November 16, 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 and in continuation to the disclosure made on November 10, 2023 w.r.t the audio recordings of the conference call on Unaudited financial results for the quarter and half year ended September 30, 2023 held on Friday, November 10, 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**

KAPIL SHARMA
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Date: 2023.11.16 16:59:11 +05'30'

Kapil Sharma
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Lemon Tree Hotels Limited

Q2 & H1 FY24 Earnings Conference

November 10, 2023

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

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

Anoop Poojari: Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels Q2 & H1 FY24 Earnings Conference Call. We have with us 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 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. Keswani to make his opening remarks.

Patanjali Keswani: Good afternoon, everyone and thank you for joining us on the call. I will be covering the quarterly business highlights and the financial performance for Q2 FY24 post which we will open the forum for your questions and suggestions.

In Q2, Lemon Tree continued its growth momentum from the previous year. Q2 FY24 has been the best-ever Q2 performance in terms of gross ARR, revenue, EBITDA, PBT and PAT for Lemon Tree Hotels. This quarter Lemon Tree's focus was on increasing occupancy and maximizing RevPAR. Q2 FY24 recorded a gross ARR of INR 5,268 which increased 7.1% Y-o-Y and increased 0.6% Q-o-Q. Occupancy also increased by 542 bps Y-o-Y and 143 bps Q-o-Q. This translated into a RevPAR of INR 3,678 which increased 15.9% Y-o-Y and 2.6% Q-o-Q. Total revenue for the Company in Q2 was INR 230.1 crore which was higher by 16.6% Y-o-Y and 2.5% Q-o-Q.

The net EBITDA margin of the Company in Q2 FY24 stood at 45.5% which decreased by 225 bps vs Q2 FY23 and by 203 bps vs Q1 FY24 mainly owing to planned increase in renovation expenses, above that spent in Q2 FY23 and pre-operative expenses of Aurika Mumbai SkyCity. These two incremental expenses accounted for a total increase in expense of about INR 4.5 crore beyond Q2 FY23, which translated to a reduction in EBITDA margin by about two percentage points on revenue.

The Keys portfolio also saw a drop in EBITDA margin percentage by nearly 5% points Y-o-Y to a significant increase in investment and renovation during Q2 FY24. Furthermore, the closing down of New Delhi during the G20 Summit also impacted our hotels here, with most of the business for the event being diverted to 5 Star Deluxe hotels, which is why you see a drop in our performance in New Delhi vs the industry. The PAT for Q2 FY24 grew by 26.3% Y-o-Y from INR 19.6 crore to INR 26.4 crore. Cash profit stood at INR 49 crore which increased 10.4% Y-o-Y. Fees from managed and franchise contracts for third-party owned hotels stood at INR 10.4 crore in Q2 FY24 up 58% from INR 6.6 crore in Q2 FY23. Total management fees for Lemon Tree were up 29% Y-o-Y at INR 24 crore compared to INR 18.7 crore in Q2 FY23. Hotel level revenue from the owned portfolio increased by 15% Y-o-Y on a same store basis while the network revenue for Lemon Tree that is total system revenue of owned and managed/ franchise hotels, increased by 17% Y-o-Y. Total network revenue stood at INR 691 crore for H1 FY24 as compared to INR 591 crore in H1 FY23.

During the quarter we signed 11 new management and franchise contracts, which added 639 rooms to our pipeline. As of 30th September, '23, our operational inventory comprises 95 hotels with 8,760 rooms and our pipeline comprises 52 hotels with 4,092 rooms. As of now, we expect our operational inventory to be over 105 hotels with over 10,000 rooms by the end of this financial year. I'm also happy to inform you about the launch of Aurika Mumbai SkyCity on 5th October 2023. This hotel has 669 rooms and suites and it's currently the largest hotel by number of rooms in India. Some pictures in the investor presentation will give you an idea about the hotel's look and feel. With this, I come to the end of my opening remarks. I would ask the moderator to open the forum for any questions that you may have.

Moderator: We have our first question from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Sir my first question is in relation to what you had earlier, in your earlier calls mentioned about an expectation of 15%+ kind of a RevPAR growth over the next 2-3 years. And especially when I see your Lemon Tree Premier and Lemon Tree portfolio, you are already clocking 75%+ occupancy, I think Lemon Tree Premier, you're already touching 83% percentage. So, in that context, how do you see your ability to drive say an ADR of growth of 10% to 15%, in order to meet that 15% RevPAR growth, because your occupancies are already in line with what it used to be even pre-COVID levels.

Patanjali Keswani: So, see, when I spoke about this, I spoke about the system growth, that is the entire managed portfolio growth Jaiveer. So, if you notice Aurika Hotels still has very low occupancy levels, which was 49% in Q2 this year. If you look at the portfolio of Red Fox, it was at 69% and Keys by Lemon Tree was 59%. So, really, it's a twin strategy, where possible we will drive occupancies and where occupancies are already peaking, we will look at driving weekend occupancies and higher ARRs during the weekdays. So, it's a sum of the parts really, but I'm very confident that now especially with the addition of Aurika MIAL, our own portfolio will show a minimum revenue growth of 15% perhaps for the next 3-4 years, minimum growth.

Jaiveer Shekhawat: Sir on your overall debt level, it seems to have increased over the last year. I understand it's because of the Aurika expansion as well.

Patanjali Keswani: The real increase in debt was because of the unplanned acquisition of the CCPS, our share of the CCPS from APG because initially our plan was to inject assets to equalize our shareholding. But since that was not financially very viable, we instead opted for this. So, that was about how much was it about INR 170 crore. So, that was the main reason, the majority of the debt increase was for that. I had also mentioned if I remember right, one or two investor calls ago that our debt would peak with the opening of Aurika and then with the cash flow of Aurika, it will automatically reduce. Let's put it this way Aurika is not earning yet what it can. So, it's a temporary, think of it as an equivalent of an overdraft. Till such a time Aurika delivers, after which we will stabilize, as I said, I would really like you to look at debt at the end of this financial year, rather than half year.

Jaiveer Shekhawat: Sir lastly, just to understand your perspective, now we understand on the supply side that it seems to be quite muted. But on the demand side, how much further room do you see from current levels before it starts sort of impacting demand due to unaffordability. And are you also seeing the sort of people moving from upscale and luxury categories downwards, which is sort of supporting your current demand and pricing?

Patanjali Keswani: I would not look at it as movements up and down, basically, the GDP growth, the percentage of discretionary consumption in the hotel space is growing. That's my broad observation. Obviously, a part of that will be luxury, a part of that will be mid-market, and a part of that will be an economy. And of course, there will be movements up and down that as and when you change pricing, then a consumer of a certain category might decide to move down because of affordability. As I said, the good proxy to look at is airline traffic, because that has a direct correlation to hotel room demand. And, for you the most interesting indicator should be the number of airplanes ordered by the airlines, which implies the growth in supply, and which is obviously predicated on a growth in demand. And then please look at the growth in the supply of hotel rooms. So, my best guess is that, airline seat capacity will more than double in the next few years, whereas hotel capacity will probably increase by 15%. So, that will automatically lead to a huge mismatch in terms of demand - supply for hotels, and which is why I'm quite sanguine that the next 4-5 years will be very good year for the hotel industry and across sectors. Now price hikes are a simple function of demand supply Jaiveer. So, we are only interested in filling our hotels, so if there is more demand, then obviously and naturally we will re price to fill our hotels, and not look at demand beyond that.

Moderator: We take our next question from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: I have two questions. One is with respect to the booking from our own website, which has increased from about 2% to 7% in this quarter. So, can you highlight what has led to growth in organic traffic for us?

Patanjali Keswani: Jinesh, let me explain this. Over the COVID years, we have started investing time and looking at revamping our entire website and our loyalty program, which frankly was not really operational during COVID because as you know, there was really no demand. So, what you're seeing is a result of revamp of our website, and our loyalty program. And this was really launched, in January this year. So, what you're seeing is the result really of some work in the last two years. But the output you're seeing is now really starting to show itself in our brand.com bookings. And as you would guess, it is the most efficient and cost-effective way of getting customer reservations. It has the lowest cost, and it has the highest stickiness. So, it is very encouraging for us and in sync with our strategy to maximize retail traffic.

Jinesh Joshi: Sir in the last quarter you had highlighted that your power cost was high due to some power cuts in Gurgaon and hence you had to use DG sets where the per unit cost is high. But even if I look at this quarter, our run rate is more or less similar to what it was in Q1. So, has the situation not changed as yet and what should be the steady state power and fuel run rate that one to be looking at?

Patanjali Keswani: Typically excluding Aurika MIAL, I would say as you look at last year, our winter revenue is typically 1.2-1.25 times the summer revenue, and cost more or less remained flat, in fact power cost actually come down a little bit. So, from that perspective, and I'm just speaking without really getting into the math of it, if our revenue in H1 was say, 460 crores then technically and this is not guidance we should do INR 1,000 crore of revenue owned hotels this year. Now, you apply this, it is currently 8% of our power and fuel expenses. So, if you look at 8%, then in winter it will be 7% and therefore, the weighted average of our power and fuel expenses will be about 7.5, which is typically where we are quite comfortable with. After that any increase in rate will drive the percentage down not occupancy, because occupancy does lead to some level of increased power consumption. Am I being clear?

Jinesh Joshi: Yes sir, that was pretty clear. One last question from my side with respect to Aurika. We opened this hotel on 5th of October. So, just wanted to kind of understand how is the feedback, how many rooms are we operating currently and how are the ARRs trending because, if we do a random check on some OTAs especially this time around the ARRs appear to be higher than what we have guided for FY26. So, how should we be looking at the pricing trend as well?

Patanjali Keswani: What I can tell you is Aurika MIAL will be EBITDA positive from this quarter for sure. Okay, now if you look at the demand, we launched this hotel on 5th October, we did about 100 rooms a day, which is about 15% occupancy in October, the ARR was low for two reasons because we had very little retail traffic, for retail traffic it is an interesting chicken and egg situation. To build retail traffic, you need retail feedback. And October did not have much retail traffic because #1, it's a new hotel and #2, it's Dussehra and so on and so forth. So, we have really started building a base in this hotel of airline crew. There are about 200 rooms of airline crew in this hotel, but that's a low-rate business typically at about, about INR 7,000 to INR 7,500. So, we really think of it as a strategy to cover cost, till we will build our real long-term business, which is corporate and retail. My broad guess is that we will close Q3 at over 200 rooms a day on average. And ARR maybe of over INR 8,500. So, this ARR is deflated because of a very significant section, a segment of these 200 rooms per day will be for the crew. But, what I'm very sure about is that Q4 will be a showstopper for Aurika.

Moderator: We will take our next question from the line of Santosh Sinha from Emkay Global. Please go ahead.

Santosh Sinha: So, my question is regarding the margin. In this quarter, we assume some margins hit due to sum planned expenses. My question is, what is the outlook and what are the margin levers that are there with the Company and how should we look it going forward?

Patanjali Keswani: Santosh as I said, look at it broadly as follows. So, there is a fixed cost element in our business, which operates throughout the year. That is roughly half of our total expenses roughly. Then there is a variable cost, which is based on occupancy and consumption of food and number of bookings you get from online channels. So, that is roughly the other half. So, I'm just doing a simple 101 on hotel finance. So, if income in summer, and I'm again being very approximate. Our income in summer is say 44 and 56 in winter, and your year-round EBITDA is say 50%. Then in summer, obviously your cost will be nearly equal to your cost in winter, but your income will be 25% lower. So, like in last year, I would just request you to have a look at last year four quarters, and you will find our EBITDA in winter is always significantly higher than our EBITDA in summer, because of seasonality. So, in winter, typically occupancy and rates are higher. So, to put it simply, I would have probably earned a Rs.44 income in summer, an expense of say Rs.24 and in winter for Rs.56 revenue, I would have an expense of Rs.26. Does that make sense?

Santosh Sinha: Yes, that is very helpful.

Patanjali Keswani: I said this in earlier conference, earnings calls also that we will be because we are pretty sure about demand outpacing supply, at least for the next 3-4 years, we are renovating our entire portfolio. Because there was a, it's a catch up really because we didn't do anything in the two years of COVID. And we did a little bit last year. So, what you are seeing in Q1, Q2, Q3 and you will see in Q4 is significant investments in renovation. Because ultimately, we want to re-price our portfolio up fairly significantly, every year for the next 4 years. So, that is the reason you see a 2% hit in our EBITDA margins because it is mostly due to renovation, increase in renovation. So, basically, there's 2% is incremental renovation beyond normal renovation. And a part is, of course, a couple of crores, is also because of Aurika pre-opening expenses in this quarter, which is again about a percentage of revenue. So, Q3 and Q4 Aurika Mumbai will be a deflator of the EBITDA margin, though on absolute basis EBITDA rupees crore will increase, because I do not expect in Q4 Aurika MIAL to have any EBITDA of more than 35%. So, on a weighted average basis, it will obviously bring the EBITDA margin down.

Santosh Sinha: That was helpful. Just one follow up question. Whenever some property goes under renovation, what kind of ARR improvement we generally see for that property?

Patanjali Keswani: After renovation?

Santosh Sinha: Yes.

Patanjali Keswani: Well, we renovate on the basis of whatever we invest in renovation we expect to recover in the following year. So, really, we have a slightly different way of looking at renovation, we have what is called a Brand Maintenance Standards renovation which is typically 2-3 lakhs a room averaged out. And then, we have in deep markets like Hyderabad for example, we have significant renovations which is like 8 lakhs a room, which is really where we think we can re-price to recover this 8 lakhs per room in that following year. So, this is a function of demand supply and our anticipation of it. So, it depends on how much we invest, sometimes we invest in a hotel just to maintain brand standards. And we do not expect too large an increase in revenue that is in the half of the Keys portfolio. In other hotels like Hyderabad or Keys Bangalore and Keys Pune, we will invest significant sums per room because we expect to recover that through a combination of re-pricing and occupancy.

Santosh Sinha: One last question regarding CAPEX. So, what is your outlook on the CAPEX, what kind of CAPEX we can see for up to FY26?

Patanjali Keswani: This year we will spend maybe 50 crores on renovation. Next 2 year we'll spend another 100 crores, but there will be no other CAPEX.

Santosh Sinha: This is just for renovation, or does this includes construction of hotels also?

Patanjali Keswani: No there is no planned construction of any other hotel other than Shimla, where it is totally another INR 20-25 crore left to open the hotel. We have already invested 30 crores in Shimla, that is already there. So, we will open Shimla and now we will give a specific date after we review that project because our focus was on Aurika. The good news is that in Aurika MIAL probably we did not end up spending INR 950 crore it will be closer to INR 900 crore and we don't have any other CAPEX. So, now what you will see is that the CAPEX cycle fundamentally, Santosh is over. And now it's all a question of sweating all these assets specifically Aurika MIAL and that cash flow I can with some certainty assure you will be quite a pleasant surprise for next year or from Q4 actually.

Moderator: We have our next question from the line of Rajiv from Dam Capital. Please go ahead.

Rajiv: Sir, with regard to this pre-opening expenses, this entire thing is charged in Q2 or there is some spillover in Q3 as well?

Patanjali Keswani: So, we charged a total of about INR 2 crore of which the majority about INR 1.4 crore was in Q2 to the P&L.

Rajiv: With regard to this BCG project, the payout has already started off and how much is the quantum of the entire project?

Patanjali Keswani: Well, that is a NDA kind of thing. Let me put it this way, this is the investment in setting up a platform for ultimately, which will ultimately be monetized by providing revenue management, sales and cost control services, whether to our own hotels or to managed hotels or to franchised hotels or to other hotels. My broad understanding is that, our entire investment in this project will be over in 18 to 24 months at the least and will lead to a return of 100% of investment every year. So, we invest Rs.100 in this entire assignment, we expect to increase our EBITDA by Rs.100 once all the levers are in place, and that will really be frankly from FY26. So, I would not really like to talk about it today.

Rajiv: And with regard to your Slide #11, where you have given this market segments break up, if you reverse work the ARRs by segment, it looks like the airline bid is the most remunerative at least for this quarter. Slightly confounding, can you explain that?

Patanjali Keswani: Very good point, thank you. So, Rajiv here's the interesting thing, airlines are price sensitive. So, you can assume that, and this is a question of demand and supply. So, because of increasing rates, some airlines are moving from five stars to mid-mark let me put it this way. So, if your choice is between a branded five star or a branded four star and the branded five star is offering, say Rs.10,000 as a rate to you, then the airline will shift to a branded say Lemon Tree Premier at Rs.7,000. Are you getting me?

Rajiv: Yes.

Patanjali Keswani: So, we are also being a little opportunistic here. The interesting thing is with the increase in demand in airline traffic, airlines are now getting into wet leases, which is temporary increases in supply, I'm sure you know, by leasing deals with crew, so those crew have to be put somewhere. And we are very happy to offer that. The advantage of that is, these are also prepaid businesses. So, unlike normal airline business, in wet leases we ask for 100% payment upfront, because it's a one off, so to speak. And I reckon, that till the full supply of planes come into India, and I believe the order is over 1,000 planes or something, there will continue to be wet leases and we will continue to offer obviously our rooms at an appropriate price to meet this demand. Once the full supply of aircraft is in place, then the wet lease business will disappear. But what will come instead will be a very large demand for airline crew. And my broad guess is airline crew will get re-priced quite significantly and will become a relevant segment for the entire branded hotel industry, three-star upwards.

Rajiv: The other point is because it's higher by 25% Y-o-Y in terms of pricing, how much, let's say juice is left in this particular bit? Are we risking that, they will go down even further?

Patanjali Keswani: No, it will keep getting re-priced, what might happen is if you are normally like it has happened in Gurgaon, that Lemon Tree earlier there were some crews staying with us for example, in Lemon Tree Premier I'm just giving you an interesting example, in Lemon Tree Premier Delhi, last year it moved to Red Fox Delhi. This year it has moved to Lemon Tree Hotel, Sector 60 Gurgaon, and maybe two years later it will shift to Red Fox Sector 60 Gurgaon, because as demand increases in our higher value hotels, we keep re-pricing and therefore price sensitive businesses like airline crew will step down into a lower brand of ours because that becomes affordable.

Rajiv: Fair point. And just an extension of this, on the retail side of the business which you have combine your OTA web and other FITs, let say on a full year basis, Y-o-Y basis that has increased only 5% in terms of, so earlier the gap between let's say your corporate and FIT pricing used to be 20%, with retail pricing being at 20% premium and that premium has collapsed to 4% or 5% now, why the retail pricing is not working out?

Patanjali Keswani: Let's put it this way. Our whole strategy is to eliminate anomalies in segmental pricing. So, if you look at it, let me just give you an example corporate ARR in Q2 FY23 after a 20% hike or 15% hike was as low as Rs.4,600. Now in Q2 FY24 it has become nearly Rs.5,000. So, it has gone up by 8%. Our retail pricing has gone up only by 3%.

So, what we are really doing is, we are removing anomalies, we are removing the lower price. So, when I say corporate pricing has gone up, it does not mean the same corporates are using us. When you take your price up corporates like airlines are bulk buyers and price sensitive. So, when you take your average rate up, some of your previous demand disappears. And the whole question is how you substitute it, do you substitute it with more corporates or do you substitute it with other segments. So, broadly, our whole intent is to re-price our entire offerings, segments will change when you re-price and obviously, let me put it to you in a slightly different way. If there are two customers one is at Rs.40 and one is at Rs.60, I'm quite happy to remove the Rs.40 guy and replace him with two Rs.52 guys by dropping the Rs.60 price to Rs.52, am I making sense?

Rajiv: Yes.

Patanjali Keswani: So, really it is not static. I will be happy to drop my retail pricing to increase retail participation because, there is substitution and there is no cannibalization. Infact the average increase in rate is still positive.

Rajiv: So, the question was, because the gap between let's say corporate and retail has collapsed, the mix change benefit, which you are getting let's say for the last three quarters, incrementally won't get. So now it's only basically if you get let say corporate rate hikes and retail would basically catch up on the same?

Patanjali Keswani: So, on the contrary, what you are not taking into account is risk management. All my retail business is because of my brand, most of my corporate business is because of my price. So, as long as I keep increasing my retail demand, it is actually a risk mitigation strategy because these are customers who are sticky with me whereas corporates are not sticky.

Moderator: We have our next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Can you talk about the INR 4.4 crore bifurcation for operating expense for Aurika Mumbai?

Patanjali Keswani: INR 4.4 which number are we talking about?

Sumant Kumar: We have an additional cost as per the notes of account and PPT, INR 4.4 crore we have additional cost for renovation and Aurika hotel?

Patanjali Keswani: Okay, INR 1.4 crore is pre-operative expenses and INR 3 crore is the increase in renovation expenses beyond Q2, what we spent in Q2 FY23.

Sumant Kumar: Okay. And what is the employee cost has increased Q-o-Q so what is the additional employee cost for this Aurika hotel this quarter?

Patanjali Keswani: Most of this would be employee cost, if you see our waterfall, the reason payroll is showing a significant hike and therefore, reducing the flow through. I am referring to Slide #15. Multiple reasons- A change in minimum wages which affects our salary; because of profits, our bonus payouts have increased from 8.33% to 20%. We have also hired some more people in some departments which are linked to either revenue or to business development. And we have done a fitment, which is basically ongoing fitment of wages because of inflation and also, because we did not do much in the last 3 years. So, it's a combination of all this.

Sumant Kumar: What is the incremental cost of Aurika this quarter?

Patanjali Keswani: In terms of staffing?

Sumant Kumar: Employee, yes staff cost.

Patanjali Keswani: I don't have the exact number off hand, but it should be about INR 4 crore.

Sumant Kumar: Okay. And overall ARR growth for Lemon Tree, when we talk about compared to other industry players, a 7% ARR and other players are reporting double digit growth. So, it is because of the lower end of the hotels, or you say budget hotels have a lesser pricing power at this juncture compared to luxury. So, this is the main reason for the lower price ARR increase for this quarter?

Patanjali Keswani: No, it is to catch up on occupancy. So, please go to Slide #12, Sumant. Now, is our strategy clearer here?

Sumant Kumar: Yes.

Patanjali Keswani: So, if you look at it last year, we increased our prices more than competition.

Sumant Kumar: Okay.

Patanjali Keswani: This year, we increased our occupancy by increasing price less than competition, but we achieve the same RevPAR. So, what is the purpose? The purpose is that when last year we increased prices as I was explaining a little earlier, a bunch of our customers dropped off, the price sensitive lot. So, then you have to find new customers. Now these new customers are here at this price point, which is whatever it is. Next year, my expectation is we will have a much stronger ability to re-price because the customers we have are less price sensitive or inelastic.

Moderator: We have our next question from the line of Sumit Kumar from JM Financial. Please go ahead.

Sumit Kumar: My question, one of them got answered in the previous one. The second question is, how are you looking at newer acquisitions in your own portfolio going forward, since you mentioned that, debt has peaked out and we'll be going down post-opening of the Mumbai Aurika?

Patanjali Keswani: So, that's a bit of a tricky question in the sense. We are right now in the middle of defining a very clear capital allocation policy. So, our board has been asking that now that your current CAPEX cycle is over, because we have deployed including Aurika we have deployed or operationalized roughly INR 2,500 crore of what used to be CWIP, between the new Lemon Tree Premiers, the acquisition of Keys, and the opening of Aurika. So, please note, all these operationalizations came into play in 1 year before COVID and now 1.5 years after COVID. So, now we need to sweat this INR 2,500 crore. The way we look at it is, we need to define a very clear policy as to what is the hurdle rate under which we will not make any investments in capital assets. And we would prefer to write off our debt. What is the ideal debt to equity ratio which we feel mitigates all forms of risk, what is the ideal debt to EBITDA ratio and how will we deploy because we expect to be significantly free cash flow positive from the following year onwards. So, how will we deploy this cash, will we distribute it, if so, how will we distribute it, will it be dividends, share buybacks, what is tax effective, how much will we write our debt down to and so on. Broadly, without it being UPSI, let me say that the view is that we will bring our debt down as far as possible, maybe even to being debt free. And then, any capital that we deploy in asset acquisition should meet our weighted average cost of capital hurdle rate. Currently, the WACC is, 14% based on a debt equity ratio currently, it's about 1.3:1. But we reckon our Debt Equity ratio will drop dramatically in the next 2 years. And our Debt to EBITDA will equalize also in the next 2 year. So, basically, what we are saying is if today our Debt to EBITDA is a little over 3x. We intend to bring it down to 2x, and then 1x, hopefully in the next two years. And then after that, of course the question is, what do we do with the free cash flow beyond that.

Sumit Kumar: My second question if I may, what is your sense on the Udaipur Aurika hotel, are you comfortable with the current state of operations and what would be your strategy around that property?

Patanjali Keswani: So, see, Aurika Udaipur, unlike most of our portfolio is highly seasonal. So, if our portfolio and I can say with some degree of certainty, winter revenue is 1.25x of summer revenue. In Aurika, I can say with certainty it is at least 2x of summer revenue. Because it gets so much business in winter and relatively less in summers. So, I'm quite pleased, frankly, with Aurika's performance. There is still a catch up because it is a new brand. It is operating in a space different to Lemon Tree normal space. But on an aggregate basis, although, we focused on finding the right price. So, our average daily rate is over 11,000 in summer in Aurika, and we've increased the occupancy to 50% which I'm told is a 10% premium over the industry in Udaipur at this level. So, it's pretty good progress and I would urge you to wait for Aurika's performance for the full year to have a look at it to get a better idea.

Moderator: We have our next question from the line of Jayesh Shah from OHM Portfolio Equity Research. Please go ahead.

Jayesh Shah: My questions are, first of all on renovation why is it that the renovation is kicking in Q2 and Q3 which are relatively fair season when compared to Q1 which should be lowest for you?

Patanjali Keswani: So, normally Jayesh Q2 is the lowest season, last year was an anomaly where we did better in Q2 than Q1. Number two, our renovation is not that we shut a hotel down.

We are quite selective, I know in the past certain analysts had mentioned that by shutting down inventory, we are likely to suffer a drop in occupancy. But if you notice our occupancy although we shut, we shut 1,000 rooms this year, we did it in such a way that our occupancy actually went up by 5.5%. So, see, we are very careful about renovation vis-à-vis lost opportunity cost and if I say we will continue renovation in Q3 and Q4 it will be in those hotels which perhaps have higher demand in H1 than H2 for example, our Bangalore Keys hotels get a lot of IT employees in summer and less in winter. So, therefore that renovation will continue on a larger scale. Some hotels like Delhi certainly, which has high demand in winter, we will be more careful about the number of rooms we shut and how we shut them. So, this is a mix and match combination. We try and do it without incurring a significant opportunity cost in terms of lost business or turnover business.

Jayesh Shah: Coming back to the second one, are you happy with the Keys hotel performance because we've not seen much improvement I understand your rationale for Keys earlier, but if the other hotels continue to be a drag, continue to spend on renovation right now, what are your thoughts on Keys?

Patanjali Keswani: See, my point is that Keys to me are two portfolios. One is the juicy portfolio, and one is the non-juicy portfolio. The juicy portfolio is 380 rooms in Bangalore and 100 rooms and Pune. The medium juicy portfolio is 100 rooms in Visakhapatnam, and the non-juicy portfolio is the Cochin, Ludhiana and Trivandrum which is another 350 rooms. We are allocating investment in terms of renovation in all these hotel bases our expected return from that investment. The only hygiene factor we are after is to ensure that the brand standards are met even if a hotel is not likely to give a great return, from a brand perspective it must have a minimum standard. As far as Keys goes, the way I look at it is, that we invested INR 600 crore in it, I'm not taking into account holding cost, because if I do that, then any investment because of COVID would look forward, and we are going to invest roughly I would say about INR 40 crore in the Keys portfolio. Last year we did a bit, this year, next year and the following year, when this entire investment is made, I would expect that the Keys portfolio should give me a minimum return of 15% or INR 100 crore EBITDA. And you would see that starting to play out in another 6-9 months when we start opening these renovated rooms and have enough number of these renovated rooms across this portfolio. So, to put it simply our target is to achieve a INR 100 crore EBITDA from Keys, and in a run rate.

So, 12 to 18 months from now you just keep seeing an improvement in performance in fact even now if you look at Keys in the few hotels and floors which we renovated, there is a somewhat increase in occupancy. And you can see it for the last year, we haven't been able to really re-price the product, but we have been able to increase the occupancy and going forward, you will see a combination of both, once occupancy crosses 65%, you will see the gross ARR probably jumping to current what's it called, Red Fox levels.

Jayesh Shah: The third and the last macro question is, last year we focused on price hike, this year we focused on occupancy. What would be the focus next year, then does it mean that by next year, we are into the mid cycle of the hotel industry?

Patanjali Keswani: Yes, we are getting into the mid cycle. But there will be a hockey stick shift into the upcycle. That will happen when some other demand segments, which are still extremely low, compared to pre-COVID, also kick in. So, when I look at demand segments, the foreign demand segment which used to be 10% - 12% of our business, is still I would reckon, I don't have numbers, but I would say it is certainly less than 50% of pre-COVID. So, that's a further hike in demand of 5% - 6% on inventory, probably more for Aurika's. I also expect there will be a fairly significant increase in corporate travel once this work from home stuff completely stops, which I think will happen now, perhaps in the next 6-9 months. I also think generally as the GDP grows, there will be increase in consumption of midmarket hotel rooms as happened in China between 2008 and 2015. So, when all these levers come in, there is an increase in demand, as once we hit an occupancy, stable occupancy level of about 75%. We will look at re-pricing far more aggressively than we are doing today. And that should happen in the next as I said by next winter.

Jayesh Shah: Will you accelerate the pace of your signing of the new hotels, because it was pretty impressive in the last quarter?

Patanjali Keswani: Well, internally our business development team says that they will give us 15,000 rooms in the next 3 years which is actually very little in my opinion. But our view is very simple, we have said that our strategy is that by FY26, 70% of our portfolio should be managed/franchised, which means since our own portfolio is close to 6,000 rooms, there are 14,000 managed/ franchise rooms in the pipeline. What we are really looking at is, typically in India if you look at signings in the last 6 months, 50% of the signings are for what are called Greenfield Projects, which means you are signing the hotel today, but the management fees will come after 5 years, because these hotels have to be built. Then there are brownfield projects where you really have a 2-2.5-year window before you earn, there are conversions which is typically under one year. So, our focus is, obviously in the sense that we are looking at all 3 segments to sign we are also focusing a little more specifically on conversions so that those fields flow in earlier. And we are looking at strategic locations or cities were due to assessment based on airline traffic, based on network effects, based on say if we go to a city like hypothetically, Kanpur which flows gives a lot of business to cities where we have hotels based on airline traffic data. Then strategically we would like to be physically present in those cities to drive that outbound traffic. So, it's a combination of many things. And while we are opportunistic in the sense that any queries that come to us, we reactively go all out for it and there are plenty of such queries. We are also proactive in reaching out to those cities, locations and hotels, where it makes sense for us to have a flag immediately and we get the fees fast.

Moderator: We have our next question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Just wanted to understand the issue in Delhi I understand, but how come it's not affected the Gurgaon property?

Patanjali Keswani: Because during G20, they shutdown Delhi from airport to the city. Gurgaon is in South but from the airport to the center of the city- Lutyens Delhi it was like, a deserted city.

Pallavi Deshpande: Right. In Kolkata how many rooms we have last year and how many rooms we have this year?

Patanjali Keswani: Kolkata, we have the same. We have a 142-room hotel. And that's the same it is today as it was last year.

Pallavi Deshpande: Sir then what would explain the decline in the ARR?

Patanjali Keswani: Where?

Pallavi Deshpande: Kolkata.

Patanjali Keswani: In Kolkata, we were looking at some level of occupancy increase or something, there was some, it was a new hotel Kolkata we opened in one year before COVID. And we were trying to build up demand and it is generally a price sensitive market. But I must tell you that, I was quite pleased to see that. Now, for the last couple of months, Kolkata has shown, certainly in October, a significant increase in ARR. So, something is working, I am not sure exactly what.

Moderator: We will take our next question from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

Nihal Mahesh Jham: Couple of questions. One was in terms of our capital allocation. Once we are done with the renovation of the Keys portfolio, are we looking at launching further hotels under the Keys brand or this is what we want to focus on?

Patanjali Keswani: Nihal are you asking, are we looking at building, owning more Keys hotels, or just growing the portfolio?

Nihal Mahesh Jham: Maybe building your own franchise, preferably building from a capital allocation perspective?

Patanjali Keswani: From a capital allocation there will be zero capital deployed, it is only looking at expanding the Keys portfolio via the franchise route to those hotels where we feel more stringent brand standards of Lemon Tree cannot be applied.

Nihal Mahesh Jham: My second question was that pre-COVID we had tied up for a student housing JV which obviously during COVID happened we put on the backburner. Is there a thought of getting that back or any of those initiatives in the future?

Patanjali Keswani: See we are looking at it, but our main focus as I mentioned earlier to, in the last 18 months has been on recovering from COVID, catching up in renovation in terms of product quality, opening Aurika MIAL and growing the Business Development portfolio. So, that kind of captured the entire bandwidth of our management. Now more than student living, co-living is a very interesting segment. And there are, I would say an adjoining segment to where we are and we could brand that also with the

Lemon Tree brand, especially when it's built to purpose. So, we are kind of, we have some data on it, but I don't think our focus is on it immediately. We may look at it maybe 6, 9 or 10 months later because unlike the hotel segment, the advantage of co-living is that it's more of an annuity business. So, it actually risk mitigates your volatility of earnings in the hotel business. So, from that perspective, I can say with some certainty we are going to look at it but not right now.

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

Patanjali Keswani: Thank you everybody for listening in and for the questions and suggestions. I look forward to our interaction. Even more so, I am really looking forward to our interaction after Q4 when I can show you something about Aurika's Bombay performance.

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