August 9, 2022

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

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400001

NSE Scrip Symbol: LEMONTREE

BSE Scrip Code: 541233

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

Ref: Outcome of Conference Call with Analysts/Institutional Investors

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that in continuation to the disclosure made on August 4, 2022 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter ended June 30, 2022 held on Thursday, August 4, 2022 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

Nikhil Sethi
AVP Legal & Group Company Secretary
and Compliance Officer

Lemon Tree Hotels Limited
Q1 FY23 Earnings Conference Call Transcript
August 4, 2022

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

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

Anoop Poojari: Good afternoon, everyone and thank you for joining us on Lemon Tree Hotels Q1 FY23 Earnings conference Call. We have with us today, Mr. Patanjali Keswani, Chairman and 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'll have the forum open for an interactive question-and-answer session.

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

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

Patanjali Keswani: Good afternoon, everyone and thank you for joining us on the call. I'll be covering the quarterly business highlights and the financial performance for the quarter ended June 30,2022, post which we will open the forum for your questions and suggestions.

FY23 began on a strong note bolstered by strong demand, corporate travel increased resulting in a recovery in our business destinations. We saw increased demand for meetings, incentives, conferences and exhibitions which contributed to our growth. The gross ARR increased 104% year-on-year and

18% quarter-on-quarter to Rs. 4,822. Focus on cost optimization resulted in our best ever quarter. In terms of EBITDA margins of 48.2%, up 4354 basis points year-on-year and 1,320 basis points quarter-on-quarter. As we move forward, we hope to deliver significantly higher profit margins as operating leverage and demand outlook improve.

In Q1 FY23, our occupancy stood at 65.1% on full inventory, which is an increase of 3546 bps year-on-year and 1894 bps quarter-on-quarter. Subsequently, total revenue increased by 334% year-on-year to Rs. 192.3 crore and 51% quarter-on-quarter to Rs. 192.3 crore. Our PAT in Q1 FY23 improved by Rs. 73 crore year-on-year and Rs. 53 crore quarter-on-quarter.

Over the last two years, there has been a substantial focus on cost optimization and ARR recovery, which has resulted in significant EBITDA margin expansion for our company. I'm happy to announce that the company had its best ever quarter in terms of net EBITDA, which stood at Rs. 92.6 crore up 4400% year-on-year and 108% quarter-on-quarter. Our expenses as a percentage of revenue have been steadily decreasing, down 1,580 bps since Q1 FY20. This has largely been accomplished through lower payroll costs, power and fuel costs and raw material costs. Our RevPAR is up 66% quarter-on-quarter and 350% year-on-year owing primarily to an increase in ARRs during the quarter.

Our current operational inventory comprises 84 hotels, and 8,251 rooms with 2,424 more rooms in the pipeline. Hence, based on the current pipeline by FY 25, our total operational inventory will be 10,675 rooms with 110 hotels.

Moving onto the P&L statement. Our top priority remains to strengthen our financial position. On a consolidated basis, our net cash profit for the quarter, which is really PAT plus depreciation was Rs. 42.9 crore, a 1542% increase year-on-year. We are optimistic that we will generate significantly more cash in the coming quarters, allowing us to meet our debt obligations and fund the Aurika Mile entirely through internal accruals.

Lemon Tree Hotels' standalone net EBITDA stood at 51.9%, up 2093 bps quarter-on-quarter and 6269 bps year-on-year. A key reason for this is an increase in management fees received from our subsidiary Fleur Hotels and our Managed and Franchise portfolio, both of which performed well during the quarter. Furthermore, the Keys portfolio has begun to perform in key markets for the company, and will have its first full normal year of operation since its acquisition in the end of 2019. Although there is still room for improvement, we are confident in our ability to turn the position around with effective renovation and upgrades to make the brand more appealing to customers.

The Lemon Tree Premier brand has been the strongest performer among our seven brands with 71% occupancy and a rise in ARR of 138% on a year-on-year basis. The markets of Delhi, Hyderabad, Bangalore, and Mumbai have seen a big uptick in occupancy and ARR due to corporate demand coming back, while Gurgaon has lagged. We are confident that Gurgaon will cover up in H2 FY23.

Furthermore, LTH has had better ARR percentage growth in May 2022 versus April 2022 compared to the market in the cities of Delhi, Mumbai, Hyderabad,

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Pune, Goa, Chennai and Chandigarh. We are pleased to report that we have signed new Hotels in Vishakhapatnam, Malad in Mumbai, Jaipur, and Assam and Kharar in Chandigarh during the quarter as well as operationalized the Keys Hotel in Tapovan, Rishikesh. Our main goal is to expand our portfolio to an asset light approach in key strategic cities. Consumers are increasingly interested in leisure travel. This, combined with consumer preference for branded hotels bodes well for organized players in this space. Furthermore, the construction of our largest hotel Aurika Mumbai is on track, and will open by the end of calendar year 2023.

Large diversity of team and gender inclusion, is one of the key pillars of our corporate mission. We have been actively engaging with differently abled and economically, educationally, socially or geographically challenged individuals over the years. As we look forward, we aim to have around one-third of our employees from these segments of society in our team by FY26.

In terms of demand, we see a significant improvement in consumer sentiment. Leisure and corporate travel continue to gain traction. We anticipate that consumption will strengthen even further in the coming quarters as we continue to focus on expanding our presence across India and addressing demand across the upper upscale, upscale, midscale and economy segments with our portfolio of seven brands.

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

Archana Gude: Thank you for the opportunity and congratulations on a very good set of numbers. First, starting with this Aurika, Udaipur. So when I look at the occupancy growth for Udaipur compared to rest of the key cities, so there has been kind of subdued occupancy. How much business we have lost due to unrest in the city and what is the situation now on both occupancy and area front

Patanjali Keswani: Now, the fact is that, you know in Aurika, we did only 37% occupancy, partly due to the unrest, but partly also due to the fact that we are trying to hold our prices at about Rs. 11,000 in summer. I don't know if you know, but this is the first summer Aurika has been open in a normal year. So we are really stressing out in trying to position this hotel. There are other Hotels who have significantly dropped prices but we took a conscious call that in Q1 and Q2 we will try and hold onto a price of about Rs. 11,000 rupees and build demand at this price point rather than drop it. So this is a temporary phenomenon. I think you will find that based on our forward bookings in H2, this positioning will pay us very good dividends, and for the full year, we will witness a very good performance in this hotel.

Archana Gude: That was helpful. Sir, my second question, in Q1 there were new signings, so should we expect the same momentum to continue, like, adding 18 to 20 Hotels going forward, and also what is the mix of timings in terms of hotels which are already operational and have come to us and will be the completely new property to be developed?

Patanjali Keswani: We will will open 14 hotels with over 1,000 rooms in this year and we will definitely sign an additional 2,000 rooms. Now when we signed 2,000 rooms, there are three types of hotels we sign, greenfield, which typically take 3 to 4

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years to open, brownfield, which take 12 to 24 months, and conversions, which is existing operating hotels, which we normally open within six months.

So if you look at the five hotels, we added in Q1, the Keys LIte in Vishakhapatnam is a conversion and will open at the end of this year. The Malad Hotel, which is in Mumbai, which is a 93-room hotel will open also in December 2022, which is a conversion. The Keys Lite in Jaipur will open in April, 2023. It is more of a brownfield. The Keys Select in Chirang, Assam, will open in July, 2023 it's a brownfield. The Lemon Tree Hotel in Chandighar, Kharar, will open in April 2025 because it is a greenfield.

So based on the type of the state of the hotel, the openings are at a different time. But as far as signings go, we will definitely sign more than 2,000 additional rooms for our company this year and what we will open from the backlog is about 14 Hotels with over 1,000 rooms.

Archana Gude: My last question on margins, so there is almost 600 bps decline in employee cost and 270 bps decline in F&B in Q1 FY23 compared to Q1 FY20. So how did we achieve this despite higher room inventory and F&B cost inflation, what we're seeing currently, and how sustainable it is going forward, like you know, earlier in the interview I heard in the morning, we were talking about 50% EBITDA margin. So if I take, let's say, two- three years down the line view, will we be in the position to maintain that 50% plus margins going forward?

Patanjali Keswani: So the first point is about the cost, what we learnt during COVID, those two years, see what happens over time is all companies get into what is called a stable state of operations, and sometimes being a little successful means there is a certain level of complacency. So when we listed in 2018, we had an all India study done by an external reputed agency, where it turned out that our staff per room was 0.95 and the India average in the mid-market was 1.6. So we are under the impression, we were doing a good job.

However, I think what COVID has shown us, the other thing about the hotel business is it is not the demand for work, it's not even in the day or in the week or in the month, because there is always cyclicity. So normally, you start staffing for high levels of demand. So if there is a lot of check-ins at 11 o'clock in the morning, there you will have peak staffing to meet that demand, which will be actually underutilized for the remaining 20 hours of the day.

So we rationalized all this, and today our staff is roughly 0.63 per room, and we are very confident that at peak, at 77% to 78% occupancy, which is what we did in Q1 FY20, we will go up 0.66. We are also undergoing a major digital transformation exercise for our company, which is focused on revenue, on customer, on cost and productivity, and we are very confident in fact that this 0.66 will be maintained as a standard for our company going forward.

Similarly, as far as food and beverage cost went, we found that we had, over time, built fairly complex menus, which led to a certain amount of wastage. So we found that if you re-engineer menus, you can drop the food cost which was earlier 9% of our revenue, today is 6% of our revenue. So really, this was re-engineering menus, redefining of buffets and so on and so forth.

As far as power and fuel goes, from 10% of revenue it is down to 9%, and that is because we have looked consciously at wherever we could to reduce consumption and go into renewable energy, which is part of our ESG strategy. We want to be 50% renewable in the next four years.

Other expenses, again we looked at all areas of the wastage. And typically, that was 24% of our revenue that is dropped to 19%. Now obviously, part of this is because basically our expenses in say Q1 FY20, was 67% and we had a 33% Net EBITDA, this has come to 52%, so 48% Net EBITDA margin. Now the key question is, how much of this is because of increase in revenue and distribution of fixed costs, and how much is the reduction in variable costs.

So fixed cost clearly has been distributed, with a higher revenue base because we were Rs. 142 crore, now we are Rs. 192 crore, but the variable costs, which used to be roughly 29% of our sales, it's today 23%. So there is a 6% clear reduction in variable cost on revenue basis and as our revenues grow, clearly the fixed cost component will also be distributed better.

I know some of you are skeptical, but I can say with 100% confidence that Net EBITDA will exceed 50% of revenue in this year, and will continue to be so for the next three years, primarily because the variable costs have come down by 6% and fixed costs will be spread on the larger revenue base. Also keep in mind that Q1 is the lowest revenue quarter, historically, and accounts typically for only 21% of the company's revenue.

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

Nihal Jham: Yes, thank you so much and congratulations on the strong performance, Mr. Keswani. Couple of questions from my side. The first one is, while you alluded to ARRs being at Rs. 4,800 and it being 20% higher, I think the like-to-like comparison should be to look at it without Keys? Because Q1 20 did not have Keys. So you've actually seen a 28% increase in ARR. Is that the right thought, first of all?

Patanjali Keswani: Yes, because like to like, I think we have Rs. 5,120 or something in the Lemon Tree portfolio.

Nihal Jham: That's helpful. The other thing is that if I look at the occupancy for this quarter, which is at 65%, and is still, say, 10%-12% lower than what it was pre-COVID, so obviously, I think there has been a choice at Room nights which you alluded to in case of Udaipur that we've tried maintaining prices and seen to it that the ARRs don't drop across our portfolio, rather than ideally looking at getting a base occupancy and then trying to drive ARRs higher. So what was the thought behind taking this choice? Is this something you plan to continue even ahead, where the focus will be pricing and not occupancy?

Patanjali Keswani: See, when you open in a new market and you are not too well-known a brand, then what happens, Nihal, is that you drop prices because you want to be preferred based on price. But over time, I think our brand as widely accepted by customers and we were anyway planning pre-COVID to refocus changing the strategy from occupancy led revenue growth to a price led revenue growth, which obviously is a much more profitable way of looking at the business.

Also, what happened is, I think when COVID occurred, for two years, our original customers all disappeared. The customers we had were not our traditional customers. So we felt that we had an opportunity once COVID got done that we would be able to reposition and re-price ourselves. So it was a conscious call which we took, in fact, in March this year, and we said that we will now price according to what feedback we have got from various agents who work with us or what our customers feel value for money proposition is.

So if you look at, now, our occupancy, yes, it is 20% below in terms than what it was in Q1 FY20, which means that in Q1 FY20, I think it was closer to 78%, now it is 65%. So really, at this price point, we are very confident we could go up to 78% to 80% in winter. Not only that, we are very clear we intend to increase the price this winter

One big impact will be when Aurikas goes to about 70% to 75% occupancy in winter, its impact alone on ARR will be Rs. 200-300 on the company ARR because it is going to be at an ARR of Rs.18,000-odd. So put together, if I look forward, I would say that our ARR certainty should be in the mid Rs.5,000 in H2, and our occupancy should be in the mid-70%. And I'm very confident, we'll be there.

Nihal Jham: Just one last question and more a thought from your end that on this forum we have regularly discussed about maybe the impact of COVID on corporate travel will see some demand permanently getting impacted. And at this point in time, we are seeing a significant surge in corporate travel because of IT travel opening up and a lot of other things have seen a pent-up element. So as you look forward, are you expecting that the room nights sustain from the corporate segment going forward at this very level? Why I am asking that is because if we expect rates to sustain, what is going to drive the room night demand from us, or in COVID, have you seen a big shift where even the non-corporate demand has become a key driver, which is expected to sustain for you.

Patanjali Keswani: So let me answer this in a slightly different way. If you look at Q1 FY20, we did 77% - 78% occupancy, we did roughly 3,000 rooms that was the sale. Of which, 1,500 rooms were corporate, and if I remember right, about 1,000 rooms were retail. So 1,500 corporate, 1,000 retail and another 500-odd rooms were airline and meetings, incentives, conferences.

This year, because we've opened some more hotels, we did about 3,350 rooms, which mean the number of rooms grew. I think exactly, it was about 376 rooms. Where did this growth come from, and where was the de-growth? The corporate travel dropped from 1,500-odd rooms to 1,400 and some rooms, which was a drop of about 75 rooms. So FY22 to FY23, corporate usage of rooms in Lemon Tree dropped by 76 rooms.

However, retail increased by 473 rooms. So what happened is that when corporate, which was 50% of our occupancy, today is 43%. Retail, which was 33%- 34%, today is 45%. So retail, which is 45% is priced in such a way that the revenue is 50% of our company. The 43% from corporate from revenue terms is 39%.

So here is a funny thing, roughly equal amount of room nights, but one is priced at 1.25 times the other guy's pricing. So you see, one is corporate demand, even if it maintains at current levels. I am a little agnostic to that. What we are completely focused on is the retail segment, because the retail segment is a bigger segment, it's more difficult to shift them once they take a choice to stay with you, it's not a decision taken by a company but by individuals. So there is brand loyalty. It is not so transactional. And lastly, they pay higher prices.

I would look at from the management perspective is how quickly can we grow the retail segment, because the faster we grow it, the less we need large lower paying corporates.

Nihal Jham: I just had a follow-up on this discussion is that given the focus on retail then, then doesn't pricing become important that this segment is known to be price sensitive that in case you keep your rates higher as we discussed, maybe that then becomes a little contradictory?

Patanjali Keswani: So I'm going to give you a teaser. I charge retail lower rates than corporates in summer and much higher rates in winter. My problem is corporates, I have to give them a year around rate. So if I give them a rate of say Rs.4,500 in summer and winter, in summer they typically use me less when I need them more, and in winter when I can substitute that demand with higher rate demand, they use me more.

Moderator: Next question is from the line of Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: I have one question regarding the tax rate. In this quarter we are witnessing a higher tax burden as compared to previous quarter. So can you elaborate on that part?

Kapil Sharma: Yes, so actually since you would notice that this is the first quarter, where we are PBT positive after more than seven quarters, so as a conservative accounting we have not yet identified our deferred tax assets. So we had a discussion with our auditor that it's too early to recognize. So that's why you would see that the number would look higher, but going forward when we identify, this number would substantially go down for the full year.

Meet Jain: Okay. So this quarter's impact can be seen in other quarters, like it will be a lower tax as compared to previous quarters?

Kapil Sharma: Yes.

Meet Jain: So any tax rate we can gauge in the financial model ?

Kapil Sharma: On a safer side, you can take 20% because if you look at current results, there are two slabs where current tax is roughly 15%,-16%. So it would be in that averaged range.

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

Nikhil Agrawal: Yes, good afternoon, sir, and thank you for the opportunity. Sir, I wanted some highlight on the debt reduction plan, and what is the net debt expected at the end of FY23 and FY24?

Patanjali Keswani: Our gross debt is coming down slightly from I think Rs. 1,700 crore to Rs. 1,690 crore in this quarter. We are spending a significant amount of money in MIAL, which is our Aurika. We have said that we need another Rs. 500-odd crore which we will go through internal accruals. We have fairly clear line of sight and a high degree of confidence that in the next four to four and a half years we will be debt free. We are not looking at any additional capital deployment, other than ongoing routine renovation expenses, some expenditure in our digital transformation exercise and some minor expenditure moving more towards renewable and reduction in greenhouse gases. Our conservative estimate is that within five years, we will be debt free. But if certain things which we expect, occur and we move towards the top of cycle, then this would be significantly earlier.

Nikhil Agrawal: Coming to your Q1 performance, I mean this is one of your best quarters. And on the EBITDA front, the best quarter till date. Do you think like is sort of Q1 is sustainable going forward?

Patanjali Keswani: I am very disappointed with our results . Let me tell you that I have given guidance based on Mr. Narayana Murthy's principles which is under-promise and over-deliver. And I said we will do double, we will do at least double our revenue this year as compared to last year, and we will do at least 50% Net EBITDA. So I think you should ask me this question in May 2023.

Nikhil Agrawal: One last question, coming to your employee cost, as a percentage of revenue, of course, they have gone down, but if you look at it from -on a quarter-on-quarter basis, it is up by approximately 20%. So I mean, there aren't any hotel openings on the owned and leased side. So whether you have contractual workers, I'm assuming permanent worker, like any reason for this 20% increase? Was it because of some bonuses or some other reasons? And is this the run rate going forward?

Patanjali Keswani: So let me explain, employee cost per room has gone up, cost per employee has gone up. So if you look at it from that perspective, let me answer this. The number of employees has dropped from 0.95 per room to 0.64. That's a 33% reduction. But the cost per employee has gone up from Rs. 27,500 to Rs. 31,500 per month. So that is a 15% increase.

Nikhil Agrawal: Okay. So, sir, this is a permanent kind of run rate that we expect as going forward.

Patanjali Keswani: Yes. But typically, because we are adding another 20 plus hotels in the next 20 months, whenever we try and avoid legacy costs. So whenever we open a new hotel, we promote internally rather than promote within that hotel and increase the average cost per employee within the hotel, we transfer a promotable employee to the new hotel. Where that role is filled at that cost. So we replace that employee then with a lower cost employee. So think of it this way, if I transfer an Assistant Head of Department from one hotel as a Head of Department from other to a new hotel, then in the new hotel that was anyway in the budgeted cost. The Assistant HOD who is been transferred is not replaced by another assistant HOD, he is replaced by an executive who moves up to his role, typically at a lower cost.

Deputy HOD is at a cost of Rs. 60,000 and has moved to another hotel at Rs. 70,000 where that's being factored in from a Deputy to a full HOD. The deputy is replaced by an executive who is promoted to Rs. 50,000. So over 15 years, if you look at it, our average increase in cost per employee has grown only at 2% because of this growth and this constant transfer.

Moderator: Thank you. The next question is from the line of Sagar Gandhi from Future Generali Life Insurance. Please go ahead.

Sagar Gandhi: The first question is that the Mumbai airport hotel, which is coming up, what are likely to be our average ARRs? And second question is, what is likely to with the capital structure of this hotel? I mean how much of it is funded through debt and equity?

Patanjali Keswani: So capital structure is 100% equity. There is no debt it is being funded through internal accruals. So, think of it this way, we are writing down debt equal to what we are borrowing, it would have added debt of Rs.500 crore instead, we are generating it internally. So the Rs. 1,700 crore of gross debt will remain the same till the hotel opens.

This hotel, will open in the end of calendar year 2023, because our current hotel in Mumbai is a shade under Rs. 7,000, and we think this hotel based on our expectations with Aurika in Udaipur, and the quality of this hotel and the quality of competitive Hotels at that level in Bombay, we think we should be in the range of Rs. 11,500 to Rs.12,500.

Sagar Gandhi: Fantastic. Because most of the incremental rooms that are coming in over the next two years is from this segment. So if there is a flip in the ARRs, we can see. And this will start from CY20 end of CY23 and it will be in phases rooms, all the 659 rooms will come in will come in one go?

Patanjali Keswani: So basically, we will do a soft opening. We are hoping that we can open about half the hotel in 1st October that is about 300 to 350 rooms. The other half before the end of December, in stages.

Sagar Gandhi: Okay. And sir, you think total of Rs. 500 crore will be deployed for getting the hotel up and running. Is that correct?

Patanjali Keswani: Yes, we have already deployed about Rs. 450 crore and there is another Rs. 500 crore.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OHM Portfolio Equity Research. Please go ahead.

Jayesh Shah: Hello, Mr. Keswani, great numbers. Congratulations. I have two questions. The first one is what is the outlook for the coming quarter, and how are the exit rate panning out? Is there some softness in the second quarter, because since it's monsoons?

Patanjali Keswani: If you do a breakdown of summer and winter. So I'm going to talk first of the full-year. In a bad year, 45% of your revenue comes in summer H1, and 55% in H2. In a good year, this could be 40%- 42% in summer, and 58%-60% in winter. I'll explain why in summer, half year pricing is in segment for, say, Lemon Tree, that retail pricing is a function of demand and supply, and in summer, typically, demand of retail is lower than in winter. So there is no significant upside in the retail pricing that you get in summer, but a huge upside in winter.

As far as corporate rates goes, which is the other half of our business roughly, prices are determined in October every year for about 70% of your business and 30% is determined in January, because they have different rate cycles. So in either case, in summer of a year, the pricing has been determined either in October of the previous year or January of that year. So you have no ability to change that price.

What happens is in a good year, in October you increase corporate prices significantly and obviously, retail prices anyway, go up significantly. So typically the ARR of summer in a good year is much lower than the ARR of Q3, which is also lower than the ARR of Q4, because in Q4 there is further increased in January of the remaining corporates.

Now in a good year, you also do better occupancy in winter, obviously because price is function of demand, and that's why your winter-summer revenue can be 1.4 to 1.5 times as a ratio. In a bad year, you will do 45% in summer and 55% in winter, which means the winter revenue will be 1.2 - 1.25 times your summer rate.

So what have we done in Q1, my estimate is Q1 is 21% of our annual income, that's my estimate. Now, when you go to Q2, Q2 is better than Q1. I can tell you already. But it is not significantly better. The real significantly better one will occur from Q3, and that is the hotels cycle in India. It's not Lemon Tree, it's generally the cycle.

Jayesh Shah: Right. And the fact that in Q3 and Q4 you also have weddings along with winter, so it looks like a perfect storm.

Patanjali Keswani: No, it's not only that, I expect foreign travel will also start remember, for Lemon Tree, 10% of its business is high-rate foreign travel, and we don't have any of that, or very little of that today. I'm told that is all going to start in winter. Talking of the industry, I expect, and I have said this before that winter will be great and there will be significant price hikes in winter, and next year and the following year will be the top of the cycle, and it will go back to the 2006, 2007, 2008, because Lemon Tree's ARR in 2006 and 2007 was Rs. 7,000.

Jayesh Shah: If I just do back of the envelope calculation on Rs.192 crore of turnover at 65% utilization, it seems in the winter month, you could exit at a run rate of Rs.250 crore per quarter. Just mathematically.

Patanjali Keswani: I don't want to give specific guidance, but I said I want to under-promise and over-deliver.

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

Kunal Lakhan: Thank you. So just quickly on the outlook on ADRs, you highlighted that the inbound international travel will increase, but at the same time, I think even the outbound travel will increase, which can have, especially on the leisure side, which can have some impact on the ADRs also. So just wanted to understand, like, now, I know you said that you know the ADRs would be in the range of mid-5,000 in the second half, but what could go wrong there?

Patanjali Keswani: Nothing, because 86% of our hotels depend on retail and corporate, and not on leisure. So the inventory that we have in leisure is fundamentally only in Bandhavgarh, where we have a small hotel, in Alleppey, where we have another small hotel, Goa which is a year-round destination irrespective of outbound travel, and Udaipur, which is also a year-round destination.

So I would say, this would be a more appropriate for a company which has a much larger inventory in leisure. In our case, total leisure is only 14% of our inventory.

Kunal Lakhan: That's helpful. My second question was on, so we have seen improvement in the occupancy levels and ADRs for the industry per se, and also resulting sharp improvement in the profitability even including for our peers. So I just wanted your view on two things here. Like, I know we've talked about supply lagging demand in the mid-term, but the kind of profitability levels that the industry is reaching now, you'd think in the mid to long-term, the supply cycle bills will revive, that's first. And secondly, like you know how this impacts the competitive intensity for acquiring management contracts? Will that also increase?

Patanjali Keswani: See, competitive intensity to acquire management contracts has always been there, Kunal. So it is neither more nor less. We feel that we are able to convert. In fact, my Head of Business Development was telling me he needs 10 more people. And I asked him why, he said, because every day we get one new inquiry for a conversion to a Lemon Tree. So it is a very healthy sign, at least as far as we are concerned.

You may have heard today in CNBC, they asked me what do you expect as a minimum inventory in four years, and I said 20,000. I'm very sure we will get there, what really it means is we will double from the current 11,000 we expect by the end of the next financial.

As far as the overall scenario goes, I am very sure this is a cyclical business. When people see absurd returns on capital, because even Lemon Tree in 2005, 2006, 2007, 2008, was doing ROCE north of 50%. When that kind of returns start returning at the top of the cycle, there is no doubt that people will plan additional supply. It is the nature of any cyclical business.

But the advantage with hotels is that it takes anywhere from three and half to five years to operationalize supply, which is why I was careful when I said that, I mean, next year and the year after, will be golden years, perhaps even the year after. So FY24, FY25 and perhaps FY26, but then, sure, there will be additional supply.

But keep in mind that additional supply will come in at a very high cost per room. The rate of increase in building hotels every year is north of 10%. So if somebody

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is going to build a hotel which opens five years later, due to inflation his cost per room compared to, say, a hotel of ours which opened two years ago, will be double. So either that person will have to be happy at half the ROCE, or if he is happy with his ROCE, we will be getting twice that ROCE.

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

Sumant Kumar: Yes, hi, sir. We have seen a decent growth in ARR compared to pre-pandemic level, 20%. So when we see the occupancy side is still lower, so there might be some impact in the Keys Hotel or can you explain that mathematics?

Patanjali Keswani: Yes, so we'll go to that slide of the portfolio occupancy, Aurika Lemon Tree. Just give me a moment. If you go to Slide 18, you will see that Lemon Tree Premier has already crossed 70% in Q1, Lemon Tree hotels have crossed hit 68%. So the drags were really Keys, which was 56%, Red Fox because a large part of the inventory was in two markets which have yet to pick up, and Aurika. So my broad expectation is, if you look at Keys specifically in Bangalore and Pune and these two markets, they have bounced back. They are doing very well and are in the 70%'s. The markets where we have 250 rooms of Keys in Kerala and 100 rooms in Ludhiana and 100 rooms in Vishakhapatnam, these are the laggards, and we are very focused on increasing their occupancy. We have been looking at renovating some of them. And in fact, the renovation is underway. In fact, let me tell you, Sumant, if I remove renovation expenses, our Net EBITDA in Q1 was 51%.

So coming back to these hotels, Aurika will certainly cross 70% in winter. I'm hopeful that Keys will be in the mid to late 60%, and the others will be north of 75%. So if you take a weighted average, that's why I said broadly we will do north of 70% -75% at least. And by the way, as a company, we have always done occupancy of mid 70% to late 70%. And I see no reason why with the tailwinds that we are currently very clearly seeing plus increase in demand in meetings, incentives, conferences and foreign travel, why we should not be in the mid to late 70% as a portfolio.

Sumant Kumar: So when we see your occupancy for, say, pre-pandemic, say, FY '18-'19, the historical higher compared to industry. The Industry's occupancy and your occupancy, blended occupancy was higher. I think, excluding Keys, when we include Keys the occupancy, do you think occupancy for future will be lower from what we have seen historically?

Patanjali Keswani: Historically, like in Q1 FY20, we were at 77%. Now we are at 65%. If I take out Keys. If I take out Keys, we would be at about 67% in Q1, and Keys were 56% So that's the average 65% that we did. I'm pretty sure that Lemon Tree as a portfolio will be in the late 70%. Keys, the question is how much will Keys be less than what net EBIT impact it will have. As I said, I except Keys is to be in the mid to late 60% I mean, if you take Keys as about 18% of our inventory or 17% of our inventory, then that 10% difference will translate to a overall drop of 2%. So maybe 77% will become 75%.

Sumant Kumar: Yes. so we are not expecting the 77% kind of occupancy will come in the future of this same quarter?

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Patanjali Keswani: No, it could come. If India occupancy hits 70%, we will certainly be 77%- 78%. When India occupancy was 64%- 65%, Lemon Tree was 67%, and part of the reason was, we still have some new hotels which are stabilizing. Remember, I opened a lot of hotels in the year immediately preceding COVID. So that stabilization will occur in H2. I have no doubt.

So to answer your question, assuming no big downturns, and the industry occupancy continues like this, in winter occupancy will definitely be north of 70%, and we should be, therefore, with a 10% premium, north of 75%

Sumant Kumar: And the price ARR increase of 20%, so how much is the price increase, how much is product mix changes? When we are comparing with the Q1 '20, I think that time Aurika and Mumbai were just started.

Patanjali Keswani: Correct.

Sumant Kumar: And so I think there will be a product mix changes also in Q1 FY22. So, out of 20%, how much is price increase, how much is product mix, can you talk about that?

Patanjali Keswani: Because Aurika did a very low occupancy, Aurika, the impact will be not material. If you look at Bombay, which was at Rs.7,000, Rs.2,000 higher and you take 6%, because Bombay's inventory was 6% of the total inventory. So 6% of Rs. 2,000 is Rs.120. So if you take that out, our rate would have been close to 4700.

Sumant Kumar: Okay.

Patanjali Keswani: So, net of Bombay, still there has been a north of 15% hike.

Sumant Kumar: And that is a pure price increase.

Patanjali Keswani: I would assume

Sumant Kumar: So some other hotels also you have opened, so that might be some effect also.

Patanjali Keswani: To be more specific, the Keys hike is much less in Kerala, in fact, there is no hike in Kerala, there is no hike in Ludhiana, there is no hike in Red Fox, Jaipur, there is no hike in Vishakhapatnam. So obviously, when we increased prices, we looked at markets. Where we felt, we could increase prices and those were specifically Bombay, Pune, Bangalore, Hyderabad and Calcutta, where we have an enormous amount of owned inventory.

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

Rajiv Bharati: Yes. Good afternoon, sir, Thanks for the opportunity and congratulation on great set of numbers. Sir, on the Keys side, can you call out what is the best ARR for the 936 Keys portfolio we have seen historically?

Patanjali Keswani: It could be in Bangalore about Rs. 3.5000 to Rs. 3,600. Pune will be about Rs. 4,000. So those are the two.

Rajiv Bharati: No, I was looking at what is the peak, which we have seen historically?

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Patanjali Keswani: Less than these.

Rajiv Bharati: The non-room business on the Keys portfolio has gone down substantially during this quarter, is it?

Patanjali Keswani: How we are looking at Keys is the following. The reason for acquisition for Keys was really acquiring the two hotels in Bangalore. The way we priced it, the hotel in Pune, the hotel in Vishakhapatnam. So put together, these were roughly 500 and some rooms. So we value those at a crore a room, basically because we would have put up hotels there at that price.

Now, when we acquired Keys, so in our case, we didn't attribute any value to the two hotels in Cochin and to the hotel in Ludhiana. Now having acquired these hotels, we have a two-fold strategy, and the renovation has already started. We are going to upgrade the two Bangalore hotels, the Pune hotel and the Vishakhapatnam hotel to a level where we think we can take the rate up by a minimum of Rs. 1,000 and the occupancy up a minimum of 20 percentage points.

As far as the other three go, they have been unfortunately deprived of capital and renovation. In fact, the whole portfolio. So there, we are going to spend far less to bring it to what we call a minimum hygiene level. So the investment will be while the portfolio is 550 rooms and 400 room in the high performing and low performing, potential hotel, we will deploy 80% in the first lot. And this will play out this year and the following financial year. And we are pretty confident then that -- with what we expect will happen in these markets that Keys will be a high performing portfolio by H2 next year.

It is already, by the way, let me tell you, high performing in 450 rooms. Most of the revenue is coming from there, which is Keys Whitefield, Keys Hosur Road and Keys Pune.

Rajiv Bharati: But are these three hotels operating, let's say, 50% EBITDA margin?

Patanjali Keswani: Yes. These are operating at 50%.

Rajiv Bharati: What is the management fee this time around in Q1?

Patanjali Keswani: It's about Rs. 8 crore from non-owned hotels. I mean, I'm not including Fleur obviously, because it's consolidated.

Rajiv Bharati: Good. And the staff per room ratio is still at 0.66,?

Patanjali Keswani: It is at 0.63 now.

Moderator: Thank you. The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: We have noted that you have closed down one of your Red Fox Hotel, seizing that operation from 11th May. Could you just highlight what has happened there,

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and are you seeing more supply side reduction across the country as well? Your thoughts there.

Patanjali Keswani: No supply side reduction. This was a one-off. See, what happened with this hotel was it was a leased hotel, and there were certain issues with the owner. We terminated the lease in mid-May. And before that, we had told him, I think, about a year before that yet certain conditions, he was not meeting. He continued not to meet it, so finally, we terminated it because he went to court, we didn't want to fight it. We just went and said, he still owes of Rs. 3 - 4 crore of lease deposit, and we terminated it because it is not worth our while. But there is no other event like this.

Jaiveer Shekhawat: On the ADR recovery itself, now we have noted that given the share of the retail demand was much higher, you clogged much higher ADRs, but then going forward, as the question have been asked before as well, with higher share of corporate demand, do you expect that pressure to sustain because the mix change wouldn't happen. Although you would be increasing our rates, but then the higher share of corporate demand, wouldn't that push your ADRs down?

Patanjali Keswani: No, it will not be higher share of corporate. What happens then is, in October, we will reprice corporate. See, what we do is, typically, we look at corporates, we trade-off a year-round business, which is committed business, with the risk of depending on one large customer, which is, say, a corporate, and the fact that we get lower rates.

I'll tell you another thing. Large corporates take their own sweet time to pay you. They will take three months, four months. So we take into account three things. One is, what do they give us when we need them and what do they take from us when we can replace them with higher rate business, what is the payment term, how long do they take to pay, and what is the business they give you nationally in markets where you need them more than elsewhere. So it's this kind of a transactional trade off that you discuss with them.

Now I'm very clear. In October, we expect retail pricing to hit the roof. So the only corporates we will keep will be those who are willing to pay that increase in price in this trade-off calculation. So if a corporate is paying me Rs. 4,500 today, it may happen that if I can get Rs. 2,000 more in retail in winter, then the corporate's price will not be Rs. 5,000, it will be closer to Rs. 6,000. And if they don't use me, I'm confident, of course through revenue management, that we will be able to substitute them.

Moderator: The next question is from the line of Yash Visaria from Dolat Capital. Please go ahead.

Yash Visaria: Hello. Hi, sir. Congratulations on a good set of numbers. So I just wanted to understand that the owned rooms has gone down by 102 rooms and managed rooms also has gone down quarter-over-quarter by almost 135 rooms. So which are these locations, and what is the reason?

Patanjali Keswani: 102 rooms are the leased rooms in Red Fox, and 130 rooms were a hotel in Goa where they were not willing to renovate to our standards. So we de-flagged it.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Yes, good evening, sir, and thank you for the follow-up. Sir, just a couple of clarifications. You said that Aurika Udaipur can hit Rs. 18,000 ARR in the winters. Like, was that the statement?

Patanjali Keswani: Yes, it did Rs. 16,000 last year. So definitely, it will do Rs. 18,000 in this year.

Nikhil Agrawal: Okay. Great. And sir, coming to the management fees, you said Rs. 8 crore in Q1 on a consolidated basis, right?

Patanjali Keswani: Yes.

Nikhil Agrawal: Okay. any target revenue from the management side in FY23 and FY24?

Patanjali Keswani: So this should be north of Rs. 36 crore this year, and north of Rs. 55 crore next year.

Moderator: The next question is from the line of Hemant, an individual investor. Please go ahead.

Hemant : Yes, hi, sir. Sir, first of all, congratulations on a very good set of numbers. I would like to know one thing. Like, occupancy levels you are targeting and seem to be very confident that you will be hitting north of 70% by the end of this year. What will be the ARR by end of this year?

Patanjali Keswani: That is very specific guidance. All I said was that in H2, and you can calculate from that, our ARR should be north of Rs. 5,500.

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

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