Lemon Tree Hotels Limited
Q3 & 9M FY 2021 Earnings Conference Call
February 11, 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 now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thanks. Good afternoon, everyone. And thank you for joining us on Lemon Tree Hotel's Q3 FY 2021 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 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 results presentation that was shared with you earlier. I will now request Mr. Keswani to make his opening remarks.

Patanjali Keswani: Thank you. Good afternoon everyone. I hope everybody is safe and healthy during this trying period of pandemic. I guess the good news for all of us is that we are now seeing less than 12,000 COVID cases a day and our country also has not seen any second wave yet, unlike the U.S. and many other European countries. At the same time, the vaccination is progressing at a steady rate and it will play a crucial role not only in our fight against the pandemic, but also in improving the broader economic sentiments over the next few quarters.

In the quarter gone by, our revenue from operations stood at Rs. 68.4 crore versus Rs. 199.6 crore during the same period last year. Our revenue in Q3 increased 43.7% on a Q-o-Q basis from Rs. 47.6 crore in Q2 FY 2021. Our total operating expenses, including corporate expenses, came down by about 59% to Rs. 48.3 crore in this quarter from Rs. 118.3 crore in Q3 FY 2020. However, there was a 23% increase in our operating expenses in Q3 versus Q2, which was on account of higher inventory being operational in Q3 as compared to Q2 and better occupancies in our operational hotels. Out of our 5,200 owned/leased hotel rooms, 4,736 rooms were operational, on an average, in Q3, which were 5% higher than the number of rooms operational in Q2. Our occupancy in operational hotels expanded by 926 bps from 37.3% in Q2 to 46.5% in Q3.

We recorded a positive net EBITDA of Rs. 22.3 crore in Q3, which was 73.5% lower than the Rs. 84.4 crore in Q3 FY 2020. But our net EBITDA in Q3 was about 55.8% higher than the Rs. 14.3 crore in Q2. Our net EBITDA without other income was, in fact, 141.7% higher in Q3 than in Q2. Our EBITDA margins also showed a significant improvement in Q3 over Q2, by expanding 1,191 bps to 29.4% in Q3 from 17.5% in Q2.

Our focus on our operating cost model throughout the past three quarters has now started to reap fruits for us in the form of sequential EBITDA margin expansion. In fact, as I said earlier as well, let me re-emphasize that many of these cost optimization measures would be permanent in nature, which we expect will lead to a minimum net EBITDA margin expansion of 500 bps, going up to 700 bps when things get back to normal.

While we continue to explore and experiment with leaner operational practices to achieve operational excellence, we are also totally committed to uphold best-in-class service standards. Once again, in the quarter gone by, our business mix was dominated by demand from retail channels. I would like to mention that in Q3 FY 2021, the total number of room nights from the retail segment was 11% higher than the number of room nights in the pre-COVID period of Q3 FY 2020. We saw a significant pickup on quarter-on-quarter basis in demand from the corporate segment as well. The number of room nights in the corporate segment increased by more than 90% in Q3 2021 over the previous quarter.

From the liquidity perspective, it is now extremely unlikely that we will avail of our two pre-approved fundraising options, which is the rights issue Rs. 150 crore in Lemon Tree and the call for raising the second tranche of Rs. 125 crore from APG. As of now, we have sufficient cash to service our debt obligation centered from our under-development projects for the next six quarters, even in the worst-case scenario. Although, we believe that the worst is clearly behind us now.

We continue to be absolutely vigilant in ensuring the safety of our guests and employees. The SOPs covering all aspects involving our guests, employees, vendor partners, which we implemented in Q1, continue to be in place. We are also working on a plan to get our hotel as well as our corporate staff vaccinated.

To summarize, we are positive about what lies ahead for us in the future. We are also pretty sure that rebounding the hospitality industry will gain momentum in the coming quarters as the fear of the virus remains and incidentally, as is already evident in Q4. We are confident that our fundamentally strong business model, significant liquidity and our established brands will help us to successfully weather these challenging times, and we will come out as a much more efficient company than before.

So on that note, I come to the end of the opening remarks. And we would now like to ask the moderator to open the line for Q&A. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: I have three questions from my side. Firstly, sir, if I see our ADR trend for last three quarters, there has been significant variation wherein we saw improvement in August and then again there was a dip in October, and then again the trend was upward. Should we attribute this to the new hotel opening where the ADR was lower which might have dragged the overall performance? And also, was it due to the discounts offered, some color on the ADR part, sir?

Patanjali Keswani: So let's talk about ADR pre-COVID and during COVID. So in a normal mix, our ADR, is at Rs.4000. What happened in COVID was that what we call as the traditional business or non-COVID business disappeared. So in fact, from Q1 onwards, while COVID-related business has been steadily reducing, it has been the dominating factor in Q1 and Q2 in determining our ADR, because it is more than 50% of our total business. The non-traditional will be gradually replaced with different segments coming to our operating business mix at different times. At present, because there is not enough demand from traditional sources, there is a lot of discounting going on across India and the retail segment. So the real reason for the fall in ADR is no longer COVID, because COVID today is maybe 5% of our total demand. That remaining 95%, most of it is retail and most of it is coming at much lower rates than normal.

Now when will this go? So broadly, so if you look at the industry and look at Q3, and I am giving you just a broad example, you will notice on a broad basis that the fall in income of all the four listed players in Q3 this year versus Q3 the previous year is roughly 60% to 70%. Which means, today, in Q3, the hotels did income of 30% to 40% of what they did in the previous year. All of that is driven by retail. And while the listed universe is obviously a much smaller segment, overall, in the hotel business, you will find heavy discounting because the replacement segments or all the segments have not come back. In Q4, my guess is, this will now expand. So the industry will probably be 45% of Q4 of last year. Just like today it is 30% to 40%, there will be a significant expansion in revenue in Q4. Therefore, you will see a small uptick in ADR. Q1, Q2 next year, my guess will be catch-up months, because large corporate travel will also start. My best estimate is that H2 next year is when ADR will catch up, because first you have to keep in mind, occupancy has to catch up.

Archana Gude: Right. So just to follow-up on that. You spoke about the corporate travel, so have the corporate contracts come for renewals and maybe some trend on pricing there?

Patanjali Keswani: So well, in our case specifically, we did not renew the prices. Normally, corporate pricing changes effective 1st October and 1st January. Last year or the year gone by, 2020, we did not change our pricing. But that is a moot point because there was no corporate demand. But suffice to say our corporate rates are still the same as they were in last quarter of calendar year 2019, which is when our prices changed last. And we do not expect to change our pricing in the coming October, and we expect to continue with the old pricing.

Archana Gude: Sure, sir. And sir, lastly, if you just throw some light on the performance of the key cities for us.

Patanjali Keswani: Okay. So I guess, it's there in our investor presentation. So you will find in the key cities like Delhi, these are cities where we have significant owned assets. So as you know, we have more business hotels, less leisure hotels than the other large listed players. So in Delhi, we have 640 rooms, so our occupancy in Q3 FY 2020 was 85% and dropped to 55%. You see, Delhi had one advantage, it has multiple types of users, including guys coming in due to the airport and so on. Gurgaon, which is heavily large corporate dependent, and here we have over 500 rooms owned, dropped from 75% to 30% occupancy. Hyderabad, which again has multiple sources of demand, though it is largely dependent on IT, dropped from 77% in Q3 2020 to 45% in this quarter. Bangalore, where we have very large inventory, close to 900 rooms, dropped from 65% to 24%, because that is the most IT dependent city in India. Mumbai, where we currently have 300 rooms, it was very resilient, from 62% it dropped to 59%. And today, in fact, it is at 80%. So there are certain markets that will bounce back first for us. For example, I reckon that Bombay, Delhi, Hyderabad will bounce, followed by Bangalore and Gurgaon.

Archana Gude: Sure. Sir, is it fair to assume that we are at least two to three quarters away to get back to our earlier occupancy levels?

Patanjali Keswani: Okay. So let's put it this way. I will repeat. Q3, as you see, from an income perspective, because some listed players do not report ADR and occupancy, so I guess I can't take as an aggregate. But let me just broadly say that Q3, the income was 35% to 40% of Q3 of the previous quarter. My expectation is, in Q4, again speaking for the industry, the income will be 45% of the previous Q4, which means really an expansion of 25% to 30% in revenue. Moving forward, my broad expectation is, in H1 our income will hit, in a staggered basis, depending upon the players it will go up to 60% to 80% pre-COVID. This all depends on when the corporate travel starts and how effectively we vaccinate people. I have no doubt that H2 we will catch up.

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

Nihal Jham: Sir, three questions from my side. In our last quarter discussion, you had given a little more clarity on how demand on a per room night basis was progressing. And if I remember right, it was, I think around 300 room nights from COVID, whereas the retail segment was around 1,200 room nights. Is it possible to give a sense at currently how is that number breaking up in total?

Patanjali Keswani: Okay. So Q2, I think we did about 1,680 rooms per day. 950 were COVID and 730 were non-COVID. In Q3, this 950 COVID dropped to 240; and non-COVID went up from 730 to 1,960. Which means, basically non-COVID grew about 2.7x. Now what is happening in Q4? COVID is less than 100. So Q2 COVID was 950; Q3, 240; now it's less than 100. What is happening on the non-COVID? It was 730 in Q2; 1,960 in Q3; it is north of 2,700 today.

So what I am really saying is that our occupancy is north of 2,700, which is over 50% of our inventory. But COVID is like under 5%. And I generally think it will become zero in another one, one and a half months. So that's what I am seeing happening. Now because of this, there is some improvement in pricing also because the non-COVID segments that are coming back, some of them have higher pricing. So the mix is changing. But this impact, while it will be visible in Q4, it will be most visible in Q1 and Q2 next year, especially because there are other things happening like its wedding season and so on and so forth. So broad guess, hotels will do anywhere from 40% to 50% of pre-COVID revenues in this quarter, probably 45% to 50%. And then from the next quarter, they will start getting improved, 65%, 70%, 75% of pre-COVID. And I have no doubt that Q3, it will be fully pre-COVID.

Nihal Jham: That's very helpful, sir. Sir, just a related question on that. As you are giving the progression of how you expect occupancy to improve and potentially in H2 of next year we would be in excess of, say, 75% to 80% occupancy on an average.

Patanjali Keswani: I am not saying that Nihal. I am saying, we will be back to pre-COVID levels of occupancy. I don't think it was 75% in Q3. It was higher in Q4 because in Q3, Diwali was there. And normally that brings the occupancy down. So whatever the number is, we will be close to that.

Nihal Jham: Absolutely. The point is, in that scenario once you see that the base is up, do you think the industry would be at a position where you can take your ADRs in a range of what it was pre-COVID? Or that you think will be another gradual ramp-up over the next six to 12 months?

Patanjali Keswani: No. It will be an instant ramp-up. This is an interesting question you asked. So see, different hotel companies have different segments. So take the big 5-star chains, they have large meetings, incentives, conferences, facilities, right? That's wedding, business, for example, that will see an instant change. We all have retail segment. My retail segment today is 1.1x what it was pre-COVID. That's an amazing number, that retail today in Q4 is 1.1x of Q4 last year. So that really bounced. That segment is where pricing is instant. It's like the airline segment, seat pricing.

Where is price fixed? It is really fixed in contracts. So corporate travel, trade business and so on, which is, put together maybe 35%, 40% of my business; and for most people, maybe 40% of their business. So for that segment the pricing may remain the same, depending on whether hotel companies offer new pricing in October. But the 60%, which is not fixed, which is dynamic pricing, will shoot. I have no doubt. Because what we are not seeing yet is, you see, demand is still picking up, but supply impairment has not come into play yet. So my broad guess is that on a permanent basis, about 5% to 8% of demand will disappear because of the Zoom platform and so on and so forth. And we have our reasons for saying these numbers. My guess is, 15% of supply will disappear.

So when you look at that, my best estimate is that, for the industry, Q3 will be the quarter when things will come back to normal.

Nihal Jham: That's very helpful, Mr. Keswani. Just one last question, specifically to Lemon Tree. You mentioned that you have obviously dropped plans of fundraising because internally the cash flows are sufficient, if I understand right. I just wanted a little more understanding on that, because if I look at our performance for December, we are generating a monthly EBITDA of around Rs. 12 crore, whereas the monthly interest, and I know that includes lease also, is around Rs. 14 crore, Rs. 15 crore. So just wanted a sense that in the coming quarter how will this gap be bridged, and a sense of the cash flow situation in the coming three to six months, which gives you the confidence of not wanting a fundraise, that's all.

Patanjali Keswani: Okay. So firstly, cash, we have about Rs. 100 crore, plus we have Rs. 140 crore, which is the emergency credit line guarantees scheme. So put together, we have about Rs. 250 crore of cash. Now if you look at our P&L, and I will not talk about quarter four, but I can broadly say quarter four is much better than quarter three. Quarter 3, the real pickup was not in October, it was not in November because November was significantly affected, again, due to Diwali being middle of the month. It was in December. In December, if I remember right, we did over Rs. 90 lakhs per day in revenue, which is roughly around 45% of our revenue per day maybe in December last year, very rough numbers. This trend line is continuing.

Now as far as our expenses go, the expenses are not picking up at the same level, clearly. Because what we are finding is, we find that the permanent disappearance of our cost is roughly Rs. 11 lakhs a day, okay, or about over Rs. 40 crore a year. That would be a permanent loss of expense. So obviously, some expenses are coming back, that's the broad point I am making, in Q4. Revenue is also improving far more significantly. And if you look at it, therefore, if we are out of pocket Rs. 5 crore, Rs. 10 crore, Rs. 15 crore, Rs. 20 crore, if you remember in my opening statement, I said, we are very comfortably positioned for the next six quarters, assuming worst-case. Worst-case is, by the way, not Q4 nor December. Worst-case is Q3 in our case. So there is no problem from the cash perspective.

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

Amandeep Singh: Sir, the investor presentation talks about gradual recovery from the large corporates. So in that context, can you spend a few minutes to give us some sense on the revival of the overall business travel demand? And give some clarity if this demand is largely pertaining to project-based group travel or also individual-based business travel?

Patanjali Keswani: So I will talk about Lemon Tree. And Lemon Tree, I think because we are in over 50 cities, is a fairly good proxy for industry. So if you look at our segment, and I am talking mid-market, 10% of our demand is foreign travel. That won't come back till vaccination, herd immunity and so on. So in my mind, I am assuming it will not exist even in financial year 2022, that's the assumption here. So that 10% is gone or it will be immaterial, it will be 1% or 2%. Then we have 40% retail. On a normal year, we expect this is going to grow too, anywhere from 45% to 60%. That's what we are seeing happening. So I am doing apple-to-apple. The earlier waterfall was; retail was 40%, 10% was foreign travel, that's 50%; 20% was large corporates, that's 70%; 20%, 25% was small corporates, medium corporates, that's 90%; and about 10% was meetings, incentives, conferences, very roughly.

What I see happening is, this 40% is now going to 45% to 50%. The 10% foreigner is still very low. So I will not treat it as material. The small, medium corporates, those are coming back, they are roughly 50% of what they were, which means earlier, they were 25%; now they might be 10% or 11%. Large corporates, one out of 25. But most have told our sales team that they are going to come back in H1 of this coming year. Meetings, incentives, conferences, which was normally 10%, including some leisure in that, today, it's probably 3% or 4% because it's not that they are not happening, but they are far smaller conferences and weddings and so on. So if you add this together, then we should be about 55%, or 50% to 55% of pre-COVID. But we are seeing a very fast pickup now in small medium micro enterprise travel. We are expecting April onwards a certain pickup in meetings, incentives. Corporates, in our internal planning for the financial year 2022, we have assumed will really come back partially in Q2 and entirely in Q3.

Amandeep Singh: Sure. Sir, that was really helpful. And sir, my second question is on debt and CAPEX. So we believe that larger portion of the debt is into the platform with longer maturity date, can you help us understand debt repayment schedule for FY 2022 and 2023 and annualized CAPEX guidance as you highlighted that internal cash flow would be sufficient?

Patanjali Keswani: Yes. So firstly, let me talk CAPEX, then I will ask our CFO to give you the exact number on our debt. Our CAPEX is really towards MIAL, Mumbai International Airport, right? And 80% of it is for calendar year 2022. Because our business is a little wired , the money goes first into building land and the basement, which is a large company, which we have already invested, about Rs. 350 crore. And that's all equity. Then there is construction of shell. Shell takes nine months typically, but shell is like Rs. 5 crore a month, because you are building the superstructure. Then the finishing and the ordering of the equipment, which is in the last nine months takes care of another 60% of your purchase cost. So from that perspective, we do not have very high CAPEX requirements in FY 2022, which is the coming year. So now I will ask Kapil. Kapil, can you broadly explain what your repayment schedule is?

Kapil Sharma: Yes. Sure. So for next financial year, FY 2022, we have the total repayment obligation of Rs. 115 crore. So that is the number for Fleur as well as Lemon Tree together. Because as you rightly mentioned that in Fleur, many hotel additions were done in FY 2020, and those loans are newer ones, and their initial repayments are lower. So increment is not that high in the initial period, and that's why it's coming to Rs. 115 crore only.

Amandeep Singh: Sure, sir. You could also highlight for FY 2023?

Kapil Sharma: Yes. So FY 2023 is close to Rs. 140 crore. And one thing also I would like to mention that our cost of borrowing has also reduced. So as it was 9.6%, and then at the beginning of the current financial year, now it has reduced by 1%, it is now 8.6%.

Amandeep Sing: This is really helpful, sir. And sir, lastly, on the Hamstede Living JV. So while the entity had aggressive expansion trends pre-COVID, can you help us with your outlook on this segment and guidance of any capital commitment over the next one or two years, if any?

Patanjali Keswani: Not really. Right now, we are not looking at it because in the middle of COVID nobody can travel, we can't even reach out. So to summarize, it's not on our priority list for this coming year. We will review it once herd immunity, once the vaccine disappears.

Moderator: Thank you. The next question is from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharath Subramanian: Congratulations on a set of good numbers in the tough environment that we operate in. Sir, in terms of the governmental support to the industry, a lot of things were expected over the time frame and the government has been talking about supporting the industries when they open up. So we seem to be in a position of opening up to travel, etc., at this point. So should we expect any support from the government through any schemes? Are we, as an industry, in discussions with the government, sir?

Patanjali Keswani: Well, we have been in discussions. See, I am also the treasurer of the Hotel Association of India, so I can say from that lens that we have interacted extensively with the central and multiple state governments. They have given us an enormous amount of moral support. Unfortunately, there has been no financial support. And my best guess is that we will get no support. However, certain states have been helpful. For example, the Maharashtra government has, as you know, converted the hotel business into an industry, so certain benefits were instantly available, which is electricity costs, which were also linked to property taxes and so on and so forth. In aggregate, it would benefit us by a couple of crore a year in Maharashtra. But other State Governments, while they have been supportive, have not been financially supportive. And Bharath, I don't expect it. Frankly, I don't expect it to happen. If it had to happen, it should have happened, at least at some level in the budget. But unfortunately, a sector, which is nearly 10% of GDP and the most badly impacted has not gotten any direct support. However, the way we feel, the budget is going to lead to some uptick in economic activity. And that, in turn, will have obviously an indirect benefit on us.

Bharat Gupta: Fine, sir. Sir, and the second point, in terms of the equity fundraise at different level that you are planning, sir. Is there any change to plans or would you basically take it as it comes, depending upon the requirements going forward? Any thoughts on the original plans and how they stack up now?

Patanjali Keswani: No. See, if you broadly look at us, our cash out is not significant in every quarter. If you look at cash out in Q3 and, as I said, in Q3, October and November were like Q2. It was December that we moved into the new set of numbers, which have continued into January and February. So at about Rs. 1 crore a day income, our cash out is really not significant, it is a small number, maybe a couple of crore a month or something. So as I said, we are sitting on about Rs. 200 -- how much is it, Kapil? Including that emergency product line guarantees fee, about Rs. 250 crore?

Kapil Sharma: Rs. 250 crore.

Patanjali Keswani: Yes. So we are sitting on Rs. 250 crore. At the current very depressed level of performance, we are out by a couple of crore a month. So as I mentioned in my opening statement, it is extremely unlikely that we will need that additional Rs. 125 crore from APG for Fleur. Because as somebody earlier mentioned, Fleur is where our maximum debt sits. Nearly 80% of our debt sits in our joint venture with APG. And we are nearly also equally certain that we will not need any rights issue. So that was really a perspective that came in the middle of last year when there was uncertainty about when will the bounce back start happening. But the bounce back is very clear now in Q4. And with that, even those clients who do not use us today have told us we are going to start from the next quarter.

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

Sumant Kumar: Yes. So my question is regarding supply. So can you discuss more about how much percentage of supply is likely to go out from the market? And if the supply is going out from the market, what it will be converted towards, that supply?

Patanjali Keswani: So, I am talking industry again before COVID. Let's assume there are 100 rooms and industry occupancy was 70 rooms, 70%, this is industry, okay, branded hotel, supply and demand in India. On an annualized basis, pre-COVID, for the previous, say, seven, eight years; on an average, every year demand had grown at 11% a year. Supply has grown over eight years at about 13% a year. So there was a demand-supply imbalance, which is why the industry did not really go through any significant price hike in the last seven years, 10 years. This is the background.

Post-COVID, when you look at this demand of 70, I expect a reduction of about 5, permanently, which would be 6% of that 70%, which would be fundamentally due to new ways of communicating, like Zoom, so on and so forth and fewer face-to-face meetings. However, large corporates have now become a small segment or driver of rooms in India. So I am just assuming that, that 70% will become 65%. Supply side, that 100% will definitely not be more than 85%. So your new numbers, once things stabilize, will be 68 divided by 85, which is nearly 80% occupancy. That is my estimate, will start playing out by the next calendar year, and it will lead to fairly significant increase in prices.

Sumant Kumar: Can you discuss more about the 15% of the supply, which is not going to be, it is converted to what of commercial spaces, or what it is going to be with the supply?

Patanjali Keswani: It may not be converted, it may not be a bad asset, not operating. Like there are plenty of such hotels already. So you are asking me to really comment on an area where it is still playing out. Really, if you look at it, Sumant, you will start getting a picture at the end of this quarter, when NPAs start coming in and when banks want to clean up . So if we look at it very broadly, it's evident that the government of India and the Reserve Bank of India are both focused on asset quality reviews and cleaning up balance sheets of banks. When that happens, one of the results will be the hotels that have been utterly stretched in the last 9, 10 months, and continue to be stretched for the next few months, they will start popping up. So some of them will obviously change hands, some will get into disputes and will not operate only. Difficult for me to say what will happen.

But broadly, based on conversations I have had with hotel owners, this stretch will become evident now. Because earlier you had a moratorium, you had very clear government support. But when that all is withdrawn, then the real picture will emerge. So this is a very broad guess, an area of it. But supply disruption will be certain. And I think we will be playing catch-up also because demand growth has always been 11%, 12%, that should come back into play. Some level of supply disruption and no future growth of supply I reckon for the next four, five years. Because it has been so badly broke, the industry, that nobody wants to build hotels. So all this should play out. But best guess is, next year onwards you will start seeing significant movements in pricing in the hotel sector, after 15 years by the way.

Sumant Kumar: So when we talk about the 15% supply disruption, what segment we are talking about, majorly in luxury segment?

Patanjali Keswani: No. In fact, luxury will be less. It will be in the lower segment, from upper upscale downwards.

Sumant Kumar: Okay. Downwards?

Patanjali Keswani: Yes.

Sumant Kumar: So talking about the MICE thing, and I think you mentioned in your commentary that April onwards we can see the MICE activity will start. So can you talk about how the inquiries are in MICE segment currently?

Patanjali Keswani: Vikram, can you give a flavor on what the weddings, etc., are looking like in Q1? Or in fact, give us flavor from Q3 to Q4 to Q1.

Vikramjit Singh: Absolutely. So I will tell you there are multiple segments. And within the MICE segment, let me give you a flavor of how it works in India. See, weddings happen primarily on saya days, and there are roughly about 100 saya days in a year, 100 to 120. And each wedding or each saya day typically has two or three functions, pre and post, primarily pre, like the function which precede a wedding. So like Mr. Keswani was mentioning, another reason why October and November were kind of slow and dull, it was because the saya days for this fiscal actually started in December. We had I think 14 fixed days, if I remember correctly, in December alone. January had a few, but February is, again, got multiple saya dates, and we already have multiple weddings booked at all our hotels, which cater to this kind of demand.

The good part is that in quarter one next year, if I look at the multiple thing, from 42 to 45 saya days alone exist in quarter one. And if I were to multiply that into two, so at least 90, if not 120 functions will happen definitely. So the MICE segment is looking very promising in the coming quarter. I also want to mention another segment which has come into play now is the movie crew segment. So a lot of serials are being made for Netflix, Amazon for the OTT segment. And they are now basing themselves in one location, they are taking bulk rooms in our hotels and this crew stays over a period of one and a half to two months while shooting is going on. So that's a new segment that didn't exist earlier. So like I said, multiple segments are playing out.

Some new segments coming in. And I think going forward, this trend will only improve as we go forward.

Sumant Kumar: So the two segment is driving wedding and OTT, you are talking about the new segment. What other old segment we have in the MICE thing, what are the inquiries like, all the business conferences, are we getting inquiries for that maybe after three, four months or for May month and April month?

Vikramjit Singh: So I will tell you, from the corporate segment there are two types of MICE businesses. So the large IT companies use something called the new joinee business. So typically, what happens is, inductions happen for new joinees, where they book rooms and they do the inductions. Where they book a lot of our hotels, especially the ones in the South, in Bangalore and Hyderabad. That segment has just started. We have just seen a very little trickle happen in one of our hotels in Gurgaon. But like I said that segment is going to go slow even for the current quarter and we will probably see some green shoots only in April, May onwards. The SME segment has already started performing. They have already started booking small conferences, especially sales conferences, because in the SME segment, the one vertical which has really started trending now is the sales vertical. The salespeople are out in the market because they need the business to survive. So that part of the business is already coming back. And they could be booking directly with us or they could be booking through an online travel agent.

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

Amit Agarwal: I just want to get more clarification on the cost reduction. So, I think the number was about Rs. 40 crore, Rs. 45 crore annually. Is it possible to kind of trickle into different vertical heads, utilize power, employees, etc.? Some basic idea where exactly is the cost reduction happening. I am talking about the permanent ones.

Patanjali Keswani: Okay. So three significant areas. Area one is manpower. So, I hate using cliché, but like they say, don't let the crisis go to waste. So what really happened, Amit, in Q1 and Q2 was that many of our hotels were doing very low occupancies, but some hotels were doing higher occupancies because of COVID and BCP and whatnot. However, because of the crisis, a lot of staff were not there. They had gone on leave or were not physically there and unable to come. So actually, at peak, we had over 2,000 employees of Lemon Tree staying in hotels of ours on a full-time basis in order to actually cater to the needs of our guests. At that time, a number of very innovative practices started in our system. So basically, what we have discovered is, along with what we have done on the digital front in terms of digital menus and in check-in, check-outs, whatever we have done, we find that our staffing requirement is significantly lower than what it was earlier. So our normal staffing levels for our 8,000-plus rooms is one staff per day on an aggregate, which means we had over 8,000 employees. We were running these hotels, these are the big hotels at 0.4 staff per day. Sure, certain services were curtailed like spa, gym, swimming pools, restaurants and banquets and so on. But as gradually staff started normalizing and some hotels started getting multiple types of business, especially the large JK hotels like Delhi and Bombay, we find that we can operate at 0.75 staff per room, at full-service levels. So really, we are talking about 2,000 staff no longer required in the system. So we have decided that, obviously, we are not going to fire anybody, but as it is, there will be no backfilling. So first is staff.

Now typically, staff accounts for 20% of our revenue. We will save a minimum of 4% here, minimum. Now if you take our revenue, 4% of it, that goes straight into EBITDA. Second, power and fuel. Now we decided also that since we had a lot of time, many hotels were shut, we are going to publish our first ESG report for Lemon Tree in this coming year, so we were reviewing multiple things, including our waste management metrics, our water usage and our electricity usage. And we are now planning that by the end of the next-to-next month, that is end of April, from 5% renewable we will take 31% renewable for the whole group. That will lead to a significant drop in power and fuel expenses, plus whatever we have put in practice. So the power, which is typically 10% to 12% of revenue, we think we will drop by at least 2%, perhaps 3%. So one is, minimum 4% we will go from staff expenses, minimum 2% will go from power.

Then raw material cost, we had a certain kind of food cost, we were giving a certain kind of buffet and we were offering certain types of meals. Now with digital menus, we find we have an ability to change them on the spot based on availability of produce, freshness and price. So we won't have a static menu. Our menu will now be a function of input cost and availability. And we reckon that our food cost, so our food revenue is typically about Rs. 100 crore. Our food cost used to be about 36%. Our new number is 29%. So we reckon we will save about Rs. 7 crore, roughly Rs. 8 crore a year in food cost, okay, which on an annualized basis should be about 1% of our revenue. So I am just giving you a flavor. And of course, the 12% saving in interest. So put together, we our minimum savings above the line and below the line will be Rs. 60 crore permanently, interest and these costs. So those will flow straight, I mean, Rs. 45 crore will flow straight to net EBITDA and below net EBITDA will be a product saving of about Rs. 16 crore, Rs. 17 crore.

Amit Agarwal: Another question regarding the future strategy. I am talking about not one year, probably two to three years down. I know you have given some of the management contracts, which you have entered into what should be relevant in FY 2022, 2023, et cetera. But my question is, are you looking at any expansion from the Fleur Hotel?

Secondly, you have just got a new brand, Aurika. So is there going to be expansion in the Aurika brand also? Is that going to be through management contracts or through owned? So the question is, any amount of owned/lease hotels, which you are planning in the next three years, let's say, time frame, not one year specifically? And if so, what's the plan in terms of, is it going to be a higher-end level or lower-end level and geographically, apart from what you thought of?

Patanjali Keswani: Okay. So let's start with first investment, you are talking investment. As far as we are concerned, we are currently the second largest owner of hotel rooms in India. Well, we treat leased and owned because our lease periods are 30-plus years. We already have 5,200, we are adding another 800, so that's 6,000 rooms. I think we don't want to own any more assets. In fact, the Board has been discussing how, once things normalize, we can actually recycle cash out of the asset side. So the short answer is, capital investments, no. But lease, lease is not a capital investment, though today with the new accounting standard 116, it does appear, we have to show papers and whatnot. But from a cash flow perspective, we find lease has been generally very profitable for us, because lease really means, in synopsis, that I have taken asset, let's say, Rs. 100, I pay a rental of Rs. 2, and I try and make Rs. 4 return. 4% return on the asset, and I get half the profit by investing close to 0 capital. So yes, we will look at leases.

The best assets, however, we are looking at, we are looking at expanding within the management side. So management, we are in current conversations. As you know, our current plan is that by the end of 2022 we should be operating a little under 11,000 rooms, of which 6,000 will be owned and 5,000 will be managed. There may be some delays because some owners have been very cash strapped who are building their hotels. But we will be opening a few hundred rooms in the next six months, and another few hundred in the following six months. So we are pretty sure we will be close to 11,000 rooms. But we have a pipeline of another I think 30, 40 hotels where there are active discussions on, which will add potentially another couple of thousand rooms over the next three to four years. Sure, in the next two years we are going to go very aggressive in the management side and try and increase this number.

As far as Aurika goes, Aurika has been a super success in Udaipur. We had shut it down for a few months. But since we have opened it, it has been doing very well. But Udaipur itself has been doing well, so I don't want to just blow my trumpet. But as a leisure property, it has done phenomenally well. And Aurika was really in order for us to expand share of wallet of customers who wanted to stay one step above Lemon Tree Premium. So the Bombay Hotel is also an Aurika. It is, as I said earlier, the largest hotel in India at 670 rooms. We are building it even today, and we hope it should be ready by the end of next year. So after that, Aurika will be a management play. Typically, for everybody to know, every 1,000 rooms you manage, your share of profit, based on management fees, is one-sixth to one-seventh, based on how you perform. So 1,000 rooms managed is equivalent of owning 150 rooms with zero risk.

Earlier in India, there were not enough branded hotels or high-quality hotels. So that even if we went out to manage, even the largest management companies in the mid-market space manages 2,000 rooms, we have got 5,000 rooms. Which is the total number of mid-market rooms in India would be 55,000 and the total number of upper upscale rooms will be about 20,000. So there was a problem of supply more than a problem or desire to manage. But we reckon now, we should conservatively be able to double the size of the company in the next four to five years, but we will not deploy capital. We will look at ways of recycling in fact our capital instead of redeploying.

Amit Agarwal: Sure, sir. Just one quick question, I know you have answered this before. You gave a very detailed answer, but if you can just help me with the number for FY 2022 CAPEX and FY 2023 CAPEX. I am sorry for repeating the question.

Patanjali Keswani: Okay. So CAPEX in FY 2022 is variable. It is a function of our cash flows. So right now, see, you want the optionality of flexibility to open Aurika Bombay by end of next year. Now what does that means? It means that we have to have a certain minimum level of work, which requires maybe Rs. 3 crore to Rs. 4 crore a month now for the shell for the next six months. What we are basically trying to create is, we are spending a minimum amount of capital, which is I think last month was Rs. 3.5 crore, which we will increase to roughly Rs. 4 crore, Rs. 4.5 crore now. So I can talk to you about CAPEX for the next six months, which will be south of Rs. 40 crore, okay?

If things come back as we hope they will, then we will accelerate deployment of capital in Aurika Mumbai. If they don't, then that project will get further delayed by six months. Because what we are doing is, we are trying to keep a certain liquidity buffer and seeing how much spare cash we can generate from operations, which can be deployed increasingly towards Aurika. Now our expectation is, in H1 we will do significantly better than in Q4. If that happens, then we will have some spare cash, that will go in to Aurika. So if you understand what I mean, I am saying that it's difficult for me to give you a number. The right time to ask me this would be after Q1 of this current year, because we want to see whether cash flows pick up to the level we are expecting. In which case, we will be positive on cash. And that Rs. 250 crore will still remain as a buffer. So it's really the run rate we are talking about now.

Now if we decide that things are improved and who knows that in H1 this year we will hit 70% of pre-COVID, then there will be sufficient cash in our system, we will build out a mile, and we will have it ready by the next year. Suppose things are not good, then we will deploy obviously less money in that and keep our liquidity cushion with us. So when things improve, we will accelerate. Till they improve we will not accelerate, broadly that's the thought.

Amit Agarwal: Thanks a lot. Congrats for a good set of numbers than the last time.

Patanjali Keswani: Thank you. I just wanted to actually draw the attention of everybody who's listening. From a percentage increase in Q3, it looks like we didn't do as well as others. But the reality is we were doing very well in Q1, Q2 in occupancy numbers based on what was happening in India. And today, if you look at the listed universe, all the four players, their revenues in Q3 are between 60% to 69% below Q3 the previous year, we are in the middle of that. Expenses is between 20% to 60% less than the previous quarter, we are at the top end of that, our expenses are 60% below. In terms of EBITDA, we are (-74%), the others are between (-90%) onwards. Other point broadly is that, if those of you who have gone through the Smith Travel Research report of Q3 in India in the branded hotel segment, you will discover that Lemon Tree versus India occupancy was at a 30% premium. So when we did 42.4%, India occupancy was 30% in Q3. Just thought I would draw your attention to some of these numbers.

Moderator: Thank you. The next question from the line of Rajiv Bharti from SKP Securities. Please go ahead.

Rajiv Bharti: Sir, my question is on slide number 15 of the presentation, which talks about your Q3 occupancy of Lemon Tree Premium, just came up to 56%, which is the best among your portfolios. But there has been a drop in the ARR. Have you picked up some business off late? Because you talked about that your non-COVID piece has gone up actually, so your ADRs have dropped despite your increase in your occupancy. And same thing, on the same slide when you see the Mumbai asset where your occupancy has gone up to 59%, there also the ADR has dropped. And you also mentioned that in Q4 the occupancy is at 80% odd. So is there any business which you have picked up which is on the lower ADR side?

Patanjali Keswani: Yes. So Rajiv, synopsis is, this is all dynamic prices. So how does pricing work? Think of it conceptually, that we don't have any fixed rate business currently, okay? And that won't come really until this vaccine has become available, therefore, let's assume that will not come until Q2 next year, okay? Now we come to these hotels. We are all getting, what we call, retail business. How does retail business operate? It's very simple. It's a function of customers going and looking at three, four hotels and then taking a call. So we are, in that sense, very, very market-driven in our pricing.

From a conceptual, we just think that technology platform is the following, which is that we look at pricing of what we define as our six competitor hotels in each market. So let's take Mumbai, we scan Mumbai and say, within a distance of 3 kilometers here are 6 hotels who compete with us roughly on pricing, quality and standards. What we do is we determine in advance our premium or discount to each of those hotels. And what we do is, therefore, using tech, we try and say that I am just giving you an example, Marriot Hotel in Bombay is at 3.5. Leela is at 6.5. JW is at 6.2. Hyatt is at this. Hilton is at this. We want to be 0.75 of this hotel, 1.1 of that hotel, etc., etc. And using this formula, we come to a price. And that's our price.

That price is determined by market dynamics, not by us. And the only time it will increase is when the entire market's pricing goes up. Otherwise, there will always be a spoiler or two who will try and take business at a lower price. Which is why I said that in Q4, with an improvement in demand, pricing is also starting to get a little more rational. Therefore, price pickup will happen. And this is true for any hotel in India, only when there is sufficient demand in that micro market. Now Bombay will start showing price pickup because, as a market, it is so deep, among all the markets, as you noticed, I mean you can see it right here, that among all the markets, in occupancy percentages, it is the highest. It's our newest hotel by the way, but it's already been 60% in Q3 and 80% now. So that's where it will come. I can't be more specific than that, because we don't determine pricing, the market determines pricing.

Rajiv Bharti: Sure. Sir, on 80% number, the areas would be at par with Q2 as of now the visibility or it will be something like Q3, 3,000 on the Mumbai asset?

Patanjali Keswani: Well, I don't have the numbers offhand, but the ADR of the group, because the occupancy is going up, will start improving. But there will always be a lag. There is always a lag between demand and price. And the sector has gone through so much uncertainty, that there is naturally a hesitancy to increase pricing. And that's why I said, price catch-up, my best guess, it will happen in H2 next year.

Rajiv Bharti: Sure. Sir, on Aurika, the 29% occupancy. So we were shut for what period of Q3 on the Udaipur asset?

Patanjali Keswani: You see, it's not only being shut, it's how many rooms are open. So see it from this perspective, that I think in Q1 we were shut completely. Q2, we were partially shut. Q3, we were partially shut. So you see, Aurika is built along three room blocks. So sometimes we would open one block based on demand and not the other two, then two and so on. So I can't give you an offhand number. But suffice to say, it was not open 100% in Q3. There were parts time when it was fully opened when we had a wedding, parts time when it was half open or one third open and so on.

Rajiv Bharti: Sure. Sir, lastly, on your Hyderabad market. So Hyderabad market in December, as per your data, has done 45% kind of occupancy. I mean, some other listed player, largely Hyderabad heavy, their numbers on the revenue side is I think close to 45%, 50% for the quarter as such. Are you seeing that market picking up any time soon?

Patanjali Keswani: See, we have, I think, among the largest inventories in Hyderabad, I don't know. I think one other large player there is probably -- well, there Taj and Chalet, they both have hotels there. But we are very distributed. So we have 400-odd rooms in HITEC City, we have 200 rooms in Gachibowli and nearly 100 rooms in Banjara Hills in the ownership side. So each market performed differently. For example, HITEC did well. Gachibowli did well in Q1 because it had a lot of OTT business, but didn't do well in Q2 and Q3. HITEC did well in Q2 and Q3. Banjara Hills, unfortunately, was a COVID hospital. And while we had a tie-up with Apollo, we didn't get the kind of business we thought. We did only about 20% occupancy there. Now Banjara has picked up.

So this is, I don't know, a moving picture. Broadly, Hyderabad is not doing badly. It is doing as well, we did 42.4% on sale inventory, Hyderabad did 45.2%. So it did somewhat for premium, but at a very low rate. Delhi is showing good signs of pickup. Bombay is showing good signs of pickup. Gurgaon is showing very early signs, but not as good. Because it is so heavily dependent on corporate, as you can see, it did 30%. Similarly, Bangalore, which is, in fact, within corporate, heavily dependent on IT. And IT, as you know, was a big sector for hotels. So these will revive at different times. I can't give specific answers because I myself don't know. But broadly, I expect a bounce back in Bangalore in H1 and Gurgaon, because that's when the corporate sector would start performing. I think that's what we have been given to understand.

Rajiv Bharti: Sure. Sir, one last question. On the Keys asset side, the CAPEX number you talked about, to upgrade it to Lemon Tree standards and become more remunerative, is there CAPEX which is planned from the Keys side as well?

Patanjali Keswani: Not for this year, not for coming year, the following year.

Rajiv Bharti: Any ballpark?

Patanjali Keswani: Yes. We had looked at about Rs. 1.5 lakhs to Rs. 2 lakhs a Keyy. So about Rs. 18 crore to Rs. 20 crore.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Patanjali Keswani: Thank you everybody for listening in. I look forward to interacting with you when we declare this current quarter results. Thank you.

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

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