February 13, 2024

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

NSE Scrip Symbol: LEMONTREE

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400001

BSE Scrip Code: 541233

Subject: Disclosure under Regulation 30(6) of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Ref: Outcome of Conference Call with Analysts/Institutional Investors

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and in continuation to the disclosure made on February 9, 2024 wr.t. the audio recordings of the conference call on Unaudited financial results for the quarter and nine months ended December 31, 2023 held on Thursday, February 8, 2024 at 4:00 PM IST, please find enclosed herewith the transcript of the conference call with investors/analysts.

This is for your information and record.

Thanking You

For **Lemon Tree Hotels Limited**

JYOTI VERMA
Digitally signed by JYOTI VERMA
Date: 2024.02.13 18:45:18 +05'30'

Jyoti Verma
Group Company Secretary
and Compliance Officer
M. No. F 7210

Lemon Tree Hotels Limited
Q3 FY24 Earnings Conference Call Transcript
February 08, 2024

Moderator: Ladies and gentlemen, good day and welcome to Lemon Tree Hotels Limited Earnings Conference Call.

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

Anoop Poojari: Good evening, everyone, and thank you for joining us on Lemon Tree Hotels Q3 FY24 Earnings Conference Call. We have with us Mr. Patanjali Keswani, Chairman and Managing Director, and Mr. Kapil Sharma, Chief Financial Officer of the Company.

We would like to 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 maybe 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 G. Keswani: Good afternoon, everyone and thank you for joining us on the call. I will be covering the quarterly business highlights and the financial performance for Q3 FY24, post which will open the forum for your questions and suggestions. In Q3, Lemon Tree Hotels continued its growth momentum from the previous year. Q3 was the best ever Q3 performance in terms of ARR, Revenue and EBITDA. Q3 FY24 recorded a gross ARR of Rs. 6,333 which increased 10.4% Y-o-Y and 20% Q-o-Q. Occupancy for the quarter decreased by 163 bps Y-o-Y and by 572 bps Q-o-Q. This translated into a RevPAR of Rs. 4,176 which increased 7.7% Y-o-Y and 10.6% Q-o-Q. Total revenue for the company was Rs. 291 crore which was higher by 24% Y-o-Y and 26.4% Q-o-Q.

The net EBITDA margin for the company in Q3 FY24 stood at 48.8%, which decreased by 547 bps Y-o-Y and increased 325 bps Q-o-Q. The decrease in EBITDA margin Y-o-Y was mainly owing to planned increase in payroll and renovation expenses above that spent in Q3 FY23 and some impact of Aurika, Mumbai, Skycity which opened on 5th October, 2023 and which is not yet stable. The renovation expense for the portfolio increased by Rs. 5.5 crore Y-o-Y and by Rs. 4.8 crore Q-o-Q, which translated into a reduction in EBITDA margin by about 2% points. The Keys portfolio EBITDA margin percentage decreased by 9% points Q-o-Q due to an increase in renovation expenses of about Rs. 1.8 crore over the previous quarter. Fees from managed and franchise contracts for third-party-owned hotels stood at Rs. 15 crore in Q3, up 50% from Rs. 9.8 crore in Q3 FY23. Total management fees for Lemon Tree, including fees from Fleur hotels were up 25% Y-o-Y at Rs. 32.3 crore compared to Rs. 25.8 crore in the last year same quarter.

Hotel level revenue from the owned portfolio increased by 18% Y-o-Y and network revenue for Lemon Tree that is the total system revenue of owned hotels including Aurika MIAL and managed & franchise hotels also increased by 18% Y-o-Y. Total network revenues stood at Rs. 1,128 crore for 9M FY24 as compared to Rs. 950 crore in 9M FY23.

During the quarter, we signed 9 new management and franchise contracts, which added 621 rooms to our pipeline and operationalize 6 hotels which added 967 rooms to our portfolio. I'm happy to inform you that as of 31st December, 2023, our operational inventory comprised 100 hotels with 9,687 rooms and our pipeline comprise 55 hotels with 3,746 rooms. As of now, we expect our operation and inventory to be over 105 hotels with over 10,000 rooms by end of FY24.

The launch of Aurika, Mumbai, Skycity represents a major milestone in our company's journey. The hotel has already started to contribute positively to our portfolio, attracting both business and leisure travelers with its luxury facilities, prime location and exceptional service. With no major capital expenditure plans in the near future, we will now focus on strengthening our balance sheet and starting next year, we will be reducing our debt which will peak by the end of this year. With this I come to the end of my opening remarks and would ask the moderator to open the forum for any questions that you may have. Thank you.

Moderator: The first question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: My first question, I'm referring to slide #11 of your investor presentation, is the decrease in hotel level EBITDA margin Y-o-Y across your portfolio entirely attributable to planned renovation expenses or are there any other reasons? And on the same slide that you have reported flat to declining RevPAR for Bangalore and Pune, while your peers have clocked much higher RevPAR. So what explains that? And how do you see these markets catching up for you with the rest of the markets going forward?

Patanjali G. Keswani: Karan, if I look at Q3 FY24 and compare it with Q3 FY23, then one is the payroll increase because I think I mentioned also in earlier calls that COVID had led to a huge backlog in terms of deferment by us in increasing salaries and so on and so forth. What you are seeing is a catch up to the norm. Payroll accounted for roughly 2.4% increase as a percentage of revenue. Remember, revenue is still not what it should be, because as you mentioned, Bangalore is one issue, Keys is another issue, and, of course, Aurika Mumbai catching up, because a part of this payroll increase is directly attributable to Aurika, Bombay. The second impact was, as we move towards more and more retail, about 0.8% of our revenue cost was due to increased commissions to travel agents and to credit cards and so on and so forth. Rent rates and taxes because of the opening of Aurika, Bombay and because of increases across India, these are by governments, were accounted for 0.6%. Other expenses, which is an increase in our spa and transport accounted for 0.5% and renovation accounted for a little under 2%. If you add these 5 headings which is payroll, travel agent commissions, rent rate taxes and other expenses, and of course, renovation, this accounts for a 6% increase over last year as a percentage of revenue.

Now when Aurika MIAL picks up because Aurika obviously proportionate to its inventory and its earning capacity did much much less than what it will do once it stabilizes. This optically appeared to be an impact on the P&L. But when Aurika picks up which is 13% of the total inventory and over 20% of the total revenue, then this will automatically reduce as a percentage of revenue. Let me give you a very specific way to look at it. In FY23, hotel level expenses were 41.6% of revenue, renovation was 1.8% of revenue, and corporate expenses were 4.7% of revenue. Therefore, we closed at roughly 48% of revenue, all these 3 main expenses, and that's why the EBITDA margins were about 52%. Now this year, what is happening really is that Aurika is not yet contributing. When Aurika starts contributing, really you will see the impact next year. I looked at it very broadly, this year, our expenses will total about 51% of revenue. Our EBITDA margins will be about 49%. Next year, as EBITDA picks up in Aurika, our EBITDA margins will again cross 50%. This is specifically to 2 key markets. See, when you look at our hotels, I would urge you not to compare our RevPAR growth and so on and so forth with the luxury hotel operator because their segments are different, the price sensitivity and elasticity is different and so on. About 1/3 of our inventory is still in markets which have not really done as well as they should have as they did pre-COVID. Let me give you specific examples. Bangalore, Hyderabad, Pune and so on, are enormously dependent on the IT sector and hiring in that sector. And as I think all of us are aware, the IT sector instead of hiring, has been laying off. Obviously, we are looking at other sources of demand, but till that picks up, some of them like you mentioned very specifically Bangalore and Pune, these have been affected fundamentally because there has been a drop in demand from probably the largest demand generator for our hotels in these markets.

Karan Khanna: Just continuing on Aurika MIAL, how is the ADR and occupancy levels trended on a month-on-month basis? How has been the customer mix for third quarter and how do you expect that trending during fourth quarter and possibly in FY25? And as a follow up, but there's also 130 Hilton Garden Inn that's being built right next to the hotel. How do you think of that perhaps impacting occupancy is more so for Lemon Tree Premier and also the Aurika MIAL?

Patanjali G. Keswani: Hilton Garden will have zero impact. It's in a completely different category. In Q3, we did sub-40%, in Aurika, which means we did about 250 rooms or something like that. It was in Q3. In Q4, we are over 60%. Obviously, as I had mentioned earlier and I think I said this very categorically even in the last 2 calls that Aurika will optically have a big impact on our P&L because as an example, its depreciation and its interest cost because it is a leased asset, the land is leased from the government. Is going to have a big impact on below the line expenses. Aurika is a 19 plus crore below the line expense every quarter. In cash terms, in real interest on debt on it, it's only 6.6 crore, but there is another 13 crore which is the depreciation and the interest cost of the lease because of these new accounting standards as you are all aware. #2, Aurika, with 13%-14% of the total inventory, when it does under 40%, it deflates the entire picture. But I would urge you to look at the company excluding Aurika, look at it now from Q4 onwards because that is when you will see its stabilization. What we will do is at the year end, we will give a separate presentation on Aurika, Bombay how we are looking at it in Q3, Q4 and for the following year in broad terms. So you get a better fix. Because my expectation is next year Aurika will meet the company average in occupancy, and roughly where we target the ARR which I mentioned to you earlier and I think both will be doable.

Karan Khanna: My last question, If we look at your portfolio ARR growth has been around 8%-10%. Do you believe that you will be able to reprice at mid-teens next year when you have mid to late 70s sort of occupancies?

Patanjali G. Keswani: Obviously, Karan, if Aurika does what I think it will do, you will see the first impact in this Q4, and then certainly that will give you a guideline to see what will happen next year. I don't want to give specific guidance. But let me put it this way that when Aurika starts firing, it will add 20% to our revenue, and it has already in terms of cost structure, I think it is quite clear that it will do in next year hotel operating gross margin of 60%. It will be an enormous contributor, and that alone will take the averages up. The rest, frankly, I think Delhi will do much better because when I said we are renovating, we are renovating with 2 strategies in mind. One is wherever we think we can reprice enormously, we are putting a disproportionate amount of renovation expenses there, and where we need to basically renovate to maintain brand standards. Keys, some hotels across India are getting a much smaller allocation to refresh them. But some hotels like Delhi, Hyderabad, and Gurgaon, these will get a very large investment made in them in order to reprice them more. If all that works, then I think you are not far off the mark when you say, we will be looking at mid-teens.

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

Archana Gude: I have 3 questions. Just to follow up on Aurika, Mumbai, any update on any major contracts signed during last quarter or maybe Jan of this quarter and some color on rates and the number of rooms signed with the corporates?

Patanjali G. Keswani: See when the hotel of this size opens, think of it this way, it is like opening 3 hotels in Bombay, one next to the other. Normally, it takes us 6-9 months to stabilize one 220 room hotel, but here we have opened 670 room hotel. In order to make sure that we covered our costs in Q3 and continuing in Q4, we have a very large airline crew base. This is a well opportunistic measure and obviously it gives us the breathing space to build demand. Really, our strategy is to build demand in Aurika, Bombay across all segments. We would ideally not like more than 100 crew rooms, which is 15% of the inventory and 150 corporate rooms, including meetings, incentives, conferences, and then another 200 to 250 retail rooms, that is broadly our strategy for next year. Coming specifically to Q4, while this crew business will continue, we do have one large conference and I think it is Miss World which has been booked with us. We are getting I think over 100 rooms for about 14 days, that will give some visibility to our hotel and it will obviously add to the occupancy. I think the room nights promised are about 1,700-1,800.

Archana Gude: Sir, on this renovation of hotels, how many hotels we have already completed the renovation and how many are yet to be done, any timeline for these hotels to be renovated?

Patanjali G. Keswani: This year, I think we will spend about 40 crore this year. Obviously, when we renovate, we shut inventory. As of right now, I think about 300 rooms are shut as we speak and are really not operating, for example, over 100 rooms in Keys Whitefield has been shut to upgrade the Keys Hotel there. Renovation is not that we do one hotel first and another hotel second, we do all the hotels, we shut parts of the inventory and renovate, and it's a little bit of a painful project also let me tell you much more than building a new hotel. We will continue, we have renovated aggressively. Now this coming summer, we will renovate an even larger part of the portfolio. Our intent is broadly by the end of H1 this coming year, we will have renovated most of the Keys portfolio, we will have renovated most of Lemon Tree Premier Delhi, a large part of Red Fox, Delhi, a large part of Lemon Tree Premier, Hyderabad, parts of Red Fox, Hyderabad and done freshening up in various other hotels across India, this will be an ongoing project and let me also add that this will continue into the following year. But the single largest effort will be put this coming year, because our capital requirements now are close to zero. We will obviously be putting money into renovation because we think we can reprice some of these hotels and increase occupancy in the Keys portfolio if we improve these hotels, that is broadly the strategy. Am I clear to you?

Archana Gude: I was asking about this repayment of debt. If you could help us with scheduled debt repayment for FY25 and FY26 as well as some Capex guidance for these 2 years?

Patanjali G. Keswani: I will give you a broad viewpoint, I don't want to be too specific. We will close this year and the way we look at it is debt by EBITDA. On a consolidated basis, we will close FY24 with the debt by EBITDA of roughly 3.7. Based on our expected performance next year, our debt by EBITDA by the end of next year will be under 2.5 and in the following year, it will be around 1.5. As I had mentioned earlier, we plan to get debt-free at least right now over the next 4 years. I think that is very likely, this is after the renovation expenses, which will be significant, which we will incur next year, and of course the cost that will go into building. We have reviewed the hotel in Shimla and it is looking so beautiful that we have decided to make it an Aurika. In Naldehra, Shimla, we will be launching close to 100 rooms Aurika in the next I think 12-15 months, it includes that expense also.

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

Sumant Kumar: My question is regarding ARR, considering lower supply in luxury segment and downtrading towards say our hotel ranging from 5,000-7,000; the renovation of the current portfolio and any other dynamics we can consider to have our ARR in lower double digit ex of Aurika, I'm not including Aurika?

Patanjali G. Keswani: Actually, Sumant, if you can give me a very specific question. Broadly, once we renovate the Keys portfolio, we will take the average rate up and try and target the current rates of Red Fox, which means I am saying, we will try and take the rates up by Rs. 800 to Rs. 1,000. However, this will not happen instantly because we have to build an entirely new customer cohort for that. It will take some time. But I think we are pretty confident that once we upgrade these hotels, we will be able to take the average rates and the occupancy up. Right now, my bigger concern with Keys and I'm talking brand wise is that the occupancy is low, I mean while the occupancy has gone up, it has gone up very marginally versus last year. Part of the reason as I had mentioned earlier is the demand of IT hiring and IT business because there is a large part of Keys like in Pimpri, in Pune and in Whitefield and in Hosur which is dependent on the IT sector. But I am pretty confident that when we finish this renovation, we will start getting a significant increase in occupancy, followed by an increase in average rate. As far as Red Fox goes, we think it will continue to increase its ARR every year by 8-10-12% points. Remember, it operates in the lower end of the mid-market segment. Well, we are focusing on renovating a large part of the Lemon Tree and Lemon Tree Premier portfolio and that will obviously lead to a far more significant increase in price, once this renovation is over. But I don't want to give specific numbers. Let me just say this, that Lemon Tree Hotels, I feel there is some juice in further increasing occupancies and in both Lemon Tree Hotels and Lemon Tree Premier there is some juice in increasing rates.

Sumant Kumar: How is the supply scenario in this category?

Patanjali G. Keswani: Well, supply is growing. I think nationally about 5% a year. That's what I read in here. It's very difficult for me to personally know what is happening like that. But consulting firms are saying it is like a 5% growth and demand it is true is growing faster on an all India basis, but different markets have different demand parameters. Like you will find in Bombay there is very high demand, in Hyderabad, there is now very high demand, Gurgaon has really picked up. We expect that this coming year we will do much higher occupancies in Gurgaon. But my bigger concern is Bangalore and Pune and these are the 2 markets I need to push up.

Sumant Kumar: In these 2 markets, supply is higher?

Patanjali G. Keswani: No, not supply, it is actually demand.

Sumant Kumar: And the category demand wise, the price point I'm talking about luxury, we have a lower supply, but when you see the budget hotels and mid-scale hotels, we have a higher supply. Can you comment on that? Is that impacting your ARR growth?

Patanjali G. Keswani: Not really. Actually as a brand we are quite strong in these segments. We do get very preferred choice by customers. It is very clear that is why we are confident about growing the retail side. But till we grow the retail side, we don't want the corporate side to shrink. But, unfortunately in Bangalore and Pune, it has not been the increase in supply, it has been the drop in demand. I am talking about as a market in the mid-market segment.

Moderator: The next question is from the line of Parth Agrawal from Bastion Research. Please go ahead.

Parth Agrawal: My understanding is that corporates have been paying retail room rates lately and they have not yet negotiated, basically the discount that they generally get. Is that the case with Lemon Tree as well because you almost ended close to 1/3 of our room inventory from corporates?

Patanjali G. Keswani: Parth, that's an interesting question. Let me explain. Traditionally, pre-COVID, our retail was much higher than corporate. That was because we had large corporate clients who would negotiate hard and they would give us business across the region. And while there was stability in demand, the overall impact was they would want rooms in peak times in all our hotels when we could have sold those rooms and at lower rates. As a conscious strategy last year, we took our prices up for corporates and we reduced somewhat our prices for retail. This was because, a) we wanted corporates who were paying us a fair price and b) we wanted to expand our retail base and therefore we wanted to make our pricing more competitive, this has continued. And if you notice in our segment report, which is Slide 10 I think, corporates as a percentage of room night sold has reduced somewhat. But interestingly, the revenue that we have got which used to be Q3 last year we would have 38% to the room nights, but only 36% of the revenue. We are now still negotiating with corporates and we want to effectively say that maybe by the next 6-9 months you will see corporate room nights contribution will be equal to corporates revenue contribution, which we have not yet achieved. If you look at retail, there used to be a premium that retail OTAs were 31% of our room nights, but 33% of our revenue, now it is 30% of our room nights and 31% of our revenue. The premium is only 3%, one on 30%. Now, if you look at lemontreehotels.com, that is the segment which is our direct segment we are trying to build. It has doubled as a percentage of room nights and it is parallel to our room revenue. 3% has become 6% in both occupancy and rate. Others which are FITs have reduced. Again, because we found that we were outpricing it a little bit. So this is under, let me put it, part of our digital transformation, our central reservation systems, our hotel up-sales and so on. This too is a work-in progress. Basically, you will see one reason why this is a little lopsided is because 13% of the inventory which is Aurika, has actually changed some statistics and actually other FITs is the larger number, but because it is very low in Aurika, it has brought the overall thing down. This is not really a same-store thing. I'm talking more anecdotally, but broadly, we will continue to build our retail business and only keep those corporates with us who are willing to pay what we feel is a fair price.

Parth Agrawal: In case of repricing opportunity that comes up with corporates, tranches of your ADR going down is very unlikely. Is that a fair assumption?

Patanjali G. Keswani: Absolutely, there is zero chance of our ADR going down.

Parth Agrawal: You highlighted the renovation expense for FY24 to be around Rs.40 crore, 10 crore CAPEX and 30 crore of OPEX. And what is the figure for FY25 and FY26 if you can help me with that?

Patanjali G. Keswani: We will spend Rs.100 crore next year.

Parth Agrawal: Rs.100 crore in FY25 and in FY26 any figures that you have in mind?

Patanjali G. Keswani: It will be less than that, maybe Rs.40-50 crore. Basically we want to reprice somewhat aggressively from this year, October, which is why we are investing this money. We think from H2 of FY25, we will be able to significantly then build demand in the Keys portfolio because these are all now new hotels. Keep in mind that Keys as a portfolio has not been renovated for 12-years. It is really those hotels that were shabby, and we will renovate those hotels of ours in the portfolio with a higher effort where we see a very significant increase in rate.

Parth Agrawal: Actually I wanted to understand your arrangement with Fleur Hotels. Lemon Tree standalone actually gets management free from Fleur Hotels and so the inventory that the Fleur Hotels own, is it part of the management contract inventory or is it part of the own property?

Patanjali G. Keswani: What happens is that this year, we will earn 100 crore of fees as a standalone Lemon Tree from Fleur. Now because we report consolidated results, it is netted off. Hypothetically, if our ownership of Fleur, I'm just speaking aloud, suppose we raised an enormous amount of capital in Fleur and we listed it. Fleur, next year will do maybe over 600 crore of EBITDA. We list it and we bring our shareholding down to say 40% something like I think some companies have done which is they have deconsolidated it. #1 is we will be able to raise a very large amount of capital in Fleur. #2 is our management fee income of Fleur will then become visible, which it is not currently visible. And #3 is the capital that we raise in Fleur will enable us to go into the next phase of growth of owned assets. And really if I look at it strategically from the long term, we should actually keep growing the Fleur portfolio and reducing our stake in it, obviously have a meaningful skin in the game, and simply build hotels there and manage them on behalf of that portfolio, which means really at some point in time, Lemon Tree will morph into a pure management brand and digital services supplier company.

Parth Agrawal: But I'm just not clear. Currently whatever ownership of your hotels are there, is it part of own hotels or it is part of management inventory which is 4,000 inventory that we have?

Patanjali G. Keswani: It is owned. It is consolidated. We own 59% of Fleur. Think of it this way, we own 1,700-1,800 rooms in Lemon Tree and I think over 4,000 rooms in Fleur where we own a 59% stake.

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

Kunal Lakhan: Sir, I wanted to understand the unit economics of like refurbishing or renovating the hotel in terms of per key cost and what kind of repricing they have had, if you can, illustrate that with maybe an example of hotel that you have achieved something like that?

Patanjali G. Keswani: I will give you an example in Lemon Tree Premier Delhi, we have now renovated about 130-140 rooms. The average rate we are getting in those rooms is over Rs. 10,000. I think we are going to continuously renovate this hotel till all the rooms are done. Because it is a high demand hotel, we do not shut more than 25-30 rooms at a time, which doesn't disturb guests and it doesn't take away too much of the inventory. Our view is very simple. When LTP Delhi is fully renovated on a current basis, the ARR would have been Rs. 10,000 instead of the current rate of Rs. 8,000. Think of it this way, when we renovate a hotel in a high demand market, we feel we can price it up by Rs. 2,000. And if it's an 80%-85% occupancy hotel, then really the RevPAR goes up Rs. 1,500-1,600 and the flow through is Rs. 5-6 lakhs a year and the total investment we make in that renovation per room is about Rs. 7-7.5 lakhs. On an incremental basis, it is very compelling. Is that clear, Kunal?

Kunal Lakhan: Correct. Correct. Well understood, sir.

Patanjali G. Keswani: Basically any incremental spend we do in a renovation, in our internal capital allocation, we expect to earn it back within 2 years.

Kunal Lakhan: My second question was on expansion what you responded to the earlier question. I have always had this question around like in an upcycle why are we not adding owned capacity just management contract, right? What you said about Fleur earlier is that something that you would look at pursuing in terms of getting it listed and then look at that entity as an asset-heavy entity and what could be the timeline of something like that?

Patanjali G. Keswani: I think you have 3 questions. Let me answer them one after the other. We are not yet in an upcycle, no matter what people tell you. Occupancies in India are still in the 60s. Do not go by one or two companies that might report 75%. Even the Lemon Tree portfolio excluding Aurika, Bombay and excluding what is it called Keys is in the mid-70s. I don't consider this an upcycle. It has not yet happened because an upcycle is where the entire market crosses 70%-75% and that has not happened yet. What do I think will happen? See, I think India is at a very interesting point as far as its consuming classes go. If we continue on this path of 6%-7% growth, then in the next 3 years, a very, very large percentage of the population in India which is a), aspirational, b), young, c) fueled by credit, will move into what we consider will be non-discretionary consumption of branded mid-market hotel rooms. Now I know everybody is tired of comparisons with Malaysia and China and so on. But that's what happened at about $3,500 per capita. That is not actually an upcycle or a downcycle, that is a structural shift from treating for a very large cohort of the consumer, a structural shift in treating consumption of that kind of earlier discretionary item into a non-discretionary. Really if you ask me, should we build supply, I totally agree with you because I think this structural shift in consumption where instead of it being optional, it becomes default and that you can already see by the way in the airline sector. I think it's going to happen in the next 3-4 years in India. Keeping that in mind rather than cycles, I would say there is a strong case to create or acquire supply. Now, the only question is how much risk should we take on the balance sheet? Obviously, we need a company whose main job is to be an asset owner, which is why strategically it may make sense to spin Fleur into a separate listed entity. Have a smaller stake in it, raise fresh capital, which is why your stake comes down and a), raise this capital, b), have a totally separate set of investors there because obviously these are the investors who will be looking at Fleur more as an asset owning company. And Lemon Tree continues as a brand owner, manager and digital services provider. Long-term we have to do that in my opinion.

Kunal Lakhan: When you say long term like 3 years?

Patanjali G. Keswani: No, I don't want to comment because that is something I think the board has to debate and decide. But I think sooner or later we have to do it. And the capital that we raise should go into acquisition of supply or creation of supply where the fees flow to Lemon Tree and that asset company becomes the largest owner of assets in the mid-market and upper upscale space in India.

Moderator: The next question is from the line of Dhruv Agarwal from Niveshaay Investment Advisors. Please go ahead.

Dhruv Agarwal: Sir, currently the occupancy levels here let's say in Q3 is around 65%. Going forward for the next 2-3 years, what kind of occupancy we can expect and what kind of break in ARR one should be able to expect sir?

Patanjali G. Keswani: I wish I could look at the fortune ball and tell you, but it is very difficult for me to give you any answer. But broadly I would expect RevPAR growth in our segment to be mid-teens, whether it is led by occupancy or price, I cannot comment, but that is the kind of growth I think we would expect. And since our cost structure is now stabilized fully, with payroll at the right place, the staff per room at the right place, I think that we will then look at any growth in RevPAR has really driven with a 70%-75% flow through operating leverage to the bottom line.

Dhruv Agarwal: Any percentage that you would like to comment on the occupancy level, just for the guidance like we can expect?

Patanjali G. Keswani: The rest of India, if I break it down, if I look at Delhi, we are already over 80%, Gurgaon, I think we should be in the mid-70s hopefully, Hyderabad, well, it is nearly 80%, Bangalore is where we have to catch up, Mumbai, well, if I remove Aurika, we are already well north of 80% and I'm pretty sure Aurika itself will get there, Pune is another area where we need to focus on replacing IT demand with the other segments. Rest of India is a function of whether we move into an upcycle. Because I think currently last year all India occupancies were 63%, maybe this year there will be 65%. Till it goes to 70%, the rest of India will be subject to the vagaries of local micro markets. But if I look at it broadly from that perspective, I would say Aurika is fully stable. Our occupancies as a company should be north of 73%.

Dhruv Agarwal: What will be the percentage of repeat customers?

Patanjali G. Keswani: Well, in our stable hotels, normally it is north of 30%, but in our new hotels, it takes time to build us. If I was building no more hotels and it was all stable, then 1/3 of our customers should be repeating.

Dhruv Agarwal: Right now in the hospitality industry, everyone is trying to add their room capacity either by like adding keys in the same hotel or by constructing new hotels in order to cater to the demand that they are facing. Don't you think in coming like 4-5 years there would be an excess supply of rooms? So like can you give some color on how would be the demand/supply growth will be coming in the 2-3 years, sir.

Patanjali G. Keswani: See, post-COVID, there was a complete reset. There was a shrinkage in demand and it is catching up now. Going forward, what I read and this is not my data, it is I guess a combination of what I read from various consultants in the hospitality industry is that demand will exceed supply by 3-5% points every year. That is the case, then an all-India occupancy of 65% should hit 70% in the next 2 years, at which point there will be some significant level of repricing with nearly every hotel across India, that is the broad observation. Whether it takes 2-3 years, I have no idea. But somewhere along because supply is known for the next 5 years, I think this transition into upcycle as Kunal had earlier mentioned, will happen in the next 2-3 years.

Dhruv Agarwal: One clarification. You said with the previous participant that upcycle is when the occupancy level all over the industry is around 70%-75%. Sir, when do you expect such kind of upcycle coming in and like where we stand right now sir?

Patanjali G. Keswani: See, right now if I made a broad guess, I would say industry average occupancy would be about 65% across India. I think that is what the consultants will report for FY24. FY25 if this demand/supply and balance continues should be 67% and then maybe by FY26 it will be 70%. Now what does 70% or 72% mean? It really means that there are 3-4 days in a week where you are full, and 1-2 days in a week where you are doing 50% occupancy because that is the nature of this business. Even you take any business hotel in a city on a Tuesday, Wednesday, Thursday they are sold out, Monday and Friday, they might be doing 70%-75% and Saturday, Sunday they do 50%. That's how it averages to 75%. When that happens, pricing for Tuesday, Wednesday, Thursday goes up by at least 20%-25%. And that is how the ARR goes up. The ARR does not go up on a daily basis, it goes up on those days when you have more demand. And obviously you keep increasing your pricing till such time your demand equals supply. That is what happened in the last upcycle in 2005-2006-2007 and that is what will likely happen in the next 2-3 years across India, after a very long period.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited. Please go ahead.

Jinesh Joshi: Sir, if my understanding is right, I believe Aurika, Mumbai resides in Fleur, but if I look at the management fee received from Fleur hotels in this quarter, it is up by just 8% despite our Mumbai Hotel starting operations and registering an occupancy of 40%. Is there anything which I'm missing out over here in this 8% growth number?

Patanjali G. Keswani: The first thing is that our fees from Bangalore came down because a large part of our fees with Fleur comes because of what is called Incentive Fees, incentive fees is we get paid based on the EBITDA of the hotel. We had a drop in fees from Bangalore, we had a small drop in fees from Pune and Aurika did not give us any significant fees because it did not do 40%, it did under 40%. But we only got fees from Aurika, Bombay on the fixed side and the fixed fees is a function of revenue. The revenue was much less obviously because it was the first quarter. These fees, you are absolutely right. The minute Aurika, Bombay picks up, like it has already picked up to some level this quarter, you will see a significant hike in fees. Similarly, when Bangalore picks up and Pune picks up, you will see another hike in fees because those will be the variable fees whereas in Aurika, Bombay there will be higher fees because the revenue increases and hopefully the EBITDA increases. Do I make sense?

Jinesh Joshi: Yes, Sir. Sir, my second question pertains to bookkeeping now. If I look at our finance cost, it has gone up sequentially to about Rs.53 crore. So, has there been any change in debt levels or does it pertain to that lease accounting standard which you mentioned in the opening commentary?

Patanjali G. Keswani: Well, two things. Our debt will peak this quarter. You see what happened is, this year we paid off a large amount of debt and then we borrowed back a little more than that in order to finish Aurika, Bombay. I think our peak debt this quarter will be Rs.1,900-1,950 crore this quarter. And if you look at it from the previous year, it was 1,640 crore. Our debt has gone up by 300 crore, but we built Aurika which is over 900 crore. Effectively Aurika was built with 600 crore of equity and 300 crore of debt. Now what happens is from this coming Q1 onwards, we will start paying down the debt. You will find that the debt at the end of this following year will come down and our EBITDA obviously will go up, which is why I said the debt-to-EBITDA next year will be under 2.5.

Jinesh Joshi: One last question, I think you mentioned to one of the questions raised from the earlier participant that Aurika, Mumbai is built on a leased land from the government. Can you just call out if possible what is the annual lease cost over here, and how are the escalations built in?

Patanjali G. Keswani: Think of it this way. For Aurika the lease rentals are escalating. We basically quoted a lump sum and an NPV for Aurika of the fees that we plan to pay. If I look at it this year, the fees are very low; they are Rs.3 crore. And if I look five years out, they will be much higher and 10 years out will be still higher and so on and so forth. Really what we tried to do was, we said we will pay lower fees cash out in the in the beginning till we stabilize the hotel. And once the hotel is stable and operational, then our affordability of paying fee will be that much better. If I look at the fees over the next 30-years, the NPV in today's term is about Rs. 50 crore, it is discounted at rate of interest.

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

Meet Jain: Just one clarification. You mentioned that you are launching 100 rooms Aurika in Naldehra, Shimla right. So that is in the management contracts, right?

Kapil Sharma: No, that is our own asset.

Meet Jain: We have already one property being built in Lemon Tree Premier Shimla, 69 rooms and this is in addition to that?

Kapil Sharma: No, it is a conversion because we felt we would be able to juice it. Because of its location, it's built on top of a mountain, it's a beautiful hotel. When we went and saw it, we did an assessment and said that we would be able to cream much more of the market, so why not spend a little more money but build an Aurika.

Meet Jain: What is approximate total Capex on this you are spending?

Kapil Sharma: We will spend another 40-odd crore.

Meet Jain: Over 27 crore already spent on Shimla.

Kapil Sharma: No, total will be closer to 80 crore, we will spend 40 crore in this year and maybe it will be 50 crore, we are not sure because it depends on the speed at which we can finish it. It's there in the investor presentation, you will see it's like a shell, but we will try very hard to get it open by the first quarter of next to next year.

Meet Jain: Q1 FY26. Okay. And next is one clarification on the management fees from Fleur. You mentioned that our Fleur arrangement is partly based on revenue and partly on the operating performance, right?

Kapil Sharma: That's right.

Meet Jain: And is there any threshold like as you mentioned Aurika, we didn't reach the 40% kind of margin, so we booked like fixed fees on revenues and as the margins improve, we will start getting fees from Fleur on that as well?

Patanjali G. Keswani: Well, think of it this way, that if Aurika today in Q3 gave me a revenue of Rs. 25, then my fees from that will be say Rs. 2. If Aurika gives me Rs. 50, then my fees will not double, they will become Rs. 5-5.5, they will nearly triple. And when Aurika stabilizes at Rs. 100, then I will take Rs. 10 or Rs. 11. 40% will come from the revenue, 60% will come from the EBITDA, and that EBITDA as it grows as the hotel stabilizes, I think I mentioned that the EBITDA will be in the range of 60%, at which point our fees will become disproportionately higher.

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

Rajiv Bharati: Sir, with regard to your Mumbai asset, for the Aurika thing, you did 8-8.5 kind of ARR this time?

Patanjali G. Keswani: That's right.

Rajiv Bharati: The Andheri one, we have seen close to Rs. 10,000 like that?

Patanjali G. Keswani: Andheri one is Rs. 9,152 at 82% in Q3.

Rajiv Bharati: That particular hotel in terms of, let's say like-for-like pricing versus the rest of the market, I think this was asked earlier, do you think it was a little under par in terms of the rate hike?

Patanjali G. Keswani: Which one?

Rajiv Bharati: The 303 Key Andheri Hotel.

Patanjali G. Keswani: No, on the contrary, in the Smith Travel Research Report, it is outperforming the market completely. It's a Lemon Tree Premier. It did over Rs. 9,000 ARR over 80% occupancy and it is an outperformer. And keep in mind that what we are doing is we are keeping all the channels open so that any bookings we get in LTP, which we are not able to accommodate in the hotel, we move to Aurika. Till Aurika builds its own demand base, we are treating it as a 1,000 rooms inventory in Bombay, which is this 300 rooms hotel, and that 670 rooms hotel. And Aurika, Bombay's RevPAR was below Rs. 3,500. So that's why you would see the average of Bombay RevPAR and hotel level EBITDAR significantly down because Aurika brought it down. But now what I have been saying all along is that as Aurika stabilizes, obviously Aurika will do a much higher ARR and hopefully a similar occupancy to LTP Mumbai and we hope to achieve that in the next 6-9 months at which point Aurika will have its own segment, LTP, Mumbai will have its own segment.

Rajiv Bharati: Your pricing in Andheri has no influence from Aurika. It's not like that we cannot charge. I mean you are wanting to not charge LTP, Andheri higher than Aurika.

Patanjali G. Keswani: Not at all. That's not correct. The point is that Aurika has not yet built its demand segment. Whatever little demand it gets is at a price of over Rs. 11,000. But because a very large portion of it is with crew, which is priced at Rs. 7,700, which is what is deflating the ARR of Aurika, But as I had mentioned last in the 2 calls that we will use the crew as a filler to cover our costs and ultimately obviously bring down the crew to only 100 rooms as a base and replace the crew with corporate and retail clients.

Rajiv Bharati: In Hyderabad, do we have anything under renovation because of which your rates are up by only let's say 400, let's say versus what we see in case of Indian Hotels going up by what 3,000. Why I'm saying is the gap between you and Indian Hotels used to be something like 2,000-2,500, now it's gone to close to 5,000.

Patanjali G. Keswani: In Hyderabad, the markets are very different. Indian Hotels is firstly a 5 star deluxe hotel and it is in the city center, we are in Hi-tech city in Gachibowli, there is no Taj there. And #2 is that there are about I think 30 rooms shut in Lemon Tree Premier and another 25-30 rooms shut in various other hotels where we are renovating. But please don't compare economy rates with premium economy rates and the business class rates, that's an incorrect comparison.

Rajiv Bharati: No, the idea was that if the luxury picks up, eventually the gap between, I mean it will help you your case, right, the gap has to reach, slowly?

Patanjali G. Keswani: Yes, but they are separate segments, Rajiv. Don't look at it from that perspective. There will be times when our segment takes up more than say luxury. Don't do a regression analysis and correlate that two, they are not the same.

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

R Rajagopalan: A couple of questions. One is, what was the impact of World Cup matches on your revenue in Q3? Second, in terms of again the revenue aspect, whether you have further plans of expansion in tourism centers like Bangalore, Goa, Kerala, Trivandrum, because tourism is being taken as the next big deal in terms of revenue?

Patanjali G. Keswani: World Cup teams normally only stay in 5 star hotels. They impact us indirectly, which is if there is a World Cup match somewhere in a city, we get the guys who want to see the match, we get their demand, we don't get the teams, #1. In Ahmedabad during World Cup for 1-2 days we did a very high ARR because a lot of people came to see the match, but we didn't get any team members. As far as I think your other question was relating to which markets we want to go to, I didn't actually get clarity on that. What was the question, Ramesh?

R Rajagopalan: Basically, we are talking about tourism in a big way as tourism travel. So obviously, the accommodation will also be in huge demand. Are we planning, for example, Goa airport in about a year, year and a half back. Has there been any significant increase there. So similarly, are we talking about Trivandrum, Kerala, then Bangalore where tourism may be a big attraction apart from north? Of course, I didn't mention specifically the buyout because it is too early to comment about. But in terms of other existing tourism destinations. Can we increase the share of retail especially because as you said you know in terms of World Cup matches, there was not much of impact, so can we not you know focus more on retail in terms of attracting globally especially for the retail part of it? And then, of course, corporate, we might have our own strategies in terms of how do we go about. And second thing is that do we have a seasonal tariffs instead of annual tariffs with especially corporates, do we have a seasonal tariff based on September, Christmas season or the New Year season or other seasons in different part of the country?

Patanjali G. Keswani: Ramesh, I wish corporates would agree to seasonal tariffs and we would charge high in high demand and low in low demand. But unfortunately, they want a single price for the full year. As far as tourism goes, we already have the Keys in Thiruvananthapuram, we have signed many hotels in many tourism locations. We are now looking at doing maybe 1-2 small Aurika palace hotels in Varanasi on the ghats directly. But if you look at us broadly, we have a twin approach. One is, we get 2-3 queries every day. So that is a reactive approach where owners reach out to us to convert their hotels into our brands. And then we ourselves focus specifically on markets where we think there is juice and value to our network. If you look at the hotels that we have in our pipeline right now, most of them are in cities where we do not have hotels and these will simply improve our network and will lead to our ability to acquire more customers in markets where we do not exist and customers are not really familiar with Lemon Tree. Keep in mind, we are a relatively new brand and therefore it's important for us to saturate cities where there are customers who will come and visit us in other hotels in other cities. Proactively, we are looking at specific markets where we feel there is an opportunity for us to a) plant a flag, b) acquire customers and c) grow our managed network. That is the broad strategy. I don't want to get into specific destinations, but you can see that in our Investor Presentation on Slides 21 and 22, where we have already signed.

R Rajagopalan: One related question, do we have any kind of frequent guest tariff thing where the same customer for example, I might visit Delhi, I might visit. Bombay, I might visit Goa, where I become a frequent customer of yours, so wherever I go, I go only for the Lemon Tree?

Patanjali G. Keswani: I mentioned earlier in this call our direct bookings from our website are increasing quite rapidly. Well, we have over 1.5 million loyalty members. We are now revamping the entire website and loyalty program as a part of our digital transformation and hopefully by October this year, we will have micro sites where you as a loyalty member, if you visit our website I think it's already there to some extent, but we are upgrading it, you will get a specific personalized offer to any hotel which you want to visit.

R Rajagopalan: One question is on the cost and one question is on the payroll cost. Payroll cost, you said it has gone up this quarter for the reasons. Want to understand in terms of your payroll cost, is it not a factor of your variable pay or your revenue, so which you would have obviously provided for the previous year, and if the current year if it is going to go up, obviously, your revenue also would have proportionately gone up.

Patanjali G. Keswani: No. You see, our revenue did proportionately go up. The revenue hike will really be visible from this coming year when Aurika comes in. We really look at payroll as a percentage of revenue on an operational basis. You see, there were three revenue impacts this year. One was Aurika obviously did not contribute to what it will contribute from this coming year onwards because it's a very large inventory hotel and it will take some time to stabilize. When it did not stabilize, the payroll cost of Aurika alone was a deflator so to speak in our P&L. Then because of Aurika, we set up a corporate sales office in Bombay and that had an impact on both our corporate expenses because they came from the hotel and from corporate office and on our payroll in Aurika. Third was that Bangalore and Pune still have a lot of catch up to do. When they do that, payroll as a percentage of revenue will drop to the normal, at which point as I mentioned, our net EBITDA will again go to 50%, and perhaps if things work out even over 50%.

R Rajagopalan: That means this is more of an investment which you are calling as payroll cost rather than an expense which is doing right now?

Patanjali G. Keswani: It is a mix of both, Ramesh, because a lot of people who stayed with us during COVID, we did not give any increments over the last 3-4 years and with inflation being what it is, we felt it was necessary.

R Rajagopalan: Although everybody is talking about renewable source of energy and power reduction, do we have a renewable energy in any of your hotels or are we planning for any cost reduction in that area?

Patanjali G. Keswani: We have renewable. We have reduced energy based on the FY19 baseline. Energy consumption per room has reduced by 10%. Our target is that by FY26 it should be 15% on FY19 baseline. Right now about only 11% of our energy consumption is renewable. There is only one problem. Since we run smaller hotels unlike large 5 star hotels, we do not get renewable energy from the grid because there are certain norms on this. I believe that the new power bill is going to change and we will also get the ability to get energy from the grid. But if we really want to go fully renewable, then in the large markets like NCR, like Maharashtra, like Bangalore and Hyderabad, we will have to put up our own renewable energy plants which will be high Capex, we are reviewing that but we will have a payback within 4-5 years. It's a combination of many things. We are very interested in having maximum renewable energy and I think in the next 2-3 years you will see that as becoming an increasing focus for us.

R Rajagopalan: Whatever we have discussed so far, it is purely based on our operational and revenue performance of Lemon Tree as a group. Whatever external factors which are going to further benefit us, it will be an aggregate or maybe adding the revenue to your bottom line, that's what you're saying?

Patanjali G. Keswani: That is correct.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Patanjali G. 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 for any further details or discussions and I look forward to interacting with you again in the next quarter.
