Lemon Tree Hotels Limited
Q1 FY '21 Earnings Conference Call
August 10, 2020

Moderator: Ladies and gentlemen,good day.And welcome to the Lemon Tree Hotels Limited's Earnings Conference Call. As a reminder, allparticipant lines will be in the listen-only mode.And there will be an opportunity for youto ask questions after the presentation concludes. Should you need assistanceduring the conference call, please signal an operator by pressing '*'and then '0' on yourtouchtone phone. Please note that this conference is being recorded. I would now like to handthe conference over to Mr. Anoop Poojarifrom CDR India. Thank you and over toyou, sir.

Anoop Poojari: Thanks. Good afternoon, everyone. And thank you for joining us on Lemon Tree Hotel's Q1 FY21 Earnings Conference Call. We have with us today Mr. Patanjali Keswani – Chairman and Managing Director of the company, Mr. Rattan Keswani – Deputy Managing Director, Mr. Kapil Sharma – Chief Financial Officer, and Mr. Vikramjit Singh – President of the company.

Before we begin, I would like to state that some of the statements made in today's call may be forward-looking in nature. And a detailed statement in this regard is available in the results presentation that was shared with you earlier.

I would now like to invite Mr. Keswani to make his opening remarks.

Patanjali Keswani: Thank you, Anoop. Good afternoon everybody and thank you for joining us on this call. I hope all of you and your families are safe and healthy.

Since our last interaction with you, the number of COVID-19 infected cases in India have increased over 10 times, and more than 35,000 Indians have lost their lives. Unfortunately, there is still no definitive understanding of what the peak number of infections in India will be, nor when will that be reached. Besides the irrecoverable loss of so many lives, the pandemic has wreaked havoc on broad swaths of our economy, and it's caused a severe impact on the livelihood of large number of people. Multiple global financial institutions and agencies have forecast contraction in India's GDP.

With Hospitality and Tourism among the worst affected, COVID-19 has brought our sector to almost a standstill. Sealed international and state borders, ongoing lockdown across various parts of the country, corporate travel restrictions and the very real fear of getting infected has led to a temporary shutdown of about 70% of the branded hotel inventory in India during Q1. The industry occupancy, which was about 65% to 68% during Q1 last year, fell to a low of 15% this year. The sudden crash in demand led to a steep correction in average rates as well with the average industry ADR for the quarter dropping to about 60% of last year's level.

This combined impact resulted in massive losses for the hospitality industry as operating expenses remains mostly fixed due to the nature of the business. The absence of any major relief from the government, unlike in most other countries, to a sector, which provides about 8% of the employment in India has made survival even tougher. As a result of all this, short-term demand destruction, consequent rate reductions and absence of meaningful support etc.,Lemon Tree's prime focus in Q1 was to variablize the fixed expenses as much as possible and defer all discretionary and non-essential expenditure.

So, I am glad to share with you that we've succeeded in ensuring our aggregate operating expenses are brought below our operating revenues in Q1. In the quarter gone by, our revenue from operations stood at Rs. 40.7 crore versus Rs. 140.9 crore during the same period last year. Our operating expenses, including corporate expenses, came down by about 62% to Rs. 36.3 crore in this quarter, as compared to Rs. 96.2 crore in Q1 FY 20, hence we were able to record a positive net EBITDA of Rs. 7.5 crore in Q1 FY 21 which was 83.8% lower than the Rs. 46 crore which we achieved in Q1 FY 20. Our EBITDA margins stood at 17.1% for this quarter versus 32.7% in Q1 last year.

More importantly, we achieved this control over expenses while ensuring that about 71% of our owned/leased inventory was kept operational. I would like to point out that once you shut a hotel, it is very difficult to open it, you lose staff, hotel deteriorates, so this was the intention of keeping inventory open which was very important. Our occupancy in our operating hotels was 40.4% versus 77.5% during the same quarter last year. Our ADRs dropped by 34.4% to Rs. 2,625 from Rs. 4,002 in Q1 last year.

The key source of our business during Q1FY21 were Indians opting for institutional quarantine, business continuity planning teams of global IT major who occupied many of our rooms in Hyderabad, Bangalore and Pune, and on-duty doctors and paramedical staff who were advised to isolate themselves from their families. We have also tied-up with two leading healthcare chains to increase their operational capacity by converting two of our hotels into healthcare facilities for asymptomatic patients. From June onwards, we have also been very encouraged to see a significant pickup in online bookings primarily from the SME sector and the staycations.

I am very pleased with the efforts of our teams who have not only borne a huge personal risk by continuing to work on the front line, but also remain tightly focused on controlling costs without compromising on quality. We implemented multiple cost rationalizing exercises across our hotels and corporate offices, which resulted in a 62% reduction in our total operating expenses. In fact, on the same hotel's basis, our operating expenses reduced by 71% versus Q1 last year. We achieved a 47% reduction in our manpower expenses without laying off any employee from our payroll. Our leadership teams took pay cuts ranging from 50% for managers going up to 100% at the CEO level.

We have continued to pay salaries to all our permanent employees below manager level, which constitute over 80% of our workforce. We were also able to achieve a 57% reduction in power/fuel expenses, and reduced our cost in Q1 this year to 24.5% of food and beverage sales from 38.9%in Q1 last year. Similar efforts have also gone into all other expenses. Going forward, we plan to stay focused on our operating costs to ensure we stay positive at the net EBITDA level.

In fact, invoking the law of unintended consequences, many of our cost optimization measures will be permanent in nature, which will lead to a minimum net EBITDA margin expansion of 500 bps to 700 bps when things get back to normal. From the liquidity perspective, we have already received the first tranche of Rs. 175 crore with the issuance of CCPS to APG. There is an additional commitment of Rs. 125 crore which we will call for as and when the need arises. The plan to raise Rs. 150 crore in Lemon Tree, which has already been approved by the Board, is also underway.

Excluding this additional Rs. 275 crore, we currently have sufficient cash in the company, about Rs. 225 crore to meet our total expenses, including debt obligations for the next four quarters, assuming the worst-case basis of current levels of occupancies in ADRs with lockdowns, travel restrictions, etc., continuing till the end of Q1FY '22.

As the hospitality industry prepares for this new normal, the safety of our guests and employees remains of utmost important to us. Since the beginning of the lockdown, we had implemented a very large number of SOPs, covering all aspects, including our guests, employees and vendor partners. In all hotels where our rooms are being offered for institutional quarantine, all our housekeeping employees are provided with Personal Protective Equipment suits to attend and engage with guests. We have also launched a health and hygiene program named "Rest Assured" in collaboration with Diversey, a global leader in providing smart sustainable cleaning and hygiene solutions. They provide us with U.S. approved EPA safechemicals, operating checklists and training material for our staff and at the hotels. They have also launched contactless dining in some of our hotels on the pilot basis. Going forward, we believe that these initiatives will instill confidence and trust in the mind of our stakeholders.

In June, there has been a gradual lifting of curbs on hotel operations that are under Unlock 3.0. Hotels are now allowed to operate in almost all the states. We are hopeful that the hospitality industry will begin to see the green shoots of demand recovery from H2 FY 21 onwards. And as I have mentioned earlier, there is already a visible pickup in retail demand from online channels. By the way, it is about 300 rooms a day now, it was 75 rooms a day in April. We have also witnessed demand pickup from airline crews as airline operations have also resumed partially. Our sales team has launched a variety of staycation programs for families who want to spend weekends in our hotel. We also plan to tie up with more healthcare chains to let our rooms we used as healthcare facilities.

To summarize, we are looking at future optimistically. While we are currently operating at sub-optimal levels, in the near-term there should be a gradual bounce back as travel restrictions get eased and broader consumer sentiment gets restored. We are confident that our fundamentally strong business model, significant liquidity and our established brand in the hospitality industry will help us successfully weather these challenging times.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir, I have three questions from my side. The first one was specifically on our cost control, which is definitely commendable, where we have managed to be EBITDA and cash flow positive in this challenging quarter. In our last interaction, you did mention that the focus was, I think, to bring your fixed cost to say around 20% of revenues. And you meant to bring down the variable cost around 8% to 9% of revenues for this year. I just wanted to check again that after a quarter of implementing these initiatives, is that the target that we are still working? Or there is an increase or a change in that?

Patanjali Keswani: So,if you typically look at our hotels,after corporate expenses and lease rentals, our EBITDA margins are normally in the mid-30s, depending if it's peak season it could be 40% to 42% and in summer when it's lower occupancies and ARRs, it could beearly 30%. Let us assume illustratively, that the cost for Rs. 100 of revenue in, say, one year ago, our cost was, say, Rs. 65. About 75% of the Rs. 65 is fixed, which is about Rs. 50. So, assume when you are normally doing a revenue of Rs. 100, your fixed cost is Rs. 50 and your variable cost is Rs. 15. What we really did was we looked at variablizing these fixed costs to the maximum extent possible.

I will give you an actually amazing example. We had over 5,000 staff, about one staff per room for our 5,200 rooms. Currently it is being run with 2,600 staff. And I admit that some services have reduced, but our reckoning is that when things come back to normal, we will not need more than 4,200 staff, which means 1,000 staff have attrition.Our business has plenty of attrition, we will save a minimum of Rs. 45 crore when things come back to normal. I am just giving you an instance. Similarly, air conditioning, pumps, using heat exchangers, we have massively reduced our current fuel expenses to a large extent. And therefore, from that 50% we have brought our fixed costs down by roughly 70%, which is why now the fixed costs are about 15%.

Nihal Jham: If I could just proceed on my second question,I have noticed, our CAPEX cost guidance was around Rs. 850 crore in Q4, and in this update we are saying that it will be Rs. 1,000 crore for the same three properties. I just want to understand the reason for that increase.

Patanjali Keswani: Well, Kapil, can you explain that? Because I think he has put it in, what is the reason?

Kapil Sharma: The increase in CAPEX cost is primarily due to Mumbai International Hotel where, there are some disruption in between and some revision in this capital cost. As earlier, we were discussing to incorporate 577 rooms and now it is 669 rooms, so the difference is incorporating increased number of rooms.

Nihal Jham: Sure, sir. That’s helpful. Sir, last question from my side. Just on a longer term, assuming the recovery, as you said, is 18 to 24 months away. So, is our thought that you want to focus on cost control and wait it out till things normalize? Or do we want to try opening up certain meaningful alternative revenue streams in these 24 months? How do you see yourself approaching this?

Patanjali Keswani: We have assumed a worst-case scenario; we are assuming that current levels of occupancy will be continued for at least another six months. As we are in mid-market domestic segment, our 85% of business is domestic travel, hence once the cure comes, domestic travel will start meaningfully.I reckon that till a vaccine comes or some level of herd immunity, international travel will be very muted. That's my estimate. International travel is about 8% to9% in our revenues. Meetings, incentives, conferences which is another 5% odd, in my opinion, will be again muted, it will not be zero, but it will be maybe half of what it should be. I am trying to explain that I see a gradual recovery, we are now doing 1700 rooms a day from about 1,500 rooms when we closed Q1, so accordingly, my expectation is that it will gradually pick up. As far as cashflow perspective we will plan as per current performance. My expectation is that domestic travel will definitely bounce in the next six to nine months, international travel will take a minimum of a year, or a year and a half and meetings, incentives, conferences will take a year. As number keeps changing, we are just being extra cautious and prudent.

Moderator: Thank you. We take the next question from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: I hope you are doing well. Just wanted to check on the deal with APG. I think you mentioned last time that you will transfer some assets to APG at the end of 2022. Have you identified which are those assets that are expected to be transferred? And just wanted to get an update on your debt position. So what will be the current debt outstanding? And do you have any more leeway to raise further debt? Thank you.

Patanjali Keswani: We are not planning to raise any further debt, because we have raised capital. See, let me explain something. Our gross debt still remains the same, roughly. Our net debt, it may have gone up a little bit because of this moratorium. But our intent is that within the next six months, we have currently about Rs. 225 odd crore of cash, we have Rs. 125 crore with APG and Rs. 150 crore in our rights-issue, which brings us to Rs. 500 crore. So when that happens, obviously, our net debt will drop substantially.

The way we look at it is that 70% to 75% of the debt resides in the joint venture with APG. And so when we talked to APG, any way we were earlier also telling them that we wanted to move more assets off our balance sheet and transfer it to the AssetCo. the reason then was that in some cities we have hotels which are mostly by joint venture and hotels owned by Lemon Tree. So, for synergies and cost distribution, it becomes difficult if there are two different companies. So, for example, Hyderabad, Bangalore, Pune, Delhi, these are cities where we would like to look at transferring our assets any way, to go asset light. Plus, APG is a very large pension fund, who would obviously look at a yield. So, the reason we are doing this after two years is, we will be in a better position and then we can valueour assets in the joint venture when we transfer these assets.

Deepika Mundra: Right. That's very clear. I just wanted to understand as to if there are any specific hotels that were already identified or will this be decided at a later date?

Patanjali Keswani: No, it will be from these cities basically. For example, in Bangalore we own five hotels, where the joint venture owns four and the Lemon Tree Premier in the city center by Lemon Tree; similarly, in Delhi, there is Red Fox. Similarly, in Pune there is Lemon Tree Hinjewadi. So, there are multiple; in Hyderabad there is Red Fox Hi-Tech City. So,these are owned by Lemon Tree, but all the other hotels are owned by joint venture. So, for us to distribute even administrative expenses and so on, it would make sense to put it all together in one entity.

Deepika Mundra: Okay. And sir, if I may just ask one more question, given that you have opted for the moratorium, could you just outline your debt repayment schedule for FY 2021-2022?

Patanjali Keswani: It would be the same. Kapil, will you answer that?

Kapil Sharma: The repayment which were due in the first six month, have been postponed as tenor is extended because of moratorium, In FY21, our repayment which was earlier roughly Rs.100 crores has now reduced to Rs. 50 crores for the remaining period and for FY22 is around Rs. 105 crores.

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Patanjali Keswani: What we are looking at very clearly is, every month and every quarter you will find that our EBITDA keeps improving. So, what you have seen in the lockdown month, which was the worst quarter, was positive EBITDA. Now Q2 will also be a positive EBIT, though not significantly better than Q1 because we still have fear in this crisis. But in Q3 and Q4, you will find the EBITDA numbers will constantly improve. And so we have worked that out. That's why we feel Rs. 500 crore is enough till next two and half years, three years.

Deepika Mundra: So, essentially, I guess, I mean, on an operating basis there is no cash burn right now, it's just that your interest cost needs to be taken care of, correct?

Patanjali Keswani: Yes, but our EBITDA is improving every month, that's the broad point. If you seein our investor presentation, you will find that in April we made no money, May we made some, June we made more, and July we will make more, and so on and so forth. So it's an improving trend broadly.

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

Archana Gude: I have three questions. Sir, from April to June we reported healthy pickup in the occupancy,however the ADR has been stagnant. I do understand, because the services are for quarantine and medical staff. But sir, when do you expect some meaningful improvement on this front?

Patanjali Keswani: Our ADR dropped by about 30%-31%. But because we added the Keys Hotel, where Keys Hotels ARR is significantly lower than Lemon Tree. On a consolidated basis, our ARR came down 34.4% and the ARR for same hotels was down about 30%-31%. Now, with these hotels that are not getting their regular customers that we normally get. So, I would reckon that 80%-85% of our customers are quarantine guests, these healthcare workers where we give very, very good rates to doctors and paramedical staff. The rates even for the staycation is low. So you will find in the next six months when we start substituting these customers with our regular customers, the ARR will rapidly climb back. For example, we had not opened Udaipur in Q1, we had shut it down. We opened it about two weeks ago, and while it is doing very few rooms, 8, 10 rooms a day, it is still doing Rs. 14,000 ARR, So, this will happen gradually, you will see it in Q2 not so much,Q3 definitely and Q4 very clearly to be better.

Archana Gude: Which are the cities which are showing early signs of recovery? Like how the rest of the markets are behaving?

Patanjali Keswani: So, if you go to our Slide 13 of our presentation, you will find that Delhi which was doing 39% in Q1 is now doing about 55%to60%Gurugram is still muted, Hyderabad is about the same, Bangalore is doing better. So, the main cities where we have most of our hotels are doing occupancies north of 40%. Which is why I told you we are now doing 1,700 rooms instead of 1,500. We are doing 200 more rooms a day.

Archana Gude: Okay. And sir lastly, in the presentation it is mentioned that we would be adding 20 new hotels by CY'22. So, should we pencil in some kind of delay in the inventory addition, given the current scenario?

Patanjali Keswani: Certainly. So what we are doing is, you see, our intention was to open it in end of calendar 2021, which is middle to end of Q3FY '22. However, for the last five months, basically hardly any work has been done. We have talked to Shapoorji Pallonji and we have said the expenditure today is still not significant to build this project, because we are building the shell. We are spending Rs. 2crore a month, every month to continue building the Mumbai International Airport. and we reckon that the delay will be, we will take a call in December, based on what we see. Our current hotel, our new hotel in Bombay, the Lemon Tree premier is already doing 60% occupancy. And not so bad in ARR, it's close to Rs. 4,000.

So, the whole point is that if we see Bombay is recovering, and it normally recovers first after now it's in odd zone, we will accelerate it. So we have kept the project on, with an expectation that it will be delayed by six to nine months. But the call we will take in November to December.

Archana Gude: Sure, sir. If I can squeeze in one more question. Sir, given the weak business environment, what is the outlook on the corporate rates for next year when it will come for renewal?

Patanjali Keswani: So here is what I think will happen. Speaking on behalf of the hotel industry, my big concern is that about 50% of hotels in India are in danger of getting sick in the next six months because of leverage and liquidity. So my real concern is that short-term demand disruption of the next 6 to 12 months, without an extension of the moratorium, will certainly lead to permanent supply disruption in the next few years. So what does that mean? It means that I expect, and I am speaking based on little that I know, that there will be a 10% to 25% reduction in supply in India in the branded hotel space by next year. If that happens, I reckon that the hotels that remain, I don't see a big drop in prices.So this October, maybe the pricing will remain the same or may go down marginally compared to last year, the corporates. But next October certainly it will bounce, and it will bounce significantly.

Moderator: Thank you. We take the next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead

Vinod Bansal: Sir, just on the debt side only,sorry I missed the early part of the call so I might be repeating the question. You have Rs. 100 crore total repayment due, out of which the first six months would be in moratorium, so Rs. 50 crore will be payable this year in cash repayment of the debt broadly.What interest is payable? Is interest also a part of moratorium or that is fully payable?

Patanjali Keswani: The moratorium for interest is only for six months, and in the seventh month we have to pay it, in fact,at the end of the sixth month. Whereas, the repayment of the principal,that Rs. 50 crore will be added to our loan tenure. So, our loans are typically 11 to 13 years away, and this Rs. 50 crores will be paid after 11 years. So the interest will be paid at the end of the moratorium, but Rs. 50 crores principal will be paid after 10 to 12 years.

Vinod Bansal: So, basically for interest you get a six-month relief, so to speak?

Patanjali Keswani: Currently, yes. But we are waiting for what happens with the KV Kamath Committee and so on, what they recommend for the hotel sector.

Vinod Bansal: And from what we understand today, in the seventh month you have to pay for the seventh month and also for the first six months straight away, in the seventh month directly?

Patanjali Keswani: That is correct. So, what we are doing, Vinod, as I explained earlier, we have done an assessment that assuming that we make this current level of EBITDA, say, Rs. 5 crore to Rs. 10 crore a quarter, and this goes on for something like 20 quarters, but on that basis, we have done our liquidity planning and that's the thought behind what we are doing.

Vinod Bansal: Makes sense. So sir, what will be the total interest payment for the year FY 21?

Patanjali Keswani: About Rs. 180 crore, Kapil?

Kapil Sharma: Yes. FY 21, now after moratorium, because part of the repayment has got extended, so the remaining part would be roughly Rs. 50 crore.

Vinod Bansal: That's on the debt principal side?

Kapil Sharma: Yes, that is on the principal side. Interest will be Rs. 140 crore.

Vinod Bansal: And the CAPEX will be what? Rs. 30-odd crore CAPEX broadly?

Patanjali Keswani: No, no, CAPEX will be Rs. 8 crore to Rs. 10 crore from now.

Vinod Bansal: Okay. So that's about Rs. 200 crore, and you have Rs. 225 crore of cash, including the Rs. 175 crore that came from APG?

Patanjali Keswani: Yes, we have Rs. 225 crore now, and we have Rs. 150 crore we are planning some form of rights issue, and Rs. 125 crore from APG, that's another Rs. 275 crore.

Vinod Bansal: Yes. Just for same number for FY '22, debt repayment would be how much, what is due?

Kapil Sharma: Debt repayment would be Rs. 105 crore for next financial year.

Vinod Bansal: And the interest, cash payment due?

Kapil Sharma: Interest would be at the similar level, roughly Rs.140 crore.

Patanjali Keswani: No, it will be Rs.10 crore less, because we would have paid off certain amount of principal.

Vinod Bansal: Yes, I understand. And the capex that year?

Patanjali Keswani: See, the real requirement of funding in MIAL will be in the last nine months. So, if we are going to open MIAL in say October 2022 or December 2022 then we will really require money.Right now, it is all equity as you know. So, then we will be in a position to assess whether we want depending upon how the market has transformed and we can accelerate it and open it between October and Decembercalendar 2022.

Vinod Bansal: Sure. Sir, I was just trying to do some math broadly around what is the cash requirement next year in fiscal 2022.

Patanjali Keswani: No, let me explain. Suppose our EBITDA, this is not guidance, but let's assume our EBITDA is x at the end of this year. that much less is required for funding the debt and the interest, the principal and the interest. So we have certain assumptions, which is, how much EBITDA we will make this year? How much EBITDA we will make next year? And that it becomes effectively an add-on to that Rs. 500 crore. And on that basis,we feel currently that we will be able to accelerate Bombay from end of H1 next year.

Vinod Bansal: Okay. Also, you have this Rs. 125 crore to be taken from APG and the Rs. 150 crore rights issue is there a preference one over the other? And timeline ifyou can also have, for both.

Patanjali Keswani: See, we can take the money from APG anytime in the next 24 months. So, the point is, we don't want to just take money for the sake of it. So, we want to see what happens by November and December. Rights issue we will definitely do.

Vinod Bansal: Any timelines do you have?

Patanjali Keswani: Not yet. The Board has in principal approved, we are yet to get back to them and call a Board meeting in the next month and take a call, and then go ahead with it. It will take maybe about two to three months?

Vinod Bansal: But that we are doing, that is for sure, right?

Patanjali Keswani: Yes.

Vinod Bansal: Okay. And sir, I am sorry if this question was also asked, any sense on trends we are seeing now? You said 90% of the hotels we have opened up in July, what occupancies we are seeing for the operational inventory?

Patanjali Keswani: Yes, so we are still doing about 37%to 38% because we have added 900 rooms. See, we have operated 3,700 rooms in Q1,in Q2 we are operating 4,600 rooms. While the rooms have gone up by 900, the occupancy has gone up by 200, but obviously we expect this is kind of advance ereputation so to speak. The new rooms we have opened, the pickup is relatively lower, but we expect that it will pick up over the next two, two and a half months.

Vinod Bansal: And again, in July also,post Q2,most of it would be the same quarantine guests that you had in 1Q?

Patanjali Keswani: No, in July surprisingly, quarantine reduced slightly and online picked up. So online, I think we did, Vikram, how many rooms per day did you do online, about 300?

Vikramjeet Singh: Yes, we are now crossing 300 regularly.

Patanjali Keswani: Absolutely. And in April how many rooms did we do online?

Vikramjeet Singh: It was 70-odd rooms per day.

Patanjali Keswani: Okay. So broadly, Vinod, the point I am making is that this is the change in sentiment, because quarantine is really a filler for us right now.

Vinod Bansal: Right. And if you can give this number, what room rates are these 300 rooms, which is the usual normal demand coming atvis-à-vis quarantine room rates?

Patanjali Keswani: Yes. So these rates would be between Rs. 2,800 to Rs. 4,500. Most would be Rs. 2,800, because if they are staycations, these are basically people who want to stay in the hotel for the weekend. They come with their wife and child and so on. So they just want a break. And so they are slight negative. But the MSME guys have started now, I think we will get about 100, 150 rooms a day from them.

Vinod Bansal: Sure. Just out of curiosity, on an operational standpoint, when you have both businesses, let's say, going on, quarantine as well as the normal demand, do you have to segregate the hotels? Or you can do in the same hotel like out of 100 room hotel, 60 rooms are in quarantine, 40 are on normal guests. Is it allowed?

Patanjali Keswani: No, it is allowed. But you see, only in some hotels like where we have two hotels together, joined together like in Hyderabad then what you can do effectively when they are joined you can take one large hotel like Lemon TreePremier Hyderabad which has 260 rooms and keep 150 rooms for regular demand, and 110 rooms for quarantine which are serviced out of Red Fox. So basically those three floors are sealed off. So, even the elevators in the Lemon Tree Premier don't stop on the floors. And all guests check in from Red Fox. So it's a peculiar thing which works for us. But we are completely segregating, and there are no hotels where there are both quarantine and regular customers. Because in most of these cities we have multiple hotels, so we have this ability to give entire hotels for quarantine.

Vinod Bansal: But generally how does it work? I mean, is it a government guideline that a hotel that is being used to quarantine cannot be used at the same time for regular business?

Patanjali Keswani: Guidelines are different for different cities and states and so on. But as an abundant precaution, we separate it.

Moderator: Thank you.Next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: I think as a management, first I must congratulate you onreally bringing expenses under control and planning out the cash flow, that gives us a lot of confidence. My question is, this crisis is going to continue maybe for another two years or at least 12 months, 12 to 24 months. So, what is the plan on increasing the revenue? Because the business travel is not going to come back very fast.And some of the business travel may actually disappear completely. Just as you said, your expenses reduction will be permanent; some of the business travel reduction will also be permanent. So, what are the other avenues to increase the revenue?

Patanjali Keswani: Okay. So let me just give you an interesting piece. Hotels have existed when there hasbeen one pandemic and two epidemics. One was the Spanish flu, one was the Asian, and one was the Hong Kong. These were all flus, right? And they all killed over 1 million people. Spanish flu, of course, killed 15 million. So what happened is amazing, in all three cases there was total pandemonium, fear for two years. And the third year, in all cases, demand bounced back. And mind you, there was no vaccine discovered, no cure, in their case it was herd immunity. The broad point I am making is, there are crises and what I feel is that any hotel company that is operating hotels two and a half years from now will be in a position where supply will have significantly reduced. Now, the question is, will demand have reduced more or less? I cannot speculate there. But I know for sure that there will be an enormous reduction in supply of branded hotel rooms in India. Number two, whichever corporates I have spoken to, all their employees are saying that they cannot go to work. If you ask me, my expectation is that from October next year you are going to see a very large amount of domestic travel,fear has to go,cure has to come, vaccine may or may not come, but it will start, there is no question in my mind. And it has always happened, always, hotels occupancies crash to 10% went back to 70% in two years.

So, we are operating on, as I said, on a prudent basis of raising cash. Now the point is, if we can bring our expenses down by 70% or 65%, I don't see. I think we can calibrate our expenses to the increase in demand and still make a fairly decent EBITDA. I don't want to comment on the amount, but I am very confident that what we have achieved in the first four and a half months from April, every month we have reduced our expenses On Page 8 of our presentation, you will find our expenses reduced every month. And this month too it has reduced further. So when revenue is on an uptake and expenses are flat or reducing, the difference is

EBITDA for us. So our operating leverage is going to just increase enormously, and we are just waiting for demand to come back, for the fear to get over.

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

Sumant Kumar: So my question is regarding the online booking you have talked about. So, can you discuss more about which is the key market we are getting higher online booking the key customersand keysegments also?

Patanjali Keswani: Okay. Before I go forward, let me explain one thing. About 35% to 37% of our business pre-COVID was online, another 30% was large corporates,30% was small corporates or MSMEs, and 10% was others like meetings, incentives, conferences or small blocks. What I am seeing take off, which is very, very encouraging for us, is the relatively higher rate MSME sector. Contrary to what I have been reading, that it's incomplete distress, I find that the large corporates have not started travel other than the business continuity teams that are operating in our hotels in Pune, Bangalore and Hyderabad. But MSME, they have started. And to me, that is an early indication of something to look forward to. Now, Vikram, could you answer this question as to which cities are giving the maximum pickup?

Vikramjeet Singh: So, I think all major metros are showing a fair amount of traction on the online channel, whether it is Aero city, whether it is Gurgaon, surprisingly even Chandigarh and Ahmedabad are showing good traction on the online channel. Bangalore, Hyderabad, needless to say is also doing well. So, we are seeing it across Tier 1 and Tier 2 cities, which is very encouraging. I think Tier 1 the pattern is more on the staycation side; Tier 2 is more of the MSMEthat you mentioned. So that's the broad mix.

Sumant Kumar: Any impact of the newlockdown implemented or slowdown in recovery?

Patanjali Keswani: See, I will give you an example. Bombay had shut down all its hotels, our hotel was still operating and, in some cities, wherever the hotels were operating, the government doesn't shut those hotels down, which is why it is so important for us to operate our hotels. So broadly, what we see is, now that we have 90% of our inventory, obviously, the reason we have opened it is we expect the pickup in those cities where we have opened additional inventory. What I want to emphasize is that this quarter is going to be slightly better than the previous quarter. We will really know what is happening when the infection peaks and then starts reducing. I have no line of sight on that. But I reckon that in the next two months, maybe three months, it will start, the decline will start and the recoveries will be more with the fresh infection, and then I think you will start seeing traction.

Sumant Kumar: So, that's why my question is also, you have already opened 90% inventory, your thought process is, going forward maybe in the coming quarter you will have a better demand. So, in a particular city you have a couple of hotels, so is it possible to operate in one hotel and keeping that hotel's occupancies higher and then opening another hotel?

Patanjali Keswani: Precisely what we are doing.

Sumant Kumar: Okay. So that's fine, but already 90% of inventory is opened?

Patanjali Keswani: Yes. So basically what happened is that some quarantine business reduced and the online business picked up. So, we are doing 1,700 rooms today,of which over 300 rooms are non-quarantine/health/AGP. It means that the other rooms are less than 1,400 which were 1500 in the last quarter. So, what we are seeing is a substitution of regular normal demand coming in place of the quarantine side. And the new hotels we open are basically geared towards, when we see a pickup of that kind of demand, there was an earlier question of a quarantine hotel, and the other hotel will be for non-quarantine.

Sumant Kumar: Okay. So do you think maybe three, four months from here if the quarantine customer will not be there, the other demand which is coming is going to replace that demand?

Patanjali Keswani: See, it's actually mutually exclusive. If things improve where quarantine is not required and things are coming under control, they will automatically be substituted, because that means the diseases is not going crazy, fear factor comes down, normal demand starts picking up.

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

Achal Kumar: I had a couple of questions. First of all, what I wanted to understand on the supply side, so you said the supply will decline, is that more of a natural slowdown in opening the new hotels? Or do you think there will be some consolidations and some hotels will go out of business? And that is how the supply will decline? So what are your thoughts around that, how the supply will decline?

And then secondly, related to that, so now of course everybody is in a cash conservation mode, but then don't you think that this is a good time, if you have cash it's a good time for the conversions, because you have properties which are under tremendous pressure and you get a property at a cheaper price. So what are your thoughts around that? If you could please talk about that. Thank you.

Patanjali Keswani: See, we already own 5,200 rooms. And we are building anotherover 700, we are going to go to close to 6,000. I don't think we have appetite to acquire assets. It is true that there is a fund that has been talking to us that says that they will acquire the assets and we will have to manage it. We are looking at that, and I am hoping that in the next two months we will be able todo a teamcheck with them where we will manage their assets. So that will expand our managed hotels. I think, Rattan, you also have a bunch of new owners who have reached out to you to manage hotels, is that right?

Rattan Keswani: Yes, there are about three, four locations that we are talking to. And in addition, five or six hotels are supposed to open early in the year. And also about five projects that were held back, we were supposed to open them in the first quarter and the second quarter, they start to kick in for opening in the third and the fourth quarter.

Patanjali Keswani: Okay. So, although it is obviously very difficult to meet people when there is a lockdown and so on. We are still thinking ahead.And we are not going to put capital to acquire assets. And I think I have said this before, and we want to now grow through management contracts and also making our balance sheet asset-light and moving assets for a possible listing in the next few years. The way we look at it is that, you asked me about supplies, the distress, I know for sure, this assessment has been done by people like HTL, which is how Howrah Travel and Leisure, which owns Smith Travel Research, and their estimate is thata very, very large number of hotels are going to get into very severe stress once the moratorium ends.]

As I mentioned earlier, anywhere from 10% to 25% of the branded hotel rooms in India will shut down.Some may come back, new supply will be very marginal for the next few years, as far as I know, few people are building hotels or continuing to build hotels. And in fact, there are hotels being converted to offices.As of now there are 160,000 - 165,000 rooms. My reckoning is that two years from now they will be anywhere from 130,000 to 140,000 rooms.

Achal Kumar: Right. The other thing what I wanted to understand about the kind of customer's profile, I mean, of course, you just said that SME have started travelling. Andso reading that, the people are actually preferring staycation over flying somewhere out and then taking hotels. So looks like the demand for the flight will still remain low, but then the people wantto drive down to the nearby places and then those kinds of traffic can come, and then the staycation demand as you rightly pointed out.

So what kind of profile are youlooking at? So what I mean by that, is that, do you expect more people preferring a Lemon TreePremier over the Lemon TreeHotels and Red Fox Hotels? I mean, because we know people probably if they are saving on the flight, they will spend more onthe hotel. So, that is something which I want to understand, if you could please share your thoughts.

Patanjali Keswani: Well, I would say it is mostly upper middle class and above like, I was very pleasantly surprised that when we opened Udaipur, on the first day I think about 10 couples came down from Ahmedabad and they had a couple of drinks and hung out and enjoyed themselves, and I think the rate was also about Rs. 13,000,Rs. 14,000 and one of them took the Presidential Suite at Rs. 40,000. So, that kind of demand will come, we are seeing it in one of our managed hotels which is in Manesar, for example, which is a golf resort we operate with 70 Studios. and on weekends it does 30, 40 rooms a day, and at Rs. 5,000. So people drive from Delhi and go there. So we are seeing that happen, staycations don't necessarily mean it's only within the city, as you said very rightly, it's also within driving distance. And I see that happening gradually. You see, right now the fear is, cases are arising, no peak and maybe community transmission across India, when this comes under control, and I think it will take another three to four months, there will be a fairly significant pickup in demand.

Achal Kumar: Right. So basically you are looking at, I mean, you are expecting that the bookings will happen at the sort of higher end of the properties, right, is that correct?

Patanjali Keswani: Yes, nobody goes for a staycation normally to a Red Fox.

Achal Kumar: Right, okay. Fair enough. Finally, what I wanted to understand is, in terms of room rates, I mean,I think you already spoke, and the corporate demand is going to be sort of very slow, recovering corporate demand is going to be very slow. And international travel is also not happening anytime soon. So do you think due to this kind of profiling, do you think ARR would still remain under pressure for the next 12 to 24 months?

Patanjali Keswani: Difficult to say, because the ARR is a function of which segment to target and what is their ability to negotiate. So, if you ask me,MSME as a segment which is large for us, have the least negotiating power, it is typically people who belong to the gig economy, self-employed professionals, people who come to meet some clients, so on and so forth. And their rate is normally higher than within the large corporates. So, it depends on how this plays out. As I said, we are planning for the worst, but we have certain expectations, which is obviously significantly better than the worst. The plan is for worst case let's assume that this will go on for 24 months, I don't expect at all that it will be the case, but I am just being extra cautious my expectation is, there will be recovery in domestic demand within six months.

Achal Kumar: Right. Okay. And last question from my side, if I can please. So, today Bangalore airport has removed institutional quarantine policy and there is no institution quarantine now in Bangalore. So similarly, with those kinds of things going away, don't you think that the quarantine business will reduce and that will actually reduce your overall occupancy levels?

Patanjali Keswani: We have hit 1700 rooms; the institutional quarantine business is going to gradually reduce. If there is another peak and cases keep increasing, there will be a minimum number which we expect we will continue to get. Irrespective of what the government say many large companies insist on putting their employees under quarantine in hotels, hence we get large number of those quarantine bookings at much higher rate.

Moderator: Thank you.Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Sir, you may please go ahead with your closing comments.

Patanjali Keswani: Thank you everybody for listening in very patiently. I know this is a very rough time, and there is a lot of doubt, but broadly what I would like to say is that I expect that within 9 to 15 months you will see that there will be a fairly significant recovery for hotel sector in India.I look forward to interact with you again in the next quarter. Thank you.

Moderator: Thank you. On behalf of Lemon Tree Hotels Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.
