city will be able to absorb that supply.

**Hardik Doshi:** Just a follow-up on that is, I guess, what is different in Delhi is the Mumbai airport already running chock-a-block, right? And if the traffic is going to increase, at least from an airline perspective, it is going to be in the new Navi Mumbai airport when that opens up. As more and more supply come around, don't you think there could actually be a very different dynamic playing out versus what happened in Delhi?

**Patanjali Keswani:** Not at all. In Delhi, Jewar Airport in Greater Noida is coming up. And if you look at growth in capacity of each airport. I would not look at what is happening elsewhere. I would say simply, they are renovating another runway at the Mumbai airport, how much supply is growing? How many new aircraft are coming? And I would look at it from that perspective and just simply extrapolate and say, if they are saying capacity is going to increase 100%, but the number of rooms in Mumbai is growing 25%-30%, then I think it's fairly safe to say they will continue to be demand. Because Mumbai and Delhi airports attract every single segment. It's not segment-specific. There is business travel, there's leisure travel, there's meetings, incentives, conferences. There are so many levers of demand. I mean think of it, Reliance Jio, that centre, it will have so many events of such a scale that, forget Bandra Kurla Complex, the whole of Andheri hotels will get full every time they have a big event. And it's happened, I have seen it myself in Aurika.

**Moderator:** The next question is from the line from Sakshee Chhabra from Svan Investments.

**Sakshee Chhabra:** Actually, what I want to understand that on your Keys portfolio, because of the renovation, the EBITDA margin has gone down, but post renovation, what sort of sustainable EBITDA margins can be maintained on hotel level?

**Patanjali Keswani:** Post EBITDA or post-renovation, what will it do?

**Sakshee Chhabra:** Yes. I wanted to understand that.

**Patanjali Keswani:** It will do Rs. 6 lakhs per year.

**Moderator:** The next question is from the line of Ashok Kumar Daga, an individual investor.

**Ashok Kumar Daga:** My basic question is that when I'm going through your report, I have noticed that the promoter's holding is reducing from every quarter. In March 2023, your holding was 23.62%. In June 2023, it was 23.60%, in September 23.28%, in December 23.21%, again, March 2024 - 22.87%.

**Patanjali Keswani:** That was to right down my pledge, it was to write down my pledge, my pledge is zero now.

**Ashok Kumar Daga:** Your pledge is zero, means your holding has been sold out?

**Patanjali Keswani:** No, my pledge was to be written off. Obviously, I'll sell some shares to pay off the debt.

**Ashok Kumar Daga:** Okay. So now means your holding has been reduced continuously, so is that trend is going on? Or now that will be stopped?

**Patanjali Keswani:** More or less stopped. I cannot comment due to any emergency requirement, but it is more or less stopped.

**Ashok Kumar Daga:** Because your holding has been reduced drastically. And the second thing is that the sales figure, which when I have gone through your sales figure, in March 2021, the sales was Rs. 252 crore. In March 2022, Rs. 402 crore, that is nearly double. Again, in March 2023 Rs. 875 crore. But in March 2024, the sale figure was Rs. 1,071 crore. We are near about some 20%-25% increase is there. But the earlier year, the sales was more or less 100% increase.

**Patanjali Keswani:** The reason is COVID. I mean, you look at our sales pre-COVID. If you look at pre-COVID, I think we did about Rs. 675 crore in the year pre-COVID. When COVID, obviously, there was hardly any sales, then it started picking up on a new base. I would urge you to look at the figures of Rs. 675 crore, pre-COVID and then Rs. 800 crore.

**Ashok Kumar Daga:** Rs. 825 crore in March 2022.

**Patanjali Keswani:** That is right. In your mind, just delete the 2 years of FY21 and FY22.

**Ashok Kumar Daga:** Then after the March 2019, then March 2023 onwards, it will be the same, some 20% or near around that growth will be there.

**Patanjali Keswani:** No, I want to be very clear, Mr. Daga. I said that we will continue to grow at least 15% a year. And obviously, we would like to grow more than that, but 15% is a soft promise.

**Ashok Kumar Daga:** Is the benchmark, minimum benchmark?

**Patanjali Keswani:** That's correct.



**Ashok Kumar Daga:** And one more thing is there that your operating profit percentage, although in amount terms it has increased. But March 2023 to March 2024, March 2023, it was 51% and March 2024, it was 49%. It shows some decline in the percentage figure.

**Patanjali Keswani:** Well, I think as a company, I am told we are the first in the world to show over 50% net EBITDA. I would not worry about 1% or 2%. I think the important thing is that most of the difference was on account of renovation, a big increase in renovation, and that will pay rich dividends after 2 years. You see what I have to look at is try and take advantage of what I think will be structural shifts in demand 2 years out. And therefore, while there is some short-term pain in terms of potentially a Rs. 200 crores expenditure, of which Rs. 130 crores will be directly on the P&L.

Looking forward, I think our view has been very simple, that the total renovation expenditure that we are incurring, we should earn back in 2 years in incremental EBITDA. I'm giving you a number, that if we have spent Rs. 250 crores in 3 years, then in the following 2 years, we expect to recover it in incremental EBITDA beyond what we would have otherwise achieved.

**Ashok Kumar Daga:** It means that whatever expenditure you have already incurred, your view is that in the next 2 years, you're going to recover that one. And then the later on, the benefits will start continuously, and your renovation work has been already completed by that time?

**Patanjali Keswani:** That is correct.

**Moderator:** The next question is from the line of Hardik Doshi from White Whale Partners.

**Hardik Doshi:** Just a quick follow-up on you mentioned the 15 months out, if there was a significant demand cycle, then it would in a much higher ARR. But then what about from a supply side? Because every day in the papers, we keep on reading about like new inventory coming up, new plans by so many chains. I know there's a lag that happens in terms of when supply comes through post announcement, but that will start catching up 15-18 months out as well, right?

**Patanjali Keswani:** Let me answer this in 3 points. Point one, as you said yourself, supply takes time to operationalize. When we sign management contracts, we have 3 types. One is the conversion, which means its existing supply being rebranded. It comes from some other brand to us as Lemon Tree. It is rebranded, it's no increase in supply. This happens typically within 6-9 months of signing. It becomes operational.

Then there is brownfield, which means there is some kind of a structure up, but you have to finish it. That normally takes 18 months to 3 years, and it is new

supply addition. Then there is greenfield, which means it's ground up, and that takes 3-5 years. When we give our signings, we take care to mention this is a conversion, this is a brownfield, this is a greenfield.

Now what supply additions are happening in India, second point, is that a lot of it is in Tier-2, Tier-3, Tier-4 cities, where, interestingly, we are only in 64 cities and we want to go to 150 cities in India where there are going to be airports, they are not already there, and where there is at least a population of 0.5 million. And this is going to happen by us through an asset-light route, which means we will go for management/franchise in these locations. Where we have capital invested is basically in the big cities, the 5 million+ population. If you go to Slide 15, you will notice in our case, out of the 5,800 rooms we have, outside of the 6 big, I would say, metros, we have less than 30% of our supply outside these cities, which is where more supply is coming up. I would not personally worry too much about that. I would say, how are these 6 cities where we have 80% of our capital deployed, how are they going to perform? And I'm quite sanguine about supply and demand growth in these markets.

**Moderator:** Ladies and gentlemen, as there are no further questions, I would like to hand the conference over to the management for closing comments. Over to you, sir.

**Patanjali Keswani:** Thank you once again for your interest and support. We will continue to stay engaged. Please be in touch with our Investor Relations team for any further details or discussions. And I look forward to interacting with all of you soon.

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