Lemon Tree Hotels Limited
Q2 & H1 FY21 Earnings Conference Call
November 09, 2020

Moderator: Ladies and gentlemen, good day, and welcome to Lemon Tree Hotels Limited Earnings Conference Call. As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on Lemon Tree Hotels' Q2 FY21 Earnings Conference Call. We have with us today, Mr. Patanjali Keswani – Chairman and Managing Director, Mr. Rattan Keswani – Deputy Managing Director, Mr. Kapil Sharma – Chief Financial Officer and Mr. Vikramjit Singh – President of the Company. We would like to begin the call with brief opening remarks from the management, following which we 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 would now request Mr. Patanjali Keswani to make his opening remarks.

Patanjali Keswani: Thank you Anoop. Good afternoon and thank you everybody for joining us on this call. Currently there seems to be some good news in India, the number of new cases reported daily have come down significantly. What it was to about 1 lakh per day few months ago, now it is under 50,000 per day. But there is still uncertainty around the peak number of cases in India what we were seeing and second wave in India like in many European countries at present.

In the quarter gone by, our revenue from operations stood at Rs. 47.6 crore versus Rs. 152.8 crore during the same period last year. Our revenue in Q2 was 17% higher than in Q1 FY21. Our operating expenses including corporate expenses came down by about 62% to about Rs.39.3 crore in this quarter as compared to Rs.104.3 crore in Q2 FY20. Above that, there is 8% increase in our operating expenses in Q2 against Q1 on account of higher inventory being operational in Q2 compared to Q1.

Out of about 5,200 owned rooms, about 4,500 were operational in Q2 which was 21% higher than the number of rooms operational in Q1. We recorded a positive net EBITDA of Rs. 14.3 crore in Q2 FY21, which is 71% lower than Rs. 49.4 crore in Q2 FY20. But our EBITDA in Q2 was about 92% higher than Rs.7.5 crore in Q1

FY21. Our EBITDA margin also showed a significant improvement in Q2 over Q1 by extending 960 bps to 26.7% in Q2 and 17.1% in Q1.

However, the EBITDA margin in Q2 FY21 is at 540 bps as compared to the 32.1% in Q2 FY20. We will continue to be very tightly focused on our expenses, which were able to expand our EBITDA margins quarter-on-quarter even though we were operating on much higher inventory in this quarter. We were able to identify areas with further cost rationalization over and above what we implemented in Q1. In fact, as I've said earlier as well, let me reemphasize that many of our cost optimization measures will be permanent in nature, which will lead to a net EBITDA margin expansion between 500 to 700 bps when things get back to normal. While we continue to explore and experiment with leaner operational practices, we are also very committed to uphold best in class service and safety standards. The occupancy in our operational hotels is 37.3% in Q2 versus 74.8% during the same quarter last year and our ADR is dropped by 35.8% versus Q1 FY20.

There was a noticeable shift however in our business mix in Q2 from Q1. We saw a gradual pick-up in demand from our traditional segments like corporate, travel trade and especially retail. Contribution of our traditional segment in terms of it has increased from 19% in Q1 to 43% in Q2. Incidentally this share has now gone up to about 85% in October. From the liquidity perspective, we have already received our first Rs.175 crore through the issuance of CCPS to APG. There is an additional commitment of Rs.125 crore which we may call for, if the need arises. We plan to raise up to Rs.150 crore in Lemon Tree, approval by the Board is also on the way. Excluding the traditional Rs.275 crore, we currently have sufficient cash in the company in which our total expenses, including all debt obligations for the next three quarters assuming the worst-case basis of current levels of occupancy and ADR, current means Q2.

We continued to be absolutely vigilant in ensuring the safety of our guest and employees we been covering all aspects involving, guests, employees, and vendor partners, which we implemented in Q1 continue to be in place. In all hotels where our rooms were been offered for institutional quarantine, all our housekeeping employees are provided the PPE suite to attend and engage with guests.

Our health and hygiene program ‘Rest Assured’ which we launched in Q1 in collaboration with the Diversey of the US has been really appreciated by our guests and as we anticipated, such initiatives by us will instill confidence and trust within lines of our stakeholders. Overall, the hospitality industry is now seeing green shoots of demand recovery from certain segments. Retail demand is legit explanation picked up very sharply since the lifting of lockdown. We are witnessing great interest for locations like Udaipur, Goa, Rishikesh etc. We have also witnessed demand pick-up from airline crews as airlines operations have resumed partially.

Our revenue stream is monitoring evolving business dynamics on a daily basis to respond to corporate demand from small pockets currently.

To summarize, we are positive of what lies ahead. We are hopeful that H2 will be much better for the hospitality industry and for us than H1. We are also confident that our business model, significant liquidity and our established brand will help us successfully.

On that note, I come to the end of our opening remarks. We would now like to ask the moderator to open the line for QA.

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

Nihal Jham: A couple of questions from my side; first is if I look at performance to what you had mentioned in June in terms of our occupancy and ARR, they have more or less stayed constant for the entire quarter. So just wanted to get a sense that I would assume that a lot of the quarantine business and all may not be repeating, so possibly that explains the occupancy not going up. But in case we have seen a higher share of retail, so should that have driven our ARR higher, just your thoughts on that first?

Patanjali Keswani: Keep in mind the occupancies across India are low. So, retail while the demand is picking up, the fact is the hotels are not going full therefore retail pricing is still very subdued. For example, people coming for staycation and so on and so forth. So, while if you look at outstation pricing, it is maybe 70% of last year. But if we look at staycation it is significantly lower than what it was last year and that is really pricing is what is leading to this demand pickup. So, till there is a sustained pickup in demand across all segments, retail pricing in and of itself will not pick up. Let me tell you on how our occupancy fared if you look at Q1, we did 1500 rooms a day. This was roughly 29% on our full inventory but we had only opened about 70% of our rooms of which 1500 rooms 81%, 1,250 rooms were COVID related and traditional business which uses to be 4,000-3,500 rooms had dropped to 285 rooms. So, in Q1, out of 1500, 1215, were COVID related, 285 traditional and that added up to 1500. In Q2, the COVID related business started reducing, especially after the government said that we don't need to quarantine for 14 days, so the length of stay of quarantining reduced, also in certain cities, they were committed to quarantine at home, that is self-isolate. In Q2, we did 1,682, the 1,215 COVID related rooms dropped to 958 and the traditional rooms, which were 285, in Q1 increased to 722 in Q2. So now the mix changed from 81% COVID related to 57% COVID and 43% traditional. Now just to give you a flavor, in October we did 1900 odd rooms, of which only 280 rooms were COVID-related, which is 15%. So that's exactly reversed. COVID was over 80% in Q1 and is now under 20% and traditional which was 285 rooms is now close to 5.5x, it's like (+1600) rooms. Of these 1600 rooms, which is current traditional business, retail alone is 1200, 75% and this is a remarkable number because last year our total retail was 1500 and therefore the first segment that seems to be catching up is retail, large corporates, which were about 30% of our business is still very-very low. It's the SME sector, MSME sector and the retail sector which is currently driving occupancy and large corporates have announced that is, open offices and pick up will start in travel. So Q4 will be in my opinion, you will see the start of that traditional segment of corporates, Q3 you are seeing a very large pickup in retail, but not at the price we like obviously, but it is what it is.

Nihal Jham: Just a related question to that was that ideally this used to be the period where I think you just start negotiating with SMEs for the rooms ahead. I know these are exceptional circumstances, but just wanted to get a sense that are those discussions happening at this point in time or those are discussions where we have taken a hit.

Patanjali Keswani: Maybe in 10% of the cases otherwise in most cases it is the old rates which are continuing and in some cases where there are block bookings and there are ad hoc discussion but block booking will be basically 3-4 rooms for 20 nights and so on and so forth. But to give you better flavor just look at it this way. Typically, the average bookings that we pick up a day give us an idea of forward occupancy, so while in October, we have been doing about 1900 rooms. Forward occupancy pick-up, at least the forward bookings that we are getting is over 2200 rooms a day and retail alone of that in 1700. Now of course there will be some cancellations and so on and so forth. But this is encouraging that on a daily basis if I look at the last week, we've been averaging more than 2200 rooms a day, being booked with us.

Nihal Jham: And generally, what is the rate like for these retail bookings, are there significant discount in last year or they are getting closer?

Patanjali Keswani: Yeah significant discount to last year, so typically you can assume the rate, see COVID related businesses was at flat 2000-2500 retail will be a little higher.

Nihal Jham: Just last question from my side, was there any hotels which closed down September because of which our operation hotels rental?

Patanjali Keswani: Yeah. You see, there were some hotels which we were giving purely for quarantine and that demand dried up like this is Whitefield in Bangalore or the Lemon Tree Premier in Gurgaon in sector 29, for these hotels once that demands segment dried up and we had additional inventory in those markets, like we have Lemon Tree Whitefield, very close to the Trees Whitefield or in Gurgaon we had three hotels of 220 rooms and one of them for 80 rooms was quarantine, so when that quarantine business dried up we shut that hotel and continued to service from the other hotels.

Moderator: The next question is from the line of Archana Gude from IDBI capital.

Archana Gude: Despite almost 17% sales growth QOQ, our employee cost is down almost 20% over last quarter, so what led to this fall and how we should read the numbers?

Patanjali Keswani: As I mentioned, in my opening remarks, cost optimization is an ongoing process. We have tried to shut hotels the reason we shut it is that we feel that the revenue we get is less than the operating costs to that hotel if we operate the hotel. So, by shutting down those two hotels I spoke about, effectively we increase the profit because the cost of shutting it down was much less than the cost of keeping it open. Overall on a cost optimization basis, I think we have now reached, being able to operationalize significant learning in some hotels across the entire base and I think that's what you are seeing play out that cost structure is getting tighter and tighter and it's a learning process for us and which is why I said that, all the costs that we have cut will obviously be permanent in nature, but at least 5% to 7% of our revenue cost represented there will permanently disappear.

Archana Gude: Secondly, if you can just give some more color on the retail performance of the key cities for us.

Vikramjit Singh: Definitely. So, to answer your question, retail primarily is driven by two sources today. One is staycation business where people in the same city want a break. These could be young executives who are working in shared accommodation and want to take a break, want some privacy to step out and spend some time in our hotel. The SME movement has also started. These are the two segments which are moving in for the retail business primarily. They are primarily, I'll tell you in the key Metro cities and Tier-I cities. There's a lot of demand in our hotel Aerocity for example, Gurgaon sees a lot of retail demand, Bangalore, Hyderabad sees a lot of retail demand. So, we are more in the Tier-I cities where we have significant inventory and Mumbai too.

Patanjali Keswani: But I would like to add to that, in certain Tier-II and Tier-III cities I am also amazed to see that the occupancies have hit pre-COVID level. So where there is very high fear of pandemic or whatever, which is more urban related this drives staycation business because people are so locked in that the young couples want to go or young couples with kids want to go and just go to a hotel for a weekend or even weekday because there is no difference. In the Tier-II and Tier-III cities we are seeing significant pickup, not only in retail, but in SME with SME sector is actually helping us. Like I'm amazed to see in Chandigarh, both our hotels are a 100% occupancy. We have 180 rooms, and they are doing 100%. So, it's interesting, this is an evolving situation, but it is very-very positive trend.

Archana Gude: How this Aurika Udaipur being for us considering that the wedding season is around the corner and has the ticket size come down there drastically as the guests should be come down?

Patanjali Keswani: So, two things, Aurika when there was this farmer bill, there was a lot of agitation, on the high-way and Aurika's key markets are Rajasthan itself and Gujarat. A lot of people from Gujarat drive down, it is only a 3-4-hour drive from Ahmadabad and other major cities. And Aurika was doing quite well in that farmer's agitation, October so our Udaipur has been less than what it was earlier. November is looking very positive. In fact, we have booked a few, what I call take-out. So, the whole hotel has been bought by a party for a wedding. What we see happening in Udaipur is that post Diwali there is very high booking levels. Pricing is unfortunately not where we would like it. We were doing roughly Rs. 15,000 last year. Now we are doing about 50% of that. So, the ARR in Udaipur would be between 8,000 to 10,000, not 15,000 but the occupancy levels are trending up significantly.

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

Sumant Kumar: So, you said the demand is going to be very good compared to H1 in H2 and around 2,200 rooms demand is you are getting, so it is around 50% of the operational inventory. What I am getting since staycation is there your SME is also driving demand and you've just talked about the wedding is also driving demand. Apart from that, any other segment you are saying the demand is going to pick up?

Patanjali Keswani: No, as I mentioned earlier, one of the key segments for hotels in India especially business hotels, so our leisure hotels are doing well, Goa is doing very well. As I said Udaipur though October was soft, Rishikesh is doing well. We just opened one of our managed properties and Corbett is starting to show good traction. So, resort destinations are doing well in Q3. My estimation is that in Q4, we will start seeing a similar pickup in corporate travel. Now many of our hotels are business hotels while they get staycation business, their mainstay of these hotels is business. So we are expecting that impact to come in Q3 which is why I said that in H2 I expect it to better than H1 primarily because corporate travel is expected to open in Q4 and traditionally Q4 is the best quarter for the hotel sector that is January to March quarter. So Q3 is trending well, Q4 I expect will do significantly better.

Sumant Kumar: So, the large corporate you're expecting is likely to travel in Q4.

Patanjali Keswani: Because if you read what I'm reading Sumant, most large corporates have said we will open our office in the first week of January.

Sumant Kumar: So COVID fear is behind us and corporate side also will start travelling, what we are seeing now in the leisure side?

Patanjali Keswani: Now I must put a disclaimer here. This is forward, so I am not giving any guidance. But I want to say just one thing which is that the number of cases in India are reducing on a day by day basis. We have not reached the level we were fearful of that is during Diwali there will be a spike and so on and so forth. If this continues and the number of cases continue to reduce then, I expect Q4 will be well compared to Q1-Q2-Q3. That is an assumption.

Sumant Kumar: Whatever we had an expectation during Q1, the demand recovery that is ahead of our expectation or it is still we do not have clarity on the demand side?

Patanjali Keswani: We did, worst-case planning where we said Q1-Q2-Q3 would be washouts and Q4 that is nine-months after the lockdown would start showing some demand recovery. Now that is being preponed by a quarter. So, I'm seeing positive signs, but again, as I said, so much linked to sentiment whether there is a fear factor, whether there is a second wave, a vaccine is announced which is safe and efficacious. So, it is still uncertain but broad trending shows that Q4 will be good, good means relatively, not as good as we would like but relatively.

Sumant Kumar: One, observation from the PPT, the September revenue increased by Rs. 0.41 crore while operating expense increased by Rs. 0.53 crore.

Patanjali Keswani: That is because we were opening hotels. See, it's an ongoing thing what's happening really Sumant is that as we see demand starting to pick up and we open a hotel, very simple that the first month or two, now we see demand seen in a hotel which is shut in Q1 and we say, okay, we think it is going to cover its cost, but it'll take 2 months. So, what happens then is when you open a new hotel, initially the cost is more than the revenue, the operating cost but you are obviously opening it on the assumption that the revenue will overtake that. So, you will see these blips when we open our existing inventory. So right now, in Q2 we had opened, I think were 4,500 rooms about 86%-87%. Right now, we are operating with 4,800 rooms which is 93%. So those new hotels that we have opened have now started catching up in terms of revenue overtaking its cost.

Sumant Kumar: As an observation from the PPT only, the ARR in the September month has declined over August.

Patanjali Keswani: So that means we opened some lower value hotels, lower rated hotels but there was demand coming and as I said, Aurika did very well in August, no sorry this is September. So basically, this is new hotels we had opened where there has been a lower ARR, but we are hoping to catch up as it stabilizes.

Sumant Kumar: Also, what we have seen, the management room the operational inventory compared to your own and lease had increased at higher pace.

Patanjali Keswani: Because we have many resorts. There are many resorts there. So, we are very sensitive to the fact that the owners of the hotels, which have been entrusted to us should minimize their losses. So, we were advising owner that it is now not worth opening this hotel or it is worth opening this hotel. So, this was an ongoing process. As and when we see demand in micro markets, we will start operationalizing hotels which were otherwise shut. So, keep in mind that Q1 a lot of hotels were shut. Even our own inventory 30% nearly was shut. So, we gradually started opening it in Q2 and in Q3, I think again over 80% of our or more than 80%, maybe 90% of our managed hotel inventory has also opened.

Moderator: The next question is from the line of from Kumal Lakhan from CLSA.

Kunal Lakhan: My question was on, what's the breakup of business and leisure travel if I can have, in terms of customer base, a pre-COVID and maybe currently also?

Patanjali Keswani: Now the peculiar thing is that business hotels are getting leisure travel. So, I am actually not trying to look at it from that perspective. Let me say it broadly, our leisure hotels are doing over 60% occupancy but our leisure inventory in the owned context is not large, it's not significant. But our lot of leisure business is now coming to our business hotels which is staycation business. So, I don't have those numbers unfortunately. So, if you drop me an email later, I'll try and get those to you. But broadly you can assume that of the retail segment that we are getting which is we are doing 1200 rooms a day now. You can assume that 80% or 75% is a staycation or equivalent.

Kunal Lakhan: What I was trying to understand also work pre-COVID situation, what would that mix have been because I think that time, we wouldn't have this kind of a demand where your leisure was driven by staycation.

Patanjali Keswani: No, we were getting staycation business pre-COVID. It was an interesting new segment that had opened up roughly in 2018 where people were coming for breaks but those were all weekend bookings. What is amazing is the large number of people who are booking for staycation and two is that is they are indifferent whether it is weekday or weekend because I guess they are staying at home. So, think of it from this perspective, there are multiple families living in a two-bedroom apartment, they are doing work there, maybe they are sharing this with their parents or they have young kids and they're just feeling trapped because they're not going out. So, for them this is a well-paid break, but the important thing is it must be affordable. So, value for money, same city and I presume this is true for the industry, we are getting business which was earlier on the weekends and this is now operating across the week. So the interesting thing, let me tell you, if we look at Lemon Tree or the hotel sector incidentally 2 years ago, you would find for Lemon Tree, for example, our weekday occupancies was north of 80% and our weekend occupancies were 60% of which half was staycation, even then. Today our occupancy is flat like. So, we are doing 40% occupancy. Then that 40% will be Monday through till Sunday and that is largely driven, as I said by retail and a significant segment of that is staycation. Will it stay going forward? Yes but my view is that the minute corporate demand picks up and stabilizes, which as I said, it's still about 3 to 4 quarters away, so prices comes back to normal then a lot of this business will drop away and we'll come back only on weekend when we drop prices to meet their wallet needs.

Kunal Lakhan: Actually, the context of my question was with respect to what you just said earlier, that you expect the corporate travel to pick up from Q4 onwards. Just wanted to understand what is the risk to this assumption considering the fact that the focus of corporates or India Inc. will shift towards cost savings and especially with the new normal becoming that you are conducting meetings via online platforms like Microsoft, Zoom and Ciscos, how do you see this trend evolving and as threat to our business?

Patanjali Keswani: So typically, about 4 years ago 50% of our business was big-large organized corporates last year it was 30%—now our worst-case trending is that 20% of this 30% will disappear on a permanent basis. That is the structural shift, so 6% demand will disappear. We don't see that as a big deal because typically demand on an aggregate basis in the last 10 years have grown for branded hotels by 12% a year. So, this will blip will play out this year. There is no question in my mind Kunal that they will be a sub-10% drop structural shift in demand. But what I'm betting on is this will be substituted significantly by SMEs which is there. I don't see any drop in demand. In fact, I see a pick-up in demand as it revives that sector. And second is that there will be a structural impairment in supply. We are starting to see it play out. My reckoning is in the next one year, maybe 15% of branded supply in India will disappear maybe 20%. So, while demand may come down by sub-10%, supply will definitely come down by a larger number. And the third is that when corporates start picking up basis in Q4, it will not be instant. It will be small; it will start catching up and that is why I maintain that it will be three quarters when the demand should come back to some level of pre-COVID and pricing will start showing significant improvement.

Moderator: The question is from the line of Amit Agarwal from Nirmal Bang.

Amit Agarwal: My first question actually relates to the occupancy levels if we see in the second quarter, a larger competitor Indian Hotels in fact talked about Ginger having occupancy around about 51%. And of course, what he said was basically because recovery in the MSME sector. So, I would have expected the Lemon Tree occupancy to be higher than comparatively where it has been. So, any particular reasons on that, maybe the hotel mix or where the hotel is?

Patanjali Keswani: No, I think its pricing. Look if I drop my price to Ginger's level which is roughly half of ours, I will do 70%. But the point is it's always a trade-off. So, we try to maximize the RevPAR. So, keep in mind that Ginger's average rate last year was Rs.2000, we were Rs.4,500. So, it's a very different market. You get me? I suspect Ginger is doing better because it's a branded product though it's a lean economy product. Number two is, it has of course the guarantee of the Tata's. So, you know its quality and third is I think a lot of people who wanted a staycation, I don't know, Rs. 1000-1200 didn't want to go to guest houses because guest houses are highly suspect because there is no assurance of safety. So, I think Ginger benefited with the movement from guest houses to a branded player like Ginger. I'm just guessing, I don't really know but that would benefit them. And I don't know this 50% is on the entire inventory or the operating inventory because that's the other question I have unfortunately not found out. But I would reckon it's a mix of these. See what's going to happen is there will be a structural shift from guest houses to economy products. I am seeing it in our Red Foxes. We have 10 Red Foxes. We are doing over 50% occupancy. So Red Fox is a Rs.1500-1800 product in today's month, so obviously at that attract prices it will attract lot of people who would otherwise have gone to guest houses, SME, staycations and so on. Not all Red Foxes, I want to be clear some Red Foxes are doing very occupancy.

Amit Agarwal: My second question pertains to your mix of your leisure, like you were just talking the previous question also, if you can give some color on the differential which you've seen in terms of rates and occupancies between a business hotel in Bombay, Delhi, Bangalore, wherever you have it and in a leisure destination, how's the occupancy, this is on a comparative basis so last year in a leisure destination how was the occupancy that time today how much is it or in October how much was it or November how much and rates also? Can you get some kind of color on that kind of a thing, comparison leisure versus the business?

Patanjali Keswani: See business is not significant. It is only SME today which will be 300-400 rooms. I would reckon though you see a lot of them have started booking online because in a bid to expand our base, we have obviously started giving online rates which are price competitive. So smart buyers of hotel products go-check online and if the online rate is lower than the corporate rate, which is the case in most hotels in India today then they will shift and use the online whether it's the OTA or our own website. So broadly, I would say that the corporate business that we are getting today is being driven by online and the pricing will not be significantly higher than the leisure pricing because the online segment the customer who comes there, whether he is coming for business or leisure he will book that segment because it is a price competitive. He books that channel because it is price competitive. So typically, what happens is in winter online rates are significantly higher than corporate rates. But this winter it is not going to be the case. So it is difficult now for me to split it because we don't ask reason for stays when a person comes from an online booking and as I told you that, in retail where we are doing 2200 rooms, so 1800 rooms are being booked through the all online travel agents on our website.

Amit Agarwal: And what's the timeline for the completion of the Aurika Hotel in Mumbai, any changes on that particular timeline?

Patanjali Keswani: Our original plan was to open it next year in Q3. My best guess is since we are continuing to build it and the investment is not heavy because it is still shelved, right now we have a tentative timeline for Q3 FY23 that means calendar, last quarter of calendar 2022.

Moderator: The next question is from the line of Karan Khanna from Ambit Capital.

Karan Khanna: Firstly, can you help me understand what's this staff to room ratio in second quarter and how does that compare with first quarter in FY20 and what's your targeted ratio for that?

Patanjali Keswani: So broadly our, if you go back in time in 2018 when Smith Travel Research and HTL did a study of India, we found that in the mid-market segment as an aggregate, the staff per room ratio across all branded hotels in India was 1.6 staff to room. At that point we were focused on being one per room so before COVID our staffing was for our 5200 own rooms we had about 5200 staff and for our 3000 managed rooms we had about 3000 staff. So, our aggregate staff to room ratio was 1:1. This included staffing for all the restaurants, for banquets, for salons, spas and so on and so forth. In Q1 we dropped with significantly and it came to about 0.5 staff per room. Our ratio is still roughly the same. So, what do we reckon will happen is that when things stabilize, I think we have been working hard towards looking at optimization of the way we work, and I can say it? So, we have currently about 3700 staff working across our hotels. We reckon that when things stabilize, we will require 0.75 to 0.8 staff per room. So, what we have planned for is that we will not replace attrition until we achieve this 0.75 since attrition in the hotel industry is fairly large. We think we will be able to achieve this when things get back to normal, our company will operate at 0.75 staff per room. Now typically wage bill is about 18%-20% of our revenue. So, if we reduce our staff per room by 25% then this 20% should also come down to 15%. That's one reason why we are very sure that our EBITDA margins will expand by 500 bps, which will be the new staffing norms ratios that we apply.

Karan Khanna: The reason I was asking this is because I wanted to understand, in your quest to become more cost efficient, do you think that's impacting the quality of service at your hotel because I will state some personal example where I stayed at Lemon Tree Premier in Gurgaon last weekend rather. I had observed few procedural lapses including a piece of cloth near the luggage rack and tissue boxes without any tissues near the elevator etc. which I raised with the hotel General Manager, that's Mr. Utsav Garg. I am trying to understand whether the quest to become a cost efficient is actually impacting the quality of servicing with possibly once things get back to normal could actually impact the profitability of these hotels.

Patanjali Keswani: I don't agree with you for a simple reason Karan. We track customer feedback. I am sorry to hear you had not a good experience, but we track customer experience through to third party channels. One is TripAdvisor and one is MakeMyTrip. So since we have so much retail business as you can imagine, we get a lot of feedback and I can tell you our average scores in Q1 and Q2 and you can check this, this is a third-party source is the same as it was earlier. Sure they may be, after all even today and even earlier, there were, obviously issues because there are so many moments of truth, so many customers and so on but broadly our score, our rating and our positioning in all the cities is broadly the same as it was earlier. You can check this quite easily on TripAdvisor and MakeMyTrip, just see the score of our hotels. It's an aggregate.

Karan Khanna: When you say that you are expecting the corporate travel to start picking up in fourth quarter, when you look at the competing rates the ARRs with our competing hotels and nearby vicinity of your hotel chains, do you feel that the way that it's have also corrected at other upscale and luxury hotels, once they at least start picking up there might be a certain challenges in terms of occupancy, etc. picking up them, most of the other larger hotels are also sending that similar rates?

Patanjali Keswani: See that is market driven. So here is my view that, typically pricing picks up after demand falls. We won't pick up your pricing because pricing is a function of demand. So as long as demand doesn't pick up on a sustained basis, pricing will not pick up. So typically, in any hotel, even if you open a new hotel, first you drive demand, you build your demand base and then you start increasing your pricing. So, it's a lag effect. Now my reckoning is that pricing will not go up significantly in Q4. Once demand on a sustained basis, the fear comes down and people are traveling and it is sustained then there is no fear of a third wave, fourth wave and so on and so forth. That's when you see pricing pick up. So again, I repeat it is three quarters you wait before you will see that happening.

Moderator: The next question is from the line of from Sanket Goradia from VC Investments.

Sanket Goradia: Just wanted to get your view on, in terms of our debt, what's the position, what are the maturities that are coming about in FY21? If you throw could color on that and two is been the split between what would be our F&B revenue of in the total revenue?

Patanjali Keswani: I said the revenue today would be about 30%.

Sanket Goradia: Are we moving towards even a model of using aggregators, like Swiggy, Zomato to kind of increase sales there?

Patanjali Keswani: No, we are not, if you are referring to a model like Taj has, The Qmin and so on we are not focused on that. We have always as I said we are in the mid-market, we are focused on room sales and other income, which is F&B and so on is a function of what we sell. We are not currently considering, distributing food from our kitchens via Swiggy to independent customers, because then we will be in a very cluttered space because we are in the mid-market keep that in mind. Taj and equivalents are in the luxury fine dining space. Number two is as far as debt goes, Kapil would you like to answer that. What is happening with debt and so on?

Kapil Sharma: So, as you know that in this financial year have you asked that what is the repayment in a FY21? So, in FY21 as you know that the period from April to August though it was from 1st March but period from April to August is falling in this financial year. The repayment was under moratorium so that has got extended by 6 months and the tenure has been increased. So as far as our current repayments are there after August that we have already done for September and October and for the remaining period, which is from current month onwards till March, we have roughly liability of just 45 Cr as far as FY21 is concerned.

Sanket Goradia: If I have to understand it, say from the 1600 crore odd of gross debt, what is there or due for repayment this year is 45 crore.

Patanjali Keswani: Sanket see this way that 75% roughly of this debt is payable after over 5 years because all our debt, most of our debt, the reason our debt equity went up was that last year we opened five hotels with a total investment North of a 1000 crore, which is Udaipur, Bombay, Pune, and Calcutta. So that's our debt really picked up from, calendar '18 and '19, and these were brand new hotels. So typically, in our debt, if you look at our debt equity before the IPO it was 0.5:1 a loan to value was 33%. Now it is roughly 1:1. So this was the operationalization of this bunch of hotels. For example, the Mumbai hotel, which we are building is being built currently 100% with our own money, we have not borrowed anything on it. We have invested over 320 crore in it already. Now our view is any debt we take, we take balloon term. So typical debt is 3-year moratorium, then the next 4 years there is only 15% or so of repayment of principle. The next 4 years is another 25%-30% and the last 4 years, that is 11 to 15 years. We pay the balance 50%; logic being that hotels are appreciating assets and pricing ultimately reflects in that value and if we are paying for the debt 11 years later, we are paying it with effectively due to inflation it is less so that's the whole logic. Most of our debt I repeat is payable at least 5 years away. So, we are more concerned from liquidity and looking at our interest and our net EBITDA covering our interests.

Sanket Goradia: So, I presume where we must be and particularly last 3 months is well at a net at a total consol level, we must be having cash burn, right?

Patanjali Keswani: Of course.

Sanket Goradia: So that right now are we planning to do some kind of further raising to sustain that or we are in a good position with the cash burn as well?

Patanjali Keswani: See the point is that, currently we are sitting on cash. I don't know the number maybe about Rs.185-190 crore currently and we have about Rs.125 crore on call from APG. Now a majority, I think 70%-75% of our debt lies in our joint venture with APG where this majority of this money lies, this cash that we have. So, we have cash north of Rs.300 crore, and we are as I said, we are considering a Rights issue. The Board has approved it, but we are looking because we are seeing certain trends which may require us, may not need us to actually go for a Rights issue. Think of it from that perspective so it's an uncertain time. We will take a call in the next month or two but based on trending, we will take this call before the end of this quarter. Earlier we were saying if the trend was so bad that we would do a Rights issue now we are, the trend is looking a little different and this is not forward guidance, I am just telling you the thought process. So, we have enough cash and we are seeing that the cash burn is reducing on an ongoing basis plus our interest costs have come down. So if you look at the presentation that we made we have, the interest cost have come down by 40 bps, or from a 45 bps, from H1 FY20 to H1 FY21 and we are confident of further reducing this, then not only is the interest down and if we expect our net cash to keep improving then free cash then obviously we will not need money then.

Sanket Goradia: So, the way to look at this would be that in these last 3-4 months, we have seen a very significant improvement in the free cash flow?

Patanjali Keswani: No, firstly it's not free cash flow because it's net cash from operations, but we are seeing a certain trend and we have enough cash. Even currently that the next 2.5-3 quarters, we don't need any money assuming Q2 levels of performance, but we are seeing a change in Q3 and we are trying to understand it and this change maybe improving further in Q4. So, we will take a call, we are in no hurry. Let's put it this way.

Sanket Goradia: If you could just explain the jump in other income, what is that attributed to?

Patanjali Keswani: So other income is really the lease waivers. We have hotels under, so this will now start actually reducing because most of our lease waivers we got in Q1-Q2, it is continuing in Q3 and Q4, but it will reduce. So, the other income will come down proportionately.

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

Patanjali Keswani: Thank you everybody. Thank you for listening in so patiently and if you have any questions as I had said we will be very happy; you can email us directly and I look forward to talking to you again next quarter.

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