February 18, 2022

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400001

NSE Scrip Symbol: LEMONTREE

BSE Scrip Code: 541233

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

Ref: Outcome of Conference Call with Analysts/Institutional Investors

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that in continuation to the disclosure made on February 11, 2022 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter and nine months ended December 31, 2021 held on Friday, February 11, 2022 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

Nikhil Sethi
Group Company Secretary & GM Legal
and Compliance Officer

Lemon Tree Hotels Limited

Q3 & 9M FY22 Earnings Conference Call Transcript
February 11, 2022

Moderator: Ladies and gentlemen, good day and welcome to Lemon Tree Hotels Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you.

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels Q3 & 9M FY22 Earnings Conference Call.

We have with us today, Mr. Patanjali Keswani – Chairman and Managing Director; Mr. Rattan Keswani – Deputy Managing Director; Mr. Kapil Sharma – Chief Financial Officer; and Mr. Vikramjit Singh – President of the Company.

We'll begin the call with opening remarks from the management, following which we'll 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 maybe 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 hope you all and your family is safe and healthy. I will be covering the quarterly business highlights and the financial performance for Q3 FY22, post which, we will open the forum for your questions and suggestions.

We are pleased to share that we have delivered a strong performance during the quarter, registering topline growth of 110% Y-o-Y and 48% Q-o-Q. During this period, we saw growth in occupancy levels and ARR across our hotels driven by robust demand in festivities, weddings, long stays and staycations. We also saw pick-up in business-related travel and conferences. Overall occupancy on full inventory improved from 51% in Q2 FY22 to 58% in Q3 FY22 and ARR increased 54% Y-o-Y and 29% Q-o-Q to Rs. 3,901.

On the profitability front, due to a structural improvement in our cost control, our EBITDA grew 194% Y-o-Y and 83% Q-o-Q, and our EBITDA margins expanded by 1,334 bps Y-o-Y and 873 bps Q-o-Q to 45%. We continue to emphasize on two key areas. The first focus area is cost rationalization, ie. minimize fixed costs and maximize variable costs. Second, our emphasis continues to be on operating a healthy balance sheet with strong cash flows. Our proactive steps in these two areas will strengthen our business model. Further, we have reduced the cost of debt by 10 bps to 8.00%.

Coming to key developments during the quarter, we expanded our portfolio in Ahmedabad, Gujarat. Situated near the Gandhi Ashram, the hotel will feature 52 rooms and will be operational by Apr-22. The hotel is in sync with our strategy to go asset-light and to leverage our brand. Our current operational inventory as of 31st Dec 2021 comprises of 87 hotels and 8489 rooms, out of which 5,192 are owned and 3,297 managed rooms.

Looking ahead, while there was a significant rebound in overall demand in Q3, the situation now has evolved with the third wave of infections in the country. This has had an impact on travel and tourism in Q4 FY22. However, given the vaccination drives and improving economic indicators, we anticipate a faster recovery in the demand environment and are hopeful that consumption will reach normalized Pre-CoVID levels by H1 FY23.

On the whole, we are well-positioned to capitalize on long-term growth opportunities and create value for all our stakeholders.

Now, I come to the end of our opening remarks and would like to ask the moderator to open the line for Q&A.

Moderator: The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Thank you for the opportunity and congrats on good set of numbers. Sir, I have three questions. Sir firstly, can you throw some more color on the Aurika Udaipur operations? How have been the wedding season for us and also some insights on the competitive intensity?

Patanjali Keswani: We have two hotels under Aurika brand, The first one was Aurika Udaipur. Aurika really opened just pre-COVID. So it did not have the opportunity to stabilize. But if you go to slide 15, you will find that in Q3, we increased the average rate from Q3 the previous year by about 45% and the occupancy rate was 52%. So we did fairly decent occupancy, considering that it was a COVID year and fairly decent average rate.

To give you a flavor, Aurika today does the typical gross operating profit margin of about 65% to 70%. When it does an income, for example if I remember right in December, we did Rs. 5.5 crore, the expenses were about Rs. 2 crore, and we did an operating profit of Rs. 3.5 crore, that's how Aurika is doing currently. Going forward, we think that Aurika will probably stabilize at about 65% to 70% occupancy at an average rate, in the coming year of about Rs. 18,000 in which case it will hit 70% gross operating profit and revenue of about Rs. 80 crore to 90 crore. So it ends up very well.

Archana Gude: Is there a competition in Udaipur market compared to rest of the other key places in Rajasthan? Because everybody is talking about Udaipur.

Patanjali Keswani: Yes, so Udaipur is very strong historical leisure market and it's a wedding market. In fact even companies do large conferences there as offsite . So I'll give you an example, in January and February this year, if Omicron had not happened, Aurika had confirmed business on the books in February of over Rs. 7 crore, which means we would have made Rs. 5 crore EBITDA on it. But unfortunately, obviously it got dissipated to some extent, not completely but about 30%-40% of that disappeared.

So going forward, Udaipur in my opinion has now become one of the most favored leisure destinations in our country for multiple reasons, but weddings are a key segment there. So when I compare Aurika, broadly you will find there are 5 or 6 hotels. The top two hotels in Udaipur in terms of average rates and occupancies are The Taj Lake place and The Oberoi - Udaivilas, then in rate terms it is Leela and us, then after there is Trident and Taj Aravali. So that's roughly where we are in positions, in the middle there, below luxury and at the top-end of upscale.

Archana Gude: Sir, I'm keen to understand what are the challenges to add inventory in Aurika and Lemon Tree Premier?

Patanjali Keswani: We are now looking very aggressively at growing our managed portfolio. We are in about 30 active discussions right now, and we are hopeful of converting a very large number of them into management contracts within the next 12 months. In fact, our business development team has said they will confirm 15 hotels in H1 itself. But it is true that in current portfolio of expansion it's mostly Lemon Tree Hotels and a few Keys Hotels. So it is going to be across the board, Aurika definitely up for discussion, because it's a very different brand. It's in the upscale space. We are talking and I think we might be signing one Aurika in a month or two. Rattan, is the Rishikesh one confirmed?

Rattan Keswani: Rishikesh we will sign, it will probably happen by the end of April.

Patanjali Keswani: Okay, so there is one Aurika we will sign as you heard in April and hopefully one or two more in the next six months. But it's a new brand and it may take a little longer to build out the managed portfolio. As you know, we are building our own Aurika in Mumbai, which is 670 rooms, we got all the approvals. In fact, we are out of the basement and on the first to second floor already, which will open by Q3 following year. We are quite hopeful that Aurika will expand but it will take a little longer than the Lemon Tree brand, which is obviously better known and more widely distributed.

Archana Gude: Sure sir. Sir, my last question. Recently there was this view that Hyderabad will get its first co-living space, so we were to pour into this segment earlier. But you know because of this COVID, I guess we have deferred. Are you keen to look into this segment again or there is still time?

Patanjali Keswani: Co-living for the moment we have put on pause. It's an interesting segment, but I think right now our focus is on getting back to pre-COVID levels of revenue with a massively reduced cost structure, which is what we are focusing on achieving in the coming financial year. So after that, we will look at other opportunities. But right now, the focus is on Lemon Tree Hotel.

Moderator: The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Thanks for the opportunity. While the recovery remains healthy in Q3, will it be possible to give some sense on how Jan-22 has been in terms of occupancy or some trend wise ideas, and if there has been gradual improvement from Feb-22 already? Also, if you could touch upon how the bookings would be building up now for the upcoming months?

Patanjali Keswani: Okay, so let me give you some flavor of how COVID has played out. So, I'm going to talk peak-to-peak. So I'm going to give you a set of numbers. The first wave which was in Q1 of FY 21, if you look at our revenue, and I think this is true for all hotel companies, we were doing for example Lemon Tree was doing Rs. 2.4 crore a day in January and February. This crashed to Rs. 1 crore a day with the start of COVID and with the first lockdown by April, we were down to Rs. 0.4 crore a day. So it was really a drop of 85% in revenue within two months.

Now this revenue, very gradually recovered and it took roughly about 10 months before it hit its peak of Rs. 1.2 crore a day in Feb-21. So what I'm trying to say is, that in first wave of covid it was very L-shaped and the recovery was very gradual and it came back to 50% of pre-COVID which was the peak in Feb-21 which was our Q4. Then the Delta variant hit and within another two months, our occupancy, our revenue had again crashed to Rs. 0.3 crore a day that is 25% of the earlier peak of Rs. 1.2 crore. But surprisingly within another three months it came back to Rs. 1.1 crore and then till about Dec-21, we had actually achieved about Rs. 1.8 crore a day. So if you look at the second wave, the peak-to-peak, of course these peaks were half of the pre-COVID times, the recovery was five months. First wave recovery, gradual, L-shaped 12 months. Second wave recovery, much faster, more V-shaped 5 months. So we hit Rs. 1.8 crore a day in December, which was just one and half months ago. Then the Omicron hit by the last week of December when we started seeing a significant drop off in both bookings and cancellations.

Jan-22 was a big drop, nowhere near the earlier drops, but I would say broadly about a 40%-45% drop from Dec-21. This really started in the first week of Jan-22 continued till the fourth week of Jan-22.

What is amazing to us which we've been watching quite closely is the very rapid recovery in Feb-22. So to give you some flavor, if we were doing 3000 rooms a day in Q3, in Jan-22 it dropped to 1650 to 1700 rooms, in Feb-22 it rapidly picked up and it started doing 2000 rooms a day. Going forward, it looks like we will be moving into the 2500 to 3000 rooms a day in the next two weeks, because the pickup is amazing and very quick. In fact, the V-shaped recovery in the third wave is less than 5 weeks. So, first recovery was 12 months; second recovery was roughly 5 months; the third recovery, V-shape is 5 weeks. The top of the recovery is much higher than the previous. Like I told you in the first wave we came up to only Rs. 1.1 crore or Rs. 1.2 crore, in the second we hit Rs. 1.8 crore. I think it's reasonable to say we will exceed that in the third recovery.

As far as average rates go, we took a conscious call that irrespective of demand we would not drop prices. Our ARR in Jan-22 is higher than in Q3. It is a little north of Rs. 4000 and I think quarter to date also, including Feb-22 it is north of Rs. 4000 and we intend to maintain that.

Amandeep Singh: So just one question in terms of Q3 itself. You also mentioned in your opening remarks about recovery also happened in the business travel and conferences. So can you just elaborate if this was largely led by SMEs, MSMEs, or you also saw even large corporates had started to travel during the previous quarter?

Patanjali Keswani: Let me just give you an example. If I look at pre-COVID and exclude Keys, because we really acquired Keys in November of 2019. When we look at our own portfolio, we were doing about 3200 rooms on a portfolio of about 4,300 room owned hotels. The retail was 1200 rooms a day. Large corporates and medium small enterprises were 1500. Travel trade which is really meetings, incentives and conferences were 350 and airlines were 150.

I know I'm giving you unnecessary breakdown, but in Jan and Feb-20, we did 3200 rooms, which large corporates were 1500 and medium corporates and average rate was Rs. 4500.

In Q3, the retail went and I'm referring to pre-COVID Jan and Feb-20, retail went from 1200 pre-COVID to 1700. Large corporates and medium small enterprises dropped from 1500 pre-COVID to 900 and most of them were medium, small, and micro enterprises. So large corporates were still less than 100. The meetings incentive dropped from 350 pre-COVID to 250. Airlines dropped marginally from 150 to 120. So, we did about 3000 rooms in Q3 of which nearly 60% were retail and only 30% for large corporates.

Let me put it in synopsis the rate of growth of retail has been more than the rate of drop of large corporates. In fact roughly if I look at it, the medium, small, micro enterprises have come back more or less. Retail has grown more than equal to the rate of growth for corporates.

Amandeep Singh: Got it. Thanks for the detailed breakup. Just one follow-up on your keys portfolio. While you understand that it has been impacted given the mix of micro market into Bangalore and Kerala, but where do you see your profitability on sustainable basis when the Keys recovers given your cost control in place this time?

Patanjali Keswani: See, we look at portfolios and buckets of hotels based on the average rate, the occupancy, the cost structure and Keys comes into a bucket which is similar to the bucket between Red Fox and Lemon Tree Hotels. On a stable basis, we had an expectation that Keys would generate an operating profit of about Rs 6.5 lakhs to Rs. 7 lakhs a room per year.

Based on what we are seeing, happening right now, it's still a period of transition as I see it, assuming there is no major fourth wave and that this moves into an epidemic rather than a pandemic, we reckon that Keys will come back to full performance within the next 9 to 15 months. I'm not exactly sure when but it should come back. Lemon Tree portfolio will bounce back earlier. Keys will take a little longer because those markets were much more affected.

Amandeep Singh: Fair enough. And if lastly if I could squeeze in one more, so with the ECLGS scheme now getting extended, so any update on the evaluation of distressed opportunities where you would be looking to brand and manage that inventory?

Patanjali Keswani: Yes, we are looking at lot of opportunities, but they are really under an NDA. So I can't really comment. But as an overview I can tell you that there is not as much distress as one would imagine. ECLGS has unfortunately or fortunately helped only the larger players. I don't know the extent of transmission of this by banks to the small standalone unbranded hotel. So technically, those should be in more distress and therefore should be available for consolidation. But I'm not really seeing surprisingly enough signs of that. I can't really comment with any certainty what is happening there. But what I am seeing is that irrespective of distress, a lot of standalone hotels want to now join chain and get branded because they feel that will help them with their revenue side. So that's what we are trying to capitalize on. Not distressed as much as simply bringing them into a distribution system.

Moderator: The next question is from the line of Rajiv from DAM Capital Advisors. Please go ahead.

Rajiv: My question is on slide number 9 on the left chart where you have your monthly Rupee number which is going to Rs. 55 crore for the month and your cost is basically at Rs. 26 crore. It seems that on a month-on-month basis, the incremental revenue has a flow through of 65% from if we take May as a denominator for each incremental month. So, I just want to understand is this sustainable and is there a large bullet-fixed cost which will come as things would tend towards normalcy and the 65% flow through will decline?

Patanjali Keswani: **S**lide 22, will give you an indication of how we are expecting to do in the coming financial year. Again, I don't want to say this as forward-looking. I'm just going to explain something to you.

This is a comparison between Q3 pre-COVID and Q3 FY22. If you see our revenue in Q3 pre-COVID was Rs 200 crore and in Q3 this year was Rs. 144 crore.

Now, let me make three broad observations. Q3 FY20 pre-COVID did not reflect the full revenue of Keys because we acquired Keys in the middle of Q3. Number two; five key hotels, Aurika, Lemon Tree Bombay, Lemon Tree Premier Pune, Lemon Tree Premier Calcutta and Red Fox Dehradun were new hotels and not stable. If you add on how they would normally perform this Rs. 200 crore number would be higher number, maybe INR Rs.

crore to Rs, 250 crore. Now, if you look at the third line, it is the expenses. Here are our expenses: We had total expenses when we did Rs. 200 crore of Rs. 118 crore and this occupancy was about 70% to 73%. Now with an occupancy a little shy of 60%, our new expense structure is Rs. 80 crore.

Let me synopsize that. This Rs 120 crore of expenses pre-COVID, about 70%-75% was fixed, about Rs. 90 crore was fixed; Rs. 30 crore was variable. Today our new fixed expenses are about Rs.55-60 crore and Rs. 20 crore is variable.

So, let's assume we go back to 75% occupancy, then that Rs. 20 crore of variable expenses will jump by about Rs. 5 crore. That our total expenses under no circumstances will exceed Rs.85- 88 crore a quarter, which means that there is a permanent saving in other words in our cost structure of about Rs. 30 crore a quarter or Rs.120 crore a year. This will improve the operating leverage and I expect that our EBITDA margin should be north of 50% from next year onwards.

Rajiv: Sure. It is very helpful and same thing if you can elaborate. You disclosed this hotel level EBITDA per room, which used to be in FY19 and I'm looking at year end presentation. For example, for Lemon Tree Premier it used to be Rs. 1 million per room and for Lemon Tree Hotels and Red Fox is Rs. 0.6 million Rs. 0.5 million. Do you think this materially change and to what term is this particular bit?

Patanjali Keswani: I think you can do the math yourself. I have said to you quite directly that our revenue from operations should come back to pre-COVID levels next year. Our expenses will be down by Rs.120 crore. Our interest costs will be down somewhat compared to the previous year because our interest rates have come down. One can do the Pro Forma P&L quite easily from what I've said.

When you talk costs, you need to look at an earlier slide which I think was slide 12, which will tell you what has happened in Lemon Tree from a cost perspective and you will see that we were doing 37% net EBITDA pre-COVID which has now become 45%, although the revenue has come down by 30% in that pre-COVID to post-COVID, I mean during COVID period. So if you just expand the revenue back to pre-COVID levels, you can work out the new EBITDA margins.

Moderator: The next question is from the line of Sanjay from Envision Capital. Please go ahead.

Sanjay: Thank you for giving me this opportunity. Sir, I just wanted to ask a question on this CAPEX plan I mean, which we are doing for Aurika, MIAL. So, is the CAPEX completed or we are planning some more CAPEX on that? Can you highlight some things on that?

Patanjali Keswani: Yes. Aurika is a 670-room hotel. If you actually look at slide 15, it will show you an interesting number. If you look at slide 15, it will show you the occupancy that we achieved in Q3 in Mumbai, and you will notice that while the ARR was depressed, the occupancy was still 76%. So what I am trying to say is that Bombay is perhaps the deepest market in India in terms of demand and least affected with any cycle.

So, we are very bullish on Aurika Bombay. We are expecting that we will be able to achieve an average rate of Rs. 11,000- 12000 there on 670 rooms. And we are planning to build it rapidly and open it by Q3 in the following year, not this coming financial year but the year after, that is October to December of calendar year 2023.

The total investment required in Aurika is about Rs. 900 to Rs. 950 crore depending on interest capitalization. We have already spent about Rs. 400 crore there. Our expectation is that the next 12 months will require about Rs. 220 crore to Rs. 250 crore, the following nine months will require another Rs. 200-250 crore and then because of pending bills and so on, the following year that is calendar 24 we will need to pay the balance Rs. 100-150 crore. We are very confident we will be able to fund this through internal accruals, so debt will not go up. Basically this Rs. 500 crore will be funded without increase in the gross debt.

Rajiv: Sir Rs.11,000-12000 per day you said. You mentioned some amount, right?

Patanjali Keswani: That's our expected ARR.

Rajiv: Okay.

Patanjali Keswani: Lemon Tree Premier in Mumbai in January and February pre-COVID once it was stabilizing, it was doing Rs. 6,500 - 7000, we are fairly confident that if in 2020 we could do with a Premier Rs 6,500- 7000 at 75%-80% occupancy, then surely Aurika four years later will be able to do Rs.11,000.

Rajiv: Okay, okay. And this answers my question sir. Just one more clarity on this from the previous participant. You mentioned that EBITDA will be 14% in FY 23. That is an expected EBITDA margin, right? If I'm correct on this, if my understanding is right.

Patanjali Keswani: No, EBITDA margin what do you mean 14%? I'm talking 50%.

Moderator: The next question is from the line of Vikas Sharda from NT Asset Investments. Please go ahead.

Vikas Sharda: Yes, hi. Just a quick question on the notes to the account that regarding the Social Security Code, that it is not yet implemented, so which is not being taken into consideration, but what kind of impact would it have on the financial?

Kapil Sharma: This is being assessed. We are also getting through this. So we'll let you know separately about it like how it would impact as such our organization Lemon Tree is concerned.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Financial Service. Please go ahead.

Sumant Kumar: Yes. Hi. So my question is for post first wave we have seen a significant recovery in the budget hotel. But now we are seeing the muted kind of occupancy. So can you talk about what is happening currently in budget hotels compared to the first wave it was?

Patanjali Keswani: Well, what I've found is that as I said, if you look at January, it was quite affected, not as badly affected as the earlier trough but quite affected by Omicron. February seems to have had a very quick bounce back. And my expectation is that the rate at which bookings are picking up, we should be back to at least Q3 levels in the next week or two at most. So basically the impact of Omicron will be for a period of maybe 5 weeks and then it will be back to Q3. I expect stable performance in the hotel sector closer to pre-COVID level in H1 in this coming year. Looking at how it's playing out, I suspect that we will be at pre-COVID levels by second quarter of this coming financial year.

Sumant Kumar: My question is, we have seen a sharp recovery in budget hotels post first wave, but from there we are seeing a muted performance in the budget hotel side. So what is happening currently in the demand?

Patanjali Keswani: No. Sumant it's not budget hotels. There are three types; that is economy hotels, mid-market hotels, and upscale and luxury hotel.

Sumant Kumar: Yes. Red Fox and Keys Hotels I am talking.

Patanjali Keswani: During the COVID pandemic, all hotel segments dropped their prices to a greater or lesser extent. So there was a cascade downwards. What happened, it meant was that if you were normally a Red Fox user, you could now at that same rate afford a Lemon Tree. If you were a Lemon Tree user, you could have at that same rate afford a Lemon Tree Premier, and a Lemon Tree Premier guy could afford an Aurika. So what happened was the prices came down. That's why occupancies moved based on price.

However, what you may see now is that all hotel companies are now firming up their prices, which means the traditional segments for each the traditional users for each segment will go back to that segment. So my expectation is that this waterfall will work again and both Red Fox and Keys occupancies, which were actually much lower than Lemon Tree and Lemon Tree Premier in Q3 will start coming back from this coming year. Because the pricing is firming up.

Sumant Kumar: What was our deferred tax for this quarter?

Kapil Sharma: So if you see in the result, there is tax liability which is coming at a level of Rs. 2 Cr, which is due profitability in the standalone subsidiaries. So overall, you would see a negative PBT, but there is some tax liability.

Moderator: The next question is from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar: Yes, hi. Thank you for the opportunity, sir. So I had a couple of questions. First of all, I wanted to understand what sort of structural changes do you see in the customers' behavior going forward, which might be positive or negative for the hotel industry in the longer term? If you could please share your thoughts, do you see any changes or if they are, what sort of changes do you see?

Patanjali Keswani: One clear change and I'm talking about with a back view, not a forward view because I'm not sure it will remain, is an emphasis on hygiene, safety, security, and relatively contactless service.

Now what do I think will happen going forward, I suspect that they will be while I think this desire for safety and hygiene will continue. The pandemic recedes into an epidemic and then ultimately becomes like a flu, I suspect that humans will revert to normal as has happened after multiple epidemics in the world.

As far as contactless service goes, Indians and they are the majority of our customers, we have 85%-90% Indian customers in normal circumstances, they want service. So what we are really evaluating is what part of our services will continue to be contact intensive and which parts we can just move towards an automated model. So we are very keen to move towards contactless check-in and check-out and towards being able to go to your room using your mobile phone and using QR codes for ordering food. If we can achieve that and there is no pushback from customers, it will lead to a significant saving in our wage flow.

So, I cannot categorically answer what is likely to happen, but I am trying to tell you what we would like to see happen. I am pretty confident that some of these things will continue, but I am not 100% sure which will and to what extent.

I hope I'm clear Achal, because it's very difficult for me to guess what will continue once things come back to normal. But if you look at previous epidemics, the reversion to norm has been very quick. And people forget everything wearing masks, so on and so forth.

Achal Kumar: Yes. No, actually why I asked this question is that if you see general trend and that ties to the previous question also that why they have slow recovery in the lower end of the hotels; now if you see even like of Taj and Chalet hotels and everything, so the recovery has been very fast. And in the quarter of December, the recovery was sort of very close to pre-COVID levels. So what I'm trying to understand is that are customers very happy or wants to pay higher or spend higher on the services side, on the leisure side, on the hotel side? If that is the change in the trend, that means probably recovery will be faster in the higher end of the hotels in your case also. So that is what I wanted to understand basically. Do you understand what I'm saying basically?

Patanjali Keswani: I understand what you're saying, but I think that reversion to value for money will come back. I find at that least personally Indian customers are very value for money conscious especially in the mid-market. I feel that and I'm thinking aloud because your question is interesting. I feel that there will be a pull-up maybe the five-star chains have done, recovered faster, but the mid-market has recovered.

If you actually look at that slide again, which is page 15 you will see that Lemon Tree Hotels, Lemon Tree Premier are both the north of 60% in Q3, which is actually close to the pre-COVID levels, and it is the lower to the head north . And there are reasons for it. Because if you look at a couple of Red Fox hotels, they were in locations where there was absolutely no demand. And Keys of course, 60% of the inventory was in Whitefield, Hosur Road and Bangalore, two IT heavy markets, which were close to zero and Kerala. So this is more a locational thing.

But looking across India, since we are in over 50 cities, I do see that customers are very value for money conscious and they will come back to their traditional segments, I don't think there will be a move up or a move down. During the COVID time they were very bothered about safety and security and perhaps they wanted more reassuring kind of stay. But they will all come back to norm. That's my broad feel.

If you see even, I was reading with some amusement the Economic Times article on Airtel when they said that they increased the data charges even a little bit, so many customers fell away. And that's true even in our business. There is a limit to how much you can increase prices and then customers just disappear. I don't think this logic will apply in the coming year that there will be a permanent shift.

Achal Kumar: Yes, but then basically if you see the shift in the customers' behavior and positive move towards the hotels like Aurika and Premier, do you think you could change your strategy and grow faster in those brands and taking a step back on Red Fox?

Patanjali Keswani: Yes and no. So you see the way we look at growth is slightly different. So I'm going to digress for a moment. I'll give you an example. We opened our hotel in Calcutta. Before we opened our hotel in Calcutta, where you have to keep in mind, we are a new brand. We are only a 17-year-old company and really, we got to scale only in the last 5 years. Most of the other Indian chains are 50-100 years old companies. So there is more familiarity. When we looked at Calcutta, before we opened the hotel, let's assume we were getting a certain amount of business out of Calcutta to the rest of our hotels across India. The minute we opened our hotel in Calcutta or in a new city, within six months the business we generate for the rest of our chain or what we call network effect is 5x what it was before we opened the hotel at that city. So that means the return that we get is not only the return on that individual hotel, but the incremental return the rest of the hotels get by the sheer presence from that hotel in that city.

So strategically the way we are going to grow in the next 24 months is very simple. We are looking at the top 150 cities in India. We are currently in the process of evaluating what is the air traffic out of each of these cities, which markets are those air traffic routes going to, where we have hotel, what is our current demand from those cities. And if we get to those cities based on our simple multiplication of 5x, what will be the growth in demand if we open hotels in those cities. So this is a strategic way of expansion and we are executing that in the next 24 months. That is why I said earlier that we have identified 15 hotels we will most likely sign in H1, which will be actually part of this strategic growth strategy.

The separate way to grow is opportunistic, where we get whichever hotel comes to us under management as long as it does not cannibalize our existing hotels, we take them under management. So it's a joint strategy. One is strategic and proactive; one is relatively more reactive and what comes to us we take. But what will add value to our network is actually getting into all these 150 cities because if we look at that, then our occupancies will just be unbelievable.

Achal Kumar: Right, fair enough. Sir going back to my original question, which was about the potential changes of customer behavior, if I look at, many companies are actually going with hybrid model now. Employees have been asked to work from home few days a week and from office few days a week. So that is a kind of a structural change, which we don't think will revert back in the next few years. And that means probably employees will have more flexibility to sort of combine the work and the leisure, and then there could be a change. Since now the customers are taking more short breaks, looks like staycation is in high demand even in the US or Europe. So those kinds of structural changes I was talking about that. Do you see those kinds of changes? And if those kind of changes really happens, do you think that would be definitely positive for the hotel industry. That's my point actually.

Patanjali Keswani: Let me just give you some forward view. If I look at what happened pre-COVID, during COVID, and now towards the end of COVID, when a customer comes as a retail customer, books through my website or books directly with the hotel or through my call center or books through an OTA and comes to a business hotel, that person typically is coming for business reasons. It could be a small independent entrepreneur, it could be somebody part of the big economy, it could be somebody who's just visiting the city and has come and stayed in a hotel, that segment which is the highest rate segment has grown enormously. So what used to be 1200 rooms a day in the peak pre-COVID which is January and February of 2020 is today over 1700 rooms. And even if I conservatively estimate it will be north of 1800 rooms next year. So that is an increment of 600 rooms a day in our system. And we are already doing over 500 of those rooms even now in the middle of Omicron.

As far as large corporates and medium small enterprises go, large corporate were about 600 to 700 rooms a day. They today are 100 rooms. Because many of them have not started travel and that is what you are referring to. However, the medium, small and micro enterprises which were about 800 rooms a day are all that. They are traveling. So we are now doing 900. In Q3 we did 900 rooms a day from these two segments, 90% of which was medium, small and micro enterprise.

What the point I'm trying to make is between these two segments, which are our two largest segments, the maximum drop in large corporates could be 300-400 rooms assuming that all of them go with work-from-home, hybrid model, do not travel much, go with Zoom and so on. But the retail segment growth is double of that drop. So on an aggregate basis, what I'm trying to say is that I do see an improvement in demand if I aggregate retail and business travel and that improvement is in the range of about 300-400 rooms a day, which is about 6% occupancy for Lemon Tree on the owned portfolio.

As far as the other segments go, they are more or less going to all come back. So they will not have a real demand, any impact on our business. So if I summarize this, I say we were doing 3,200 rooms a day pre-COVID with 4,200 rooms now with 5,000 plus rooms, we should do about 3,600 to 3,800 rooms next year. Average rates will definitely come back to the Rs. 4,500 zone.

Achal Kumar: Perfect sir. In the last question if I can squeeze in is that, how do you see the overall demand and supply for the hotel industry? Given that of course some of the supply has been under financial stress and then some of the supply went out of the business also that happened in probably non-branded space, smaller space. But overall, I think on the last call you said that now building a hotel or constructing a hotel or constructing a room, which will cost anywhere around like INR 1 crore is economically not worth it. So looks like probably there may not be a huge development or there may not be significant Greenfield projects. Overall, how do you see the demand and supply over the next 3-4 years?

Patanjali Keswani: You know, I was joking with somebody that as entrepreneur I am by nature optimistic. That's the only way any hotel company could have survived what these three Tsunamis, these three waves hit to us. What I see happening is basically, if I go back to pre-COVID time, there was an average rate of growth of demand in absolute numbers of rooms in the branded space was about 11% to 12% a year for the 10 years pre-COVID from 2009 to 2019. And this was in spite of the global financial crisis, demonetization, all that stuff. Still demand for branded rooms kept growing in India. And I think you can use airline growth as a proxy, because the rate of growth of airline demand roughly can be linked to the rate of growth of branded hotels.

Now, what I understand from what I read from people who study this like hotel consulting companies is that supply growth in India is now supposed to slow down to 3% to 4%, maybe max 4.5% a year for the next 5 years, so that it takes time to build out a hotel. So you can certainly predict the rate of growth of supply at least 4 to 5 years out. Keep in mind that supply growth before COVID in those 10 years was 15% a year. Now it is going to drop to 3% to 4%.

I personally don't know exactly how much supply had dried up. My estimate based on the Hotel Association of India estimates was roughly 60,000 rooms were shut out of 170,000 branded rooms and nearly half of them would come back. So maybe 10%-20% of supply will be permanently out of the market. But it is difficult to estimate till demand comes back.

Actually the real knowledge we will get will be when demand comes back to pre-COVID levels and supply has been suppressed or shut down, then that will be reflected straightaway in the average rates. And I think at some level you are seeing that happen with hotel companies. You will notice the average rates of any hotel company now have gone up significantly in the last one year. And that is an indication to you of how the market is moving.

So broadly to answer your point, I think there will be a demand supply imbalance within the next 6 months. I do accept that large corporate there may be some disruption in demand, but it will be more than compensated by retail growth. There will be certainly destruction in supply, I cannot estimate. So I'm just saying broadly 10% to 20% and therefore I assume that there will be a repricing in the hotel sector within 6 months from now.

Moderator: Thank you. The next question is from the line of Nikhil Agarwal from VT Capital Market. Please go ahead.

Nikhil Agarwal: Yes. Good evening, sir. Thank you for the opportunity. I just wanted to know, could you give a breakup of your revenue from each of your hotel if that's possible with room revenue?

Patanjali Keswani: I don't have it here, but you can get it from the presentation in slide 15.

Nikhil Agarwal: Okay sir. What I wanted to understand, I had done the math and it is coming up to around Rs. 64 crore and your total revenue is around Rs. 144 crore. So like what is driving? Is it your banquet revenue has that really contributing to sort of?

Patanjali Keswani: Not at all. Look at slide 15.

Nikhil Agarwal: Sir, you said your margins were improved to 50% post COVID. So what would be the per year margin? What would be the year-on margin?

Patanjali Keswani: So I'm giving it to you. Just go to slide 15 and look at the right first column Q3 FY22 - The heading is RevPAR, revenue per available room.

Nikhil Agarwal: Yes.

Patanjali Keswani: Yes. Multiply that by the number of rooms. So Aurika Hotels and Resorts is 139 rooms x Rs. 8050 rupees a day x 92 days of Q3. Similarly, Lemon Tree Premier multiply 1603 rooms by x 287 x 92 and so on. When you add it altogether you will get to the room revenue. Room revenue would be about Rs. 120 to 125 crore.

Okay, now when you come to margins, just go right to the extreme right and the hotel level EBITDA margins are visible in Q3 and you can see it's 68% for Aurika, 48% for Lemon Tree Premier, 47% For Lemon Tree Hotel and 44% and 29%, and then you can derive the EBITDA. Below EBITDA you only have corporate expenses. So it's easy to get net EBITDA, the difference is our net EBITDA.

Nikhil Agarwal: Okay, yes sir. So what I wanted to understand was what would be your margin annually. Like this 50% is for quarter three which is a good quarter for the hotel industry. So what can you expect your annual EBITDA to be around?

Patanjali Keswani: I do not want to comment on hotel industry, each company has its own business model. Let me just say this, that if you look at pre-COVID when we were doing, for example in January and February we were doing 3,000 to 3,300 rooms a day at Rs. 4,500 ARR. Our revenue per day was about Rs. 2.4 crore. Our PBT was at, breakeven was at Rs. 2 crore and our cash breakeven was at Rs. 1.8 crore.

Now, I can say quite clearly that we are seeing roughly Rs. 120 crore a year on a permanent basis. So our PBT which used to be Rs. 2 crore a day breakeven will now be in the zone of Rs.1.7. Our cash breakeven which used to be Rs. 1.8 crore will be roughly Rs. 1.45 breakeven.

Now, next year I don't want to give guidance, but I would expect that we should do 3,700 to 3,800 rooms a day at Rs. 4,500 rupees. So revenue should be roughly Rs. 2 to 2.5 crore a day and therefore we should be PAT positive broadly significantly.

Nikhil Agarwal: Yes sir. So I wanted to understand like what is your scheme of arrangement in Aurika, the MIAL Hotel? It says you own 58%. So is it in partnership with APG?

Patanjali Keswani: It's in partnership with APG. We have a joint venture asset company, which owns about 3,000 rooms, out of our own 5,200 rooms. So we 100% own about 1,600-1,700 rooms and in partnership with APG we own the other 3,500-3,600 rooms where we have a 59% stake and they have the balance. Aurika MIAL is also part of this entity.

Nikhil Agarwal: Okay. So the Rs. 900 CAPEX is the total CAPEX for the full hotel that you're selling.

Patanjali Keswani: Right.

Moderator: Thank you. The next question is from line of Amit Kumar from Determined Investments. Please go ahead.

Amit Kumar: Thank you so much for the opportunity. Just one question really. You talked about the network effect and potential for expansion into top 150 cities in the country. What would be the company's footprint now within these 150 cities? What is the sort of potential? I mean, you may not be able to cover the entire 150 over the next 24 months, but where are you now and where do you think you will potentially land up over the next two years?

Patanjali Keswani: Okay. To answer your point, we are today in 54 cities. And if you really look at Pareto, then in 150 cities, there are perhaps 50 cities that account for 80% of air traffic, right? We are in all those 50 cities. So anyway we account for -- we are in those markets, where 80% of air travel happens. When we go to 150 cities if and when, because I cannot comment on the timeline, then we will capture 100% of at least the visibility in these cities.

Now with 54 cities, we have 87 hotels. We will be about 105 to 110 hotels within the next two years on a confirmed basis. And we will be in about 65 to 67 cities. Our intend is that in the next, well, not two years, it will probably take longer, but in the next 3 to 4 years, we want to be in as many of those 150 cities as it's possible, and we are going to go after it very aggressively. And we think it will have a virtuous cycle effect because every new city you go to, you are able to fill that hotel with your presence in the other cities and vice versa.

So it's no rocket science. It's simply that the larger your network, the more visibility you have, the more people you have on the ground, and the greater your ability to fill the other hotel. And as I have said, we are very focused with domestic Indian market where the demand for branded rooms is growing very rapidly. So I think it's a virtuous cycle because the more hotels we bring into our network, the more we consolidate a fragmented hotel market and the more opportunity we offer to our existing customers.

Amit Kumar: Just one small question in terms of competition among your competitors. Which sort of company at the present moment, would probably have the largest, would be far advanced in terms of this network effect in terms of their presence in these 150 cities are embedded with the network? Are you the largest?

Patanjali Keswani: We are paranoid. We think everybody is our competition and also everybody is our collaborator. We don't really look at competition on an all-India basis. We look at competition regionally and in micro markets.

So what we really do is, if we go into a certain city, we will say what are the five-star chains doing in that city? What are the unbranded standalone hotels doing in that city? We will scrape websites. We will look at the average pricing of those hotels in the last one year. Of course, last two years is the wrong period to look at. But we will look at normal times pricing. We try to estimate how we would do there based on our current competitive standing against those types of hotels and based on that the location where we are getting that hotel to manage. We are able to with a high degree of probability predict the kind of performance we do. But that performance which we predict is directly linked to the performance of that hotel. It does not take upside into account, upside being the business we will get from that city to our other hotel that we don't factor which we intend that…

Amit Kumar: That's more from an operation management perspective. I was more talking top down more from a strategy perspective network effect which you expect to benefit from over the next 5 years? Are there already chains which are at that level of slightly advanced? You have the highest footprint in terms of number of cities obviously.

Patanjali Keswani: No, that we have companies like Marriott, InterContinental Hotels, these guys have more hotels than us, but obviously under management. Then obviously there is Taj which is the Indian giant, which is in I don't know how many cities but certainly many more than ours. But these are different markets so, Taj is more in the upscale luxury we are more in the mid-scale and going up to upscale. So the market demographic, the demand patterns are slightly different. There is also a degree of interconnection also. It's difficult for me to answer who our competitors are on in India basis. I can tell you in each city, in each micro market who we consider a competitor. It is among five chains of hotels.

Moderator: Thank you. The next question is from line of Niteen Dharmawat from AUM Capital. Please go ahead.

Niteen Dharmawat: Okay, fantastic. So very detailed presentation, thank you for putting up this quarter-on-quarter. What I see is that we are expanding rapidly across the geographies and we have been putting up efforts in bringing down the interest as I can see. But I see that debt is piling up. So what is our thought process with respect to that as we progress and improve the market conditions get improved. What is the debt trajectory? If you can give some guidance on that for next one year and two-year period. Where do we want to go with respect to debt?

Patanjali Keswani: See, we did some internal brainstorming Niteen. We've also got a very actively involved board of very smart people. And basically, we want to look at using COVID as an opportunity to reinvent ourselves. So Lemon Tree was founded by me in September 2002. The first hotel opened in 2004, we had 50 rooms. Today 18 years later, we have 170 times the number of rooms. We want to move to ideally 25,000 rooms in the next five years, which will give us some level of dominance in the domestic mid-market space. In order to do that, we ask ourselves what is it that will stop us from getting there. So we've identified six to seven key pillars, which will guide us for the next three years on a rolling plan basis.

Number one is that we want to digitally transform our company. And we are as I said before, we are working with BCG, they will be hopefully starting their assignment in the next 2-3 months, which is enabling us to improve our revenue management at a very different level to what most hotel companies do. Also our customer contact processes and our backlog.

The second focus area is talent where we are doing major reviews. We are setting up a completely new company, balanced scorecard and KRAs where we will heavily drive growth and operational metrics and incentivize in a very different way to what we did earlier.

The third is our ESG focus, we want to be best- in-class in ESG. We've given our first ESG report last year. We are looking at best-in-class in India definitely metrics in terms of energy, renewable, social initiatives, employing people with disability, water management, waste management and so on.

The fourth is renovation. We are going through a brand architecture exercise where we are trying to integrate Keys and each brand is going to have a very distinct brand profile and personality. And we intend to renovate backwards all our hotels to bring them to those standards. That is also a three-year to five-year plan.

Next is, we are looking very closely at our cost structure. We are actually very pleased with the fact that we have been able to structurally reduce our costs at current levels by Rs. 120 crore a year. And we see that there is still some opportunity for another Rs. 20-30 crore which we are evaluating.

Next is, we want to be debt free within 5 years. So, the first plan is that we will try and fund the Aurika Mumbai through internal resources; we will not increase our gross debt. And over 5 years we are reasonably confident Lemon Tree at most in 5 years, we will be debt free unless we raise some third-party capital like we did with APG to reduce debt.

So those are the options we have on the table, which we are looking at. The board is very involved and broadly that's our view. We want to basically reinvent ourselves as a new age digitally enabled company and go as asset light as possible.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Patanjali Keswani: Thank you everybody for listening in, your patience and for your questions. I look forward to talking to you folks again for the next quarter.

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