August 18, 2023

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 and in continuation to the disclosure made on August 11, 2023 wr.t. the audio recordings of the conference call on Unaudited financial results for the quarter ended June 30, 2023 held on Friday, August 11, 2023, 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
Digitally signed by NIKHIL SETHI
Date: 2023.08.18 12:01:26 +05'30'

Nikhil Sethi
AVP Legal & Group Company Secretary
and Compliance Officer

Lemon Tree Hotels Limited
Q1 FY24 Earnings Conference Call
August 11, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Lemon Tree Hotels Limited Earnings Conference Call. As a reminder, all participants' 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now have the conference over to Mr. Anoop Poojari from CDR India.

Anoop Poojari: Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels Q1 FY24 earnings conference call. We have with us Mr. Patanjali Keswani, Chairman and Managing Director; Mr. Kapil Sharma, Chief Financial Officer and Mr. Vikramjit Singh, 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'd like to point out that some statements made in today's call may be forward looking in nature. And a disclaimer to this effect has been included in the results presentation that was shared with you earlier. I will 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 the financial performance for Q1 FY24. Post this, we will open the forum for your questions and suggestions.

Due to high seasonality in the hotel industry, I would urge everyone to consider year-on-year performance rather than quarter-on-quarter. In Q1 FY24 Lemon Tree Hotels continued its growth from the previous year and this quarter has been the best ever Q1 in terms of gross ARR, Revenue, EBITDA, PBT, and PAT for Lemon Tree Hotels.

Q1 FY24 recorded a gross ARR of INR 5,237, which increased 8.6% year-on-year and decreased 10.1% quarter-on-quarter. Occupancy followed a similar trend, which increased by 514 bps year-on-year and decreased by 339 bps quarter-on-quarter. This translated into a RevPAR of INR 3,678, which increased 17.2% year-on-year and decreased 14.2% quarter-on-quarter.

Total revenue for the company was INR 224.6 crores, which increased 16.8% year-on-year and decreased 11.8% quarter-on-quarter. The net EBITDA margin for the company in Q1 stood at 47.6%, which decreased 60 bps year-on-year and decreased by 815 bps quarter-on-quarter, owing to the increase in variable and fixed costs as well as planned increases in renovation expenses.

The increase in cost is somewhat less compared to the guidance we shared in our previous call, and we will ensure we will keep our EBITDA margins intact. The PAT for Q1 this year grew by 103% year-on-year from INR 13.6 crores to INR 27.5 crores. Our cash profit stood at INR 50.3 crores, which increased 32% year-on-year. Fees from management/franchised contracts for third-party owned hotels stood at INR 10.4 crores, up 19.3% versus Q1 '23. Total management fees for Lemon Tree Hotels were up 21% to INR 23.9 crores compared to INR 19.8 crores year-on-year previous Q1. During the quarter, we signed 6 new management and franchise contracts, which adds another 548 new rooms to our pipeline. As of 30th June, our operational inventory comprised 90 hotels with 8,491 rooms, and our pipeline comprised 46 hotels with about 3,724 rooms.

From this quarter onwards, we will also be sharing our network revenue for Lemon Tree Hotels, that is total system revenue of owned, managed, and franchised hotels, which stood at INR 352 crores for Q1 FY24 as compared to INR 299.4 crores in Q1 FY23.

Moving forward, we are very confident in the company's ability to sustain this growth in the coming quarters by focusing on the following growth levers, the imminent opening of Aurika Mumbai in October 2023, further acceleration in our managed and franchise portfolio with a proportionate increase in fee-based income. Further improvement in gross ARRs and occupancy for the Lemon Tree Hotels portfolio and a very significant increase in gross ARR and occupancy in the Keys portfolio post renovations.

In fact, very early indications are already available in the Keys portfolio. Now the opening of Aurika, Mumbai is on track. As you can see from the pictures in the investor presentation, many facilities in the hotel are completely ready and most of the operating licenses pertaining to the operations of this hotel have already been obtained.

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

Moderator: Thank you very much, sir. We'll take the first question from the line of Archana Gude from IDBI Capital.

Archana Gude: Congrats on another good quarterly performance. Sir, I have 3 questions. So when I was looking at Slide number 23, we were given that on the RevPAR comparison between LTH and the industry, we're fairly done at the industry level, but there is a considerable gap between Bangalore and Delhi. How should we read these numbers, sir?

Patanjali Keswani: See the basic thing is that a very large portion of our inventory in Bangalore is the Keys portfolio and the Keys portfolio is economy/entry-level midscale. And as I said, until we completely renovate this portfolio, it will continue to drag our relative performance. So let me give you an example of this. If you look at our entire performance from Q1 FY24 and look back to the Q1 FY23, the Keys' occupancy has only increased in Q1 FY23, it was, I think, 55.6%. And in Q1 FY24, it was 57.2%. That means a very marginal 1.6% increase, whereas the Lemon Tree portfolio went from 67% to 73%. So, what you must look at is the cities where the Keys portfolio is large. Like in Bangalore, it is, I think, 380 rooms. So on a weighted average basis, it will drag our performance down until the renovation is complete. Does that answer your question?

Archana Gude: and versus Delhi.

Patanjali Keswani: Delhi is because you're looking at industry. In Delhi, 70% of the industry is 5-star deluxe. So, I think they have had a better ability to reprice. In the last financial year, our focus was to reprice our hotels. So from the mid-market segment perspective, we are repricing, if you look at the RevPAR, it is much more significant than everybody else. We repriced in 2 slabs so ultimately, our new ARRs were 50% over pre-COVID.

As a result, the bottom 15%-20% of our demand fell off. And as I had mentioned in earlier conference calls, we were looking at building back the occupancy after the price increase. So, what you are seeing now is the rebuild of the occupancy in Q1 this year, which is historically the weakest quarter. This occupancy increase, you will find will continue in Q2. I can say categorically, we will do significantly better in Q2 than in Q1 as far as occupancy goes. However, ARR growth will not be the way it was in the previous year.

So it will be, as you can see, about 8% and that is what we will continue to target on a quarter-on-quarter till we hit H2. At H2, of course, we will reprice significantly because by then, we will have built the demand back to pre-COVID at those much higher prices.

Archana Gude: On this corporate segment, though it has gone down on a Y-o-Y basis, is that the conscious call by the management that, let's increase the retail portion so that, that will overall aid the margin expansion?

Patanjali Keswani: Absolutely, because if you look at corporate, they are bulk buyers, they are the most price sensitive, and this is why I have said also in earlier conference calls and even in our 5-year vision that we want to increase the retail side of our business to, in fact, 66% of our total demand in the next 4 years. So just to give you a number, in Q1 FY24 versus Q1 FY23, our corporate fell by 100 rooms per day (RPD), but our other semgents increased significantly.

This is because it's a conscious decision that when you increase prices, there is a planned churn, which means you keep taking out the most price-sensitive segments and replace them with higher-paying segments. So, you see that in the overall occupancy and what I would urge you to look at is not corporate as much as the overall room nights that we are doing, and this is fundamentally a reflection of our shift in focus to driving our brand awareness rather than simply going as vendors to large corporates.

Archana Gude: On new management contracts, how we should see the traction going ahead? Like overall, we're talking about demand-supply mismatch and everything. So, should we consider at 6 to 7 hotels on quarterly basis should be added on a contract?

Patanjali Keswani: Yes. So, I've given some broad targets, as I said, by the end of this year, we hope we will have about 10,500 rooms operational in our inventory. But it is a little difficult while we are signing very aggressively. In fact, the latest JLL reports say that Taj, Marriott and Lemon Tree were the highest acquisition of management contracts in this quarter. We are going to aggressively continue, but what I think I would urge all of you who are listening in on this call to consider is that openings of managed hotels are very often not in our hands.

Because it may be that the person doesn't get licenses on time, the owner of that hotel has a temporary funding problem or there are some design issues or some issues relating to construction. So that is a bit out of our control, but what you are seeing, I think, should be the trend going forward. And you will find that there will be something like a hockey stick growth in our inventory after another 6 months. Once we hit 10,500, then it will start accelerating because the hotels we are signing today will start getting operational from next year onwards.

Moderator: We'll take the next question from the line of Nihal Jham from Nuvama.

Nihal Jham: My first question was just a clarification. You did mention that the Bangalore market was impacted because of the Keys portfolio. The Lemon Tree in Bangalore's performance on a RevPAR basis is like the 18% growth that the network ex-Keys has seen.

Patanjali Keswani: Yes.

Nihal Jham: I was asking that is there a current case where the premium hotels are having better pricing power or if the pricing across any branded hotel in the industry would be similar at this point in time.

Patanjali Keswani: See, this is entirely a function of mix. So suppose there is a market in which there are fewer luxury hotels and more mid-market hotels, then the luxury hotels because of relatively lower supply have a better pricing power among themselves. Remember, our pricing is with respect to the mid-market and upper mid-market segments. We do not price vis-a-vis a 5-star because the 5-star deluxe user does not look at a mid-market hotel as an alternative.

5-star luxury users do not look at mid-market and upper mid-market hotels as an alternative to stay. So really, what you must keep in mind is a multiple set of factors which are- what is demand in a certain market? What is the luxury demand in a certain market? What is the supply in that market? So when you see these numbers, which is the numbers by Smith Travel Research, they are an aggregate of economy, mid-scale, upper midscale, upscale and luxury. So like for example, Delhi got a lot of demand also because of G20 and so on. And G20 delegates were all put up in 5-star hotels. So that was the benefit for 5-star hotels in Delhi, especially those in New Delhi. So this is just a comparison to show you how we performed on an all-India basis. But when you look at cities, where there is this demand-supply mismatch within price segments. We may show a lower number compared to the aggregate because maybe the 5 stars drove the pricing in that market because of demand for 5 stars. So, I would not generalize. I would rather say, look at micro-market conditions and from that perspective, I would say, look at the all-India performance because that is the annualization, the aggregation that you see, which is on the extreme left of that slide that we put forth.

Nihal Jham: Just one final question was I think there's a case of the CCPS being converted. What will be the stake for APG after the conversion happens?

Patanjali Keswani: 41%. Back to the original. See, our intent was APG gave us money at a certain point at a certain valuation that was at the start of COVID. So our intent was to equalize our shareholding, back to 59% which would have dropped if the CCPS would have been converted. But we had 2 choices. One is to put in some assets and value them, put it into the JV because we continue to own about 1,700 rooms. But we found that was not a sensible option because the effective tax was coming to about INR 60 crores. So we opted for Plan B, which was going to buy their proportionate share back from them at the new value, the new equity value, and that is what we have endeavoured to do and which is why we have come back to 59%.

Moderator: We'll take the next question from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: The first question, can you elaborate on July because of the rains, is there any impact, especially in Mumbai and Delhi on the occupancy and room rates? That is first question.

Second question is on Mumbai Airport Hotel. So the launch you think, how many rooms do intend to launch initially? And how do we intend to then scale this up?

Patanjali Keswani: So as I have already said, we are doing better in July than in Q1, firstly, significantly better. So rains have not impacted us. Rains are an annual event. The rains have impacted those hotel companies which have assets in the hills and so on, where landslides and various other things have occurred and flooding. As far as Aurika Mumbai goes, we will fundamentally be ready with the entire inventory in October. So what I understand from our projects team just recently was that all 669 rooms will be ready. But they will be ready in various points in October. So it is not that they will open all together. But what I can say is, by end of October, all the rooms will be operational.

Adhidev Chattopadhyay: And we intend to go into the market with all the rooms, the availability, whatever is there, the entire 700 will be available.

Patanjali Keswani: That is right. But let me just clarify one thing. In the beginning, when we launch the hotel, it will technically not require all the rooms because the buildup of demand is gradual when you open a hotel. And the other point to note is that the Dussehra and Diwali operate from 2nd October, through 12th of November. So anyway, that's a low-demand period while we will operationalize the entire inventory, I do not expect that demand will be as high as we would like, as is normal post-Diwali. So in that sense, the timing is quite okay because we'll open the hotels in October, but the demand for that market, which is Bombay really will pick up after 12th November that is after Diwali.

Moderator: We'll take the next question from the line of Jaiveer Shekhawat from Ambit Capital.

Jaiveer Shekhawat: So regarding your MIAL property itself, the Aurika one. So one, I want to understand your strategy here in terms of the overall pricing as well as the way you look to launch that properly during this first full year of operations. Now in the slide in earlier calls, you have mentioned that the conservative estimate is around INR 12,000 a room rate and about 75% of occupancy. But even today, if I see a comparable hotel like a JW Marriott Starr, I mean the rates are far ahead of that. So could you just talk about how you would approach, how would your strategy be during the first year of operation? Would you want to keep the rates lower in order to penetrate that market faster and then possibly take the rate increase in second year?

Patanjali Keswani: That is normally the situation, but let me explain. We opened our first hotel in Bombay, which is the Lemon Tree Premier, a little before COVID. So really, we had no time to stabilize it. So the way to look at it is that hotel, which is a 300-room hotel, really became operational on a normalized basis only after COVID, which was in April last year. So let me give you an interesting example. When we launched that hotel, we launched at, I think, INR 6,000, INR 6,250, then we were doing 50%- 60% occupancy.

And gradually, at that price point, we built up demand and then repriced. So if you look at the Lemon Tree Premier Mumbai today, and I'm giving you July figures, we are doing 90% occupancy at INR 8,400. This is in off-season in Bombay with 300 rooms and a Lemon Tree Premier. Typical pricing difference between an LTP and a 5-star hotel is about, in Bombay is about INR 4,000. So if you look at the 2, 5-star hotels deluxe hotels, we will be competing with, with Aurika, it will be fundamentally ITC Maratha and JW Marriott.

They are currently priced at least on the retail side at anywhere from INR 12,000 to INR 20,000 every day depending on demand. This is, I'm talking, July. While I have given a number in our last presentation that this is what we expect Aurika to do. Let me also say that it is a conservative number. I think I have said we'll do about INR 170 crores EBITDA, and we are sure we will do better than that. So this is a ramp up. What you are asking me is, how will we do in the next 6, 7 months, it will be a gradual ramp up.

Even the Lemon Tree Premier, as I said, last year was doing INR 6,000 and this year is doing INR 8,500, and the occupancy is now 90%. So I expect Aurika, MIAL will go through a similar progression and next year will be game changer for us from the perspective of this hotel alone.

Jaiveer Shekhawat: Again in the presentation, I think you had put in FY26 because I believe you might be able to even achieve that in FY25. And sir, could you also talk about how much would be the F&B share because you've also got big banqueting facilities and events space as well?

Patanjali Keswani: So this is a bit difficult to predict. So the difference between us and, say, a 5-star hotel is that in 5 stars, 55% of the revenue is room revenue and 45% is food and beverage and other revenue, which is why their average EBITDA margins are in the low 30s. In our case, business model is that we are fundamentally selling rooms. So in our case, 75% of our revenue typically is rooms and 25% is food and beverage and others.

So that is why we can get to north of 50% EBITDA margin. Now in Aurika Mumbai, because of the large convention facilities, we expect that instead of a ratio of 75/25, it will be closer to maybe 68%-32% roughly. So that's our broad expectation. But of course, it's a function of how the market needs convention facilities, how we compete there and so on.

Jaiveer Shekhawat: And sir, regarding what the numbers that you've reported for your Aurika Hotels portfolio, we have seen about 11% year-on-year decline in ADRs. So is that an early sign of softness in leisure demand given international and outbound travel has already started picking up.

Patanjali Keswani: See, if you read commentaries by travel companies, they are clearly saying the revenge travel part of the pickup has gone. And what you will now see is gradual increase in travel demand due to, I think, more in terms of general economic growth and mid-market aspirations and so on. So that jump up in leisure demand, which occurred last year has significantly moderated. Now coming to Aurika, Udaipur. Let me give you an interesting number.

According to STR, in Udaipur, the occupancy of Udaipur in Q1 was about 40%. And we had a 10% premium on it. So from a RevPAR perspective, actually, we do not see ourselves competing with an Udaivilas or a Taj Lake Palace or a Leela, we compete with the next level, which is the lower level Taj's and Trident's and so on. We have outperformed all of them. So it's a good sign for us. There is huge acceptance. And I think what a shocker for everybody will be the performance of Aurika in H2 because the preliminary bookings tell us that it will be enormously profitable in Q3 and Q4.

It has already booked, I think, 15 weddings, which is buyouts of the hotel. And typically, each wedding gives us over INR 1 crore in EBITDA. So just from the wedding perspective, we will earn INR 16 crores in EBITDA in H2, excluding normal demand, which is also very high in winter.

Jaiveer Shekhawat: A last question on your management and franchise fees. So how do you see that scale 3 years out and contribution to your EBITDA, especially in light of the recent hirings that you've done from Fleur Hotels now to scale up this business?

Patanjali Keswani: So last year, I think we did about INR 36 crores in third party. I'm not talking from Fleur, but from third party. This year, it will be, I think, north of INR 50 crores. Next year, it will be north of INR 75 crores, and then we are looking at about INR 130 crores to INR 150 crores, the third year out. So that will be 100% flow-through to EBITDA. So, the 4 big things you will see is a tripling of management fee income in the next 2.5 years, up to INR 200 crores of EBITDA from Aurika MIAL, a significant increase in EBITDA from Keys and our normal 20%-25% increase in EBITDA from the Lemon Tree portfolio every year.

Moderator: We'll take the next question from the line of Murtuza Arsiwalla from Kotak.

Murtuza Arsiwalla: Just an extension on the management fee piece. How should we think of the management fees from both from an accounting perspective, does it get eliminated fully on consolidation? And from an economic interest, should we think of it as the 40% that APG owns as our economic interest in the incremental management fee? That's part one. And the second is just to understand. You just talked about 100% pass-through of management fee to the EBITDA. Typically, any cost associated with having this managed hotel sort of set up in place any cost or it's essentially just sort of setting out the brand that we have.

Patanjali Keswani: Okay. Murtuza, to come back to the first point, our fees are netted off on a consol. So while they get to Lemon Tree standalone, in the consolidated, they are netted off. Now coming to the second point, which is fees of Fleur. Well, we own 59%, but we take roughly 15% of the EBITDA as management fees. So effectively, we get 6% out of Fleur i.e., out of APG's 40%. So our economic interest is 65.6%, if I remember right while our shareholding stands at 59%.

As far as management fees goes, you see beyond the office setup that we already have with the fixed costs, we are not adding more people. So in fact, yesterday to our Board, our Business Development Head, Mahesh Aiyer, made a presentation that 1 year ago, he used to go out to try and pick up 1 query every 2 or 3 days. Today, we are getting, and this is what he told the Board, 4 queries a day. So that forms a part of the reason why our costs have increased, in fact, that's why I said going forward, it will be 100% flow-through.

A part of the reason our payroll costs have gone up as you will see in Q1 this year versus Q1 the previous year is that we've not only hired the top management team of Choice Hotels, but we've also got some more people into our business development side and into our preopening side. So, we basically built the infrastructure to start adding hotels very aggressively. And I think, Mahesh, what do you feel? How many hotels will you sign this year?

Mahesh Aiyer: Say about 40 hotels this year.

Patanjali Keswani: We will sign 40 hotels more this year.

Murtuza Arsiwalla: If you could give me an approximate ballpark as to what would be the infrastructure or basic cost of set up, if you have a number in mind that drives this entire management fee revenue. The cost, I understand the operating leverage that you can scale up significantly with the same cost. But what would that cost be if you could put a number today to it?

Patanjali Keswani: You mean all in per annum, including the entire team, I would say about INR 8 crores, INR 9 crores.

Moderator: We'll take the next question from the line of Kunal Lakhan from CLSA.

Kunal Lakhan: Sir, on your Slide 12, when I see the comparison with the industry, we see that you have outperformed in terms of occupancies, but kind of underperformed in terms of ARR. Is this like a conscious strategy where we are now choosing say, occupancies over ARR, which was very different last year, although we have done well in terms of overall RevPAR, but just trying to understand like our strategy going ahead.

Patanjali Keswani: Okay. So to explain it, as I said earlier, Kunal, earlier we had focused on price hike without looking at inherent demand growth. We had said we need to reprice. So that is what we did, which is why we did in my opinion, a very low occupancy in Q1 last year, which was about 65%. Keep in mind, pre-COVID, where we were much more conservative in repricing every year, our average occupancies of our portfolio, excluding Keys, were 77%- 78%.

So when we repriced, we accepted that there would be a churn and a loss of certain highly price-sensitive segments and customers. I had also said, I think, a couple of earnings calls before that we will now focus on building demand back at this new price level. So what you are seeing was a focus on building demand back. So, this is a seesaw. Ultimately, what we want to achieve is superior RevPAR performance. Sometimes, it is a focus on average rate, sometimes it is a focus on occupancy. And when times are good, it just both comes together in a double whammy.

So times are not yet good because international travel, which typically contributes 10% of our demand, has not really come back. It is still less than 40% of pre-COVID. But when that happens, like in Q2, I think we are already at, I think, about 74% occupancy. And we have still maintained the increase in rates. So, I am confident that in H2, all of this will weave together. We will start hitting occupancies of close to 80% at much higher ARRs. And that was the ultimate objective. So it's a step-by-step process.

Kunal Lakhan: And just a follow-up on that. So in the earlier interactions, you had highlighted that you expect ARR growth of about 10% to 15% over the next 3 years. Would you still hold that guidance with the current strategy that we're adopting?

Patanjali Keswani: North of 15%.

Kunal Lakhan: My second question was on the margin side. We had seen some increase in fixed costs and some renovation costs also. How much of this would keep recurring? And again, like on the margin guidance also you had highlighted about 50% plus EBITDA margin would that continue?

Patanjali Keswani: Yes, of course, it will. We have said that. I've said that in my remarks also. So think of it this way. Typically, in our business, that is in Lemon Tree our fixed costs are fixed, unless we decide to change them, but variable costs at the current mix of rooms and food is about 23%. So if you look at Q1 as the example, revenue went up INR 32 crores year-on-year. So you can safely say that the variable cost increase was INR 7 crores. But the total expense increase was INR 18 crores. And I'm going year-on-year, okay? And I'm excluding, of course, stamp duty, which we paid last year in Q1.

So the variable cost increase, as I said, was INR 7 crores. Increase in fixed cost was about INR 8 crores. Renovation, last year also, we had started doing aggressively in our Lemon Tree portfolio. But this year, we have started doing it also in Keys. So that was another INR 3 crores or, INR 4 crores. We reduced some expenses elsewhere, and that was adjusted in the preoperative expenses for MIAL, Aurika, which was written off in the P&L, although others were capitalized, a certain portion was preoperative expenses for MIAL, Aurika.

So when you add this, the increase in variable cost, is increase in renovation costs, the increase in fixed costs and the increase due to preoperative expenses and reduced the savings and costs elsewhere because of our renewable focus and so on. Overall, you will find that the increase in expenses was INR 18 crores. Now you are seeing the new level of fixed costs for Lemon Tree, which includes the increase in our business development team, which is the question Murtuza asked me. And now going forward, one would expect that going into Q2 and onwards, most of the increase in revenue will flow through or at least 65%, 70% will flow through to EBITDA. Unlike Q1, where INR 14 crores only went through from revenue to EBITDA.

Kunal Lakhan: And my last question was on Slide 13. Our Mumbai and Gurugram portfolio are doing well compared to the industry. What are we doing differently in these markets that is benefiting us?

Patanjali Keswani: These are segments here. So Mumbai, our hotel has really taken off. We have a huge retail demand, high recognition of the brand, I'm happy to say that. Gurgaon, corporates we were less dependent in Gurgaon on IT and more dependent on MNCs and pharma companies and financial institutions and so on. And those have all come back to normal. So it's the IT markets which are still somewhat lose, which is why Pune has not really taken off. Bangalore has, especially the Keys portfolio, which was very largely dependent on IT has not yet taken off. And part of the reason is also the fact that these are very old hotels and in desperate need of upgrade and similarly with Hyderabad. So, while in Hyderabad, we have done much better than the India average, we have not done as well as some of the 5-star hotels there.

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

Sumant Kumar: So, my question is for employee expense, it has increased even Q-o-Q from Q4 FY23 to Q1 and Q4 and Q3, the peak season. And so, can you talk about the reason about that or churning in the industry, the cost, the employee cost mutation for the Lemon Tree as well as industry?

Patanjali Keswani: I cannot talk about the industry, Sumant. But what I can tell you is that if you look at Q1 this year and Q4 the previous year, which is the closest comparison, the increase is only 3% or

4%. The real increase is between Q1 last year to Q1 this year when we beefed up our business development team. And obviously, this is like an investment, although it is coming in the P&L. In my mind, I see it as an investment in our growth, and that increase is about INR 8 crores. And as I explained, maybe about 30% of that is the business development team and the balance is an increase in the salaries of our staff, those who are with us through COVID, many of whom took a salary cut and so on. So, we've kind of normalized it. And this is broadly what you will see going forward. And by the way, attrition is back to normal pre-COVID and it's not very high in Lemon Tree.

Sumant Kumar: Have any other cost areas increased because we have seen the power cost has also increased?

Patanjali Keswani: No, the power units have come down. You see every year, the government typically increases unit cost by anywhere from 10% to 15%. And that is because of the peculiar nature of the power industry, where there is a lot of subsidies/free power. And that is passed on to commercial users like us. Secondly power and fuel has also gone up because there have been a lot of power cuts in some cities where we have a large inventory, like Gurgaon, for example, where the power cut is like 6 hours a day. So that means you must operate DG sets and DG sets, typically, the power cost is INR 25 a unit. So, it is 1.5x what the normal is. So, these are the things that unfortunately add to our cost structure because not only do we have to pay much higher rates in power, we also get very erratic power in some states.

Sumant Kumar: We are not focusing on solar power?

Patanjali Keswani: We have a very large percentage of renewable energy, but our hotels are built very efficiently on small plots. So we don't have spare land or spare rooftops. Our equipment is loaded there. And there is a limit to how much solar power we can put. But this is all part of that overall plan, which we had shown in our 5-year plan that we will go to 50% renewables in the next 4 years: 16%- 18% renewable already.

Sumant Kumar: Last question is for employee cost, what INR 42.6 crores in this quarter we have some variable employee also. So when the business is going to be at the peak level in Q3 FY24, can we expect some percentage increase also in Q3? Or it will be bare minimum increase in the price?

Patanjali Keswani: No, it will not be material. You see, what you are talking is the variable employee cost. When I say 23% is our variable cost, let's put it this way is the temp staff we add in peak season.

Sumant Kumar: So it will not come on at these employee costs?

Patanjali Keswani: No, it does come here because this is the way we are showing it in the accounts. But when I talk variable costs, this is not breaking down your fixed and variable costs. This is just giving the expenses in total. What I'm trying to say is your permanent employees are your fixed costs, your temp employees typically are variable costs.

Moderator: We'll take the next question from the line of Aishwarya Agarwal from Nippon India Mutual Fund.

Aishwarya Agarwal: Sir, I just want to know, I understand in the call that you said July month, we are doing far better than the first quarter. Can you explain that, please?

Patanjali Keswani: I told you we are doing 74% occupancy.

Aishwarya Agarwal: And sir, what has happened, which has led to improvement in ARR in the month of July versus the previous quarter?

Patanjali Keswani: I'm talking July occupancy is an absolute number. ARR is a function of year-on-year. So, we are doing better than the previous year. I don't have offhand the numbers how it is doing in the first 11 days versus the last month. But overall, it is interesting that for the hotel industry, typically, Q2 is the worst quarter. But for Lemon Tree, Q2 is better than Q1. So that's encouraging for us. We have also started operationalizing a lot of our digital transformation efforts. We have generated an entirely new way of doing sales, which is completely tablet-based.

And if I remember right, about 100 salespeople across 9 cities have been re-trained. And it's a very interesting new way of doing sales, our salespeople tell us that it's revolutionary. And I think you will start seeing that the results of that come through in our occupancy. And as I said, this digital transformation effort is focused on revenue, on rate, on retail rates, on sales and on processes. And I think in the next 6 months, they will have a significant impact on our cost structure also. So, this is that BCG assignment we have been doing.

The other interesting thing is that in our case, we are finding that our ability to drive demand from new hotels that we are opening, has significantly picked up after this new digitalization of our sales process. And that is what we are seeing happen quite rapidly going forward. I mean, it's already quite visible.

Aishwarya Agarwal: So, when we talk about our competitors, whether those people also follow the same process, or we have we are better than them?

Patanjali Keswani: I can say with absolute confidence that we are in the top 5 percentile in this and I mean globally. Because what we have brought out are global best practices in B2B sales. And one day when you are here, Aishwarya, I'll show it to you. It will quite blow you away.

Aishwarya Agarwal: And sir, then the question will come that how long the peers, I mean the peers will also try to take the advantage of the technology. And eventually, they will also go for the adoption. I mean this competitive advantage will remain with us for how long?

Patanjali Keswani: I'll try and monetize it and sell it to peers, in fact, on an annuity. It's not so easy. It requires enormous amounts of data, third-party data, not only our internal data, it requires a machine learning blender. It requires an AI brain sitting on top, and it took us 9 months to do it, by the way. And we piloted it only 2 months ago, and now it has rolled out nationally. So you will start seeing the results actually from Q2.

Aishwarya Agarwal: The second, sir, when you talk about the Mumbai Aurika Hotel 669 rooms. So you seem to be confident about opening it in the month of October. So what are the things which has already been done? And what are the 2, 3 key things which we should look forward to, to be completed before the opening?

Patanjali Keswani: See, Aishwarya, there are hundreds of approvals, which and some of them are sequential, some of them are parallel. So, it's all kinds of stuff from multiple departments and agencies. We have a rough idea of what happened in Bombay with our first hotel. And obviously, we have multiple consultants assisting us. So, what I'm given to understand is we are at an ultimate stage, which means we have, I think, only 2 licenses to get this month, and then it will flow into the occupancy certificate next month.

Alongside that, there are operational licenses. Many operational licenses are unfortunately only given after the occupancy certificate. But I'm told those we have put in preliminary requests and those 2 will be given to us by 1st October. So somewhere in early October, we will open the entire hotel.

Moderator: We'll take the next question from the line of Shivam Mittal from Purnartha Investment Advisors Private Limited.

Shivam Mittal: So I just want to know in terms of own hotels. So what will be the opening in terms of rooms like FY24-25?

Patanjali Keswani: Well, right now, the only hotel we are opening this year is the Aurika, Mumbai, and then there is a small 70-room hotel in Shimla, which we will open probably 24 months from now. There is no other owned hotel. There is no other Capex. In fact, our entire capital deployment cycle of about INR 4,500 crores will be over, mostly with Aurika. And then it's a question, then, of course, a lot of that capital in book value is many years old and some of it is new. So it will be a question then of juicing those assets and fortunately, at a time when we are moving towards peak cycle.

Shivam Mittal: So in terms of debt, so are we planning something like we will also go for net cash actually like Indian Hotels and Oberoi.

Patanjali Keswani: See, we are not doing a rights issue or a preferential issue. We don't need to. We are confident on generating enough cash from internal accruals. I think you will start seeing it from next year. As I said, our peak debt is about where we are now. There may be a slight increase when Aurika MIAL opens, but that will be paid back in Q4. So, end of the year, we should be like the beginning of the year. And then from next year onwards, we will use our spare cash primarily to write the debt off. And I think we've already said that Lemon Tree itself on a stand-alone will be debt-free in 1.5 years and 2 years. And Fleur, based on our projection, should be debt-free 1 year, 1.5 years after that.

Moderator: We'll take the next question from the line of Jinesh Joshi from Prabhudas Lilladher

Jinesh Joshi My question is on Aurika. I mean the hotel is quite near to the airport. So what kind of crew business contribution are we expecting over here? And have we negotiated any contracts with any airline so far? Would you like to share anything regarding that?

Patanjali Keswani: Well, my team tells me that we will get 100 rooms a day from airlines at about INR 8,000. It's a low rate, but it's a base rate. So that will presumably start in 1 or 2 or 3 months after Aurika opens. But we don't want to go over dependent on airlines because while it is guaranteed business for a year, and it is even better than corporate business because it does not fluctuate. We would be more focused on retail and some corporate, who are currently using what we have identified as our competitive set. So there have been some discussions.

And from 1st of September, the site visits of, I think, about 30, 40 corporates who together can account for another 100 rooms a day will start. I'm saying we are sanguine that this hotel we'll do occupancies on par with that micro market, which is over 80%. I know I've shown 75% as our conservative. But the hotel will be a very, very significant contributor to our EBITDA from Q4 this year onwards.

Jinesh Joshi: My second question is with respect to your opening remarks, whereby you mentioned that this time around the increase in cost is somewhat less compared to what the guidance was given earlier. So if I recollect properly, in the last call, you had stated that our renovation guidance for 3 years is approximately INR 150 crores, which means INR 50 crores per year. So would you like to revisit that and quantify a bit? I mean, by how much will we be lower?

Patanjali Keswani: No, no. We will spend the INR 150 crores, and it is very much part of the P&L that you are seeing. So let me explain, Jinesh. About 75%, I think, if I'm right, roughly, 75% of our renovation is Opex and about 25% is Capex. So, in the INR 150 crores that we spent, about INR 120 crores will be Opex out and will come pre our EBITDA. So the EBITDA number you see is actually after we spend this INR 40-odd crores this year too. And that's very much part of our normal, well, in this case, it is extraordinary renovation because we are upgrading the entire Keys portfolio.

And from a cost perspective, what I had said earlier, if you take a revenue of INR 200 crores, INR 250 crores, about INR 5 crores is the incremental cost in our renovation per quarter this year. So that is broadly what I had said. So that, I think some analysts assume to mean that our EBITDA would be 2.5% less because naturally, there is an INR 5 crore increase in costs. I mentioned in my opening statements was that there were certain other costs that we were able to a control; we managed to increase our revenue enough that the EBITDA margin was not significantly impacted.

In fact, it was only 60 bps less than Q1 last year. I know that we showed 45.7%, but that included a stamp duty last year. If I remove stamp duty, last year, we did 48.2%. And this quarter, we did 47.6%. So, it means things are going along the way we expected, and we did a little better than we thought or at least better than what the analyst said. They said we'll be 2.5% less than 48.2%.

Jinesh Joshi: One last question from my side. I think our share of corporate mix has gone down from about 43% to 38%. While the ARR is up by about 9% to INR 5,200, now I believe that the corporate business comes at a discount. So is the jump in ARR basically a function of change in business mix? Or is it also a function of price hike?

Patanjali Keswani: I'll tell you broadly, I don't want to get into specifics. If I look at segment level gross ARR trend from Q1 '23 to Q1 '24, the ARR increase is 9%. The corporate ARR increase is 14%. But corporate ARR is still 6% below the company ARR. So that is the trade-off, which is why you will see that while corporate room night share has gone from 43% to 38%, the revenue share has dropped from 39% to 36%. That tells you that from a revenue perspective, it doesn't pull its full weight and this is a very planned strategy for us. We want to replace it with retail customers and the retail customers. It's very simple. If I replace corporate with a retail customer, even at a lower rate than the retail customer is paying today are still cream because it is above the rate the corporates pay.

Moderator: We'll take the next question from the line of Riya Mehta from Equitas Investments.

Riya Mehta: My first question is in regards with Aurika, Mumbai. So are we looking at demand from things like weddings like because our Aurika brand in Udaipur is much more or all leisure activities. So would we see the contribution from these segments increasing for Mumbai?

Patanjali Keswani: Yes. Because we have large banquet facilities, we expect we will get a significant portion of our revenues from both for rooms and for food from the wedding segment.

Riya Mehta: And could you repeat what kind of contribution would be received from Aurika Mumbai this year and next year?

Patanjali Keswani: This year, very difficult to estimate, Riya, because it's a question of how quickly we ramp up. But next year, it should be north of INR 170 crores EBITDA.

Riya Mehta: In terms of Fleur, I would want to know what kind of debt levels are there currently?

Patanjali Keswani: I think it's INR 1,400 - 1,450 crores.

Riya Mehta: We've been talking about trying to do some IPO or something like that. So, could you brief more on if that happens, what and how do we go about it?

Patanjali Keswani: So, see, the options for us for are very simple. We have 3 options. Option 1 is we continue as is. Option 2 is we list Fleur, once Aurika MIAL opens and is stable. So, it becomes like an asset company. Option 3 is that a third party comes in and invests significantly in Fleur. Part of that could be primary because we own 59%. So technically, we could raise up to 18% fresh money. And another way to raise capital is we still own 1,700 rooms. We have roughly evaluated about INR 2,000 crores.

So if we transfer those into Fleur, then we could raise another INR 2,000 crores potentially in Fleur. So we are open-minded. We have not taken a decision yet. The Board has discussed it extensively. We are evaluating options. As we speak right now, there are some options on the table for third-party investment and significant third-party investments. So all options are on the table, but let's put it this way. If Fleur lists or raises third-party money, we will become debt free by next year, as a group because we will raise such significant capital.

Riya Mehta: And that will lead to dilution of share for Lemon Tree?

Patanjali Keswani: Not at all, we owns 59%. So even if we well, according to some investment bankers, 18% fresh shares will write off the entire debt of Fleur.

Riya Mehta: The equity stake of Lemon Tree in Fleur will be diluted.

Patanjali Keswani: It will come to 51%, we will still be majority.

Moderator: We'll take the next question from the line of Prateek Kumar from Jefferies.

Prateek Kumar: My first question is on industry or maybe company as well. So last year, we saw industry taking up 3 to 4 price hikes during the year. This year, when do you expect pricing trajectory to turn positive on a sequential basis given low base of pricing is partly adjusted and there is selective normalization in various categories of hotels and demand?

Patanjali Keswani: From Q3.

Prateek Kumar: So, October onwards, there should be a reversal. So, unlike last year, we should have like maybe 2 hikes this year. That's what we expect, and which should translate into 15% hike on annualized basis, which you mentioned?

Patanjali Keswani: If you look at Q1, I think our price hike was what about 8%-9%. Q2 will be roughly similar. Q3 on a year-on-year basis will be something like see the price hike is 2. One is the hike that you give to your contracted customers. And one is the price hike that you achieved due to retail sales. So, my expectation is that and typically, retail sales repricing is very high because whenever you get full, you try to like some people asked me recently that is it true that your hotel in Ahmadabad is priced at INR 35,000. I said, yes, because that's what happens when the events happen or high demand periods occur, it's something like airline pricing. So, you're quite right, the prices in my opinion will go up more than 15% in Q3 and a further 5%-6% in Q4, leading to an overall increase of maybe 15-odd percent. But this will be led primarily by retail pricing.

Prateek Kumar And when you mentioned in the various growth drivers we have for the year, and you said 25% increase, not for the year, but maybe for a couple of years. You said 25% increase in EBITDA from Lemon Tree portfolio. This means it's on the back of higher occupancy and pricing. That's what you meant?

Patanjali Keswani: That's right. Let me explain that to you. If we take our group revenues up by let's assume our revenue is INR 100 and our EBITDA is INR 50 as the owned portfolio, Lemon Tree Hotels. A 25% hike in EBITDA translates in rupee terms to an INR 12.5 increase on the current INR 50.

But for INR 12.50 increase, I need to increase my revenue only by INR 17 because 75% will flow through because our fixed costs are now stable. So really, what I'm saying is if Lemon Tree's own portfolio only increases its revenue by 17%, our EBITDA will grow 25% to 28%.

Prateek Kumar And last question on your I mean when you say that over next few years, we will have like significant room inventory added at the peak of the cycle. You mean peak of the cycle in like 2-3 years? Or it's like 4-5 years out or you mean what we believe?

Patanjali Keswani: See, peak cycle is normally when occupancies on an all-India basis cross 70%. And that's when everybody kind of reprices because 70% means that really in winter, for 4 or 5 days every week you have no rooms available because there is seasonality not only in summer and winter, but there is also seasonality in day or week. So, I'll give you an interesting example. On peak days in Lemon Tree Bombay, we price our rooms at INR 20,000. And the last 20 rooms are sold at that price.

So that is what takes your average rate up. Similarly, with a hotel like Aurika Bombay, Aurika, Udaipur or Delhi or equivalent markets. So, when you talk pricing, pricing is not static. It's not that I have taken the pricing up. The pricing is driven dynamically. In our case, by machine learning, AI brain, and we change pricing every 1 hour for hotels. So going forward, my view is that supply growth in India is significantly less than demand growth. Demand growth in India, a simple number is 1.5x or 1.4x GDP growth. So, if GDP is growing at 6%, demand is going to grow north of 8%.

And supply growth is sub 5%. So that 3% difference flows into occupancy so if India is at 68% today. Next year, it will be at 71%. And following year it will be at 74%, assuming everything else is normal. So, at that point, pricing goes through the roof. It's not rational pricing hikes. Then it becomes absurd pricing hikes. Just like at the bottom of the cycle, it becomes absurd price declines. And my view is it takes 4-5 years for supply to operationalize. So, the next 4-5 years, and I'm not talking Lemon Tree, I'm talking for the industry. It's going to be a golden period and you'll find every hotel company doing very well.

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

Patanjali Keswani: Thank you once again for your interest and support. We'll continue to stay engaged. Please be in touch with our Investor Relations team for any further details or discussions and I look forward to interacting with you in the next quarter.

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.

NIKHIL SETHI

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