Lemon Tree Hotels Limited

Q3 FY20 Earnings Conference Call

February 17, 2020

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 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 Q3 and 9M FY20 earnings conference call. We have with us today Mr. Patanjali Keswani – Chairman and Managing Director; Mr. Rattan Keswani – Deputy Managing Director; Mr. Kapil Sharma – Chief Financial Officer and Mr. Vikramjit Singh – President of the Company. We will initiate the call with brief opening remarks from the management following which we will have the forum open for the question and answer session. Before we begin, I would like to state that some 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 shared with you earlier. I would now request Mr. Keswani the opening remarks.

Patanjali Keswani: Good afternoon and thank you for joining us on our earning conference call. I hope all of you had the opportunity to go through our results presentation, which provides details of our operational and financial performance for the Q3 & 9M ended 31st December 2019.

We have delivered a strong performance during the quarter despite subdued market sentiments and challenges in micro markets. In Q3 FY20, our consolidated revenue from operations grew by 39.3% Y-o-Y to Rs.199.6 crore. This growth was primarily driven by the addition of 978 owned/leased rooms over the last 15 months, the acquisition of Keys Hotels and increase in the ARR at the group level. Our consolidated EBITDA increased by 47.9% with margin expansion of 213 bps and our PBT increased by 16.1% Y-o-Y.

I would now like to disaggregate our consolidated Q3 FY20 performance into 3 buckets which are same hotels i.e. hotels which were operational for atleast 15 months that is Q3 FY19 onwards, new hotels i.e. hotels which opened either during Q3 FY19 or later and Keys Hotels which we acquired effective 1st November 2019.

Same Hotels: Our same hotel recorded 5.8% increase in revenue from operations driven by 5.4% increase in ARR and 148 bps expansion in occupancy from 74.7% to 76.2%. Our focus on cost optimization has resulted in the operating cost of our same hotels reducing by 1% Y-o-Y which combined with this increase in revenue has led to a 19% increase in EBITDA for same hotels. The EBITDA margin of our same hotels is therefore expanded by 425 bps Y-o-Y from 34.2% to 38.4%. Now, what I would like to point out is that our below-the-line corporate expenses are actually expensed in the same hotel's bucket. So actually this 38.4% is on pre-expenses basis because the corporate expenses have not been distributed across new hotels and Keys. Profit before tax of our same hotels increased by 67% Y-o-Y from Rs.18.3 to Rs. 30.6 crore.

New hotels: Our 6 new hotels with total inventory of 978 rooms, which account for about 19% of our group inventory, operated at an average ARR of 1.2 times of our group average in Q3 FY20 but at a significantly lower occupancy than the group average which had pull-down effect on a group RevPAR. Due to this, the PBT contribution from these new hotels was negative 9.2 crore for Q3 FY20. I am happy to share with you that all the new hotels are ramping up quite well. For those of you who attended my briefing in Mumbai in September last year, where we had presented the dramatic improvement in the performance of the last 4 adult hotels we had opened from infant phase to the adult phase. I would like to inform you that improvement in performances in these 6 new hotels is following the same trajectory.

Key Hotels: Keys Hotels which we acquired and consolidated into our financials from 1st November 2019 onwards comprises 7 hotels with 936 rooms which account for 18% of our group inventory. Currently, these hotels on all performance parameters like occupancy, revenue/room, EBITDA /room, EBITDA margins, etc., are significantly lower than similar Lemon Tree Hotels and are somewhat similar to the performance of our new hotels. The contribution of Keys hotels to the group PBT was negative Rs. 1.2 crore for Q3 FY20. So our strategy to ramp up Keys hotels is similar to our strategy of ramping up our 6 new hotels. On the operational front, our team is working hard on seamlessly consolidating operations. As there are significant opportunities to derive multiple synergies from this acquisition, we are confident of delivering significant improvements in operational and financial performance from Keys Hotels in the coming 6 to 8 quarters.

To give a better perspective on the Company's operations vertical wise, we have incorporated a slide number 16 in our results presentation. It gives a summary on how our businesses have performed across same hotels, new hotels and on the acquired Keys hotels.

Moving to operational developments, during the year we opened 3 large owned hotels at Mumbai, Udaipur and Kolkata. Our recently launched Udaipur property under a new brand, Aurika is in the process of stabilizing. We are happy with the improvement in monthly performance i.e. the run rate reported by Lemon Tree Premier, Mumbai and Kolkata which were launched in June and October 2019 respectively. In another key development, we also made our international debut with the opening of Lemon Tree Hotel in Dubai during Q3 FY20. The hotel is strategically situated close to famous tourist spots in the city. We will also be launching our second international hotel in Thimphu, Bhutan soon, which too will be a Lemon Tree Hotel. The inclusion of these hotels is in sync with our strategy to go asset-light through expanding our managed hotels portfolio by leveraging our strong brand in the country.

Our current operational inventory as of 31st January 2020 consists of 79 hotels and 7,979 rooms, out of which 5,192 rooms are owned/leased and 2,787 are managed rooms. Our active development pipeline consists of an additional 748 owned/leased rooms and 1,925 rooms under management contracts all of which will be operational within next 2 years.

To conclude, even as we anticipate the industry cycle to positively turn in the near term, we continue to build on our cost leadership and strengthen our leading position in the mid-price hotel segment in India. We believe we are well positioned to capitalize on the upcoming opportunities led by the stabilization of very large inventory commissioned in the down cycle over the last 15 months, the successful integration of Keys Hotels and the aggressive ramp-up of our asset-light model through managed hotels.

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

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

Nihal Jham: Our Q2 performance was muted and you did mention at that point of time that the industry scenario remains challenging and it is a little difficult to take price increases from a lot of the end user industries that you cater to. As I see that at least for the same hotel, we have seen a decent pricing hike, so first of all if you just comment on how the industry is being shaping up and what phase of the cycle are we in and also on the rate negotiation that we have done with the MNCs and large Indian corporates, so that would be helpful to start with?

Patanjali Keswani: Nihal, the hotel industry is highly discretionary. It has multiple types of customers, so there are large corporates, small, medium & micro enterprises and retail customers who come either directly or through the OTA channels to hotels. The large corporate segments especially those which have been significantly affected by the slowdown in the last few quarters, their demand has dramatically dropped, it has not dropped slightly but it has dropped dramatically. So the key challenge is to actually replace the drop in demand from those industry segments with retail. If you look at Lemon Tree, we have managed to do it well fairly successfully. We have not only replaced the lost demand with retail, we have actually expanded our retail even beyond the lost demand which is why you will find that we have increased our occupancy in the same hotels. This has also led to an increase in average rate because surprisingly in spite of the slowdown retail demand in the price point of Rs. 4000 to Rs. 6000 is increasing in India and we have tried to target that. So overall on a macro basis, demand from large corporate and from small, medium & micro enterprises has reduced, demand from small medium micro enterprises has also reduced, especially after demonetization, but this has been more than compensated by retail demand and that too was very encouraging because long term we would like to be more and more B2C rather than B2B2C.

Nihal Jham: What will be the share of retail for Q3 FY20 as compared to corresponding quarter last year?

Patanjali Keswani: The share of retail has grown to 39% from 36%.

Nihal Jham: What kind of negotiation / price hike we are doing with our largest MNC customers and the large Indian corporates?

Patanjali Keswani: I would say 3% to 4% is large corporates, small, medium & micro are still consuming hotel rooms with 5% to 6% and retail would be higher.

Nihal Jham: On the discussion of Hyderabad specifically, I see that there has been a phenomenal increase in the ratio, now possibly to one of the best cycles that the sector has seen in terms of 15 to 20% growth, I want you to comment that is this the base impact or generally the demand in your hotel or the entire city is so strong that we are seeing such kind of strong increase there?

Patanjali Keswani: If you look at some of the office leasing reports, you will find Hyderabad is continuing to offer very large office spaces, which are being absorbed quickly, so this as a rule of thumb typically if there is 10,000 square feet of office space occupied, then the closest hotel benefits by one room per day, this is a global thumb rule. Hyderabad has been seeing an enormous amount of development and leasing activity, not only us but whole industry benefits by this growth. I feel that we have done quite remarkably in Hyderabad because fundamentally this has enabled us, since we are already at high occupancies. In the past a number of analysts have asked me that if you reach a high occupancy what you do and I had explained to them that once we reach a certain level we start re-pricing irrespective of industry. We have re-priced our Hyderabad rooms by 17.7% although we could raise our occupancy since it was already very high even earlier by 58 bps but it led to an overall improvement in RevPAR of 14.5%.

So basically, Hyderabad where interestingly we have one of our largest inventories of own rooms, Hyderabad is looking brilliant for the next 4 to 5 years, not even short term, so it is not a one-off if you look at development activity and future leasing, it is strong for the next 8 quarters, so I am very bullish on Hyderabad. My guess is Hyderabad because of the open areas and the very well planned infrastructure especially in the area where our hotels are, which is HI-TEC city and Gachibowli, is going to see an enormous surge in the economic activity in the next few years.

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

Deepika Mundra: On balance sheet, could you tell us what are the latest debt levels and would you need any additional debt for construction of the Mumbai Airport Hotel?

Patanjali Keswani: Our debt will peak at Rs. 1550 odd crore, so we are roughly there right now. To answer your question about the Mumbai Hotel, we have invested a little over Rs. 300 crore in it. The total investment will be Rs. 850-900 crore. What we see is with our free cash flows and refinancing some of our debt because we will be repaying about Rs. 200 plus crore of debt in the next 2 years plus we will have free cash flows, in an excess of that. So we think we will be financing the Mumbai Hotel through internal accruals and just refinancing our current debt, so the short answer is the debt won't increase.

Deepika Mundra: And sir, on the newer properties which is Udaipur, Kolkata and Mumbai for the third quarter, would you be able to share any specific details on both ARR and occupancy, I understand it is a first quarter for some of the properties but just an indicative performance?

Patanjali Keswani: Well, these are all brand new properties, but I will share them with you. Pune now is a little over 70% but anyway I don't have the numbers right here. Mumbai is doing a net ARR of Rs. 6,700 in Q3 and was at about 62%. Mumbai, I am talking Q3, by the way Q4 is significantly stronger. Aurika which we opened in November, so you have to understand unlike business hotels, leisure hotels a lot of their demand is pre-booked a year out, so Aurika for the first one year, we were aware would be significantly lower in occupancy. It would only be retail local occupancy that would drive its performance, so it did occupancy of only 20% but at a net ARR of Rs. 15,000. Calcutta did 44% in the first quarter since opening at Rs. 6,500.

Deepika Mundra: And on the distribution cost side, given that you have added so many more properties both on managed contracts plus with Keys, are you seeing any significant benefits?

Patanjali Keswani: What do you mean by distribution?

Deepika Mundra: In particularly with OTAs, given that you have a much larger inventory now, are you seeing much better rates with OTAs?

Patanjali Keswani: No we have got that once we acquired Keys and indirect benefit of that was we started controlling 15% of India's midmarket, so then your relationship becomes far more equal, which is reflected in the increase in our retail. We have very positive commercial terms with our partners in the online travel space and more importantly what has happened is that about 10% of the occupancy, which I just mentioned to you whether in Mumbai, Pune or Kolkata came from our loyalty members in the first 3 months. So actually if I remove that, the occupancy would have been 10% lower.

Moderator: Thank you. We have next question from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: There has been double digit RevPAR growth in last 3-4 years, what all factors have attributed to RevPAR growth and going forward given the current macro-economic scenario, what can be expected RevPAR growth ?

Patanjali Keswani: So broadly, one thing our company is absolutely laser-focused on is that we don't want to increase cost, so what benefit we get when we grow very fast we have an ability to transfer a high cost resource from an existing hotel on a promotion to a new hotel and replace that resource with a much lower cost, so what we are really looking at is constantly churning our people. We have 8,000 employees, so every time we add a hotel especially now we are adding so many managed hotels, we have an ability to offer career opportunities and reduce our wage bill. Secondly, we are focused on a very simple metric, which is our power and fuel cost should be less than 2 watts per square foot per hour which is less than 50% of the average in the Indian hotel industry and right now we are at 1.91 watts, so that is something we tracked very closely and in next 2 years our target is to reduce our cost per room irrespective of inflation being at 4 or 5%. The other two things that we expect will happen and you will see this in the next 5 quarters starting from the quarter we are in, is a fairly significant increase in our revenue. So if you add the two together, I would expect that our net EBITDA should grow very significantly in the next year and our PBT should grow at least 75 to 100% next year. So this will continue happening as this hotel stabilize and with the opening of, you see if you look at Mumbai with just 300 room hotel, you will find it is significantly cash positive in 4 months and the real game changer for us will be when we open those 670 rooms in Mumbai. Aurika in Udaipur is doing an ARR of Rs. 15,000 and The Lemon Tree Premiere does Rs. 6700, I am pretty sure that the Aurika in Mumbai will do in excess of Rs. 11,000. So you can see that we will be compounding our EBITDA and our PBT at very high levels in the next 3 years because my capital deployment cycle is effectively over finally. It has been a real pain and a nightmare but over the last 5 years we have deployed all the capital required.

Venkat Samala: Sir, my question specifically was about the last 4-year performance in terms of RevPAR growth, I mean other than the change in the mix towards in the favour of retail what other factors do you attribute to the RevPAR growth specifically, not the cost side?

Patanjali Keswani: It is obviously occupancy and price, so how do you combine to maximize. See, sometimes, in some hotels, when we open new hotels we take the occupancy up by giving very attractive pricing and the minute we hit a certain level of occupancy, we start repricing, so one of the previous questions was specifically on Hyderabad and that demonstrates to you how we as a company plan RevPAR hikes. So Hyderabad, if you notice, once we reach that level of 77-78% occupancy, we started repricing and if you look at 3 markets where we have large inventory, look at Hyderabad, in Q3 FY19 versus Q3 FY20 we hit from 76.8 we went to 77.3 and felt confident that we could reprice, so we repriced at 17.7 and the RevPAR therefore effectively grew appropriately. Now, look at Delhi, we went from 81 to 85, 386 bps change in occupancy and we increased our pricing by 7.7%. This is very specific to micro markets, but fundamentally once we can drive the occupancy to a certain level and ensure we have sticky customers, we start repricing very aggressively at independent of the market or the macro.

Venkat Samala: And sir, how are you finding the resistance from the customer end while you are trying to reprice it at higher levels?

Patanjali Keswani: Obviously, they will resist it. I will give you an example, so there was a certain segment we had of corporate customers who were not willing to increase their price in Hyderabad, from Rs. 4500 in the LTP, so they used to consume about 50 rooms a day. We reduced it to 20 rooms a day because we were confident of the market, we replaced it with 30 more rooms from other segments which were priced at about Rs. 1500 higher. I am giving you simple maths. So what happens is that you start playing with the mix, so it is not that you are increasing the price and I want to be very specific here. I don't think the market easily accepts price increases. What you do is you replace a lower rate customer with a higher rate customer but that higher rate customer has basically got that same price even earlier. It is just that you are getting more of them.

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

Vinod Bansal: Sir, this space is often seen as very susceptible to disruption, any recent trends you have seen on the OTA channel in terms of discounting given the environment is weak, trend in the last 3-4 months as well as your medium term expectations in that?

Patanjali Keswani: So let me break it into three parts. The key to any business is who controls the customer, so OTAs are for me; they are like both friends and enemies. Now OTA is very naturally in the business model, want to capture access to customers, so they offer stuff which we cannot compete with like cash backs.

Now, how do you compete with the customer who is a competitor in some ways, who is willing to offer cash back, you cannot compete unless you are ready to lose money to. So my view is that the only way Lemon Tree or any hotel company will survive in the long term is if it controls so much supply that you cannot ignore it. So that is the simple answer to my response to disruption. That is currently we have 15% of India's mid-market, our target is to hit 25% in the next 4 years and we will be actually over 20% in two years, so one answer is that. Number two is that now obviously OTA and so on while they are offering cash back, this is not sustainable in the long term, so over time online travel agents will also stop offering cash backs. So we want to be in a position with our own loyalty program and our own website that we capture as many of the customers as we can through our own booking engine and website and I am very pleased actually in Lemon Tree, in spite of the onslaught of these cash backs and what not, our share has been increasing significantly in absolute numbers year-on-year. So we are very clear that we want to control enough supply that you cannot ignore me and you cannot bully me and number two is that we have a strong enough front-end technology platform that we can capture as many of these customers directly as we can through our loyalty program and the choice that we offer.

Vinod Bansal: I will like to follow up on that but before this, any recent trends by these frenemies in the last 3-4 months given that as the environment is weak, are they raising cash backs versus what was there 6 months back?

Patanjali Keswani: Yes, they are doing what is necessary to maintain their number of customers because their valuation is often a function of the number of customers they are putting through their pipeline but it is not affecting us as our pricing is not changing. It is your decision as an OTA or as travel agent what price you offer the customer to get the customer but my price to you does not change. So it is not affecting us at least directly.

Vinod Bansal: Also you mentioned about the fact that you want to control a greater share of supply 15% going up to 25% that goes against the general understanding of it being a very fragmented industry and therefore pricing discipline is so low. So basically I am repeating the old saying that it is the fragmented industry we have normally seen in various industries that are fragmented including, other discretionary like apparel, like footwear and others.

Patanjali Keswani: Can I draw your attention to slide 8, please look at slide 8 of our investor presentation. So you will find in the most critical markets in India which are Mumbai, Delhi, Hyderabad and Bangalore. We are in Mumbai, in another two years, we will have 1 in 5 midmarket hotel rooms, mid to upscale hotel rooms. In Pune, we will be 1 in 7; In Bangalore we will be 1 in 7; In Delhi, we are already 1 in 7, we will be 1 in 6 and in Hyderabad we are 1 in 4, we would be 1 in 5, so I think that should tell you that obviously we don't intend to have this 25% supply that I am referring to does not apply across India. It specifically applies to those key markets which are high in demand relatively and also therefore relatively high in price and interestingly these are the markets with the highest barriers to entry because building a hotel room there today does not make financial sense with the current pricing. So that is the moat we are trying to build.

Vinod Bansal: If I may slip in one question, on the part of holding 20% supply in key markets, there is a thought around that the players like OYO**,** they are looking to convert some of the unbranded inventory into branded, they would be more in competition with 2-3 star hotels, can that be a risk over the medium term if they expand?

Patanjali Keswani: No, I don't agree with you because you see to me, many of these you are referring to these aggregators, the kind of customers profile that they have, the customer segment and the kind of supply and quality they offer is very different to the branded midmarket, so at the current level of operations that they have, I don't see them as a threat. In fact, in many ways I see them as a positive contributor to the hotel industry because they are the most fragmented side of the business, which is at the bottom end, they are actually trying to consolidate but they don't affect us and I have not found although many people have asked me this question, where they are today does not affect me that is not to say tomorrow, if they raise capital and then move into my sector, they won't be moving in there, may be they will, but I see that more or less collaboration of conversion of a fragmented market into a consolidated market and then everybody becomes more pricing rational, so I don't see there is a threat. That is the short answer.

Moderator: Thank you. We have next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Sir, my first question is, if I were to look at it brand-wise on slide 17, the Lemon Tree Premier which has seen the sharpest occupancy increase and a very healthy ADR has actually seen the lowest EBITDA margin expansion Y-o-Y, what would explain that?

Patanjali Keswani: All India supply has reduced, the addition of supply, but in certain micro markets like Bangalore and in fact, in Gurgaon, supply injections are still continuing and will continue for the next 2 years, so these have affected the overall weight. So where do we have Lemon Tree Premiers, the old ones are in Gurgaon, in Delhi, in Bangalore, in Hyderabad while Hyderabad has been good and Delhi has been good, Bangalore and Gurgaon have seen a lot of competitive action for the moment and that is why you will see that while the occupancy has gone up, the average rate has remained flat. That is the broad answer.

Karthik Chellappa: Because the reason I ask is in Bangalore the 363 basis points occupancy rate had some sort of an impact basically on RevPAR and the hotel level EBITDA margin for Lemon Tree Premier?

Patanjali Keswani: And also on pricing because while the pricing is showing an increase, a part of that is linked to our attempt to shift out of, whenever a new hotel opens it gets corporate, it focuses on corporate basically because it takes time to get retail, so the pricing comes down effectively because your competitor goes and offers a lower price and it is actually self-defeating because everybody retains the customer but at the lower price offered by the competitor, so it is an overall mix. It is difficult for me unless you come over one day to my office, I can show you all the Lemon Tree Premiers and how each of them is performing but overall actually the reason the Lemon Tree Premier's occupancy has gone up and ARR has not gone up so much is because in different hotels, the dynamics have been different.

Karthik Chellappa: And sir, to an earlier comment of the debt right now close to about Rs.1500 odd crore and you said that is almost close to peak, if I were to look at it on a pre-AS116 adjustment basis, the interest cost today is almost half of EBITDA, Rs. 35-36 crore interest on a Rs. 72-73 crore EBITDA, do you think that figure or ratio has more or less peaked?

Patanjali Keswani: No, let me give you a simple example here. Go back to our Q3 performance and if you look at same hotels, the debt coverage, the EBITDA is close to Rs.60 crore and this EBITDA is after corporate office expenses of Rs.12 crore, so really the EBITDA, on a hotel level, is close to about Rs.70 crore and the interest is Rs.20 crore. The most of this debt refers to new hotels. With much pain and efforts the occupancy in these new hotels has reached 57% in less than a year. We are pretty sure that in the next maximum 1-1/2 year this will also hit 75%-76% irrespective of macro. When that happens, you see even today at the new hotel level, if you forget depreciation, our cash profit is only negative by Rs. 2 crore, so we have been able to cover the interest which is about Rs. 13.7 crore with more or less 100% with the EBITDA. The EBITDA in these new hotels will just keep increasing and we will increase dramatically in the next 2 years as you will see in fact in Q4, so when that happens, this ratio will completely change and Keys hotels if you notice the EBITDA while it is low, it is still enough to cover the debt and we expect Keys' EBITDA will also probably double in the next 1-1/2 years. So if you look at the 3 buckets, keep in mind that close to half my debt is in the new hotels and Keys and they are not as yet stable though we are very confident that they will move towards the same hotels category in the next 6 quarters.

Karthik Chellappa: Sir, just one last question, any early indicators of any impact to demand from any segment, whether corporate or retail on account of the potential threat from coronavirus?

Patanjali Keswani: Coronavirus in certain markets, where we got some conferences, where the visitors or the conference attendees where from China/Asia, we have seen a significant fall in Q4 and I think that will continue till it is resolved but overall on an aggregate basis for Lemon Tree, we have managed to more than replace them. So, at the current level of the Virus, I don't see assuming, well I am not talking a black swan event but as it is today, it has not had any impact on us.

Karthik Chellappa: So no retail level cancellations in any of the geographies, whether Delhi, Mumbai, Calcutta?

Patanjali Keswani: No, we got cancellations from markets which are affected, and a number of people say from Hong Kong are afraid to come to India because they might go into quarantine. I am just giving you as an anecdote, but we have managed to more than replace it is my broad point.

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

Sumant Kumar: Sir, we have seen 2% decline in Gurgaon at 75% occupancy and at Hyderabad at 77%, we have 18% increase in ARR and also Delhi we have seen 8% ARR increase, so what is the dynamic sense when you have 85% occupancy in Delhi and you have increased only 8% and Hyderabad you have 77% occupancy, you have 18% increase, so what is the key reason for that? Any customer mix changes in Hyderabad or in Delhi?

Patanjali Keswani: No, again Delhi we have many hotels and each of them is in a different micro market, so what we have reported to you is an aggregate but broadly, when you hit 80% occupancy you re-price, so what you will find in Delhi is actually we had repriced over 3 years, so let me give you a number. If I remember right, Delhi 3 years ago, the ARR was Rs.3,500, it has gone up 50%, so obviously we would love to reprice even more but we are a little prudent in the current market conditions, so in Delhi we tried to optimize to this Rs. 5,400 ARR. The real increase in Delhi has been in the Red Fox Hotel and the Lemon Tree Premier in Delhi Airport but not in the hotels in East Delhi, which have actually witnessed a decline in both occupancy and ARR because that market, fortunately we have very small exposure there but our both hotels have gone into a decline because that market has been very badly affected by supply and by a drop in demand, so you are seeing an aggregate number, but if I talk Delhi alone, from where I am sitting which is Delhi Airport, actually the increase in the ARR is significantly higher and that is reflected in similar numbers like Hyderabad.

Sumant Kumar: Is there higher retail customer contribution in Hyderabad that is why the higher rate increase?

Patanjali Keswani: Both, what is happening is that Hyderabad is one of the few markets that has a tailwind which is that in spite of macro as I said so much new supply of office space has been occupied that there is an improvement in demand. In Delhi, that is not the case but if you look at the 480 rooms that we have in Aerocity that has characteristics, which are very similar to Hyderabad but has been somewhat brought down by the performance of the two smaller hotels, which has about 150 rooms in East Delhi.

Sumant Kumar: And 2% decline in Gurgaon is all because of CAA protest?

Patanjali Keswani: No, CAA had actually a very minor impact. Gurgaon has been going through massive supply injections and that is still not over basically, it still take another year and a lot of new hotels open in Gurgaon in the last two years who were trying to grab market share, so our policy there was to maintain our occupancy, which is why you will find we increase our occupancy though we had to take a small hit in our average rate but overall as far as EBITDA goes, we manage to maintain a healthy improvement in EBITDA by about 23%.

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

Archana Gude: In Q3 we had this retail mix at 39%, sir where do you see this mix let us say, 2 years down the line?

Patanjali Keswani: At 50%

Archana Gude: And sir in that case, how that will contribute to the RevPAR growth, retail being, where we charge more, so on a sustainable basis, what kind of RevPAR growth can be expected?

Patanjali Keswani: Typically, by the way this is very simplistic. If my average rate is 1, my large corporate rates will be from 0.8 to 0.9. My small medium micro will be from 0.95 to say 1.05 and my retail will be 1.2, so if I change my retail mix from 40 to 50%, it really means that my average rate will go up by 10% or 20%, which is 2%.

Archana Gude: How was this MICE segment performance in the quarter and on the corporate side, can you throw some light on the negotiation happening for the next year?

Patanjali Keswani: So look, earlier Lemon Tree was not really focused on MICE. We reoriented it only with our new hotels, so the old hotels typically don't have large banquet facilities. Now, what we have noticed is that large corporates, who are typically consumers of MICE who create demand for MICE, there has been a significant drop in demand from them because they are basically cutting back on travel, on hotels, on meetings and so on unless absolutely necessary; however, the social segment has been really increasing, so since we have MICE or large banquet halls in Kolkata, in Udaipur, in Pune, in Mumbai we are finding that social demand is high and well, since it is new facility we are obviously getting corporate demand but it is, I am told not the same as it was 2-3 years ago, so that is the broad answer. Going forward, I find that for Aurika, Udaipur, the wedding demand is enormous. I will give you an example, in January, we sold the hotel for 2 days for Rs. 1.5 crore to a wedding party, so we are aggressively targeting it. The hotel has been built with eye to capture the wedding market in Udaipur, which is the strongest segment and that is why I am very confident that in Udaipur, specifically weddings are not dependent frankly on the macro and we are relatively price insensitive so we are doing well in the MICE segment. I am not very sure how the rest of India is doing but we are quite happy with what we have got.

Archana Gude: And sir, the corporate side, any light on the negotiations happening for the next year?

Patanjali Keswani: Yes, the large corporate will give 3%-4%, the small medium micro will give 5% to 6% and retail, we are looking at above that say, 8% to 10%.

Moderator: Thank you. We have next question from the line of Satyam Thakur from Morgan Stanley. Please go ahead.

Satyam Thakur: I would request if you could throw more light on and share your views on how you see the positioning of the brand Aurika and I will give you context of why I ask you that because you shared that Aurika in Udaipur in this quarter, you would have realized about Rs. 15,000 ADR and which based on checks looks like Taj Aravali which is in the same micro market that also probably at similar ADR level, so ADR wise you are pretty close to that it seems.

Patanjali Keswani: Little better actually, Taj Aravali is Rs. 13,500.

Satyam Thakur: And then similarly the Mumbai, Aurika which will open next in the couple of years, there again today you mentioned that you expect Rs. 11,000 ADR, when it opens in 2 years from now and the JW Marriott Sahar which is also a 600-room hotel in the same micro market that again based on public data, it is around Rs. 9,500 ADR as of today, so in two years to grow to Rs. 11,000, you will need like 10% kind of an ADR growth each year. So what I am saying is that while you call Aurika an upscale brand, your pricing strategy at both the 2 properties so far seems to be to keep it at par to the luxury hotels in the same micro market, is that a correct reading and why then this mismatch between the brand positioning and the pricing of the same and also what impact will this have on the occupancy ramp up of these properties given as a newer brand and if your pricing is at par with luxury, does that make the occupancy ramp up a little slower, how has the occupancy ramp up at Udaipur been in this quarter versus your own expectation?

Patanjali Keswani: Satyam, you have asked me very interesting question, so let me go off for a moment and tell you that in two micro markets, which is Delhi and Hyderabad, the Lemon Tree Premier, which is an upper midscale property does the same ARR as some five stars in that market. So how customers pay and what they pay, what is the mix of your customers, often determines your ARR and not necessarily your positioning, if you get what I mean.

So now let us come to Aurika. In Udaipur, it is an upscale hotel. By upscale, I mean we designed it in our version of upscale and we spend the amount of money per room, which we felt you would require for an upscale hotel. Now, the hotel is for you to understand how that hotel is doing, if you have some time I suggest you go to trip advisor, go to Aurika Udaipur and see the reviews. It has simply the single best reviews across the whole of Udaipur, including any and every hotel. If you read it, I mean it is opened only for the last 3-1/2 months but there are about 50 customer reviews. You must read it to understand how retail customers perceive this property. Now here is my view. Aurika for me is a long-term play focusing on acquiring management contracts of the 25,000 upscale hotel rooms in India, of which about half are in distress. We think with our cost structure and our national loyalty program, we can significantly improve the performance of these hotels and in that sense the two owned Aurikas that we have, are in position to show owners what we can do when we offer an upscale product. What is my view on Mumbai, I am simply looking at our own Lemon Tree Premier, which is doing ARR of Rs. 6,500 or little lower that and we expect that this will go to Rs. 7500 to 8000 next year. So, if I do simple rule of thumb, I would expect Aurika and I am not comparing it with JW Marriott or Hyatt or ITC Maratha. All I say is that if I can do 85-90% in Mumbai in the LTP next year, with Rs. 7500-8000 ARR, then there is no reason why the Aurika, which is an absolutely phenomenal hotel will not do Rs. 11,000 a year after that and that is my perspective and we will see what time tells.

Satyam Thakur: On the other exciting opportunity which is there for us which is improving the metrics of Keys Hotels' portfolio that we have got in, I know it is very early but how was the performance on a Y-o-Y basis for the Keys portfolio in this quarter or even in Jan-Feb, has that improvement on a Y-o-Y basis started happening, now that we are selling it or will that take another five to six quarters?

Patanjali Keswani: Roughly from the figures that we had of Q3 of FY19 versus Q3 of FY20, the improvement was about 10% but frankly it is not the number I want to talk about, we want to improve it by 50%. That is our target. It will take 2 years. I mentioned when we acquired Keys that our target is to bring it to an EBITDA level of about Rs. 60-65 crore and that is what we are targeting.

Moderator: Thank you. We have next question from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: What would have been the industry RevPAR growth versus our same-store RevPAR growth of 5.3%?

Patanjali Keswani: It would be about similar I would say, 4% to 5%. We have some numbers; I have only the listed numbers, so I can share with you what I have. So I think, East India Hotels reported 4.6%, Taj reported 5.6%, Chalet reported 9.9% because they are in Mumbai and Hyderabad fundamentally. We reported RevPAR of 7.5% and all hotels because the RevPAR was less in the new hotels we reported was only 1.9%, but on a same hotel basis, I think what you also do is look at depreciation, you see because depreciation tells you which company is growing and which is not, so depreciation of same hotels was obviously negative but what hit us was high depreciation with new hotels. So if I split it only into same hotels, then revenue from operations in Oberoi was -2.4, Taj was 5.3, Chalet was 11.7 and we were 5.8.

Himanshu Shah: With respect to Keys, I know you called out that we target Rs. 50 to 60 crore EBITDA over next 18 to 24 months, but the current quarter run rate seems to be much lower versus what even the company had done historically, when we presented around Rs.21-22 crore with corporate expenses and around Rs.30 crore, excluding corporate expenses the EBITDA run rate that the company used to do. Compared to that this number is on a much lower side for Q3 for the two months number, so just trying to understand anything specific over here or just it is too early to comment?

Patanjali Keswani: It is too early, but broadly the corporate expenses of Keys, which we intent to reduce, did not reduce because we did not ask people to go, we were repositioning people within the broader system, so it had very large corporate expenses, which will reduce for example, in Q4 significantly. So when we acquired Keys, the corporate expenses were close to Rs. 14-16 crore for the year, from April it will drop to Rs.2 crore. That is the first point. Now, the EBITDA of Keys was at pre-corporate expense level. It was around Rs. 30 crore and our target is very simple that the EBITDA should be over Rs. 62 crore pre-corporate expenses in 2 years, so basically after corporate expenses it should be at least Rs. 60 crore and we think it is possible. Now the reason why Keys has not done as well as we would have liked is because 250 rooms of Keys are in Kerala, which has been affected by this coronavirus and the floods and Visakhapatnam, where they have another 100 owned room where because of this political uncertainty about the capital and so on and so forth, there has been a drop in demand but these are very short term things. We are pretty sure we will be able to ramp it up and that is why I told you that our 2 year target is Rs. 60 to 65 crore net EBITDA.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now like to hand the conference over to the management for closing comments. Sir, over to you.

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

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Lemon Tree Hotels Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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