refreshingly different lemon tree HOTELS

August 17, 2021

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
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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 12, 2021 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter ended June 30, 2021 held on Thursday, August 12, 2021 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

Nikhil Sethi
Group Company Secretary & GM Legal and Compliance Officer

Lemon Tree Hotels Limited
Q1 FY22 Earnings Conference Call
August 12, 2021

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 the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone. And thank you for joining us on Lemon Tree Hotel's Q1 FY22 Earnings Conference Call. We have with us today Mr Patanjali Keswani – Chairman and Managing Director, Mr Ratan Keswani – Deputy Managing Director, Mr Kapil Sharma – Chief Financial Officer, and Mr Vikramjeet Singh – President of the company.

We would begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive question-and-answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

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

Patanjali Keswani: Good afternoon everyone, and thank you for joining this call. I hope you and your families are all doing well and staying safe. I will be covering the quarterly business highlights and the financial performance for the quarter ended June 30, 2021, with some comments about what's happening in this coming quarter. Post which we can open the forum for your questions and suggestions.

So, the new fiscal year started amidst a very challenging operating environment due to lockdowns and restrictions on account of the second wave. These disruptions, of course, particularly impacted the domestic hospitality and tourism sector. And as the cases started increasing, we saw a decline in occupancy levels in April versus March, followed by, of course, May and June. Travel restrictions also had a very severe impact on our operations. On a brighter note, as restrictions are easing and COVID-19 cases started decreasing in June, we saw a very fast recovery.

Given our learnings from the past year, our operating inventory was maintained in anticipation of a quick recovery post easing of curbs. Accordingly, our operating inventory stood at about 88% of our total inventory against 71.5% in Q1 FY21. Overall, our revenues increased by 3.7% Y-o-Y with a 10% decline in ADR. Occupancy levels on full inventory improved by 73 bps. Our current operational inventory as of 30th June 2021, comprises 84 hotels and 8,300 rooms; out of which 4,517 are owned, 675 leased and 3,117 are managed rooms.

On the profitability front, I am happy to inform you that we managed to stay EBITDA positive at Rs. 2 crores in Q1 FY22, with an EBITDA margin of 4.6%. As we had maintained our operating inventory levels in anticipation of a much faster recovery, unlike in Q1 FY21, our costs increased by 16.3% Y-o-Y but decreased by 36.5% based on the preceding quarter. However, we believe, as occupancy levels improve, this should normalize in the quarters ahead.

Further, on the debt side, we have successfully lowered our average cost of borrowings by additional 15 bps from 8.3% in Q4 FY21 to 8.15% in Q1 FY22. Structurally, there has been a shift in our operating model and we now operate a much leaner structure, with more focus on optimizing and minimizing fixed costs, enhancing efficiencies and streamlining our business processes.

Being best-in-class in ESG is one of our key strategic priorities. We will be releasing our first sustainability report very soon in the next few months, which will disclose our performance on key parameters, new initiatives and our future roadmap. In sync with this approach, in the quarter, we have also signed an MoU with Energy Efficiency Services Limited, a joint venture under the Ministry of Power. This is one of the steps that we are undertaking towards being a greener and energy-efficient organization.

From a macro-environment standpoint, given that there are concerns of a potential third wave of COVID in the country, we are undertaking various proactive steps to ensure business continuity and stability in cash flows. Currently, we are seeing an extremely healthy build-up in demand and consumption, that is strengthening on a week-by-week basis from June onwards. In addition, improving macros given the better vaccination coverage and improving economic indicators should support this traction.

Overall, in a normalized macro-environment, we are very confident of reporting a robust and sustainable performance in the quarters ahead. Thank you.

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

Nihal Jham: Sir, the first question was around understanding the performance better this quarter. When I compare our performance to the same quarter last year, which mainly included BCP and quarantine business, compared to that, any specific reason for the rates being lower? And related to the same, there is a divergence in our performance if I look at our brands, I mean, Lemon Tree brand versus the recent acquisition of Keys, between the Lemon Tree and Keys brands. So, if you could give us some more clarity on that?

Patanjali Keswani: Okay. So, last year, out of 1,500 rooms that we did, more than 80% or perhaps 90%, were what we would call, not a traditional business, not a normal hotel business. This was Vande Bharat, healthcare professionals, Business Continuity Planning, Block bookings by large IT companies who wanted to have 24/7 operations. So, these groups of businesses have occupied a lot of our rooms and these were typically at a higher rate and also with far fewer services. For example, the quarantine business that we had required no change of linen, very basic menus, people were staying 14 days in the room. So, the cost structure was lower, labour requirement was lower, and the demand was very high.

This year, in Q1, besides the fact that we had far more rooms open, for example, in Q1 FY22, we had a far larger number of operating rooms than we had in the previous year and that too we did not have any of the non-traditional sources of business, which is quarantine or Vande Bharat or healthcare professionals. As I think each of us experienced ourselves, there was a total sense of fear among travellers, so there was no traditional or non-traditional travel. What we discovered was that from about the middle of April to the middle of June, we did extremely low occupancies and that too at very low rates, which is why you will see a drop in our Average Rate and a huge drop in our Occupancies from May, which is the lowest we have ever seen, 20% also, in terms of the rates that we got. Because these were all retail travellers, and every hotel had dropped its prices by 15%, 16%, all kinds of discounts were being offered to get some of this business. So, that's the backdrop. But the good news is that somewhere along around the middle of June, this completely changed. And I am at a loss to understand how and why this disappeared. So, really when you see Q1, think of it as two parts, the first 15 days of April and last 15 days of June, and the two months in between which were essentially lost.

Nihal Jham: You are saying that June is seeing quite a surge in demand, so what's the nature of this demand that you are seeing which is different from the Q1 quarter?

Patanjali Keswani: So, for the first time, we are seeing our traditional segments jump up, for example, our retail segment today, which is typically 40% of our business on full occupancy is now 50%. Small, Medium, Micro Enterprises have improved further and in large corporates, we are seeing green shoots. So, if you ask me very broadly, what I am seeing happen is, for example, Q2 has now become like Q4 last year. So, there is no Q2, Q3, we have gone straight to over Rs. 1 crore a day income from less than Rs. 50 lakhs in Q1. So, our income has doubled, it's a very sharp V recovery. So, for example, already in quarter-to-date, we are ahead of Q1 income, in less than half the quarter we are ahead of Q1. We are also double of Q2 quarter-to-date, what I am seeing is an increase in occupancy by over 70% in this quarter, an increase in the average rate of about 20%. So, it's an amazing turnaround. And assuming that the third wave is not going to be very severe, that it will be mild to moderate, we are quite confident that we will, like we did in Q4 last year, we will do as well this Q2, Q3 will be good, it will be close to 70%, 75% of pre-COVID, and we are very sure that happens when Q4 we will be back to pre-COVID.

Nihal Jham: That's very helpful. Just two more questions very quickly. Our RevPAR is obviously down on a Y-o-Y basis, but our revenues have increased, so is it because of more F&B income because of the normalized business that we had this quarter?

Patanjali Keswani: That's right, absolutely correct. See, think of it this way in Lemon Tree, unlike all the other hotel companies, we operationalize an enormous amount of capital in the 12 months before COVID, roughly Rs. 2,000 crore worth of assets were operationalized, Rs. 600 crore of Keys which we had no time to stabilize because we acquired it in November and COVID hit us by March. Then five very large high-value hotels, which together accounted for another Rs. 1,100 -1,200 crore, were opened in those 12 months before. But if you look at these hotels, they had started stabilizing in January and February pre-COVID. So, at that point, our income per room, and I am giving you a broad number, was about Rs. 4,500 per room per day, which means with 5,200 rooms we were doing close to Rs. 2.5 crore per day, that was our revenue. Then of course COVID hit and all these numbers went out of the window, but what we see happen now is that post-COVID we have achieved a very large amount of savings, permanent savings, which would be in the tune of Rs. 80-90 crore a year.

So, when I look at Lemon Tree, our CAPEX is about now on an operating basis about Rs. 200 crore a year. If I include corporate expenses and interest, it comes to about Rs. 410 crore and if I add lease rentals and repayment because I am looking at cash, then at cash breakeven, including repayments, at roughly Rs. 540 crore a year for about Rs. 1.5 crore a day or per room per day Rs. 2,900. So, at Rs. 2, 900, Lemon Tree is cash breakeven, including repayment of principal. If I look at it from accounting standards 116, because I have to then account for lease rentals, depreciation and interest, my breakeven for a PBT is at Rs. 570 crore, which is Rs. 3,100 a day. So, it's a very simple number, that if we get to Rs. 3,100 a day, which is roughly 60% of what we were in pre-COVID, then we will be PBT breakeven that's the bottom line for the company.

Nihal Jham: Just very quickly, my last question was that just looking at one of the competitor brands, which is maybe positioned in a partially similar category, they reported a 60% kind of recovery. Where I am coming from is, based on the data set that you will be having from the other hotel providers, are you getting any sense of market share movement that you may want to highlight?

Patanjali Keswani: Yes, so two points, that as you look at our share of the market last year, we had a disproportionately large share to a normal share because we got a whole bunch of bookings. So, clearly, the way to look at it is the performance from Q4 to Q1 and if you note, everybody fell by 55% odd and, of course, expenses fell differently, some only fell by 10%, we fell by close to 40%. So, looking at individual competitors, I would not like to comment on them. I think the one you are referring to is one step below us or two steps below us. So, that's a different market segment, that's slightly superior to the guest house segment, and we don't operate in that. So, what I would like you to look at is relative performance, Q4 to Q1 for all, if you are looking at comparatives.

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

A. Chattopadhyay: Just to follow up on the previous question, if I heard you correctly, you were saying that our Q2 revenues would be in line with our Q4 FY21, is that correct?

Patanjali Keswani: That's right, it will be more than double of Q1 and equal to Q4.

A. Chattopadhyay: Sir I have a question on margins, in which quarter would you see the full saving rationalization efforts which you have done since the onset of the pandemic, when will these get fully reflected in the margins, from which quarter do you think it will come through?

Patanjali Keswani: So, if you heard me earlier, I said that PBT breakeven happens at about Rs. 1.6 crore a day, and cash breakeven at Rs. 1.5 crore. We are currently at, well, in July I think we did a little under Rs. 1 crore a day, in August we are over Rs. 1 crore a day. So, we expect that if things continue, then we may be between say Rs. 93 crores to Rs. 98 crore revenue is a little over Rs. 1 crore a day in this quarter. If that continues, with what we understand with large corporates, which is about 20%-25% of our business, which is still very muted, we reckon that Q3 we will be at about Rs. 1.25 crore to Rs. 1.3 crore a day and if that trend continues and there is no major third wave, then we should be back to pre-COVID which is Rs. 1.75 to Rs. 2 crores a day in Q4.

A. Chattopadhyay: Okay. And sir, second quarter this should mean a similar 30% EBITDA margin similar to what we did in Q4, in the current form of Q2?

Patanjali Keswani: It might be a little higher because there are some cost savings we implemented in Q1. If you remember, our cost dropped by about 36% - 37% which we will continue to see in Q2

A. Chattopadhyay: Okay and just in Q4 when assuming things get back to the pre-COVID times, so the margins would be 36%, 37% range?

Patanjali Keswani: Late 40s. We have given you the numbers. I have said, our OPEX today is Rs. 200 crores a year. On a fully stable basis, assuming all services, all hotels are operating, and assuming a bunch of other things, our OPEX may go up from Rs. 200 crores to Rs. 270- 280 crore. Corporate expenses are Rs. 30 crores, they may go up to Rs. 45-50 crore. Interest is Rs. 170-180 crore, Depreciation is Rs. 105 crores, these will remain flat. So, let's not get to non-cash, let's get to cash only. OPEX Rs. 200 crores, max going up to Rs. 270 crore. Corporate expenses Rs. 30 crores, going up to Rs. 45 crore. Interest Rs. 170 crores, Rs. 180 crore, remaining flat. Lease rentals on a cash basis will remain at Rs. 30 crores. Repayments were Rs. 105 crore for the next two years. So, on a cash breakeven basis, we break even including repayment of principal at Rs. 545 crore, which may go up to about Rs. 650 crore if we are fully operational with no cuts. On a PBT basis, it's roughly Rs. 25 crores more, because PBT has to account for the lease rental, depreciation and interest of Rs. 55 crore and depreciation of Rs. 105 crore. So, our PBT and cash breakeven are somewhat similar at about Rs. 1.6 crore a day. And on a fully stable basis, that will increase by about Rs. 25 lakhs a day. So, from Rs. 1.6 crore it will go to Rs. 1.85 crore. This means our per room revenue of Rs. 3,100; going up, on a fully stable basis, to Rs. 3,650 and we were averaging Rs. 4,600 in the last three months before COVID. I think what has been missed out by many people is, we had so many new hotels which we opened which were earning nothing in the 12 months before COVID, which are all now actually strangely getting a lot of traction, like Bombay, Pune, Udaipur, Calcutta, Dehradun and so on.

A. Chattopadhyay: Sure. And just on the last quarter, Mumbai seems to have done an exceptionally high occupancy, any specific reason for that?

Patanjali Keswani: No, actually, based on what we are seeing in Mumbai, I am not happy, it is too little, in my opinion; we should be doing over 80%. You will see by Q4, it will report far, greater numbers. Bombay went through a lot of lockdowns, so that was the issue really and you are seeing the performance in the middle of a lockdown. Imagine, it was doing I think 76% in a lockdown quarter. So, we are going full speed ahead even with our Mumbai International hotel, we want to open it ASAP because the demand that we see is much more than we anticipated.

A. Chattopadhyay: So, what would be driving this demand? I just wanted to know

Patanjali Keswani: See, the two main cities in India are Mumbai and Delhi. And if you have a hotel near the airport, like even our Delhi airport hotel; so, while we report Delhi NCR numbers, specifically Delhi, which is the one next to the airport where we have two hotels of about 500 rooms, are already doing 75% occupancy in the last one and a half months. So, these airport hotels in the big cities, are entry cities into India, traditionally, the most demand dense markets in India, because they have very high barriers to entry, it's very expensive to build a hotel here, very time-consuming. And it's because of that very reason, supply gets constrained.

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

Kunal Lakhan: Sir, you've mentioned that by Q4 of this year we plan to get back to our pre-COVID levels. So, my sense is like what kind of ADR assumptions are you factoring in? The reason I am asking is that even in Q4 of FY21, our ADRs were substantially lower. So, firstly, what kind of ADR assumptions you are factoring in, and what are the drivers to that? Particularly, I want some insights from you on where do you see the corporate demand coming from and how soon and how fast that can come through.

Patanjali Keswani: I think I have said this before, about 40% of our demand is retail. Retail demand can be very high priced or very low priced, depending on how the other demand segments are performing. Traditionally, retail is 1.2x the average rate of the company, because these are last-minute bookings and typically, we can cream that market. The lowest rate segment is the large corporates, which is 20% of our business, which is currently close to zero or maybe 2%-3%, which is now grown to 3%-4%. Then there is 25% which is SMEs, 5% which is meetings incentives and 10% foreigners. So, the way I am looking at it is, the retail segment has now grown to, on a pre-COVID level, 1.25x; which means it is, on a pre-COVID level it would be 50%. This pricing is increasing as we speak so as I said in Q2 versus Q1, our average rate is increased by close to 20% on a company average, of course, occupancy has increased over 70%.

So, if you look at it from that perspective, with the hardening of demand, the price itself goes up. The hotel business is, as you know, like the airline business, double whammy, higher demand higher price, lower demand lower price. The Small, Medium, Micro-Enterprise demand has come back. Foreigners are zero, meetings, incentives conferences have come back. Large corporates are maybe 15% of what they were, that is they may be 3%-4%. So, that is why we are still reporting occupancies of say 52%-54% on a full inventory basis, instead of the traditional occupancy level of 75%-78%.

Conversations by our sales teams with the large corporates indicate, and this is an indication, that they will start resuming travel from September or October. So, that has to play out. The numbers I have given you for Q2 are based on current. However, if the large corporates start travelling, you will find that with the increase in demand there will be a significant price increase. So, that's the broad perspective. Now, if that continues and demand starts picking up, then we expect that by Q4 we will come back to broadly pre-COVID levels of revenue.

Kunal Lakhan: Sure, that's very helpful. Sir, my second question was on the management contract pipeline that we share in our presentation. Now, if I do a comparison of that particular slide over the last one year or so, a lot of these hotels, the expected opening dates have been pushed by like one and a half, two years or so. So, what's the sense of the current opening days that you have shared? I mean, in all likelihood they can also get pushed, what's the sense you are getting from the owners of those hotels? Or what do you think they can come through on the timeline that you have mentioned?

Patanjali Keswani: See, most of these owners are HNIs and for most of them these hotels are not their mainline business. Let's put this in a way that they fund it from their other business.,. As you know, that there has been a major catastrophe for the small businesses in India, and a lot of them ran out of capital. So, they were waiting for two things, and they are correlated; one is that their businesses started generating cash again, and they moved out of survival mode; and number two, that demand would also pick up. So, now that it is happening, I can tell you that most of these dates that we have given you are likely to materialize. But if you had asked me this, six months ago, or nine months ago, I would have myself said, and that's why if you notice on Slide 18, on the last line we have said, these dates are the best-case scenario and as for the latest update from owners, and this is based on their lines of credit.

So, broadly, I think that what we have given you will be plus-minus two months, at least for the next 500 rooms play out, which is to be done in rest of this year. We are opening our first franchise property in Dehradun, which should open in the next week, the first Aurika under management in Coorg, which should hopefully open in the next two months, and then, of course, a bunch of hotels with Neelkanth in Mumbai and Mussoorie, Sonamarg, Rishikesh and so on. So, broadly they should all play out, there may be a delay of one or two months, but not a significant delay.

Now, if you ask me for the second lot, which is the next 10 or 12 hotels, there is more uncertainty, it is, of course, a function of what happens in the next six months. So, I cannot give you clarity on what will happen there. But interestingly, just to add on, there are another 10, 15 hotels which we are now in active discussions with, which are not mentioned here, which we are hopeful we will be able to sign off in the next six months. So, that pipeline will increase by another 700 800 rooms.

Kunal Lakhan: Sure, that's helpful. Sir, one last question from my side. Sir, in other hotels under development, in the last one year we haven't incurred much of CAPEX and understandably so, but we have about balanced CAPEX now for close to about Rs. 600 crore odd, and we are looking at let's say the Aurika, the Mumbai airport hotel to be operational by CY2023. So, shall we expect this Rs. 600 crore will get expensed over the next one and a half, two years?

Patanjali Keswani: We have done a cash analysis, as on June end we are sitting on about Rs. 200 crore of cash. So, my view is, when we discuss this on the board, our feeling on the Bombay market is getting stronger and stronger. Now Aurika as it happens, while it requires Rs. 600 crore, for the next 12 months it only requires about Rs. 90 crore, because we have now finally come out of the basement, we have got the full approval for 669 rooms, which as you know will make it the largest hotel in India. We are just finishing the first floor and we reckon we will be able to finish the entire 10 floors of this building by about June next year, this will require about Rs. 80 crore. So, once that is done then the real expenditure of the additional Rs. 500 crore, which is equipment, interiors etc., will apply from Q2 next year, which is a year from now and by then. I am pretty sure we will have full certainty and secondly, by then Lemon Tree will be generating a fairly large amount of cash to fund this and as I said before, we have only two objectives from a capital side to build out this Aurika, and number two is write-down our debt over the next three, three and a half years. So, that's our main objective, by which time our hotels will be stable, we will have about 6,000 operating rooms, we hope we will have 7,000 or 8,000 rooms under management and Lemon Tree will then become more annuity kind of cash-generating business, because the CAPEX cycles will be over.

Kunal Lakhan: Would this funding of Rs. 500 crore also depend on equity infusion of Rs. 150 crores that we had originally envisaged?

Patanjali Keswani: No, think of it this way, pre-COVID we were doing Rs. 2.5 crore a day. I will give you a number, it's an actual number, we were doing Rs. 2.5 crore of revenue a day because our assets had started stabilizing. So, if we require a cash breakeven of roughly Rs. 1.5 crore a day, on a PBT breakeven Rs. 1.5 crore a day and we are generating Rs. 2.5 crore, then effectively what I am saying is that besides writing down debt at the rate of Rs. 110 crore a year, we will have spare about Rs. 350-400 crore a year, which will take care of Bombay and also take care of writing down our debt over the next three, three and a half years; starting from Q4 and stabilization.

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

Amandeep Singh: Sir firstly, you mentioned overall recovery, but can you help us with your thoughts with some of the few micro-markets like Gurugram and Bangalore which have been struggling? So, can you give us some sense of how has been the uptake now for these micro-markets?

Patanjali Keswani: See, if you look at Lemon Tree's demand, which is around 4,000 rooms a day because we typically do 78% occupancy. About 11% of this demand comes from the IT/ITES segment, which has got 440 rooms a day. Most of this demand is concentrated in Bangalore, Whitefield and Electronic City where we have four hotels, and a certain amount from Gurgaon, though Gurgaon is a little more diversified. Gurgaon also has one problem which is it is massively oversupplied. So, here is a strange thing. Bangalore and Gurgaon are two markets today which, saw the maximum injection of supply pre-COVID and had the largest dependence on IT. This was a double whammy in Bangalore, as you know, and, generally, with the IT and ITES sector, there has been an enormous drop in demand. Whereas you can see a significant increase in demand in segments like Media, Entertainment, Financial Services, Pharma, now starting even Auto, IT has not recovered yet. So, this is 11% of our market and today is giving us only about 10% of that, maybe 40 rooms a day. And that is why you will see; Bangalore has suffered the most. Next is Gurgaon. Gurgaon has certain other segments, but as I said, because of oversupply, it's still being worked through. So, if you ask me to give an assessment, I will say that Bangalore and Gurgaon will be the two markets that will recover last.

Amandeep Singh: Sure, sir, that's helpful and secondly, could you help us with how would be the cost efficiencies in place, how would be the current staff to room ratio? And now with increasing services coming back, what could be the sustainable number ones the business normalizes, any sense of that?

Patanjali Keswani: So, we had 8,400 staff for 8,400 rooms pre-COVID. With attrition etc., we are now operating with 5,300 staff. We are working with the Boston Consulting Group who is doing a diagnostic on digital transformation for Lemon Tree Hotels. So, what we are looking at is two levels of digital transformation, I am not talking about the routine stuff of digitizing operations, I am talking about customer access, customer retention, revenue maximization. The second is, going in for as many productivity improvements through process change, and through digitalization at the backend. Our broad estimate is that when this plays out, which is our strategy for the next one year, our staff to room ratio at the most will grow to 0.75 per room, which is it will grow to about 6,000. So, 2,400 staff (approx.) will not be required in Lemon Tree on an apple-to-apple basis, which is one reason why our staff expenses, which typically account for 20% of our revenue, will drop by 30%. Similarly, we are doing a bunch of stuff under ESG, we are going heavily into Renewable energy and Green buildings and so on. We reckon that they will be another 30% saving in power and fuel, which typically accounts for 10% of my revenue. So, if you add it all together, we expect a permanent reduction in expense of about 18% to 20%. Since our expenses accounted for 60% of our revenue, we are pretty sure that our expenses on a revenue basis will drop by 10%, or the EBITDA margin will expand by 10%.

Amandeep Singh: You mentioned that right now you are not looking out for any further CAPEX expansion apart from Aurika and debt reduction, but can you help us with your thoughts if there are distressed acquisition opportunities that would be currently available in the market or over the next six to eight months? Or if you will be thinking about banking on such opportunities and what would be the time for that?

Patanjali Keswani: See, we are very clear, we don't want to spend money, but we are very happy to monetize our brand and talent. So, we are in conversation with two very large, distressed firms, one has said $100 million, one has said $200 million. Nothing is signed yet, but we have discussed in great detail that we would be happy to participate if they look at the acquisition of assets, that we would be happy to brand and manage them. Of course, if that happens, then we are talking about a few thousand more rooms. Now, for this to happen, two things must happen; one is, the assets must be available; and two, they must be available at the right price. So, this is still playing out. I cannot make any definitive comment but the two funds are very actively scanning the market. We are looking at what opportunities are there, we are participating. And I think I will be able to give you more flavour in the next quarterly meeting.

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

Archana Gude: I have two questions. Can you just guide us through how our Aurika Udaipur is doing? How's the competitive intensity? Have Raffles entered into the Udaipur market, so has the intensity increased or how do you see the market overall, let's say, next two years down the line?

Patanjali Keswani: Aurika, when we opened it, did Rs. 3.3 crore of revenue, about Rs. 11 lakhs a day, and did operating EBITDA of 57%, which is whatever it is, Rs. 1.6 crore to Rs. 1.8 crore and this is at half the price. So, we think Aurika when it started stabilizing in the last quarter before COVID, was at Rs. 18,000 rupees, we did only Rs. 10,000 this time. So, I guess that Aurika on a fully stable basis should be a hotel which is at an average rate of Rs. 18,000 to Rs. 20,000 and about 75% occupancy. So, that's my expectation for Aurika, Udaipur. As far as Aurika Bombay goes, which is the 670-room hotel, our preliminary estimate is Rs. 11,000 at 80% and as I have said before, that will be a game-changer for our company.

Archana Gude: Sure, sir. Sir, you said that you understand that corporate travel is there to pick up, but maybe whenever the next contract will come for the signing, is it fair to assume that because maybe now the things have changed, and most of the corporate companies are seeing good growth in sales and everything, so maybe some kind of uptick in the contract pricing we should see whenever it will come for renewal? Or maybe since it is the first signing after this lockdown, some kind of decline will be there?

Patanjali Keswani: I don't see a decline, but frankly, I don't see an increase either. Because my view is that, you see what is not being factored in or played out yet, is the enormous impairment and supply that will play out in the next 12 months. You have seen it in some small way with some very large marquee hotels shutting down, and that's just the beginning. My view is that the real NPAs in this sector will start coming out in the next six to nine months. I think I said this in my last call also that in the next 12 months you are going to see a lot of distress. Now, whether that distress plays out in a permanent impairment in supply or 2-4 years impairment in supply, I have no idea. I think one predecessor of yours in this question line asked me, there is a lot of distress, I know that, so how will this new supply-demand dynamic play out? Now, on an aggregate basis in India, branded hotels demand has grown at 12% a year that's an actual number of the last 10 years. Let's take two years of COVID out, it will bounce back, I have no doubt. Now, there may be a permanent impairment of 25% of the demand of large corporates, which is 5%-6%, but it will be more than compensated by the growth in retail and the normal growth every year. So, I am very, very optimistic for the next calendar year onwards and I think from October next year, you will see an enormous increase in prices in hotels across India.

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

Sumant Kumar: Sir, my question is related to the Aurika, Udaipur. We have seen a 3.8% kind of occupancy, and we see all the leisure destinations in India is doing good, so what was the key reason for that, the lower occupancy?

Patanjali Keswani: See, I think one structural change that has happened interestingly is that Indians are more ready to take holidays in India. Now, Aurika has one advantage, which is that it is in Udaipur, which is very close to Gujarat, where a lot of people like to travel and come out and have a good time from a state which has prohibition. So, what we are seeing is nothing new, it has always been a very attractive destination. In fact, in the last five years, one of the reasons we looked at Udaipur was that it was becoming a preferred choice for weddings, which as you know is a very large market in India. So, there is nothing exceptional to what is happening in Aurika. We saw that pre-COVID too, we saw very high occupancies at very high rates and I don't see that changing anytime soon. So, Udaipur to me today is perhaps a much more attractive tourist destination than even Goa because Goa has got so overbuilt and congested and so on that it's becoming much more mid-market, whereas Aurika has retained its upmarket and deluxe clientele.

Sumant Kumar: But can we say that the Udaipur market is doing bad or we are doing bad?

Patanjali Keswani: We are doing very well compared to the market if you look at the STR report. So, we are positioned below The Taj Lake Palace. Let me give you a number. When we were just opened and we were operating, The Taj Lake Palace was doing about Rs. 40,000 ARR, Udai Vilas was doing Rs. 37,000, Leela was doing Rs. 29,000, we were doing about Rs. 18,000 - Rs. 19,000. Below that was, I think, Trident at Rs. 11,000 and Taj Aravali also at the same price and we were doing the same market share, that is the occupancy. So, we are positioned there as I said, it's an upper upscale hotel. It is so nice that we have managed to get one new contract on Aurika, as I said, in Coorg, on account of this hotel, and we are now in discussions for various more Aurika's across India. I am quite pleased with our performance there, considering that we are a new hotel and a brand-new brand. It's not Taj or Oberoi or Leela; it's Aurika, but it's done very well.

Sumant Kumar: And the next question is regarding other expenses, in Q1 FY 2022 is increased by 40% compared to the previous year same quarter, but there will be a similar level of Q2.

Patanjali Keswani: So, that is basically on account of commissions to travel agents, because in Q1 last year there were no travel agents, as I said, 90% of the business was non-traditional, quarantine and healthcare. This year, because a very large amount was retail, we had to pay commissions to online travel agents, credit card commissions, other offline travel agent commissions and so on.

Sumant Kumar: Sir, when we compare with the Q2 FY21, the other expenses are on a similar level, while the revenue in Q2 is better than Q1 FY22. So, other than the commission, any other expense which is invariably in nature?

Patanjali Keswani: We have tried to variablize our fixed cost, something we learned during COVID was, how do you variablize fixed costs. So, traditionally hotels, most of their costs were fixed, I think we have reasonably successfully managed to variablize a lot of our costs. So, basically what I am trying to say is, if fixed costs were 70%-75% of our total expenses pre-COVID, today it would be less than 50%. So, with a change in revenue, what you will find is the variable cost impact will be more significant on a quarter-by-quarter basis, whereas the fixed cost will remain at that lower value.

Moderator: Thank you. The next question is from the line of Amit Agarwal from Nirmal Bang. Please go ahead.

Amit Agarwal: What would be your Gross debt number and Net debt number for the quarter?

Patanjali Keswani: So, our Gross debt, if you look at Q1 FY 22, it has gone up by Rs. 58 crores, Rs. 34 crore is the cash loss, we have invested Rs. 12 crores in Mumbai international airport, we have Rs. 7 crore which was our Tax credit, which we have not got which will be realized later, so, therefore, it is consumed as cash: and Rs. 5 crore is we made it a point that this quarter we would pay a lot of our operational creditors or because they were under distress. So, instead of you know 30 or 60 days, we made it a point to pay them a little more. So, that adds up to Rs. 58 crores, that's the change in our debt. Rs. 34 crore cash loss, Rs. 7 crore tax which will be adjusted in future, that's Rs. 41 crore. Rs. 12 crore is Mumbai international investment, that's Rs. 53 crore; and Rs. 5 crores more payment to OPEX in creditors, that's Rs. 58 crores and our closing cash I think was about Rs. 196 crore.

Amit Agarwal: What would be the net debt to the equity that will be on account of that?

Patanjali Keswani: So, let me ask you a different question. If I build a hotel 10 years ago and I build a hotel 2 years ago, my cost per room for the same hotel is more than double. So, my equity is 10-15 years old, and my debt is three years old. I would urge you to look at it the way a REIT looks at it in the U.S., which is book value has no meaning, it is the cost today. So, the way I would look at Lemon Tree and I keep repeating it but somehow the message doesn't go through is, we have 5,200 rooms. The replacement cost per room today is Rs. 1 crore, which is Rs. 5,200 crores. My gross debt is Rs. 1,800 crores, net debt is Rs. 1600 crore, take out close to Rs. 400 crore in MIAL which is a capital work in progress, that leaves Rs. 1,200 crore of debt. So, on 5,200 rooms I have Rs. 1,200 crore of debt, which is less than Rs. 25 lakhs and it's an appreciating asset, I have not bought aircraft or taxis or cars which depreciate over time, my assets appreciate over time. So, it's very simple logic. If one room can support Rs. 25 lakhs of debt, which means at 8% Rs. 2 lakhs a year income, then I am fine.

Moderator: Thank you. The next question is from the line of SN Ranjan, an Individual Investor. Please go ahead.

SN Ranjan: Thanks for a very enlightening talk, we get a good idea of the hotel industry as a whole. I just want to know, last time I think you had mentioned, you are trying to reduce the dependence on online agents for bookings. And with our loyal customer base of I think 1.5 lakhs or so, how does the figure stand now? And are you happy with it?

Patanjali Keswani: Okay. I am happy to have an investor talking to me, so let me explain this. Our loyalty base is roughly 1.2 million people, which is quite engaged with us. They continue to give us roughly 35% of our business. Now, the way I look at online travel agents is very simple to me, these are sales agents of the company to whom we pay a commission to get business into our company. Once a customer who has booked through a Make My Trip or a Goibibo or a Bookings.com comes to Lemon Tree, it is the job of that hotel, then, to convert that customer to book on a direct channel with us, which is much cheaper. Now, if I look at success ratios, because these online travel agents continue to give benefits to them, which we cannot match, which is like cashback and so on, our success is limited, but it is still about 50%. So, our conversion rate is that if two guys come to us from an online channel, we will convert one to book on our website going forward.

SN Ranjan: That's fantastic. Very heartening to hear, sir.

Patanjali Keswani: Yes, but this is a challenge by the way worldwide. One of the main reasons Marriott acquired Starwood for $12 billion was to acquire their loyalty program and to get greater traction in terms of being able to compete with online travel agents. But the reality is that while they are our partners, they are also not our partners, so we treat them like frenemies. Something like Swiggy and Zomato versus restaurants. And that's the reality of today. In my view is, the only way to succeed for Lemon Tree is to control 30%- 40% of the mid-market. So, currently, we are at 17%, we will be 20% of the mid-market in two years, we intend to somehow get to 25,000 rooms in the next five, six years, which is managed rooms; in which case, our ability to retain a customer and get them on our direct channels will be much, much stronger and larger. So, it's a dominant play you have to make.

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

Achal Kumar: How much of the business you had in Q1FY21 related to COVID? What kind of business we had last year like quarantines, medical staff and all that facilities, did? And do you still have that business at this point? And if that is not the case, why there is a fall in revenue quarter-to-quarter, since I believe that Q1 last year would have been quite bad. So, what is the reason behind this 10% drop in ADR year-on-year?

Patanjali Keswani: Okay. So, I answered this earlier, but I will repeat it. About 80% to 90%, I am not clear, I don't remember the number, but the vast majority of our business last year was not our normal business - non-traditional. So, it was healthcare professionals, it was Vande Bharat, it was all kinds of quarantine business and business continuity planning. So, this business typically was a fixed rate with very limited expenses. So, we were lucky we got a disproportionate share of it in India last year. This year, the non-traditional business was less than 20%- 80% was retail. Now this retail business that we got this year, which is a traditional business, was on a very competitive basis. And these guys were only interested in price.

So, this quarter, Q1 was not our actual customer, but customers who were looking for staycations or travel at a very low price, which is why, one, the ADR fell, because then we were competing with everybody, it was not a fixed business. The number two was that our expenses also went up because these guys were staying for one or two nights, so we had to keep changing the linen, we had to keep refreshing the room, we needed more staff, they were ordering a lot of room service. Whereas in the previous quarter, the previous year, everybody was staying in their room, they were getting fixed meals, there was no change of linen, they were staying for 14 days. So, that is why, the average rate fell; and, the expenses went up.

Another reason why expenses went up this quarter was that we were pretty sure that once the scare of COVID 2 would get over, so we took a call actually, that the bounce-back would be sudden and not gradual like it was last year. So, last year if you look at Q1, Q2, Q3; Q2 was 20% more than Q1, and Q3 was 35% more than Q2. This year, we feel Q2 would be much stronger and Q2 can be 120% higher than Q1. So, we wanted to keep all our hotels open and ready. So, these are a multiplicity of reasons why ADR went down, costs went up and so on.

Achal Kumar: So, what I am trying to say is that on Slide 15, the occupancy level for example Keys Hotel, Red Fox Hotel, the occupancy level was quite low, while Lemon Tree Premier where the rates are higher, comparatively higher, the occupancy level was much better. So, is the customers were more price-focused?

Patanjali Keswani: No, no, that's not correct, because Lemon Tree Premier is in the cities where the demand was. So, if you look at Keys, more than 50% of Keys was in Kerala where the second wave was going on and on; and in Whitefield and Hosur, which were the IT centres where demand in and of itself was low. So, when you talk Keys, really look at Bangalore as an example, can you see Bangalore in the second last line? Look at the drop in demand in Bangalore. So, when there is no demand, pricing is irrelevant. Where there was demand is where you see it play out at Lemon Tree Premier, went from 40% last year we went up to 46% this year. Please note that that was accompanied by a big dropping price. So, that is the real answer, because Keys is fundamentally in Trivandrum, Cochin, Whitefield and Electronic City. So, these four cities are where 60% of their inventory is, which went through hardly any occupancy. While Keys did well in Pune and Ludhiana and Vishakhapatnam.

Achal Kumar: Fair enough, I got it. I have two more questions if you could please help. On Slide 27, I mean, what exactly do we want to show in this slide, this is the operational performance by ageing, what exactly this slide tells you? Slide 27, if you can help me.

Patanjali Keswani: This was recommended to me by a very big investor in hotels in the U.S. I found that in India, there is a tendency by analysts to look at hotels without considering when they opened. Now, if you are a very high growth company with very large CAPEX, like Lemon Tree, and then compare it to other companies also in the listed space, who are not growing, then there is a tendency to get confused between, in a simple apple-to-apple comparison. So, a new hotel, what is called an infant hotel, which is less than one-year-old, typically loses cash. Then it takes another two years, between one to three years to stabilize and the right comparison between hotels is when both are stable. So, what we are trying to show here in this slide is, we are a high growth company so we look at this, please note that we had 11 hotels with 1,600 rooms that are less than one-year-old. We had another six hotels, so if you look at, that's FY20, and FY21 we had 13 hotels which were one to three years old, in the middle of COVID, where we had deployed close to Rs. 2,000 crore of capital. and these didn't have an opportunity to stabilize.

So, what we are trying to show you is, how do we perform when we stabilize hotels. So, if you look at ROCE, if you look at the second last slide, that in a normal year an unstable brand-new hotel gives 2%, two years later it gives 5%, then it gives 12%. So, this is something I find, in India, people don't factor. The fact is that I have Rs.

2,000 crore of assets which gave no money, it is treated as debt on my books, it is treated as multiple things, but what I think people do not realize is that when they stabilize they will add Rs. 300 crores to Rs. 400 crore of EBITDA to the company when they come to 12%. Take a simple number, they are giving me 2%, they will give me 10% of Rs. 2,000 crore, so they will give me Rs. 200 crores more and that is you added to the pre-COVID EBITDA which was Rs. 270 crore. So, what am I saying, I am saying we should be Rs. 500 crore EBITDA when everything is stable. Then I explained that indirectly by saying we will have Rs. 370 crore of cash and we will repay our principle of Rs. 110 crore, which means Rs. 500 crore.

Achal Kumar: But why I was not able to understand is that say for example, in adult hotels versus the toddler hotel, so you had in FY 20 EBITDA per room in the adult hotel was 6.9 and in total it was 5.5, and even the EBITDA margin was 44 in adult versus 39 in toddler hotel, so this is a slight difference, but then still ROCE is a huge difference.

Patanjali Keswani: Because new hotels have a higher cost. So, let me give you an explanation. If you take my Bombay hotel, when I built it, it took me 10 years to build it because that's the time it takes to get approvals. I got a 305-room hotel built in Rs. 325 crore at Rs. 1.1 crore a room. But the cost per room was much higher than the older hotels. So, if you look at a hotel built 10 years ago, which cost me Rs. 40 lakhs a key and compare it to a hotel built two years ago at Rs. 1 crore a key, and they are both earning the same EBITDA the ROCE will be different. So, what you have to look at is, when all hotels are stable. On one hand, you want high growth, on the other hand, you want a higher return on capital, which can only happen when the hotels stabilize.

Achal Kumar: Clear, understood. My last question is; what sort of change are you seeing in terms of booking trends? I mean, at the moment, do you think passengers are booking for a longer duration stay? Do you think passengers are booking closer to the date when they want to stay? So, what sort of changes are you noticing at this point?

Patanjali Keswani: No change, is a bad thing. Today, because everybody knows rooms are available, people are booking one day out or on the same day. Number two is, they are booking for one or two nights, which means it is high cost. Remember, a guy staying for three days' cost will be less than a guy staying for one day. The minute there is a shortage of rooms, everybody realizes I won't get a room tomorrow, so they start booking, the booking cycle extends and they start booking a week or two weeks before. So, let me give you an example when there is a shortage of rooms, people booked 30 days out. When there is an excess of rooms, people book one day or on the same day, they also get a much lower price. So, the shortage means greater certainty in the booking cycle, because you know many days in advance, much higher rate and much higher occupancy and my broad point are that I think we will get there by next year.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Patanjali Keswani: Thank you, everybody and I look forward to talking to you again after three months with hopefully even better news.
