June 6, 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: Transcript w.r.t Conference Call with Analysts/Institutional Investors

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and in continuation to the disclosure made on May 30, 2022 wr.t. the audio recordings of the conference call on Audited financial results for the quarter and year ended March 31, 2022 held on Monday, May 30, 2022, please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

For **Lemon Tree Hotels Limited**

Lemon Tree Hotels Limited New Delhi

Nikhil Sethi
AVP Legal & Group Company Secretary
and Compliance Officer

Lemon Tree Hotel Limited
Q4 & FY22 Earnings Conference Call
May 30, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Lemon Tree Hotel's 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 '*' and 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 and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone, thank you for joining us on Lemon Tree Hotels Q4 & FY22 earnings conference call. We have with us today, Mr. Patanjali Keswani, Chairman and Managing Director; Mr. Kapil Sharma, Chief Financial Officer; Mr. Vikramjit Singh, President; and Mr. Inder Pal Batra, Senior Vice President of the company. We would like to begin the call with brief opening remarks from the management, following, which we 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 fall 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 quarterly business highlights and performance for the year ending 31st, March 2022, after which we'll open the forum for questions and suggestions. Our investor presentation is already uploaded on the exchanges for your reference.

Slide 3

We are happy to announce that Lemon Tree has been included in the MSCI India's small caps index effective 1st June 2022. This will hopefully lead to new investments and may also enhance volumes and liquidity.

Slide 5

In the past two years, the company had a sequential focus on cost optimization and on ARR recovery, on like-to-like basis EBITDA margin percentage is expanded by approximately 1200 bps, which is 44.9% in Q3 FY22 versus 32.4% in Q1 FY20.

Lemon Tree Hotels New De...

Going forward in FY23 net EBITDA margins will stabilize on an ongoing basis at greater than 50%.

Slide 6

On this slide you can see that the company's gross ARR in Q4 FY22 was 90% of Q4 FY20 and during FY22 Lemon Tree's ARR versus the all India ARR has improved from 62% in April 2022 to 77% in March 2022. During FY22, the company showed resilience after the third wave of COVID, the occupancy recovered in less than six weeks from 34% in Jan-22 to 60% in Mar-22; whereas after the second wave in Q1 FY22 recovery took less than six months. This recovery has translated into improved operational efficiency for the company where growth and revenues has outpaced the expenses.

Slide 13

Now, speaking of the Q4 operational metrics from Slide 13 onwards, managed inventory increased by 6% to about 3,300 rooms and total inventory by 2% to 8,490 rooms. This is on a year-on-year basis occupancy percentage on full inventory decreased 967 bps from 56% to 46% on a year-on-year basis and by 1146 bps from 58% to 46% on a quarter-on-quarter basis. Average room rates went up by 54% from Rs. 2654 to Rs. 4,093 on a year-on-year basis and by 5% from Rs. 3901 to Rs. 4,093 on a quarter-on-quarter basis. Revenue from operations increased 26% from Rs. 95.1 crore to Rs. 119.5 crore on a year on year and decreased 17% from Rs.143.7 on a quarter-on-quarter basis.

EBITDA increased by 46% from Rs. 30.4 crore to Rs. 44.5 crore year on year and decreased by 32% from Rs. 65.6 crore on a quarter-on-quarter basis. EBITDA margins increased by 360 bps from 31.4% to 35% on year on year and decreased by 998 bps from 45% on a quarter-on-quarter basis. Our key priority continues to be towards strengthening our financial position. In FY22 our cash loss reduced to Rs. 17.8 crore from Rs. 20.8 crore in FY21.

Gross debt stood at Rs. 1699 crore and after adjusting for Rs. 60 crore of cash, our net debt is Rs. 1638 crore. We've also lowered our average cost of borrowings by 28 bps from 8.28% to 8.00% during the year.

Slide 22.

Moving on to expansion plans, over the last five years, we've signed approximately 3000 rooms and opened 2,856 rooms. As of 31st March 2022, we have 20 management contracts in the pipeline that is 1,441 rooms and the opening dates of these 20 hotels can be seen in the next slide. When I refer to pipeline, I'm referring to definite hotel openings. Further in Q4 FY22, we have signed term sheets for another eight hotels that is 777 rooms, and are currently in active discussions for another 81 hotels totaling 5,947 rooms.

Our operational inventory as of 31st March 2022 comprised of 87 hotels and 8,489 rooms, out of this 4,517 are owned hotels, 675 are leased hotels and 3,297 are management contracts. When the current pipeline becomes operational by FY25, Lemon Tree will operate approximately 10,700 rooms in 109 hotels across 65 destinations.

From a demand perspective, we are seeing an uptick in consumer sentiments, leisure travel continues to maintain its momentum. We're also noting improved traction in corporate travel with a reopening of offices, resumption of international flights and a pickup in in-person events and conferences. We are reasonably sure that resumption will reach pre COVID levels by H1 of this year. Overall, we are very optimistic about growth in FY23. On that note, I come to the end of our opening remarks.

And I would now like to ask the moderator to open the line for Q&A.

Moderator: Our first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev: Good afternoon, everyone. Sir, my first question is on the revenues, in terms of the April and May numbers. If you could give us some idea compared to pre COVID levels, how these are trending? Have we recovered, or have we crossed pre COVID levels? And for this year, assuming all things remain good, what sort of revenue growth can we look at, on a like to like basis and on a combined basis along with the new hotel openings versus pre COVID levels? That is the first question.

Patanjali Keswani: See, I don't want to give specific numbers, let me put it this way that in this financial year FY23, we will at least grow 100% in revenue versus FY22, and we will have a minimum net EBITDA margin of 50%.

Adhidev: Sir, are you seeing these already in the April and May numbers, any sort of trends being there or is it still some time to go, till we fully get there?

Patanjali Keswani: No, we are already there, actually from the last week of Mar-22, you see the key was corporate traction. So, while it is catching up, you have to keep in mind that unlike, the other listed players, we have massive inventory. We have 86% of our inventory is business hotels ie. of the owned inventory and only 14% is leisure. That's the first point.

So, when leisure picks up and business does not pick up, then we are at a disadvantage. Now, when you reverse that, conversely, when business picks up, then we are at an advantage. So, what we found, if you look at Gurgaon, Hyderabad and Bangalore, 40% of our owned inventory is just from these three cities and our hotels are all located in large business concentrated areas.

Now these were IT businesses. So, these were completely affected for both January and February in the quarter that went by. All of them opened the offices in late March. Now we found that for this quarter Q1 FY23, Bangalore is doing what used to do 30%- 40%, is doing 80%. The ARR has doubled in Bangalore.

Similarly, Hyderabad has underperformed, relatively underperforming market is now at 80%. So, it has been reversed, like leisure benefited other chains, the business side is benefiting us and you will see it actually after our Q1 FY22 results, you will see what I'm saying.

And the result of this is since our costs are more or less now constant, in Q4 FY22, we reached full cost levels. So, what you see in Q4 FY22, which is Rs. 90-95 lakh a day expense is on hundred percent inventory, and at assumed full occupancy level. So, we did not do significant cost cuts of any transient nature in Q4 FY22. We instead, spent money renovating many of our hotels. We spent a few crores in that.

And I think you will see that we will reap those benefits from Q1 FY23 this year. So massive increase in ARR, massive increase in occupancy, in specific markets, overall increase in occupancy for the company, with complete confidence that we will do at least 100% growth in revenue this year versus Rs. 402 crore we did last year and over 50% net EBITDA.

Adhidev: Okay. So that's helpful. And just secondly, as you've alluded earlier in your remarks that you want to bring the debt down significantly to the next three to four years, so could you give us some roadmap on how we intend to get there? What are the plans to de-leverage to organic and inorganic means?

Patanjali Keswani: So let me not talk inorganic because what will happen most likely is, if you will see our performance say for Bombay in this quarter and in the next few quarters, you will see something which I have been saying for a number of times, that Bombay is one of the best markets in India.

So, our expectation is that once we open Bombay, which is end of next year and I am making a forward-looking statement here, will contribute a minimum of Rs. 150 Cr to Rs. 200 Cr of EBITDA. We will probably be in a position to raise capital in our joint venture with APG, which is Fleur hotels at a good premium. So, that will be one opportunity for us to get a third party, and which will typically be a sovereign or a pension fund into the joint venture where 80% or 75% of our debt resides. And we would, if that happens, be able to write off the debt immediately.

However, we do not assume that, so we are looking at our internal cash flows and debt is about as I just said, a little under Rs. 1700 crore, our total requirement to open Bombay and Shimla is another Rs. 600 odd crore because we have already invested about Rs. 450 crore. So, the total requirement of cash is supposed to be debt free. I have said earlier that we are not going to increase our gross debt and we are going to fund Bombay and Shimla through internal cash accruals.

Our estimate is for this Rs. 2,250 odd crore that we require somewhere between four, four and a half years is when we will have paid this off with our cash flows. So, if you do some simple math, I've already given you some kind of informal guidance and to add on what we think will happen in the next two years. As I've said, there is not significant supply coming in, and I don't see any major obstacles. I'm assuming monkey pox does not become the next pandemic. Then we will definitely generate about north of Rs. 2000 crore of cash in the next four and a half years.

Some people have asked me why I'm not raising, you know, once our performance improves, why I shouldn't raise equity. But for me, raising equity to play debt down, while it of course reduces risk, is really replacing as I'm getting a return of 8% in equity. Because, I'm replacing debt, which is at 8% cost, with equity. So, I think we are now finally in a position where we don't have to worry about it. And really most of our debt is in a joint venture where the partner has always been ready to invest more capital you know, when we have had a requirement. So, in that sense, we have tried to risk mitigate.

Moderator: Thank you. Our next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: So, I was saying a key assumption in imagining this year's revenues of Rs. 800 crore plus is that we will hold current ARRs. And in fact, you've indicated publicly a while back that by the end of this calendar year, 2022 you actually expect ARRs to significantly accelerate. Could you perhaps flesh out the lead indicator, just seeing at your end, that gives you credit to this assumption? And secondly, a timeline update in Aurika, Mumbai, I reckon we have about 18 months to pre-open. So how are we doing on timelines here? Thank you very much.

Patanjali Keswani: So, our ARR is already Rs. 5,000, Yes, in April, it was a little lower because, the first week of April, it was a little slow. But our ARR is therefore up 20% and our occupancy is also up enormously from Q4, in fact, also up from Q3. So, for you to understand how revenue works, typically, Q1 and Q2 are the slowest quarters of the year and if you look at historically say last 10-20 years, typically H2 is 1.2 times to 1.4 times the revenue of H1.

Costs do not change. In fact, sometimes costs come down because the energy cost of summer is higher than winter. So, if you do some simple math, Rs. 100 in Q1, then a very simple number is Rs. 100 in Q1 should be at least Rs. 100 in Q2 should be at least, Rs. 120 in Q3 and Q4. So, your revenue should be typically Rs. 240 in that example, with Rs. 440 with Rs. 200 coming in summer and Rs. 240 in winter.

However, in good years, it's not Rs. 240, it is Rs. 260 to Rs. 280. So, depending on how the market trends in the worst case, your winter revenue is 1.2 times of summer. And in the best case, it could be as, as 1.5 times. I mean, there have been years when the winter revenue has been 60% of the full year revenue. So, you can therefore do the math. I don't want to give guidance in that sense. I'm giving you a perspective.

Number two, the point I have made is that our costs are fixed now, have stabilized at Rs. 95 lakh per day. This is our full operational expense. If I add on a renovation expense, it is Rs. 5 lakh a day, to Rs. 7 lakh a day. So that comes to Rs. 1 crore and corporate expenses would be another Rs. 12 lakh a day. So, about Rs. 1.1 crore to Rs. 1.15 crore is our fixed expense. Fixed means it is fixed and variable, variable based on up to 75% occupancy. So that is the cost economics. This will lead to a margin expansion of 12 percentage points on a revenue basis in our company from this year onwards, as you will see.

Now, the assumption I have made is, I have given you a number for revenue, which is based on conservative assumptions. What we could do, I don't want to, you know, make statements on what I have said is what we are a 100% percent sure of, which is we will do 100% more revenue minimum compared to FY22. As far as MIAL goes, we have accelerated the development of MIAL. And as I said, if there are no unforeseen shocks in between, we should open it by the end of next year. In fact, we will soft open maybe 300 - 500 rooms by October.

Baidik Sarkar: If I just squeeze in one last question here. On the margin front, obviously there's been unprecedented inflation in the fuel basket and, in the fuel cost of what they are. So, you know, just to cross check, our assumption of 50% in EBITDA is discounting the price figures we have to tackle all of this, right?

Patanjali Keswani: I'm talking current price levels, which means post inflation.

Moderator: Thank you. We'll take our next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Yes. Hi, sir. One, regarding the occupancy rate, I have seen a couple of hotels, the listed player has shown an improvement in occupancy as well as in ARR, but our occupancy YoY has declined, but yes, the ARR improvement was higher than other players. So, considering the same dynamics and the nature of the business, is there any other factor relating to high occupancy in Q4 FY22 for other players, regarding some bulk order or group booking? So, compared to other players, our occupancy is down YoY?

Patanjali Keswani: As I explained to you, I don't want to talk about competitors and so on. Let's talk about the other players in general, have a very large, more than 2 times, in some cases, 4 times, inventory percentage, in leisure destinations and in Bombay. So, these were the two best performing markets.

As I mentioned to you, the Bangalore, Hyderabad, Gurgaon markets where we have 40% of our inventory, I don't know about the others, but we have disproportionately large inventory, where we were underperformers in January and February, because as you may imagine large corporates and specifically large IT companies when Omicron hit, they did not open their offices, travel did not occur. And as of proxy, you can perhaps look at how airline travel changed into Bangalore, Hyderabad, or out of Bangalore, Hyderabad, well Gurgaon you wouldn't know it's out of Delhi, and it would be a clear indicator. So, it's really a mix.

You see, if you have five hotels and I have five hotels, and two of my five are in places where, the market has absolutely not picked up. Then obviously I will not match the same occupancy you do across five. Conversely, when those two markets pick up, then I will get disproportionate benefit. So, the point I have made is that from Q1, that benefit will play out.

Sumant Kumar: Okay. So, there might be in Q4 FY22, the occupancy was in 50 plus, is all because of maybe, staycations, and that segment, we have a higher chunk of market share compared to another player. And now the overall that segment has gone down. Yes, we know Q1 is going to be a great, but there might be a reason for a lower occupancy in this quarter compared to previous quarter, previous year same quarter?

Patanjali Keswani: No, no, this year I have said the occupancy will also be much higher than previous year.

Sumant Kumar: Okay. No, I'm talking about the YoY Q4 FY22 compared to Q4 21?

Patanjali Keswani: It'll be, see Q4 21 had no disruption. You've got to keep in mind, that Q4 this year had one and a half months of complete Omicron wave. You're comparing it to Q1, the Delta variant, if you remember, it only started towards end of March and it was predominantly in April and May. So that disruption generally brought down the weighted average of occupancy across the board. I think there's a slide can you see, so Q4 FY21 did not have any disruption, which is why, if you see Q4 FY21, its occupancy was marginally under Q3 FY22, where again these were all post wave.

Sumant Kumar: Okay. Got it, sir. Because of the higher leisure demand might be other player has got benefited, we have more business hotels. That was the key reason for that?

Patanjali Keswani: Yes because when I see leisure, at least I know that, I think Taj and Oberoi have doubled, in their portfolio they have about 30% leisure. We had 14%.

Sumant Kumar: Okay. And now talking about the current demand scenario, can you talk about the corporate demand and the foreign customer mix, how things are pan out currently?

Patanjali Keswani: Yes. So, since we have focused on increasing our prices. So, you know, as I said, our ARR is now 20% over the ARR of in fact, more than 20% over the ARR of Q4 FY22. So, that means that certain types of customers have stopped using us because of price. So, we have looked at actually substitution and that substitution has come more from corporates. Therefore, if I gave you a broad example since, not many meetings and incentives have happened normally in these hot months, 45% of our business today would be retail, 45% would be corporate and 10% would be others. But of course, this does not include foreigners, though foreigners actually have started using our hotels now, this should typically be more than 10%, it should be 15%, but at present, it is 45%,45% and 10%.

Moderator: Thank you. Our next question is from the line of Hitesh Arora from Unifi Capital. Please go ahead.

Hitesh Arora: Yes. Also, could you just give a guidance, some indication maybe on guidance on the tax, given that you have a lot of subsidiaries. So, it's a little difficult to sort of project, if you could just give some sense on the tax, it would go for FY23?

Patanjali Keswani: So, you know, we are lazy creature. So, when we do our P&L, what we look at is really simple math, and we just assume 22.5% tax because that is the maximum tax you can pay. But, one of the reasons where we haven't spent, I mean, we have accounted for a Rs. 15 core opex is on stamp duty in the last quarter. The reason for this is we have merged the Lemon Tree Premier in Bombay, the Lemon Tree Hotel in Gachibowli and Lemon Tree Beach Resort in Goa, which together account for about over 550 rooms into Fleur in order to get tax benefits. So, this Rs. 15 crore that you see as stamp duty in the last one quarter is we expect to recover within four, four and a half years, I think, in tax savings. Okay. Now Kapil, would you like to answer this breakdown of how tax operates or Inder, one of you?

Kapil Sharma: Yes. Okay. So, as you rightly mentioned, there would be certain subsidiaries, where the tax would be coming, but other like the holding company, Lemon Tree Hotels Limited and Fleur Hotels would have some advantage, in terms of the adjustment of certain previous carry forward losses. So, the liability of the holding company would be lower, but in certain SPVs where we are having profitable single hotel there, we would have to pay some tax, but looking at some sort of planning further, going forward so that we can have a lower liability on this front. But this is for the future, through mergers, and other transfer expenses, rearrangements.

Hitesh Arora: Just to get a sense so, these three, which were merged, potentially they were profitable you know, tax positive?

Patanjali Keswani: All three of them, Bombay is going to be super profitable. I mean, enormously profitable, Gachibowli has become super profitable now and Goa has always been very profitable. So, if you take these three, it will hopefully help offset against other losses. See, the critical thing, is that we have over a Rs. 100 crore of depreciation every year, so sometimes it makes sense also from a new hotel perspective, because historically we've had many subsidiaries, which we are gradually now trying to clean up from a tax perspective. So, on an aggregate basis, what would our tax be, Kapil? Instead of 22.5%, if you have a best guess, it'll be closer to 12-14%, because of the offset.

Kapil Sharma: Correct. Yes. At the max, we can take 15%.

Patanjali Keswani: So, you want to play safe for modeling. You can assume, tax on a consolidated basis at 15% of PBT.

Moderator: Thank you. Our next question is from the line of Kalpit Narvekar from Allianz Global Investors. Please go ahead.

Kalpit Narvekar: Thanks for taking my question. So, my first question was on the micro markets, could you share some color. I can see your number for fourth quarter, but, maybe on the exit run rate or say April, or say April month, could you share some color on how the occupancies and ARRs are trending for the markets in let's say NCR, Bangalore and Mumbai?

Patanjali Keswani: So, Bombay, we are trending because it's the IPL two months. So, it's obviously fantastic. Bombay is at a little under 8,000 and at about 80 plus percent occupancy. Now, Delhi NCR comprises of three distinct areas, which is the two hotels near the airport, which is 500 rooms that does 75% to 80%, Red Fox does over 4,000 now. And Delhi airport will be doing a little under 6,000. Occupancies would be about 80%.

Then you get to East Delhi where we have a small inventory of 150 rooms. We have a Red Fox of 100 rooms and a small banquet hotel of 50 rooms, there the occupancies would be about 65%. And the ARR would be, well, I would say 4,000 for the Lemon Tree and 3000 for the Red Fox. Gurgaon we have over 500 rooms. Within Gurgaon, there are three markets. So, we have one in Udyog, which is a small hotel. Then we have over 200 rooms in Sector 29, where we are doing about INR 6,000 ARR, and about 60%, 65% currently. Then we have in Sector 60, 250 rooms, 150 is Red Fox where we are doing about INR 3000 and 100 rooms is Lemon Tree which is, I think at Rs. 4,500. And those are also during 60%, 65% occupancy. Then you get to Hyderabad, Hyderabad we are north of 75%, probably north of 80%. So now the ARRs for the Lemon Tree Premier is at about Rs. 6,000. Gachibowli would be at about INR 5,000. Banjara Hills would be also over Rs. 5,000, maybe Rs. 6000 and Red Fox is at a little under Rs. 5,000. Then Bangalore, the Lemon Tree Premier that is a 200 room hotel, which is in the city center would be at about 75%-80% at about Rs. 6,000. Electronic city, the Lemon Tree would be at about 80% at about Rs. 5,000, Whitefield 130 room hotel, there would be at maybe 90% at Rs. 5,000. The two Keys hotels are also doing phenomenally well, they're at about 80% and at about Rs. 3,500.

Kalpit Narvekar: Yes, that's really helpful. So, I had a follow up on this. So, could you share some thoughts on why Keys occupancy has been lagging? So, this 32% occupancy for FY22, right? So, what is your strategy in terms of bringing that occupancy up in the Keys Hotels?

Patanjali Keswani: See, the real reason we bought Keys is actually we bought the two Bangalore hotels, the Pune hotel and the Vishakhapatnam hotel, which account for about 600 rooms where the replacement cost was about Rs. 550 crore. So, from our perspective, these were the three key markets we were bullish on. And unfortunately, we bought it three months before COVID hit. And then after that, of course, there was nonstop under performance for the next two years.

We are now putting a fair amount of investment into the Keys portfolio, specifically these four hotels, I have spoken about, the 250 rooms that we have in Kerala continue to underperform. And in fact, are responsible for deflating the overall performance of the Keys portfolio, as well as the 100-room hotel in Ludhiana. So, 350 rooms out of the 950 that we bought in our minds, frankly, we did not really value them in the acquisition of the Keys portfolio.

We, as I said, we bought Keys for Rs. 600 crore, but what we really looked at were these four hotels as the generators of EBITDA going forward. And as it turns out already this month and the previous month, they have now started coming back to the levels we wanted them to operate at compared to pre COVID. It is, when you look at Keys, you are seeing the weighted average, which includes unfortunately the 350 rooms in Kerala and Ludhiana. We are now upgrading those two. So, I guess over the next, it's difficult for me to answer this offhand, but I reckon over the next six months, when we renovate them, you will start seeing a fairly decent improvement in performance, but the real generation of EBITDA will be in the four hotels I spoke about. I hope that answers the question.

Kalpit Narvekar: Yes. That's helpful. So, I mean, why invest money in Keys more than your own hotels? Like, let's say you could just sell off these 350 rooms, right? I'm just trying to understand your thought process behind investing in Keys because operationally your own portfolio is much better than Keys anyway, right, in terms of margin?

Patanjali Keswani: Not these four, these four have the potential to 600 rooms have the potential to generate at least Rs. 60 crore of EBITDA. And I think you will start seeing that run rate within the next three quarters. So, think of it this way, the way we looked at it, we bought the rest of the hotels for Rs. 50 crore and bought those 350 rooms. And we bought these, 600 rooms for Rs. 550 crore. We would've may have liked to build or buy ourselves individually to. So, that was the perspective. You are, right, we could look at selling them, but if you can find buyers, I'll be grateful, but we will not sell the four I spoke about, because we think that they will give us very nice returns.

As far as renovation goes, we are going to spend, when I talked about net EBITDA, it was post a renovation expense of Rs. 25 crore this year. We have incurred a few crore in Q4 FY22. This year we intend to spend Rs. 25 odd crore and we are upgrading some of our Lemon Trees and also upgrading these specifically the three Keys hotels in Bangalore and in Pune. But it is, I think, totally only about Rs. 7 crore or Rs. 8 crore we are spending in Keys and Rs. 17 crore in Lemon Tree, and that is all expensed. So, when I said I repeat net EBITDA it is inclusive of this Rs. 25 crore.

Kalpit Narvekar: Great. That's helpful. If I may ask one last question. So on the retail piece, you mentioned that you are seeing some segments sort of backing out of the bookings or something. So, could you share some color on how you see these massive ARR hikes? How does that affect retail bookings say, you know, a quarter out or something, any sort of trends, are you seeing any drops in bookings, you know, quarter out or something like that because of the ARR hikes?

Patanjali Keswani: So, I don't have the up-to-date figures of May, but I have of April now, April was, as I said, first week of April was slow, but I'm going to give you a flavor. In Q4, our corporate demand was 820 rooms at about Rs. 3,750. In April, the corporate demand became 1,560 rooms at about Rs. 4,200. So, the ARR improved by about over 10% and the occupancy doubled more or less. Airline segment, which was only 120 rooms at Rs. 3,600 in Q4, which is the 10% I spoke about outside of corporate and retail. The airline segment increased to 120 to 140. And the average rate went up 33% from 36% to 48%.

The travel segment, the travel trade segment, you know, travel agents and conferences and so on. In Q4 only averaged at, 150 rooms at Rs. 4,900. And that is now increased by 50% to a little over 220 rooms in April at about Rs. 5,500. Retail, which was Rs. 4,200 was 1,240 rooms in Q4. Now it was much less than the first half of Q4 in all these cases and much higher in the second half of Q4. So, you can say it was 1000 or 900 rooms in the first half and 1500 rooms in the second half of Q4. Retail averaged 4,200 in Q4 and went to 5,500 in April, but did 1500 rooms. So, if you add it up basically, this is, you know, about 3,400, 3,500 rooms we did at an occupancy of, at an ARR of, I forgot about April was low. It was about 4,900.

Moderator: Thank you. Our next question is a follow up from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev: Yes. Thanks for the opportunity for the follow up. The question is on the, Aurika, Udaipur. So, I think if I remember correctly, you had said earlier that the full year revenue potential was around Rs. 65 crore for this hotel, so does this numbers still stand or do you expect much higher numbers? So, if you're looking at the whatever bookings and demand you're seeing?

Patanjali Keswani: We will do at least this.

Adhidev: Okay. So, Rs. 65 crore. So, if I heard you correctly, you said the Mumbai airport hotel, whenever it is operationally expecting Rs. 150 crore to Rs. 200 crore of EBITDA, so on our topline basis, that would imply at least Rs. 300 crore to Rs. 350 crore of topline over there annually on a stabilized basis?

Patanjali Keswani: Not so, because, Bombay for example, our existing hotel, which is 300 rooms and an upper midscale hotel, unlike Aurika, which is an upper upscale. So, the Bombay hotel does 60%, GOP currently you can assume that. Aurika Udaipur will do, 65% GOP so, when I say I will do hypothetically Rs. 200 crore EBITDA in Aurika, it really means the revenue I need is about Rs. 330 crore.

Adhidev: Okay. That is the stabilized basis. Secondly, so you alluded and said you are consciously increased the rates now, right, to cater to more premium customer. So, is it more a seasonal thing or is it something for a more longer-term strategy to get more, to see the premiumization of customers?

Patanjali Keswani: So, let me put it this way. You know, normally Adhidev, you increase rates after demand firms up, but we went counterintuitive this time and we said, even in Q4, we did not drop prices to pick up more retail business, which is obviously available at say Rs. 3000. So, if you notice the retail ARR even in Q4 was 4,200. Okay. Just below the travel trade ARR. So, when you take a call like that, then you have to consciously accept that some business you will not get, which you may have gotten otherwise, but that is a short-term loss because what you are doing is you are repositioning your hotels because during COVID everybody's ARRs went so far south because the customers were not your real customers. You get me?

So, a 5-star hotel was taking customers who would normally, you know, stay in a 4 star or a 3 star, but they dropped their prices so much that the customer went up and stayed with that 5 star. It happened to us between Red Fox, Lemon Tree and Lemon Tree Premier too. So, we found many of our Red Fox customers were in Lemon Tree and Lemon Tree customers were in Lemon Tree Premier.

So now when we repositioned after a two-year gap, we felt minor pain in repositioning in terms of repricing. So, as I said, we took our prices up very significantly and while in corporate, it is kind of based on fixed contracts, even there, we went up by 10%. In airlines, we went up by over 30%, in travel trade, we went up by over 10% and in retail, we went up by 30%. So, when you do that, obviously some customers drop away. But what I am very, very confident about is that the demand that has come back is such that we will be easily able to replace. And in fact, more than replace the demand that was there in Q4.

Adhidev: Okay. Then something which we will evaluate from time to time, going forward, I guess?

Patanjali Keswani: Yes, so you will have to really look at our occupancy and our ARR this quarter, besides the revenue for you to understand exactly what I'm saying, since I don't want to give you specific guidance.

Moderator: Thank you. Our next question is from the line of Rajiv from Dam Capital, please go ahead.

Rajiv: Yes. Good afternoon, sir. Thanks for the opportunity. Sir, my question is regarding Slide 23, where you've given, your active discussions regarding 81 hotel. So, we have to assume all of these are under Carnation, right?

Patanjali Keswani: Yes, but as you know, Carnation has become a 100% subsidiary of Lemon Tree as of Q4. So, this is where the management fees income will go. If you look at this slide, you will see that in FY19, FY20, FY21, we added 11 hotels. Now this year, for example, we will open at least 1000 rooms and at least 14 hotels, to increase our inventory. We've also signed term sheets, as you will notice in Q4 of another 800 odd rooms and eight hotels and we are pretty sure that this year we will sign at least another 2000 rooms, which will say another, 30 hotels in the next 9 -10 months.

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

Achal: Hi, thanks for the opportunity. I have three, if I may. So first of all, so I'm referring to Slide 17. If I remember it correctly, as your Q3 results, I mean, you reported strong recovery in your premium brands, like, Aurika and Lemon Tree Premier. And then the argument was that the customer's behavior is changing and they actually prefer hygiene. So, they actually shifting a notch above, and hence the recovery faster in the premium brand, now of course the rates are high, which means definitely people are ready to pay more for the leisure, but then your occupancy levels in Aurika seems to be slow or lowest in the other brand. So, do you think the customer behavior is coming back to normal, or how do you see whatever the behavior there was a shift due do COVID? So that is my first question.

Secondly, generally, the perception is that, you know, the demand would actually exceed, the supply side. So, how do you see the supply demand balance, for the industry over the next two to three years? So that is my second question. And the last question, sorry, if you already answered it, I joined little late. How is the recovery in the corporate demand, you see? I mean, so these are my three questions please.

Patanjali Keswani: Okay. So, customer behavior during COVID was, I want to be very specific. I don't look at Lemon Tree as a general example. I look at the branded sector, there was a clear move from unbranded to branded because of a presumption that the branded hotel sector would offer better hygiene, better processes, better standards, cleanliness, and so on and so forth. I do not see that those customers, going back.

See the customers who may leave the branded sector and go back would be the very, very price sensitive customers. And I'm not really able to disaggregate how many of these customers would be going back, how many would remain and so on. The broad point I'm trying to make Achal, is that the customers who were normal customers were not there for most of the past two years, because like, you, you are a customer, you must have hardly traveled. Nobody traveled. So that is coming back. Number one.

Number two. I'm seeing an interesting trend linked to PLI. There is this enormous increase in corporate travel from the manufacturing sector. And in fact, it is something I'm watching closely for the last two months. And I feel that that will be an upside for the branded hotel sector in the next two-three years, but that two will be a subset. Overall, last 15 years from 2000, you know, 2005 to 2009, 2010 demand was more than supply. So, that was an up cycle.

Once the global financial crisis occurred, from that time to 2019-18, actually demand was very subdued, sorry, occupancy was subdued because demand every year, while it was growing at 11%-12% a year was less than rate of growth of supply in the branded sector, which was about 15%. Now, things were recovering in the one year before COVID when, of course COVID occurred.

Now, what am I seeing, it's like, forget the last two years, going forward demand is going to get back to 11%-12% at least, that's my minimum expectation because even in the middle of demonetization in the middle of low growth, our demand was still growing at 12%. Supply on the other hand will now not grow at north of 5% because, you know, supply for the next five years, it's studied closely by HVS Anarock, by HTL and so on. And supply is known because it takes four, five years to bring supply on the ground.

So, the next four, five years, my expectation is demand annually will out play supply. And when that happens, typically the sensitivity to pricing is 5 times of that. So, if occupancy grows, if demand supply imbalance is 5%, you can safely assume that price will at least increase 25%. And if you are a history buff, you can go back to 2000 to 2006 in the hotel sector and look at the listed players reports, you will find price increases were 50%, 70%, 100% increase in average rates on an year on year basis for 2004, 2005 and 2006. And I suspect that is going to come back. But of course, that's the hope, I hope it materializes.

Achal: Right. And how about recovering the corporate traffic looks like at the moment? Of course, you talked about the recovery coming from section Sector, but overall, how do you see the recovery in the corporate demand?

Patanjali Keswani: I'm seeing phenomenal recovery as I said, it doubled between Q4 to Q1 in April, it is even better going forward. When this PLI manufacturing activity, etc., starts kicking in, I reckon it will be a further upside there, difficult to project how much, but corporate demand is back fully to pre COVID levels. Now pre COVID Q1, because remember corporate demand is much higher in winter than in summer.

Achal: Right. Sir, let me follow up on your demand versus supply equation. So that clearly means the demand would actually out pay supply by miles, because if the demand is expected to grow at 11%, 12%, the supply is north of 5%. That means?

Patanjali Keswani: Supply is south of 5%, different guys are estimating three and a half to four and a half.

Achal: Right. Fair enough. So that means the demand is going to outperform or out pace supply by miles. So, actually two things here, first of all so that means, the ARRs should be strengthened significantly from here on that equation, proves out to be true. And secondly, I mean, how long do you think this upcycle could be, which is actually kicking off now? How long do you think this upcycle could be 10 years, do you think 10 years, do you think five years?

Patanjali Keswani: What happens is two years from now, my guess is, or three years from now, your ARRs will be double of what it is today, and I'm not talking Lemon Tree, I'm talking branded hotel sector. I want to be very specific now, at that point, you will find all hotels on a replacement cost basis. The ROCE will cross 15%-16%. On a book value basis, it could be a 100%, I'm not going there. But the minute your return on capital on a current value or a replacement cost basis is 16%-18% then fresh supply is planned.

So, my estimate is that by end of next year, there will be such an upswing in the hotel sector that the returns will then you know, kind of justify further investments. But the minimum that will take us three, four years more. So, the next five years should be very good for the hotel sector. But as in any cyclical business, supply will come and supply will then depress pricing because the rate of growth of supply will be such that it will overtake demand for a year or two in a typical cycle. There will be a drop in pricing. And then again, the cycle will reverse because supply will then dry up till demand and the pricing justifies further investment. So just a typical cyclical business.

Achal: Right. So, that means most of supply will should come from Brownfield projects, not the Greenfield because if it is Greenfield, then anyway, it must be visible, right? So, it must be Brownfield projects or conversion, right?

Patanjali Keswani: There's not so much brownfield if you look at all the supply in India, put together, I would be surprised if it is more than 15%- 20% of current supply, and that will take the next two- three years to come or maybe four years. So, the next round of supply will not be conversions. There'll be no brownfield, It'll all have to be Greenfield. In fact, many of the owners, potential owners we are talking Greenfield. They are talking to us now about building hotels, which could take four years to come up.

Moderator: Thank you. Our next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Yes. Thank you so much. Good evening, Mr. Keswani. Sir, I just had one question and sorry, if this had been asked earlier, I dropped off that, when we are guiding for the 50% EBITDA margin, could you just discuss on the levers of the same? Because in Q3, which is the seasonally strong quarter and where the benefits of cost benefits still stay, we are at around 45% margin. So, what is going to be the incremental driver, other than rate which will take us there? And also concern that your cost will come back as things open up.

Patanjali Keswani: My costs are fully back , let me just summarize. What was the revenue in Q3? So, Q3 revenue was Rs. 145 crore. Divide by 90, that is Rs. 1.6 crore a day. Right? At Rs. 1.6 crore a day, we did 45% net EBITDA. Now that really means that my expenses were 55% on Rs. 90 lakh a day. Is that correct?

Nihal Jham: Yes, that's fine.

Patanjali Keswani: Okay. So let me summarize. Q3 revenue per day Rs. 1.6 crore all in expenses till net EBITDA Rs. 0.9 crore. So, Rs. 70 lakh profit Rs. 63 crore EBITDA for the quarter, into 90, 70 into 90. What I'm saying now is that are all in costs for Lemon Tree are on a fully operational full inventory basis, assuming 75% occupancy is Rs 95 lakh

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per day, add to it corporate expenses of Rs. 12 lakh a day, add to it renovation expenses of Rs. 8 lakh a day. That becomes 1.15. So, expenses have increased from Rs. 90 lakh a day to Rs. 1.15 lakh. This is taking into account renovation and all staff hotels, fully operational. And I am saying that we will do north of 50% net EBITDA. So, you can do your math then. And by the way, I said minimum 50%. I didn't say 50%.

Moderator: Thank you. The next question is from the line of Tanay Shah from Dolat Capital, please go ahead.

Tanay Shah: Yes. Good afternoon. Thank you for the opportunity. Just one question on my side regarding the other income, I see that it has gone up to say around Rs. 7.6 crore this quarter, which is around 3 times the previous two, three quarters, any specific one-off item, or is this sustainable?

Kapil Sharma: It's a one-off item. So, if you might have seen that we have de flagged one of our hotel, which is Red Fox Chandigarh. So, this was a lease property. So, as for the accounting standard, when you basically make lease ineffective, so whatever you have accounted for earlier, in terms of your interest on the lease liability and the depreciation on the right to use assets, that is to be reversed. So that has been done due to this transaction which has resulted in revenue of roughly Rs. 7 crore out of which we have made some provision, which is roughly Rs. 4 crore about the recoverable. So, that's the Rs. 3.25 crore you are seeing in the other income, which is one-off item.

Moderator: Thank you. Our next question is a follow up from the line of Hitesh Arora from Unifi Capital. Please go ahead.

Hitesh Arora: Just wanted the management fee income number as well in the revenue of some operations?

Patanjali Keswani: About Rs. 17.5 crore for the year. See management fee income for us is roughly 7% of revenue. So, the revenue last year was Rs. 250 crore with the managed hotel. So, we got Rs. 17.5 crore. This year, we think revenue will be Rs. 600 crore, Rs. 500 crore to Rs. 600 crore of managed hotels. Okay. With the current portfolio, not new hotels. So, you can take 7% of that as a management fee income.

Hitesh Arora: Okay. Significant jump there.

Patanjali Keswani: Well, in two years it'll be super significant, but let's see.

Moderator: Thank you. That was the last question, I would now like to hand the conference back to the management for closing comments.

Patanjali Keswani: So, thank you everybody for your patience and for your questions. I'm actually now looking forward to talking to you after Q1, because then you can see what I'm saying generally play out till then take care . Thank you.

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