June 7, 2023

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

**BSE Limited**
**Phiroze Jeejeebhoy Towers**
**Dalal Street, Mumbai – 400001**

**NSE Scrip Symbol: LEMONTREE**

**BSE Scrip Code: 541233**

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

**Ref: Outcome of Conference Call with Analysts/Institutional Investors**

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that in continuation to the disclosure made on June 1, 2023 wr.t. the audio recordings of the conference call on Audited financial results for the quarter and financial year ended March 31, 2023 held on Thursday, June 1, 2023 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

NIKHIL SETHI
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**Nikhil Sethi**
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# Lemon Tree Hotels Limited
# Q4 & FY23 Earnings Conference Call
# June 01, 2023

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**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 star then zero on a 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:** Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels - Q4 & FY23 Earnings Conference Call.

We have with us today, Mr. Patanjali Keswani, Chairman and Managing Director; Mr. Kapil Sharma, Chief Financial Officer; and Mr. Vikramjit Singh, President of the company. We would like to begin the call with brief opening remarks from the management, following which we'll 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:** Good afternoon, everyone. Thank you for joining us on the call. I'll be covering the quarterly business highlights and financial performance for Q4 & FY23 and then we will open the forum for discussions.

FY23 has been the best year for Lemon Tree Hotels. As anticipated and in line with our initial guidance, we have more than doubled our total revenue versus FY22 and have maintained more than 50% EBITDA margin for the full year. In FY23, our overall total revenue increased by 111% versus FY22 to INR 879 crores with an EBITDA margin of 51.9%.

Q4 FY23 was also the best quarter to date with growth across all metrics. As I've mentioned in the last earnings call, after increasing our ARR in Q3 versus Q2 FY23, in Q4, we focused on building occupancy, which increased by 604 basis points versus Q3, and 1,259 basis points versus Q4 FY20.

Gross ARR stood at INR 5,824, which increased by 2% versus Q3 and by 29% versus Q4 FY20. This translated into an improved RevPAR of INR 4,287 which increased by 11% versus Q3 FY23 and 55% versus Q4 FY20. In Q4 FY23 versus FY20, Lemon Tree Hotels' RevPAR grew by 55%, whereas according to STR, the branded hotel industry grew 41%.

The net EBITDA margin for the company in Q4 FY23 was industry-leading at 55.7% which increased by 146 bps versus Q3 and by 1,926 bps versus Q4 FY20. The PAT for Q4 FY23 stood at INR 59 crores, which increased by 22% versus Q3 FY23. In Q4 FY20, we had a negative PAT of INR 19 crores.

Our cash profit stood at INR 82.5 crores, which increased by 14% versus Q3 and by 845% versus Q4 FY20. As of 31st March 2023, our gross debt stood at INR 1,746 crores, and the overall average cost of borrowing stood at 9.08%, while the weighted average cost of borrowings for the full year was 8.38%.

During the quarter, we signed nine new management and franchise contracts, which adds 538 new rooms to our pipeline. As of 31st March 2023, our operational inventory comprised 88 hotels with ~8,400 rooms, and our pipeline comprised of 42 hotels with ~3,300 rooms. This

quarter onwards, we will also be reporting our total management fees received by Lemon Tree Hotels. In FY23, it was INR 104 crores, which increased by 54% versus FY20.

To further explain, total management fees can be broken into three parts:

1. Management Fees from 3rd party hotel owners to Carnation Hotels which is our 100% subsidiary
2. Brand Fees from 3rd party hotel owners directly to Lemon Tree Hotels
3. Management and Brand Fees to Lemon Tree Hotels from Fleur Hotels which is an asset-owning company and is a JV with Dutch pension fund APG wherein Lemon Tree Hotels owns a nearly 59% stake

For FY24, I will refrain from giving specific guidance, other than saying that our growth momentum is continuing and that we will be investing significantly more than normal in renovating our hotels, especially the Keys portfolio to catch up with the near absence of this during FY21 and FY22. This will increase our operating expenses by a further 2% to 2.5% on a revenue basis for this year but will position our hotels to capture better pricing and demand in H2 and in the following years.

Finally, post-COVID and with the impending opening of our largest Hotel, Aurika Sky City in Mumbai, we would now like to share the roadmap for the next 5 years, which has been released alongside the earnings presentation, where we have set forth clear and highly achievable outcomes for the next 5 years, wherein we intend to deliver superior financial performance, lighten our portfolio, be debt free and be a leader in digital and ESG.

I will request everybody to look through that presentation. And on that note, 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.

**Moderator:** We take our first question from the line of Archana Gude from IDBI Capital.

**Archana Gude:** Congrats on very robust numbers. Sir, 3 questions. Firstly, I do understand you said that you won't be giving any specific guidance. Still how is the trend looking? And I heard your interview on CNBC wherein you spoke about the next 2 years to be better for the industry. So how we

should look at it from the top line and margin point of view for Lemon Tree?

**Patanjali Keswani:** See, what we are looking at is leveraging four separate revenue streams without significantly or, without really increasing our costs. So, the first is, we will look at improving our occupancy and ARR in the portfolio of Lemon Tree Hotels and Red Fox Hotels. So that is one lever we are looking at, which means really, we are looking at increasing both the occupancy and the ARR in this portfolio.

Now that we have started a large-scale renovation and that includes the Keys portfolio, we expect we will be able to command significantly higher ARRs and occupancies in the Keys portfolio, which as you know, is about 18% to 19% of our owned hotels portfolio. That will see a significant uptake from H2 this year.

The third lever is management fees. We have very aggressively added hotels. And in my presentation, you may have seen that we expect to close this year with over 10,500 operating rooms, which is a large hike from the 8,400 rooms that we operate now. Now, this increase, about 669 rooms will come from this Aurika, Skycity, Mumbai and another 1,300 to 1,400 rooms will come from hotels under the management and franchise contract, which we will operationalize this year.

So, management fee income will see a significant hike this year and even larger hikes next year as these hotels then start operating for the full year. We capture the fees for the full year rather than part-year when we open it this year. And, of course, the fourth is Aurika, Skycity, Mumbai. So put together what we see is across all these four revenue streams, there should be increasing traction.

And I reckon by this year and by the following year, you will see a, well, a material change in our revenue and EBITDAs. And as you know that we have said that we will look at maintaining the EBITDA margins at 50% at least.

**Archana Gude:** Sir, earlier we were talking about 50% EBITDA margin for us. Now since in Q4 FY23, we had 55.7% EBITDA margins, should that be the benchmark going ahead?

**Patanjali Keswani:** The benchmark is 50%, remember the H1 is always in revenue terms anywhere from 42% to

45% of the annual revenue, whereas the costs are allocated across the year.

So, the way to look at it is that EBITDA in summer, whatever EBITDA margin we report, typically in winter we do 10%, 15% better than that. And that you would have seen in the past year and that you can make safely assume for future years.

**Archana Gude:** Sure, sir. Sir on our Lemon Tree 2.0 guidance of 20,000 plus rooms and 300 plus hotels, how we should look at brand-wise growth or some colour on season-wise expansion? Any brand to take precedence or any market your preference going ahead?

**Patanjali Keswani:** So, think of it this way. Effectively, management contracts capture 1/6 of the EBITDA of our hotels. So basically, if I managed 600 rooms, I basically take the EBITDA of 100 rooms, okay. Franchise, you normally take the EBITDA of 1 out of 9. You take about 10%-12% of EBITDA. Now the issue with many hotels we looked at is that they are not coherent as far as products standard goes with the Lemon Tree brand. So, in that sense, Keys is a soft brand, which means really that we provide sales, marketing, and distribution, our brand and we give certain standards, which are more service-oriented to these asset owners. And therefore, the way we look at it is most management contracts will be signed by Lemon Tree and most franchise contracts will be signed by under the Keys brand.

So, while I cannot give you a breakdown, my broad expectation is that the rate of growth of the franchise within the next year or two, since we have just started this, will start accelerating and will far exceed the rate of growth of the management business.

Now when I look at our portfolios, in FY24, we will open roughly 1,400 rooms, 26 hotels under the managed/ franchise route and another 669 rooms of Aurika, Skycity, Mumbai. So really, that is why I said we will end FY24 with at least 10,500 operational rooms and about 115 operational hotels. Now up to the end of last financial year, the end of Q4, we had already signed another 1,000 rooms, which were due to open after FY24. And in FY24, we are reasonably sure we will sign another 1,500 rooms.

So put together another 2,500 rooms. So, our portfolio, which is why I had shown in the first slide of our 5-year roadmap that we will hit at least 13,000 rooms by the end of this year. And

we have made conservative estimates.

We will add only 2,000 more rooms a year and therefore, cross 20,000 by FY28. So that's how we're looking at it. We will end FY24 with owned hotels being 54% of the total portfolio. And if I include signed hotels, then it will be 45% of the total portfolio.

**Archana Gude:** Sir but is there any brand preference when we go for expansion from management contracts?

**Patanjali Keswani:** No. See, we were earlier a little reacting when we were letting owners reach out to us. Now that we have proactively set up 2 business development departments in management and franchise. Let's put it this way it's not that we say we want more Keys franchises or more Lemon Tree management. We are open to both. We just want to expand the network and achieve some level of what we call, dominating scale in the mid-market. So, it would be either, whatever is suitable for the relevant hotel.

**Archana Gude:** Sir, how much is the capital expenditure left for Aurika, Skycity, Mumbai? And given that we are now focusing on renovation of Keys portfolio, how much would be the total capex for FY24 and FY25?

**Patanjali Keswani:** About 75% of the renovation expense will be within the opex and therefore, will be expensed before we get to net EBITDA. So, when I said 2.5% of the increase in revenue, I really said about 2.5%, INR 25 crores more we will spend than normal. So, looking at it from that perspective, last year we spent about INR 20 crores including capex. This year, we will spend about INR 55 crores, of which about INR 40 crores will be or INR 43 crores will be opex and that will come pre-net EBITDA.

So, in the capex sense, the capex will only be INR 10 or 11 crores. As far as Aurika, Skycity, Mumbai goes, we have accelerated the deployment of capital because we are going to open it, as I said in October this year. As of 31st March 2023, it was INR 575 crores, but we have already deployed another INR 80 or 85 crores. It is now about INR 650 crores. So, that leaves about INR 300 crores for opening that hotel.

**Moderator:** We take the next question from the line of Kaustubh Pawaskar from Sharekhan

**Kaustubh Pawaskar:** Congrats for good set of numbers. Sir, my question is on the EBITDA margin front. You just mentioned that we would be spending around 2% to 2.5% of additional on the renovation, which will be part of your opex. And normally, renovation happens during the first half of the year, largely in quarter 2 when it is a lean business period for you.

So considering that should we expect that in H1 FY24, your margins would be lower on Y-o-Y despite the fact that we should expect better occupancies on Y-o-Y and ARR, the higher opex would lead to lower margins? And in the second half of the year, it should be more or less normalized, so that for full FY24, you will be having similar kind of margins what you have achieved in FY23?

**Patanjali Keswani:** So without comparing it to H1 of FY23, let me just say that whatever margin we do show, Q1 and Q2 is going to be 2.5% less than what we would have done if we had not done this extensive level of renovation. Having said that, let me also add that we expect this to give us much better results in H2. So as a company, on a full-year basis, the EBITDA margins will be 50% or more, number one. Number two, the other thing that can affect our EBITDA margins is the opening of Aurika, Skycity, Mumbai.

Now when Aurika, Skycity, Mumbai opens, it will be opening in October; October and up to the middle of November is a very light period in India for demand because it includes Dussehra and Diwali where many people do not travel. So, we expect Aurika, Skycity, Mumbai will take time to stabilize, and this will happen in Q4. As a result, on a standalone basis, Aurika, Skycity, Mumbai's EBITDA margins will certainly not be 50%, and so on, especially when we launch the hotel.

And therefore, while it will increase our revenue and our EBITDA, it will not be at the ratio of the other hotels and therefore, it will also have an impact on our EBITDA margins in Q3 and Q4 as a percentage. But obviously, in absolute terms, it will be an addition to our EBITDA.

**Kaustubh Pawaskar:** Got your point, sir. So whatever benefit because of the renovation and Aurika, Skycity, Mumbai in terms of when it will be fully operationalized, the benefits would start kicking in from FY25. So, you will be having more, better revenues and margins. Is it a right assumption?

**Patanjali Keswani:** But Q4 may still surprise.

**Kaustubh Pawaskar:** Got your point. And sir, my second question is on debt part. So, when do we expect debt to pick out and we should start seeing some bit of reduction in debt maybe from FY25 or FY26? Any target or guidance on that front?

**Patanjali Keswani:** See, I had given one guidance once that we think that Lemon Tree Hotels' standalone will be debt free by FY26 and in the very worst case, will be debt free by FY28. However, we have tried to give in our 5-year roadmap an indication of how we expect Aurika, Skycity, Mumbai to perform.

And I have specifically mentioned it is a conservative estimate. So Aurika in and of itself can generate INR 600-700 crores of EBITDA after fees to Lemon Tree in 4 years. So, my view is that you will start seeing significant debt reductions from next year. See, this custom is the peak of our capex.

You must keep in mind that we were deploying capital enormous amounts of capital over the last 8 years - 40% was deployed, another 40% was deployed 1 year before COVID and the last 20% is this year. So, from next year onwards, obviously, we have zero requirements for capital. We will only be looking at EBITDA to reduce the debt.

**Moderator:** We'll take the next question from the line of Adhidev Chattopadhyay from ICICI Securities.

**Adhidev Chattopadhyay:** Sir, give us some sense for the EBITDA breakup for FY23, how much is non-Fleur, and how much would be Fleur EBITDA breakup of the portfolio?

**Patanjali Keswani:** When we say we do INR 450 crores, really, our EBITDA at the hotel level is about INR 60 crores more? So, about INR510 crores. No, there is fees also transferred. Yes. So, say about INR 550 crores. Now, I would say Lemon Tree on a standalone would be about INR 175 crores and INR 375 crores would be Fleur or INR 350 crores would be Fleur.

And when we report consolidated A cancelled B, which is why we decided we would show this year the management fees have flown into Lemon Tree standalone even from here because as you may have seen in our 5-year roadmap, we tried to show that we would be lightening

our ownership of Fleur and progressively moving more and more towards brands/manager of hotels. So, I'm asking, Inder, can you do a breakdown of this in FY23 and let me know? Can I answer this in a little while, Adhidev, because we have to calculate it?

**Adhidev Chattopadhyay:** Yes. Sure, sir. Just wanted to understand. Just a follow-up. Post the buyout of the CCPS in the last quarter, what is our share and APG's stake now in Fleur Hotels?

**Patanjali Keswani:** APG is now at 42% and it will come down to 41%, which was our shareholding pre-COVID.

**Adhidev Chattopadhyay:** Sir, and just another question you have mentioned about the possible IPO or REIT, InVET, listing for Fleur Hotels subsequently a few years down the line. So, in terms of timing, like would you because considering the market scenario?

**Patanjali Keswani:** See, in a broad way, our plan is very simple, irrespective of anything else, we feel without any other intervention, we will be in a position to be debt free in the next five years, irrespective of any external intervention.

Now, to come back to your earlier question, I've got exact numbers. So, we did a total EBITDA of about INR 460 crores last year. Our share of that EBITDA was INR 350 crores and APG's share of EBITDA was about INR110 crores.

So, if I look it from the perspective of your question, the EBITDA of Fleur was about INR320 crores. INR60 crores went as fees to Lemon Tree, and I'm giving you approximate number for a flavour. So net EBITDA of Fleur was about INR 260 crores. Lemon Tree's owned assets did INR 100 crores of net EBITDA. They did another INR 60 crores of fees from Fleur and another INR 40 crores of management fees. Therefore, Lemon Tree did INR 200 crores. Fleur did INR 260 crores. And APG's share of that INR 260 crores was INR 110 crores. Does that answer the question?

**Adhidev Chattopadhyay:** Yes, sir. So broadly, it's a 75-25 breakup, right, if I just look at Lemon Tree and APG's share, right, if I look at it that way at the overall level?

**Patanjali Keswani:** So now let's go forward. The maximum debt is in Fleur. So, if I look at it from the debt perspective and say, we have INR 1,700-odd crores of debt, about 70%, 75% is Fleur. So,

let's assume in a scenario that, this Aurika, Skycity, Mumbai, we expect that Aurika, net of fees, will be at least INR 150 crores of EBITDA. So, the earnings on a standstill basis, if we just went by INR 260 crores of EBITDA of Fleur today, we are sure that, this will obviously go up fairly significantly with Aurika, Skycity, Mumbai and the increase of the current portfolio and the increase of the Keys' portfolio. So put together, when we look at listing it, the net EBITDA should be north of INR 500 crores.

So if we list this company hypothetically, and you can apply whatever multiple you want, we are currently, we are going to be 59% shareholders. If we do a fresh issue of, say, 18% and come down to 51%, then the 18% means really that, fresh money on a company that has an EBITDA north of INR500 crores. We feel that, in and of itself, may be enough to write down the debt of Fleur. So there are multiple levers. We have not started exploring those routes.

Right now, we are saying, on our existing portfolio, we will be debt free even if we don't list Fleur, but obviously, we would like to list Fleur, we would like to reduce our ownership in Fleur. We would like to increase our fee-based income. So, there is an entire plan and that's the real plan, which I cannot share with you. You will just have to keep seeing it play out with the five-year plan that we have given out. So, we will do an Annual Report as to, what where we are in this five-year plan, so you see the path that we are following.

**Moderator:** Thank you. We'll take the next question from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Thanks for the opportunity. I had two questions. One you said that on Keys, you are going to spend money and bring them up to standard. If I remember in the past calls, you also were mentioning that, these hotels are in cities, which probably are not conducive for running, in terms of demand and ARR and all that. So where do we stand on that?

**Patanjali Keswani:** Okay. Good point, Tushar. So let me break this down into two parts. Roughly, 60% of the portfolio, about 600 rooms are in locations, where we feel, we have significant ability to use them. So, this includes Whitefield, Bangalore, where we have 222 rooms; Hosur Road/Electronic City in Bangalore, where we have 159 rooms; Pune, Pimpri, where there are about 100 rooms; and Vishakhapatnam, where there are about 100 rooms. So, you add this

up, I have added Vishakhapatnam because that city is showing signs of high demand. This is nearly 60% of the portfolio.

So in this part of the portfolio, we will invest maybe INR 5 lakhs a room, in order to bring it up because we see that, our payback in incremental EBITDA will be less than one year, just with this investment. That leaves the portfolio of 150 rooms in Cochin, 100 rooms in Trivandrum and another 100 rooms in Ludhiana. Here, we will basically invest INR 1.5 lakhs a room, where our intent is, to really bring them up to standards. Because when we acquired this portfolio, it was just three months before COVID.

And we had certain plans to upgrade it. In fact, in the summer of FY21, which we could not do obviously because of COVID, but we see, even with this marginal intervention to bring that brand up to what we would like to be minimum standards, we will be able to increase the EBITDA and occupancy, there too. But really, there will be a much larger opportunity in the earlier hotels and a smaller opportunity in these hotels. Basically, we've done capital allocation and renovation on that basis.

What do we expect? We expect, we'll be able to increase the EBITDA of Kyes hotels by a minimum of INR 40 crores, once we renovate them, maybe even INR50 crores. It depends on how Whitefield and Vishakhapatnam play out.

**Moderator:** Thank you. We take the next question from the line of Sakshi Chhabra from Svan Investments. Please go ahead.

**Sakshi Chhabra:** Yes. Hi, sir. Congratulations on a good set of numbers. Sir, I wanted to understand that, in the roadmap, where you are saying that you are going to be only doing management contracts, are you also looking at adding any hotels on a lease or on a revenue share model, or is it only going to be management and franchise?

**Patanjali Keswani:** We are completely open to any format, where we do not require capital deployment. So really, lease is an intermediary, you look at risk-reward trade-offs, ownership of assets is obviously the highest risk and highest reward. Franchise is the lowest risk and, an interesting reward. Management is low risk, relatively high reward. Lease is potentially, based on the kind of lease,

it is potentially, I would say, lowest risk and potentially high reward. The downside of a lease contract is basically, the amount of minimum guarantee that you give. So, I think as a company, we are quite open to leases, but we would like leases to be more oriented towards revenue share because we have a certain cost structure, we think, we can monetize rather than minimum guarantees.

**Sakshi Chhabra:** So, is there any percentage of additional rooms that you're looking at on the lease, on the revenue share model?

**Patanjali Keswani:** I told you this is a question of what is available and whether we want, what is available. So, Sakshi, very difficult for me to answer. It is quite likely; we will sign some hotels on lease. But as I said, when we do our sensitivity analysis, we will look at worst-case EBITDA and say that our committed lease rentals must be less than that, with some buffer-built in. So, the way we think of a lease is very simple, in good times we take 70% of the upside. In bad times, we may make only 5% because the balance is going to the asset owner. So, it is in that sense more volatile. Are you getting me? But also, less risky. More volatile on earnings, but close to zero risk on capital deployed.

**Sakshi Chhabra:** Yes. But going forward, higher amount of growth can come, if you go by the lease model rather than only on management contracts, right?

**Patanjali Keswani:** I totally agree. So, it's not a size fits, but typically, we would look at leasing an asset, where we would really perhaps look at putting, we would have put up our own hotels, if we had the capital. So, that's where we would look at leasing an asset. Otherwise, we will only do management or franchise.

**Sakshi Chhabra:** Okay. All right. And sir, in terms of the renovation which you were talking about, so how long -- like in the next six months, how many rooms would be renovated?

**Patanjali Keswani:** Well, think of it this way. We have a three-year renovation plan for Keys and for a bunch of our older hotels. Put together, they would be about, I would say, about 3,500 rooms. So, we plan to spend about INR 150 crores, about INR 50 crores each year. So, this renovation will happen in H1 of this year, next year and probably a little less in the following year. So, this is how we

planned it. But a lot of the renovation of the public areas will happen this year.

**Sakshi Chhabra:** Okay. So not particularly, you don't have a fixed number as to how many rooms you will be doing in H1 of this year?

**Patanjali Keswani:** No, it will be about 1,000 rooms.

**Sakshi Chhabra:** Okay. 1,000 rooms. And the rest will happen in the subsequent years?

**Patanjali Keswani:** That is right. Because the newer hotels don't really require renovation for another three years, four years. And that will be, what we call the routine renovation. So, you take Bombay, take Pune, take Kolkata, Udaipur, certainly Aurika Skycity, Mumbai, take Dehradun and so on. These are over 1,000 rooms, which will not require renovation. So the balance 3,500 rooms, 4,000 rooms, we will renovate over the next few years.

**Sakshi Chhabra:** Okay. I got that. And sir, in terms of the franchise model, do you think that, the hotels are ready for, the ones that you give out for franchise, so what are the criteria's that you look at? Because in a management contract, you still have a lot of control, right, but in a franchise that doesn't happen. So how do you make sure that, they maintain the quality standards that Lemon Tree Hotels require?

**Patanjali Keswani:** Okay. So, you see we've hired the top management team of Choice Hotels in October last year. Choice, as you may know is one of the world's top two franchise operator. It's a US based company. So the CEO, the Head of Franchise and Legal and the Head of Commercial and Operations came on Board. That's why, we have started at an early stage, signing a few contracts. But here's the way we look at it. You're absolutely right, that in a franchise model, you have no control over the service, the experience your customers are getting on this, in these franchise hotels.

So, we have a three-step model. One is before, we sign a franchise, we give a minimum, what is called an improvement plan. It includes training. It includes product improvements. So basically, it's fitting it into the Keys brand.

Number two is, we have an ongoing audit by third-party sources like TripAdvisor, MakeMyTrip.

And there is a minimum mark that, you must get. Otherwise, you will be given a one-week notice. And if you do not make the necessary changes, then you will be out of the network.

Third is that we have what is called mystery audits, which are paid by the owner of the hotel, where we will, on a random basis, start auditing hotels in a cycle, an assessment of the product and service.

**Sakshi Chhabra:** Okay. That's very helpful, sir. And the franchise will be only for Keys Hotels, not the other brands? Any other.

**Patanjali Keswani:** No. Where we have some degree of confidence on the operator, he has hotel experience, he has asked us, so that's like a franchise, where the owner asks us to help get the General Manager, maybe the Head of Housekeeping and so on, where we have closer eyes. We don't mind giving Lemon Tree, but there will be even stronger scrutiny in Lemon Tree than in Keys, in terms of the minimum net promoter score, we need. So Keys might be 3.5 on 5, but Lemon Tree will be 4 on 5.

**Sakshi Chhabra:** Okay. All right. Thank you.

**Moderator:** Thank you. We'll take our next question from the line of Jaiveer Shikavat from Ambit Capital. Please go ahead.

**Jaiveer Shikavat:** Sure. Thanks a lot. Good evening. Firstly, on your capex. Given that, you are still left to incur almost INR 300 crores for Aurika Skycity, Mumbai, so do you expect any further delays in the commissioning of the property beyond the October stated timeline?

**Patanjali Keswani:** No.

**Jaiveer Shikavat:** And do you expect that run rate is likely to increase on the capex front?

**Patanjali Keswani:** See, understand one thing here. Capex, we have hit nearly INR 650 crores. We need INR 300 crores more. About INR 100 crores of this capex is not required to be paid when the hotel opens. There are performance guarantees. There are payment terms, etcetera. So really, this entire capex will continue. The payment will be made, till maybe the end of the financial year.

And a little bit of impact will go into the following year because it's even more than six months of performance guarantee. So, we really require about, I would say, INR 250 crores. Maybe even less. We are working the numbers out.

So, we will open this hotel, we are certain in October, and we expect this hotel to be EBITDA positive by mid-November, latest end of November. So what we are not able to estimate, obviously, we have ranges, is exactly, how quickly this hotel will stabilize. The only good news is that, the Lemon Tree Premier, Mumbai which we opened in FY20, in the first full year of operation really, in fact, even if I remember right, we opened it in July, about six months, seven months before COVID. By November, it was doing very well, okay. And, of course, then in March, it collapsed.

When I look at Lemon Tree Premier, Mumbai and say Q1 this year, let me give you an amazing thing. Lemon Tree Premier, Mumbai in Q1 this year, has a higher occupancy than Q4 FY23. It's amazing, how it's doing. So Aurika, Skycity, Mumbai, in our opinion, could be a showstopper for us. I have given that very conservatively, we will do INR 170 crores of EBITDA and that's guidance in the second year of operation, but I would not be at all surprised, if we did both a better EBITDA in the first year of operation. So, we'll have to wait and see.

**Jaiveer Shikavat:** Sure. And secondly, on Fleur itself, given the intention of listing it over the next five years, on APG front, are they also looking to monetize stake? Or will they look to still hold their stake post listing, I mean, given the long association they've had with Lemon Tree as well?

**Patanjali Keswani:** See, we've had conversations, but I cannot speak for them. A pension fund manager could, for example, once we list, we will be 51%. There will be obviously multiple other shareholders. So APG, they may lighten its ownership. They may look for some yield return because it will be a very significant cash flow positive. So, as you know pension funds, look for yields. So, I cannot speak for them. It will be, I presume, some combination of this.

**Moderator:** Thank you. We take the next question from the line of Jinesh Joshi from Prabhudas Lilladher.

**Jinesh Joshi:** Yes. Thanks for the opportunity. I have a question on Aurika, Skycity, Mumbai mainly. You mentioned that, it could be a showstopper for us. And given that, this hotel is likely to be

operational in October itself, if you can just help me understand, what are the micro market dynamics in that particular area? Is there any new hotel or new supply, which is coming up over there, which can potentially deepen any impact in ARR in our guidance, which we're kind of giving currently?

**Patanjali Keswani:** Okay. So let me just give you some flavour, Jinesh, and it's just flavour. When we opened our hotel in Delhi, we opened a total inventory of 500 rooms in a market that was near the airport. And within 1.5 years, there were 5,000 rooms in this micro market. Delhi is the second deepest market in India after Bombay. Within 2 years, the average occupancy in this micro-market was 70% plus.

So, that's the flavor of a market that is not as good as Bombay. Now we come to Bombay. We opened our hotel, in fact, partly opened the hotel in July. It got fully operational, I think, in 3 months or 3.5 months. It was a soft opening. Within 3 months, it was doing phenomenal occupancy. Not at very high rates because we were trying to penetrate the market, but it was doing super well. Our current assessment because we are now physically present in that market is the Andheri-Kurla market caters to demand from every possible segment, meetings, incentives, conferences, tourists, transit travellers, business travellers, long stays and across multiple micro markets in North Bombay.

So when you look at this market and you look at Smith Travel Research report on it and if you talk to any hotelier who has a hotel company that has assets in that market, you will find all supply has always been absorbed. We added 300 rooms and in 3 months it was absorbed. Now we are adding 669 rooms. But if you look at passenger traffic, it has increased enormously there. So from the risk perspective and ultimately, you are asking me a question of what is the risk, we are very sanguine that this hotel will be, as I said, a showstopper for our company. You see, think of it as simply, we did INR 450 crores EBITDA this year, and we feel Aurika, Skycity, Mumbai alone can be 40% of that.

**Jinesh Joshi:** Got it, sir. That was pretty much elaborative. And I just have one follow-up question. I guess in the opening remarks, you mentioned that you will probably refrain from giving any guidance for FY24. But if I recollect properly in the last earnings call, you had mentioned that you seem to grow revenues by about 20% and our net EBITDA margin in FY24 will be higher than what

it is in FY23. Now in FY23, we are already at 52-odd percent and you also mentioned that we have some renovations lined up. So do you kind of still hold down on that guidance that our margins will be higher? And on the revenue side, if you can just throw some light?

**Patanjali Keswani:** I can't give, as I said. Let me put it slightly differently to you. Aurika, Skycity, Mumbai will deflate - so the way you should look at it is apple-to-apple, which is Lemon Tree as a group without Aurika, Skycity, Mumbai because in Q3 FY24 that will deflate our EBITDA percentage, not the EBITDA number, but the EBITDA percentage, okay, because it will operate both at numerator and denominator. But if I look broadly, what do you see if you look at our company?

Aurika, Skycity, Mumbai is kind of a hotel that does INR 30 lakhs EBITDA per key, Lemon Tree Premier does anywhere from INR 15 to 16 lakhs a key, Lemon Tree Hotel does INR 10 to 11 lakhs a key, Red Fox does INR 7 to 8 lakhs a key and Keys Hotel should do about what Red Fox does. So if you added together into inventory, you get a rough idea in a year, 1.5 years out what our EBITDA will look like. You get a picture of that. And then the management fee income is a simple number. You simply look at the number of rooms we are operating multiplied by the fee per room and you get to an EBITDA, which is a very interesting number within the next 2 years.

**Moderator:** We take our next question from the line of Rajiv from DAM Capital.

**Rajiv:** So, your current ownership will be close to 59%, right, after you do the remaining buyback of CCPS. And from there, you are saying that we will settle at 51% after, let's say, whatever route you choose to exit. So in that from 59% to 51%, is there an OFS from the LT's side, which is planned here? Or this 14% dilution is largely due to fresh issue?

**Patanjali Keswani:** You see we will not need any cash. We will only be generating cash. We feel that on a standalone basis, Lemon Tree will be able to settle its own debt within the next 2 - 2.5 years. So, there is no reason for us to do an offer for sale. This will be when I said we will come from 59% to 51% or 50.1% or whatever, it will be due to a fresh primary issue of capital. However, I think one of the listeners asked a question. I cannot speak for APG. APG may also decide to do a small monetization when we list.

So, I cannot speak for that. So basically, what I'm saying is that we will do a primary issue of probably 15% - 17%, and that should hopefully take care of the entire debt of Fleur, after which Fleur will be a large cash-generating company and so will Lemon Tree. So, one possibility is that in the next 2 - 2.5 years, because if you notice, I've written by or before 2028. If market conditions are ripe and right, we will list Fleur, especially after Aurika, Skycity, Mumbai starts showing the kind of results we expect it to and in which case by, in the next 24 months, the whole group will be debt free.

**Rajiv:** Just to get a size, Aurika, Skycity, Mumbai to versus, let's say, the competition in nearby market, what is the size of market you can cater to versus, let's say, what we have in the nearby districts?

**Patanjali Keswani:** So right now, Lemon Tree Premier really competes with the Radisson, Courtyard, and it competes, I think, with the Holiday Inn and to some level with The Leela. They are all similar in average rates which is say INR 8,000 to INR 9,000. The higher-rated hotels are JW Marriott and ITC Grand Maratha. So really, we will be competing with them. And the product, you see what I intend to do is somewhere in October or November, once the hotel is open, I'm going to have an Investors/Analyst Meeting in that hotel because I would like people to see what we mean about Aurika, Skycity, Mumbai I think it will be quite an eye-opener.

**Rajiv:** Sure. And lastly, in terms of the journey we had so far, if you can quantify the number of the hotels we have lost to competition, whichever has come for end of tenure? Is there a number there?

**Patanjali Keswani:** We have not lost any hotel. We have given up 2 hotels. One for brand standards and one because the owner went into a criminal case. And I don't think we've lost any hotels that we have taken under management or franchise, except for 2 as I said. One was a lease and one was a franchise.

**Rajiv:** Sure. And the length of the contracts, which you are signing as of now, are they in the historical ballpark of 10 years to 12 years? Or they are getting longer or shorter because the competition is higher now?

**Patanjali Keswani:** See, we do not sign any contract less than 10 years. And the average is, I think, closer to 15. Number two, we are very clear that we do not sign contracts for cash flow. We signed contracts for NPV of the management fees till the end of the contract. Since we make investments in time and effort and lend our brand, we are very clear that if you sign a management contract with us, you cannot terminate it. And if you terminate it, then there is a very significant amount of penalty or catch-up on fees that you must pay.

**Rajiv:** And in the Red Fox data that you shared in terms of room count, there is one hotel, which is lesser on a Q-on-Q basis, and I think 102 rooms which are there. So, this criminal case hotel, which you're talking about?

**Patanjali Keswani:** We got into a court I mean, we got into a case. There were a bunch of issues there. I don't want to go into specifics, but let's put it this way it was for us more than anything else an ethics issue. It was not a financial decision as much as an ethics issue.

**Moderator:** We take the next question from the line of Jayesh Shah from OHM Portfolio Equi Research.

**Jayesh Shah:** Congratulations again on the grand result. My questions would again be more on the FY24 guidance. It has left us a bit confused in terms of voting and overall terms. If I understand you correctly, there is going to be higher occupancy and perhaps higher prices on a Y-o-Y basis. So, if I break this up, on an occupancy basis, do you think the industry can register a top-line growth of, say, 15-20%? Or is it going to be 10-15%? And where would Lemon Tree meet? I'm asking for a broad range, not a specific number.

**Patanjali Keswani:** I think for industry growth, I'm the wrong person. As far as we are concerned, certainly, we would like to be, on a real basis, north of, I would say, 14%-15%. This excludes Aurika, Skycity, Mumbai. And this would be a combination - an improvement of ARR and an improvement in occupancy. So really, RevPAR is what I would look at. And yes, we would target around those numbers if not more.

**Jayesh Shah:** Occupancy and ARR together would give you around 15% top line growth on a like-to-like business?

**Patanjali Keswani:** And excluding management fee income, so we are talking those hotels which are operating.

**Jayesh Shah:** Right. And fair to say that the management fee income should also grow between 10% and 15%?

**Patanjali Keswani:** That would be crazy under performance.

**Jayesh Shah:** So, in that case, very simple math would be that your bottom-line growth should exceed your top line growth, even after Aurika's interest depreciation and additional capex, opex that you want to write-off broadly?

**Patanjali Keswani:** I would be a little careful saying that. So if you want it to be disaggregated, let's put it this way, that if my EBITDA is suppose my revenue is INR 100 and my EBITDA is INR 52, and I have said quite clearly that we will be spending INR 2.5 to INR3 more in terms of renovation. So the costs, which used to be INR 47, INR48 on INR100 will obviously hit INR50. So the challenge for us now is that if we want to hit a 50% EBITDA as a group, we have to make sure that we do better in the existing portfolio and the management fees and through Keys to compensate for the deflation in margin percentage due to Aurika, Skycity, Mumbai while it stabilizes.

**Jayesh Shah:** Got it. So the big jump in earnings and revenues and all will come in FY25?

**Patanjali Keswani:** That would be due to Aurika, Skycity, Mumbai and management fee and Keys. You are right, up to a 2-year roadmap that Aurika should do INR 30 lakhs a key, LTP should be doing maybe INR 16 lakhs a key, LTH INR 11 lakhs, Red Fox INR 7 lakhs to INR 8 lakhs and Keys INR 7 lakhs to INR 8 lakhs. So, you multiply it and look at management fee income increasing significantly, you get, as I said, and I used this word carefully which is an interesting number, but that is what we expect to get there.

**Jayesh Shah:** Right. Right. Right. And in terms of overall business, you still think that this is not the best year as you've said on TV, and you think we are not into the mid-cycle in terms of the hotel industry upswing?

**Patanjali Keswani:** We're now somewhere in the mid-cycle. So, to me, India occupancy of 66%, 67% is mid-cycle. If you go to top cycle that is really 2004 to 2008 where India occupancy was 72% to 74%. When India occupancy crosses well, market occupancy crosses 72%-73% typically, price goes up 20% and operating leverage that's playing in a significant way. So let me give you an

example of operating leverage. So, if you go to our earnings presentation on a certain slide, I've forgotten the slide. Well, I must look at it. Just give me a moment. There is a slide where we showed our increased yes, so if you go to Slide 6, this is how the hotel industry looks like.

Now if you look at it, we just talked about FY23 performance highlights. Now if we just look at the rate of growth of revenue from operations in Q3 FY23 to Q4 FY23, the revenue grew about INR 20 crores, the EBITDA grew INR 15 crores. So here is operating leverage playing out. My view is that going forward with the focus all hotel companies have on costs, rates will see, where will occupancy go? It is currently, 66%-67%. It will go up another 10%. So that will be variable cost increase.

But the rate increase of 20%, which I expect will happen in the next 12 months to 14 months, I expect that will flow straight through to the bottom line. So now if you look at industry and we are a good exemplar of that. Just look at the full year look at the Q4 performance of FY23 to Q4 of FY20 in the same slide. So, our revenue went up INR 77 crores, but our EBITDA went up INR78 crores. That tells you that the cost structure has fundamentally changed. I know there has been lot of scepticism among many people that will this cost structure maintain. But if you see it quarter by quarter, I don't think there should be any doubt on it.

**Moderator:** We'll take the next question from the line of Himanshu Shah from Dolat Capital.

**Himanshu Shah:** Congrats for a good set of numbers. Sir, can you just let us know for FY24, what proportion of rooms would be under renovation?

**Patanjali Keswani:** Well, listen, it will be over 1,000 rooms but we don't renovate all at one time. Our renovation schedule typically is that we rotate it over 2 months for 6 months. So when I say 1,000 rooms or 1,200 rooms, it means that any given time 400 rooms are checked across the entire group.

**Himanshu Shah:** And the room renovation takes almost 2 months or less than this?

**Patanjali Keswani:** 2 months.

**Himanshu Shah:** 2 months. All right. Okay. And this will be largely under Keys portfolio, the entire renovation or across the line, sir?

**Patanjali Keswani:** Well, about 1/3 will be Keys. Maybe about 35% to 40% of the balance will be the older Lemon Trees and Lemon Tree Premiers and Red Foxes.

**Moderator:** We'll take the next question from the line of Debotro Sinha from ICICI Securities.

**Debotro Sinha:** Yes. Sir, congratulations on a very good set of numbers. So, if I see sequentially like our revenue has increased by 8.2% and our occupancy has increased by 600 basis points. So like, if I see the expenses, the cost of food and beverages has decreased by 2%- 1.9%. So could you shed some light on that?

**Patanjali Keswani:** Yes. So, what it means is the mix has changed. Our food cost on a weighted average basis is about 30% to 31% of our food revenue. So, if you see food cost at INR 30, you can safely assume the revenue was INR 100. Now suppose from Q3 to Q4, the number of guests has remained the same, maybe from 69%, it has gone to 73%. So guests have gone up by 6%. So, the food revenue would have gone up by 6%, but the room revenue may have gone up by 15%. So, the weighted average may be 9%, 10% and the cost structure reflects it, because food has a much higher variable cost than rooms. That's the way to look at it.

**Moderator:** We'll take the next question from the line of Nikhil Agrawal from VT Capital.

**Nikhil Agrawal:** Sir, I had a question on the capex. Like last quarter you had guided for INR 5 lakhs per room and INR 1 lakhs per room for 50% of the Keys portfolio. You have increased it to INR 6.5 lakhs and INR 1.5 lakhs. So is this only for Keys? Or is it for the -- for your full renovation plan of 3,500 rooms which includes Keys?

**Patanjali Keswani:** Keys will be INR 5 lakhs earlier it was for about 50% of the portfolio, now it will be closer to 60% of the portfolio because Vizag is doing well. And that is about 10% of the inventory. So, we are deploying capital or capital allocation is happening based on expected return, when we increase it beyond INR 1 - 1.5 lakhs a key. Now to remember when we acquired Keys, it was a very old and tired brand. No investment had been done in it. So, in the following 2 years, again, it became, in fact, even more tired because obviously, we did nothing with it.

So to maintain what we consider minimum hygiene levels of brand standards, we will upgrade even Keys Hotels in Cochin, in Trivandrum and in Ludhiana because these, we feel by

upgrading this, we will be able to increase the occupancy, but not the price very much. In the other cities, we are spending more because we think we will be able to increase both occupancy and ARR.

Number two is, in the balanced portfolio, we feel there is an enormous opportunity to increase pricing in Hyderabad, which you have seen already in our Q4 results how it is doing. We feel there is enormous opportunity in the two Delhi hotels; Lemon Tree Premier and Red Fox. We feel there is opportunity in Lemon Tree Electronic City and Lemon Tree Premier Bangalore. So, we have looked at each hotel. We have looked at the micro market. We have looked at demand.

We have looked at how we feel we can reprice post renovation. And the entire capital allocation decision has been done on that basis. So, I can't take you through 40-odd hotels. But what I can tell you is, it has been done with some rational basis and we expect that in all cases, any investment, the payback should be maximum 18 months, but normally 12 months of the increase of this investment.

**Nikhil Agrawal:** Okay. Got it. Sir, the INR 6.5 lakhs is for the full renovation plan, right? And it's not only for Keys, but also for Keys plus the older hotels, right?

**Patanjali Keswani:** No, no, as I said, it is about INR 54 - 55 crores for over 1,000 rooms. So you average it out, it is less than that. It is closer to INR 5 lakhs.

**Moderator:** We'll take the next question from the line of Ayush Dabas, an Investor.

**Ayush Dabas:** My question is on Delhi hotel. I'm looking at slide number 15 in the presentation. So your RevPAR from Q3 FY23 to Q4 FY23 is from INR 4,941 to INR 5,559. But I'm looking at the EBITDAR number, which has gone down from 73% to 62%. So what would be the reason for that?

**Patanjali Keswani:** Slide 15, Delhi?

**Ayush Dabas:** Yes. Last quarter, the EBITDAR was 73% and now it's 62% while the RevPAR has grown?

**Patanjali Keswani:** I am just looking at that. Which number is he talking about? Okay. So just repeat the question because only one data point is on slide 15.

**Ayush Dabas:** So last quarter, quarter 3, FY23, the RevPAR as per the last presentation was INR 4,941 for Delhi. Now that INR 4,941 has gone to INR 5,500 approximately, while the EBITDAR number has gone down from 73% EBITDAR margin to 62% EBITDAR margin.

**Patanjali Keswani:** What is the answer to that? Was it some change in -- I'm sorry. I don't have the data. What you can do is drop me an email. We'll try and get back with specifics. I don't have it right here.

**Ayush Dabas:** Okay. Fine. How do you see the outlook for Delhi, sir?

**Patanjali Keswani:** Very good, especially now that we're renovating. So in Q3 last year, we started renovating some rooms. We renovated about 30-40 rooms, about 10% of our inventory. We are planning to renovate about another 90 rooms this year in Lemon Tree Premier and another 80 rooms in Red Fox. And we feel we will be able to capture a significant price hike while maintaining high levels of occupancy in these two hotels. So the demand is very robust and sustainable.

**Ayush Dabas:** And sir, what do you see as a sustainable EBITDA margin for the Delhi hotels?

**Patanjali Keswani:** So, Delhi, my view is that we should be in the early 60s in Delhi. But if we manage to take the price up significantly, then it might hit 65%.

**Moderator:** We'll take the next question from the line of Prashant Kshirsagar from Unived Profit.

**Prashant Kshirsagar:** Just wanted to ask you about foreign tourist arrival in India, what is your expectation?

**Patanjali Keswani:** I read some statistics that foreign tourist arrivals to India is still low, when we talk about arrivals to India from foreign travel, foreigners, I think a large percentage is the Indian diaspora. So, we are speaking purely of what are called FTAs, which are foreign tourist arrivals. I'm given to understand it is still less than 50% of pre-COVID.

I can't actually tell you, but I'm hoping that, obviously, in winter, it will pick up. And even if the tourist arrivals to India from sub-50% go to sub-25% in terms of drop, if there is only a catch-up to halfway levels, pricing will again go up by another 5%, 7% or maybe even 10% for the

branded sector because all foreign tourists typically, 90% stay in branded hotels. So it will be a large number and it will have a large impact. But I have no line of sight on when and how that will happen.

**Prashant Kshirsagar:** In one of your conference call, you've said that the room rates may double if the foreign tourist arrival increases

**Patanjali Keswani:** Not double. I said over 2 - 2.5years, I said it will double and I mean it by the way. See, it is already 30% up in one year. So over 3 years, why should it not double? Look, make it very simple. Our rates today, if you look at Lemon Tree as a group and you just go to Slide 19, Lemon Tree excluding Keys, the ARR was INR 6,237 in Q4 FY23.

The same Lemon Tree, half of it which was operational 14 years, 15 years ago, the ARR was INR 8,000. So, why should there not be a catch-up? We are very, very cheap, I mean, luxury hotels are for $200, $250 here. A friend of mine in the travel business told me in Europe now it is EUR 900 to EUR 1,000 per room and we are at $250. So, the runway is enormous.

I understand, of course, that affordability is an issue, but my view is broadly, India is at close to a tipping point. And one very interesting indicator is the increase in demand of mid-size SUVs. If you look at China and look at Taiwan, look at Indonesia, look at Malaysia, 3 years after mid-size SUVs took off, hotel demand took off. So, I do see a tipping point.

**Prashant Kshirsagar:** But for the room rates to really move up - increase sharply, is the foreign tourist arrival will be an important criterion or it won't be?

**Patanjali Keswani:** Let me give you a number. Foreign tourist in and of themselves are about 3 - 3.5 million. I don't have the exact number, but it's roughly in that range. What is 3.5 million? It is 10,000 a day. Each of them stay for between 5 days to 10 days. So if you look at it on the room night basis, it is like 30,000 or 40,000 or 50,000 room nights a day.

Now if 80%, 90% of them are staying in branded hotels, then just take a simple number, that's 25,000 rooms over 175,000. It's a 15% improvement in occupancy. Now if occupancy goes up by 50%, I can guarantee you prices will go up by 30%.

**Moderator:** Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.

**Patanjali Keswani:** Well, thank you 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 all of you soon.

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