November 1, 2021

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 October 25, 2021 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter and half year ended September 30, 2021 held on Monday, October 25, 2021 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

Earnings Conference Call Transcript
October 25, 2021

Moderator Ladies and gentlemen, good day & 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 concluded. 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.

Anoop Poojari: Good afternoon, everyone and thank you for joining us on Lemon Tree Hotels Q2 & H1 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 will begin the call with brief opening remarks from the Management following which we will have the forum open for an interactive question and answer session. Before we start, I would like to point out that some statements made in today's call will 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 hope you and your close ones are keeping safe and healthy. I will be covering the quarterly business highlights and the financial performance for the quarter and half year ended September 30, 2021, post which, we will open the forum for your questions and suggestions.

We saw a significant improvement in performance against the previous quarter due to a strong recovery in demand. The gradual easing of lockdown restrictions, improved vaccination coverage and a growing sense of normalcy in the domestic market has led to improved confidence and therefore bookings, which has improved week on week since the start of Q2 FY22. Overall our occupancy on full inventory improved from 30% in Q1 FY22 to 51% in Q2 FY22. Our room rates too witnessed growth of 28.2% from Rs. 2,362 in Q1 FY22 to Rs. 3,028 in Q2 FY22. Going forward, with the continued improvement in demand, our focus will be on increasing our room rates over the next two quarters. Overall during this quarter, our Net EBITDA grew by 1647% to Rs. 35.8 Cr in Q2 FY22 from Rs. 2.0 Cr in Q1 FY22. Our EBITDA margin expanded by 3159 bps to 36.2% in Q2 FY22 from 4.6% in Q1 FY22.

Regarding growth, I am pleased to share that we commissioned three new hotels under management contracts during this quarter. These include our entry into Coorg (63 rooms) with our first managed resort under the brand Aurika, our first Manchise property under the Keys Prima flag in Dehradun (40 rooms) and a Red Fox Hotel in Neelkanth (80 rooms). These hotels are in sync with our strategy to go asset-light by expanding the managed hotels vertical and leveraging our strong brand. Since the beginning of the pandemic, we have operationalized 10 hotels which added more than 700 rooms to our portfolio. Our current operational inventory as of 21st Oct 2021 comprises of 87 hotels and 8497 rooms, out of which 4517 are owned, 675 leased and 3305 managed.

Over the last two quarters we have also focused on various ESG related initiatives to build a responsible hotel company with a business model that strikes the right balance between healthy financial outcomes and running our operations in a diverse, inclusive and environmental-friendly manner. We are happy to share that Lemon Tree is working towards quantified goals for 2026 which include targeting 30% opportunity deprived individuals and 15% women in our workforce, 15% reduction in energy consumption intensity (with 50% of our total energy consumption from renewable sources), 40% reduction in GHG emissions, 10% reduction in water consumption intensity and 100% certified green buildings in our owned/leased portfolio. Energy, water and GHG targets are vis-à-vis baseline year 2019. Towards this, we have published our first sustainability report, focusing on environmental, social, economic and governance parameters. This has been prepared in accordance with global reporting standards and is uploaded on our website. Going forward, our endeavor will be to focus on enhancing our ESG systems and disclosures.

Now from a demand perspective, we have seen a strong uptick in consumption on the retail and leisure front, which continues to strengthen on a month-over-month basis. With some offices reopening, we are also seeing steady recovery in business travel. As we look ahead, improving macros and the upcoming festive & wedding season, we believe, should further support this traction. Overall, in a normalized macro-environment, we remain confident of reporting robust and sustainable performance in the quarters ahead.

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

Moderator Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Thanks for the opportunity, Sir, firstly while the recovery for hotels ex-Keys has been well across occupancy and profitability. We note that Keys portfolio continues to struggle on a relative basis, so consequently can you help us with your thoughts here and by when do you expect Keys to turnaround assuming that things would continue to improve hereon?

Patanjali Keswani: Keys owned portfolio is under 1000 rooms of which over 250 rooms are in Kerala, as of now Kerala as a market has been completely demolished by COVID. In Kerala we are struggling to get any form of recovery. Another 400 rooms of Keys portfolio are in Bangalore of which 230 rooms are in Whitefield. Whitefield is another market which is heavily dependent on not only large corporate, but large IT companies. This large chunk of inventory 250 rooms in Kerala and 230 rooms in Whitefield have been struggling to perform, so if you notice even in our city-wise performance which we have mentioned, you will see Bangalore has still not recovered to the level others have. We are seeing recovery for these two markets only happening from Q4 of this year.

Amandeep Singh: On micro-markets we note that Gurugram and Bangalore continue to struggle because of exposure to business travel and as you mentioned on the last call indicating that large corporate are expected to travel from September / October and also on ground what we have understand is that the MICE in these market is picking up with increasing staycation, so are you at least seeing the improvement hereon, can you just give a couple of comments on that for these two markets specifically?

Patanjali Keswani: I am seeing a big improvement currently in Gurugram where the mix is less dependent on IT. In Bangalore, the mix is heavily dependent on IT, so in Gurugram 25%-30% of our business comes from IT. In Bangalore, it is closer to 50%, so specifically this segment has been heavily affected. The second segment which has been heavily affected is large corporate, but most of them are announcing that they will start post Diwali. Half of the offices are announcing post Diwali and the other half post January, so we reckon that later I will talk to you about our segment pre-COVID and post-COVID and you will understand on an all-India basis some very interesting trends are emerging, so since you asked this question, I will expand it into an all-India perspective.

If you look at pre-COVID, which is specifically January and February 2020, our retail demand was 1200 rooms per day. Today, in Q2 it has reach 1500. In Q3, it is now trending towards 1800, so you can see an enormous improvement in retail. In fact, retail today compared to pre-COVID is 45% to 50% over what it was pre-COVID. Then we have COVID-related business, which was obviously zero pre-COVID. In Q2, it is 180 rooms a day, in Q3 now it looks to be less than half. When you look at corporate and I am including large and small, micro, medium, all of them, they used to account for about 1500 rooms pre-COVID. In Q2, it was 650, right now it is trending at 800.

Travel trade, which is large booking, conferences and so on which was 350 rooms pre-COVID was 150 in Q2 and is now 260. Others which include airlines and so on and so forth which was 150 pre-COVID was 75 in Q2 and is now over a 100, so if I summarize, our total demand pre-COVID was about 3200 rooms a day dropped to 2650 in Q2 and is now over 3000 rooms a day, so there is a clear pickup. As far as ARR goes, pre-COVID our ARR was about Rs. 4,800, in Q2 it was about Rs. 3,000, today we are trending towards Rs. 3,600. What I see is happening, Q3 will be a transit month and I think you will see a very clear recovery and some stabilization by Q4, which should then continue into the next financial year.

Amandeep Singh: Sir, that is really helpful, thanks for the detailed explanation. Lastly during the last call you mentioned about a couple of firms evaluating distressed opportunity where you would be looking forward to brand and manage those inventories, so any update over there?

Patanjali Keswani: Plenty of stuff happening, but I do not want to give an update till I give an update to our Board, so if you will forgive me, Amandeep, you will have to wait for a couple of months.

Moderator Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A. Chattopadhyay: Thanks for the opportunity, Sir the first question is on our margins, so we have recovered to I think mid-30s and plus in this quarter. So with demand normalizing, by when do you think you will see the full impact of the cost reductions we have taken and once revenues do recover to pre-COVID levels possibly sometime I do not know by fourth quarter or early next year, where do you think the EBITDA margins should settle at?

Patanjali Keswani: I want to avoid giving forward-looking statements so I will go back for a moment. Pre-COVID we had stabilized in the three months of December, January, and February 2020, our average income everyday was about Rs. 2.4 crore a day. Our PBT was happening at Rs. 2 crore, so basically every day we were making Rs. 40 lakhs PBT. Cash breakeven including interest was at Rs.1.8 crore and cash plus the repayment of principal was Rs.2 crore, so interestingly our cash breakeven including repayment of principal and PBT were about the same at Rs. 2 crore, so this is pre-COVID when we were doing Rs.2.4 crore a day. Now, in Q2, we have done a little over Rs.1 crore a day. Our PBT breakeven in Q2 would have occurred at Rs.1.45 odd crore a day, which is a drop of Rs.55 lakhs from pre-COVID. Our cash breakeven which is where the EBITDA margin expansion would happen, would have occurred at Rs.1.15 crore a day, and our cash plus repayment breakeven would have occurred at Rs.1.4 crore. Now, how is this changing? The Q3 expectation is that our PBT will occur at Rs.1.6 crore, cash breakeven at Rs.1.25, and cash plus repayment at Rs.1.5 crore. Our expectation is this will more or less remain constant when it is fully stable, so this Rs.1.6 crore of PBT at most will go to Rs.1.7 crore, cash breakeven will happen at Rs.1.35 crore, and cash plus repayment of principal at Rs.1.6 crore, which means effectively if you compare this with pre-COVID, we expect that on a fully normal basis based on permanent structural cost changes we have put in place, our EBITDA margins on an apple-to-apple basis would have expanded by about Rs.120 crore a year, so our expectation is that once we hit Rs.1.6 to Rs.1.7 crore revenue, which is about 15% over where we are today, then we will be PBT breakeven and cash positive by about a Rs.130-140 crore a year, so that is what we are really looking forward to in the next three to four months. Then of course the question is when we do get back to pre-COVID levels of revenue, I am pretty sanguine that it will happen in H1 next year we should be there at which point obviously, we will be packed.

A. Chattopadhyay: Sir, if the understanding is correct at pre-COVID sort of revenue level, we will be between 42% to 43% sort of EBITDA margin that is the sort of operating leverage we can get in terms of efficiency?

Patanjali Keswani: 45%

A. Chattopadhyay: Sir, second question was on Mumbai Hotel Aurika - how the CAPEX plan shaping up over and when we do see it getting operational?

Patanjali Keswani: If you look at our cash position, we raised Rs.175 crore from APG last year in May, we had got Rs.200 crore of cash. Currently, I think we are sitting on a little over a Rs.100 crore of cash which tells in the last 18 months, we have been cash out by about Rs.100 crore. We were being conservative on the cash consumption towards the Mumbai property because we were not sure whether wave three would be a more significant one. We have continued building Aurika with a single perspective which is we will open in Mumbai sometime in mid-to-late calendar 2023 which is say one-and-a-half to two years from now and we are very much on target. We have currently I think we consumed about Rs.380 crores and our cash consumption is not significant because it is still building a shell. Our significant cash consumption should happen by about June next year when we start finishing the hotel. At that stage, we are fairly confident that we will have sufficient positive cash flows beyond debt servicing to fund another Rs.200 to 300 crore for this hotel, so going forward acceleration will happen first level in Q4, second level by June next year, and our intent to opening the hotel is somewhere between let us say plus or minus one or two months in October 2023.

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

Nihal Jham: Sir, thank you so much and Good Afternoon to the Management, Sir one thing you alluded in your opening remarks is obviously in terms of the expectations that ARR started improving in the current quarter and you obviously segregated the demand also as per the various segments, would it be right to say that the key driver or the key variable would be that corporate demand comes back and that potentially becomes the trigger to rate improvement and the base occupancy, is that the right way to think about how things will pan out or there is some levers in the highlight?

Patanjali Keswani: The way to see it is to look at aggregate demand. Right now, corporate demand is North of 50% of pre-COVID. As I said, it was 1500, today it is running at 800. We are expecting after Diwali, it will start hitting 900 to 1000 and we expect that by Q4 it will cross 1200. If that occurs, then we will be at a point where there will be a very significant change in our retail rates, and yes, that you will see because rates change when aggregate demand not segment demand picks up, so as I mentioned our current run rate is we are 20% in ARR over Q2 and I expect this will just continue to increase and in our opening remarks, yes you are right, I mentioned our main focus will be increasing ARRs, targeting pre-COVID levels within the next six to nine months which was about 4800.

Nihal Jham: Sir, the other question is obviously just taking a step back, pre-COVID one thing or an aspect of Lemon Tree was that there was a significant focus at least in terms of having our own inventory, how does the cycle play out. Now while it is obviously, it is still a long way ahead to cycle the recovery, but we do notice that there has been a strong traction in the Management contract side in terms of how many rooms we are adding, also I think a reflection of the brand how it has turned out, but just as the cycle turns and things improve, do we see that inventory will go back to the aggression of adding own rooms or there is a potential possibility in the future that MC will be the key driver and after that at least the home grown expansion will be calibrated?

Patanjali Keswani: As far as possible, we will try and sweat our assets, so just since you raised this point, let me give you an interesting statistic. Of the 5200 rooms that we currently own, 65% is what we call old inventory which is pre-three years. That accounted for only 50% of the capital deployed, so we built these first 3400 odd rooms at Rs.50 lakhs a key. The next one-third of the inventory was built at close to double that price, so here is the funny thing, two-thirds of our inventory is old which was at Rs.50 lakh a key, one-third of that inventory is new which was at Rs. 1 crore a key, so when the total deployment of capital, it skewed towards new hotels because the replacement cost is really shooting through the roof; cement, steel, name it everything is going up, so clearly, we are now at that inflection point because unlike I think most other hotel companies in India, we were in the midst of a very large CAPEX cycle in the last four years and it was unfortunate that COVID hit just when we were starting to hit Rs.2.5 crore a day. My expectation is that it will become increasingly unviable to build new supply in India at the current investment versus the current return, so that will be a perfect opportunity for us actually to cream our existing own supply rather than build new supplies. The only way we would look at new supply would be asset light or in partnership with distressed funds where we would put in no capital as far as possible.

Nihal Jham: Just a related question, so currently you are saying the replacement cost of say the mid-scale hotel ie. Rs. 50 lakh has now shot up to Rs. 70-75 lakhs?

Patanjali Keswani: No, Rs. 1 crore.

Moderator Thank you. The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: I just wanted some explanation in terms of what are you expecting will drive the ADR recovery to the pre-COVID levels in the next nine months, I understand in your earlier remarks you highlighted that you are expecting the corporate recovery, but to assume that corporate recovery will go back to the pre-COVID level kind of a traction, is it too far-fetch to assume that to happen too early?

Patanjali Keswani: I would suggest again that we do not look at individual segments, let us look at the absolute demand, so let me come back to point I made earlier which is pre-COVID, we were doing 3,200 rooms in those three months of December 19, January and February 20. Today, we are 3000 rooms but corporate demand is from 1500 pre-COVID is down to 800. Which means in spite of 700 rooms, 50% of corporate demand not being back, we are only 6% away from pre-COVID levels of occupancy. What does this mean?

It means that if retail continues to grow at this rate and this has been happening by the way for the last four year, not only pre-COVID but even if you look at us two years before pre-COVID, retail demand was growing at 20% a year for our Company. My view is that retail will more than compensate for any shortfall in corporate pre-COVID levels and that is the key point I am making. Retail is a higher yield segment, much faster growing segment. In my view I am very bullish on retail plus corporate put together pre-COVID and six months from now, these two segment put together will be 15%- 20% higher than pre-COVID, so it is not only corporate. I am talking about the two large segments that drive demand in our hotels.

Kunal Lakhan: That is very helpful, secondly also wanted to understand like how is the demand going into the festive season and then December and then Q4, how are you looking at demand for banquet bookings and then things like that?

Patanjali Keswani: Very good, but we are still under certain restrictions, we turned away a large number of bookings because in Delhi we cannot have more than 100 guests in any banquet function. Going forward my view on this is going to change in the next two months, as once COVID appears to be under control, there will be this huge upsurge in these large block bookings. We already have some tentative booking, there are some dates called Saya dates, so we have weddings, we have I think two or three weddings booked this coming month in Udaipur, which are buyouts which means it is a crore per wedding. My view is that these two will really take off in Q4 because we are at that stage where there is still a question. Today, I read in the papers there is some further variant of delta, it is being monitored, so I would not like to comment for the next two months, but assuming that this continues what is happening, then I am pretty sure Q4 will be a much stronger than Q4 pre-COVID.

Kunal Lakhan: One last question, actually a data point just reconfirming what you said earlier, you said that once we reach steady state, the EBITDA margins would be 45% and based on that our cash plus repayment of principal breakeven would be about Rs.1.6 crore per day?

Patanjali Keswani: PBT breakeven would be Rs.1.7 crore a day, cash breakeven would be about Rs.1.35 crore a day, and cash plus repayment of principal breakeven would be about Rs.1.6 crore a day, which is about 20% less than pre-COVID in all days.

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

Sumant Kumar: Brands like Red Fox and Keys occupancy recovered compared to Q2 FY21, so this quarter we have seen a significant Y-o-Y improvement in the premium category particularly Aurika and Lemon Tree compared to Red Fox and Keys, so what are the key reason, for the same? Key reason or any other reason for higher occupancy of Aurika and Lemon Tree?

Patanjali Keswani: The way to look at it is by region, location, and by micro-market, whether it is a Red Fox or a Lemon Tree or an Aurika, if it is in a market which is struggling, it will have a lower increase and if it is in a good market, it will have a higher increase. Just look at it from that, so it is not brand dependent, it is market dependent. Let me give you an analogy, if you talk to three airline companies, maybe all of them are operating at Calcutta and there the price increase maybe only 5% irrespective of whether it is low cost or full fare whereas in Delhi or Mumbai it may go up 30%. So it is market driven, demand driven rather than brand or segment driven.

Sumant Kumar: Now, you are talking about retail participation or retail mix for Lemon Tree going to be a 15%-20% higher than pre-pandemic level, so how sustainable is this mix when you talk about, we have seen the pre-pandemic also, our retail mix was increasing particularly, so going forward what new trends you are looking for and what the customer mix is going to change for entire industry and for Lemon Tree?

Patanjali Keswani: It is interesting you are asking this, so we are finding that the average age of our retail customer is coming down. If retail was growing at 15% or 20% a year pre-pandemic, it slowed down obviously the one year till the end of the second wave and then it just ramped up. So if you look at retail as a number in pre-COVID, it was 1200 rooms and no doubt if you go four-five years back, it might have been 400-500 rooms a day. That jumped to 1200, but in Q2 that went up by 25% from pre-COVID, which means it really went up maybe 400% from during COVID because that was the time it really slowed down. So I am trying to give you a flavor of what is happening, that retail which includes both business, leisure & staycations went from 1200 pre-COVID to 1500 in Q2, and is now trending towards 1800, so it is nearly a 50% hike from pre-COVID.

Sumant Kumar: So, what is the mix currently, the retail and corporate and others?

Patanjali Keswani: There are a bunch of big economy individual travelling, staycation, and leisure. Off-hand I do not have the breakdown, but the majority is individuals who are traveling and paying themselves.

Sumant Kumar: So, in Q1 I think you talked about 40% retail customer?

Patanjali Keswani: Yes, but Q1 was an absurd time to compare because that was in the middle of the second wave, so I think Q1 has to be treated as an aberration, not as a comparison. I would much prefer that we look at Q2, Q3, and now going forward Q4 from pre-COVID to now, the catch up.

Sumant Kumar: So, do you think the kind of growth we are seeing in retail participation and higher growth we were talking about the 25% kind of growth and pre-pandemic, you are talking about the 20% mix is going to increase or 20% growth will be there, so do you think the moderation in a year when the overall outbound is going to start, so in that case retail mix what we are seeing in this scenario or maybe in FY22 is going to moderate from the current mix?

Patanjali Keswani: What will happen is I suspect that the next financial year will be a hockey stick year for hotels and right now you are seeing a V-shaped recovery but V-shaped recovery from a very low base. This recovery will be from a medium to a high base. When that happens, prices will go up suddenly and a lot of customers who were earlier staying in three-star hotels who are currently staying in four star or five hotels, will shift down. Similarly, customers who were earlier staying in one star, two-star hotels or guest houses who are now staying in a Red Fox or a relatively low-price Lemon Tree will shift down, so there will be this price base , shift in demand and we will get business from guys who have traded up and people a level below us will get business from customers who were their customers who traded up to us today.

We all will do pricing in such a way so as not to disturb the occupancy, so it is not that we will suddenly double our average rate and lose half our customers. This will happen maybe a 20% increase in retail demand, the pricing will happen which will lead to a 10%-15% fall in demand, but ultimately the intention will be to maximize revenue.

Moderator Thank you. The next question is from the line of Achin Kumar from HSBC. Please go ahead.

Achin Kumar: Thank you Sir for taking my question, I have few questions. First of all of course we talked about the retail business offsetting for the loss of the business traffic or corporate demand, so first of all I want to understand do you think overall generally the tightness of the supply and favorable demand could also help the ARR and the occupancy levels as you said that the construction is not going to happen and probably some of the hotels might be sitting in a financial stress, so maybe some of the capacity might go out of the space and then probably that could help demand supply balance, do you think that could also happen positively for the industry, so that is my first question? Secondly, in terms of the corporate demand when you say you have already reached 50% of the corporate demand although if we talk to airlines usually the feedback is that the corporate demand has started to pick up, but this is very, very low, so exactly what sort of corporate demand do you notice because if airlines are saying that the corporate has not started traveling, so what sort of corporate demand is it, are you talking about sort of MSME sector, so if you could please help me understand these two things?

Patanjali Keswani: I will link three things, first is what you said about demand supply, so demand is recovering. It is recovering more in some segments; it is delayed in some segments like corporate. The corporate demand pickup that we are seeing is mostly MSME and a few large corporate who have started but have not reached their pre-COVID levels, which is why we are still maybe 55% of pre-COVID levels of corporate demand. As far as supply goes, existing supply - yes there is a lot of distress, how it plays off my guess is as good as yours, but I reckon there will be a delay in operationalizing supply in India which will play out over the next year to two. Third, new supplies, the point is if it cost a crore to build a hotel today, even with relatively low interest rates, you would like a return of Rs.14-15 lakhs a day If you are not going to get that, you are not going to build a hotel, so till demand and average rates catch up that you can generate an EBITDA per room of Rs.14 lakhs or so, nobody is going to build new hotels at Rs. 1 crore. Therefore, I do see demand supply constraint for the next three to four years, now when we come back to Rs. 16 lakhs a day , then yes, a whole bunch of new supply will be planned, but again it will take another four years to come back, so it is a classic commodity cycle perspective that you have to apply from the real estate side.

Now, coming to demand as I said if you look at how pricing occurs, if you look at us say from Q2 last year to Q2 this year, the ARR went up by 15%. The occupancy went up by 70%, so first occupancy then price, so as I said occupancy obviously will not grow by another 70% from 50% to 85% in this quarter, but already pricing is now following which means that in this first 25 days of October, we are already seeing 20% hike in average rates from Q2, so it is a dynamic situation one feeds the other. My broad guess is that when the large corporate starts fully to the extent that they will, which may not be the full pre-pandemic level but maybe 80%-90% of that. Then you will see sharp hikes in pricing and that I am very confident will occur in Q4 this year.

Achin Kumar: But then following on the distress points, if there are lot of distress in the market, do you think that could open up an opportunity for you to grab properties on the management contract at much reasonable price, do you see that because if there so much of distress, I think the player with the strong financial muscle like you could actually get an opportunity to grab the assets at right price. On that I would appreciate your comment. Finally, I would also like to hear your thoughts about the recovery in the international demand, so what is your opinion in terms of recovery in the international demand and what will offset the loss of international demand for you?

Patanjali Keswani: Let me start with capital deployment and then international. In the last one-and-a-half years, the maximum criticism that Lemon Tree has received is that it has got, high debt, and it is capital intensive, both are right. The only difference and I am pointing out again is it is a timing issue, we opened 35% of our inventory, one-third of our inventory opened 12 months before COVID, almost operationalized, so what was capital work in progress suddenly became capital and debt also increased appropriately, but my broader point is what is the debt that we have. We have Rs. 1700 crore of debt on 5200 rooms ie. Rs.32-33 lakhs a key, when today if I build a hotel I need a crore a room, so obviously the debt was heavy because my book value was much more than any other peer because all my hotels were opening, I was in the middle of a CAPEX cycle, for which there was an enormous amount of criticism by people but we had to still persevere because we knew that when the supply gets absorbed, then these hotels will generate enormous amounts of profit. Keep in mind Rs. 2.4 crore a day in the last quarter of FY20 was with all our hotels not being stable. We reckoned that on a full stable basis, pre-COVID it should have been Rs. 3 crore hitting, that did not occur because of COVID, so I think we learnt our lesson if the market does not want us to invest more capital, we are quite cool about not doing it. Anyway, we are very asset heavy. When we finish with the Mumbai hotel and Shimla, we will have 6000 owned rooms, which is a large enough number and obviously now we want to monetize our brand now because we built a large enough brand and a popular enough brand as is evident from the fact that we are getting such a large amount of retail demand, so we will definitely only look at asset light. We will also look at way to recycle capital out of our asset heavy site, so right now we own 60% of 3500 rooms. We own 100% of another 1700 rooms. We will look at ways to lighten to remove capital out of that business and return it to shareholders in some form, so that is our broad strategy and the only other thing we have said is that we are going to invest some capital in digitally transforming our Company in the next 18 months. As I have said earlier, we are working closely with BCG. We are looking at significant revenue enhancements in this market and that is what we are focused on, so I am trying to answer from a strategic perspective not only from a capital perspective. As far as international demand goes, let us see post November 15th onwards what happens. My view is it will still take six months to a year, but I am reasonably sure by October next year international travel will have come back in India.

Achin Kumar: Follow up on that, first of all in terms of owning, yes, I understand that you are sort of not trying to own any hotels, but even in the Management contracts, if there is a distress, I am sure you can find agreements on a much favorable terms, that is what I was asking. On the international side, how much of your business was coming from the international tourism and what will offset that loss, that was my question actually?

Patanjali Keswani: We have very little international business at Lemon Tree about. 10%- 12%. Let me summarize from retail alone, retail has grown by 550 rooms a day from pre-COVID to today and has about compensated for large corporate. My view is that large corporate are now going to come and between that revival of large corporate demand and block bookings, my view is it will more than compensate for that 10% loss of international travelers.

Moderator Thank you. The next question is from the line of Abhinav Rathee from C Worldwide Asset Management. Please go ahead.

Abhinav Rathee: A very interesting presentation, could you talk a little bit about your loyalty program. I know you had amassed a large base in a very short span of time and has that loyalty program actually been loyal during the pandemic with this sharp growth in retail that you have seen, what percentage of these retail guests are your loyalty members?

Patanjali Keswani: About 30% are our loyalty members. We have slowed down our investments because the kind of customers we had from COVID wave one to COVID wave two, those 15 months many of them as you know were not our regular customers, because in those periods there were very large amount of healthcare professionals, quarantine guest and so on and so forth, so we have about a month ago revived our investments in loyalty program and it is very much a part of the BCG assignment and it is actually an aggregate of a loyalty revenue management which is bionic based rather than forecasting based and all of it is actually part of one single assignment and I think you will start seeing the results very shortly in another two to three months, you will start seeing the aggregate of this playing out. I know you are an investor in our Company, but difficult for me to explain right now because it is such an interesting assignment that when you come there, I can actually show it to you what is happening.

Abhinav Rathee: Sure, I look forward to that. Now that you are also sort of alluding to a very strong recovery by Q4 and you had very impressively cut down your cost last year, what percentage or what kind of some of these cost cuts would make a comeback as we move towards closer to a complete recovery?

Patanjali Keswani: So, at a PBT level, I reckon at Rs.1.7 crore, we will be PBT zero. At Rs.1.35 crore, we will be cash zero, we are talking about 20%-25% fall from pre-COVID and that is a permanent drop or to put it in a number it is about Rs.100 to Rs.120 crore a year.

Abhinav Rathee: Okay, but some of these cost cuts that you had done with regard to simple things like elevator management, water pressure, and so on and so forth, some of those cost cuts would make a comeback right with more occupancy now in the hotels?

Patanjali Keswani: Yes, some will, some will not, so to give you an idea our staffing used to be 8,500 people for 8,500 or one person per room. Today, it is 0.6 and at full occupancy it will be 0.7, so we will knock of about 30% of our staff but because these are mid-level staff and in cost terms it will save about 22% of our wage bill. Now, as you know the wage bill is about 20% of our revenue, so that is 4.5% to 5% of EBITDA expansion. In power and fuel, it will about 2% of the 10% that we spend normally on power which means an EBITDA margin expansion of another 2% on revenue. In other cases, we reckon it will be about 4% to 5%, earlier we thought it would be 2% to 3%, so put together I reckon our EBITDA margins will expand by anyway from 11% to 15%.

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

Nihal Jham: Sir, I just have one clarification, when you speak of retail what exactly is the nature of that demand, as I would understand it would mainly be leisure or staycation travelers or are you including your MSME corporate also as a part of that segment?

Patanjali Keswani: When we said that, the question is who is booking through what, so when we say in Q2, retail was 1500 rooms a day and corporate was 650, some of that corporate would be via the retail. Now the question is what are you defining as corporate, what about small Company of four people who book us from Chandigarh and book through our website or through our call center or through an online travel agent, it is impossible for us then to, I mean we will treat him as a part of retail, so corporate are corporate rates. Those companies we have, given corporate rates to whether they are large or small and that is why I can say it is the small corporate that account for 80%-90% of the 650 rooms a day. Then there are even smaller, maybe individuals who are self-employed who come part of the real economy, they come here and they stay with us but they book as retail customers, which is why retail is a mix of every segment.

Nihal Jham; If there is any sense that out of this 1500 you are currently doing and it is going to 1800, what would be say the nature of pure leisure or staycation which maybe potentially is the kind of demand that may not sustain in the future, is that the right way to think?

Patanjali Keswani: Let me go back for a moment, what is our leisure portfolio in terms of the owned assets, so if I look at your leisure it is about 8% of our portfolio about 400 odd rooms out of these 5200 rooms, but then there are other hotels where we have leisure visitors but those hotels are not leisure hotels like Delhi. For example, in Delhi at any given time there will be 40-60 people staying here who would be coming for leisure reasons, but are not coming to a leisure destination, similarly Mumbai, similarly places across India, so our guess is that our leisure travel today maybe including staycations maybe 15%-18% of our total demand. My guess is that including when prices go up, one is staycations will reduce; two, a bunch of customers who would otherwise have stayed with us at Rs. 3600 ARR will not stay with us at Rs.5000, so there will be some loss, but what I am trying to say is this is very dynamic and this is revenue management, which means we increase our prices just enough not to effect demand rather than increase prices and have a significant loss of demand, so we will look at maximizing this part.

Moderator Thank you. The next question is from the line of Achin Kumar from HSBC. Please go ahead.

Achin Kumar: Sir, in case now the hybrid working is being promoted by the companies and the people have started combining work with leisure, previously I understand that you said that during the last call that average stay length has increased because the people have started combining work with leisure, so they go stay at the hotel, so they work for two days and enjoy leisure for three days, so something like so how do you see, do you see the average length of the stay is going down as the things are opening up or how do you see the average length of the stay is changing?

Patanjali Keswani: I think average length is probably reduced slightly in our case because long stay demand from corporate has reduced, I do not have a figure right now as to what is the average length of stay in Lemon Tree, but it may be 0.2-0.3 less than what earlier, 2.7-2.8. I reckon it would be at early 2s now 2.2, 2.3, so IT hiring for us in Bangalore and in Hyderabad and in Gurugram used to typically be 200 to 300 rooms for the months of summer, that did not occur this summer, but next summer we are told it is coming back, so then length of stay goes up, weighted something like 6% of our demand and the average length of stay is 100 rooms, but broadly I think leisure travel is happening, there are people who come for work and then hang on for a day or two more because they just want to get out of their homes, but I would like to actually be very specific here, I am not sure this is a long-term trend. I am reasonably sure that if larger corporate were 20% of our business pre-COVID, well I reckon they drop to 13%-14% post COVID, one is because we will take our prices up and they may not want us at those higher prices and number two is because of work from home or flexi timings and so on, but that is only 7% of our business. Retail which is 55% of our business will by then be 65% to 70% at higher rate. So, I am very confident that it will be more than compensated by the growth of discretionary retail demand and interestingly if you look at China, about 14 years ago in 2006-2008, this happened in China that retail demand really took off and it became the single most important segment in China and I reckon it is going to happen in India, you are seeing it even in stock market by the way.

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

Patanjali Keswani: Thank you everybody. Like always I have enjoyed hearing your questions and I look forward to our next conversation post our results in February next year. Have a Happy New Year and a wonderful Diwali.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.