June 23, 2021

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 17, 2021 wr.t. the audio recordings of the conference call on audited financial results for the quarter and financial year ended March 31, 2021 held on Wednesday, 16th June, 2021 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
Group Company Secretary & GM Legal and Compliance Officer

Lemon Tree Hotels Limited
Q4 & FY21 Earnings Conference Call Transcript
June 16, 2021

Moderator Ladies and gentlemen good day and welcome to the 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 from 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 Q4 & 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 will begin the call with brief opening remarks from the management following which will have the forum open for an interactive question-and-answer session.

Before we start, I would like to point out that some statements made in today's call, maybe forward looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now request Mr. Keswani to make his opening remarks.

Patanjali Keswani Thank you. Good afternoon everyone and thank you for joining us on this call. I hope you and your families are doing well and staying safe.

I will be covering the quarterly business highlights and the financial performance for the quarter and year ending March 31st, 2021, post which, we will open the forum for questions and suggestions.

We began Q4 on a steady note witnessing improvement in occupancy levels and higher booking led by a sustained recovery in markets and sequential improvement in consumption on the leisure front. Additionally, we saw improved demand coming in for weddings, banquets, staycations, work from hotels and social events.

Accordingly, our operating inventory increased from 91.2% of our total inventory in Q3 to 93.4% in Q4. Our occupancy on full inventory improved from 42.4% in Q3 to 56% in Q4. Total revenues from operations increased 39.1% QoQ basis to Rs. 95.1 crore in Q4.

On the profitability front, EBITDA stood at Rs. 30.4 crore in Q4 FY21. We have maintained our concerted focus on cost management initiatives across all verticals during the year.

I would like to highlight here that despite unprecedented challenges and in the face of extreme adversity, especially for travel and hospitality, we believe that Lemon Tree has emerged stronger with a learning curve that has empowered us to be more resilient and cost effective in our approach. We now operate a much leaner model backed by sustained cost optimization measures, which enabled us to close the year with healthy EBITDA margins of 31.4%.

On the Balance Sheet front, our key priority during the year was strengthening our balance sheet. In Q4 FY21, our net cash profit which is at PAT plus depreciation was negative by 16x. This was in spite of a reduction of 46% in revenue versus Q4 FY20. Gross debt at the end of FY21 stood at Rs.1,685 crore and after adjusting for Rs. 131 crore in cash, our net debt was Rs. 1,544 crore, which is about 0.5% or Rs. 8 crore, more than the net debt at the end of FY20. During the end of FY21, we have also lowered our average cost of borrowings by 130 bps from 9.6% to 8.3%. And we are hopeful this will further reduce in coming quarters.

As I have also explained earlier, most of our debt obligations are very long-term in nature and have ballooning repayments. So, we have ably managed our short-term debt repayments with current cash flows as well as the fundraising we executed at the beginning of the pandemic. Consequently, we are comfortable with current levels of debt and have sufficient cash on our books.

Coming to key developments during the quarter:

We have expanded our managed hotels network through new launches in the domestic markets, such as Bhubaneswar, Aligarh, and Vijayawada. We are pleased to share we have signed a License Agreement for an upcoming hotel at Biratnagar in Nepal. This hotel will be our third property in that country. All these hotels are strategically located at key tourist spots and will add value to our brand going forward. This growth is, of course, also aligned to our strategy to go asset light by expanding the managed hotels portfolio and leveraging our strong brand in the hotel industry.

Our current operational inventory as of 15th June 2021 comprises of 84 hotels and 8,309 rooms out of which 5,192 are owned/leased and 3,117 are managed. Now from a demand perspective while we saw a sustained momentum in consumer sentiments in the quarter gone by, the environment has evolved with the second wave of the pandemic. Showcasing our support to combat this crisis, we have joined hands with governments and hospitals by converting some of our hotels into quarantine facility. Lemon Tree had allocated around six hotels to various hospitals in Gurgaon, Delhi, Bangalore, and Hyderabad for mild/asymptomatic COVID patients. We in India are better prepared this time and already have all the protocols in place to handle the impact to a large extent. Although broad uncertainty remains in the near-term, we believe our ability to manage the situation during the first wave provides us with adequate comfort that our business model will bounce back when things start normalizing within the next 6 to 12 months.

From an industry perspective, given the increasing consumer inclination for hygiene and safety, we are gradually seeing a structural shift towards a preference for branded hotel players. In fact, the second wave will accelerate this trend. We should drive consolidation in the highly fragmented domestic hotel industry, which will bode well for organized and branded players like us. Moreover, as cases across the country subside and with vaccination drive expected to accelerate in the coming months, we expect the demand environment to stabilize sooner rather than later. This should help drive a gradual and sustainable uptick in performance for Lemon Tree hotels going forward.

To summarize we are looking at the future optimistically and positively. In the near term, there should be a gradual bounce back as travel restrictions and broader consumer sentiments are restored.

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

Moderator Thank you very much. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev C I have couple of questions. First question is, could you just tell us about the broad customer-mix segmental for the last quarter. And currently in the first quarter obviously I understand it has been impacted by COVID, but what is the broad break-up of quarantine versus other segments of the market?

Patanjali Keswani Well, if you look at Q4 FY21, we did 59% occupancy, I would say over 95% of that was regular travel and the largest segment was retail. In Q4 FY20, we did 61% and then we did 59% in Q4 FY21. And it was more or less the same. Basically, the business due to pandemic was close to zero or immaterial. Now if we look at Q1 FY21, most of our business, a majority of our business was pandemic related and there was hardly any non-pandemic related business. So that was really quarantine business, some isolation business related to even mild cases. There was a business continuity planning blocks by big companies who wanted to keep 24-hour operations and the regular business was very low. In this quarter, which is the one we are going through right now, unlike in Q1 FY21 wherein April was the lowest, May improved and June improved further, but in Q1 FY22, it was the reverse. In March, the slowdown started because of the second wave. April was still good relatively and May was the worst. We are now seeing some kind of a marginal uptick again, and all this is, in fact most of the business in Q1 this year has been non-COVID related.

Adhidev C Any percentages there? You said it was like 95% in the previous quarter and numbers for this quarter so far would be how much, corresponding number?

Patanjali Keswani Non-COVID would be, I don't have the exact breakdown, but it would be north of 80%.

Adhidev C Just a follow up on the previous quarter and the 95%, is there any rough breakup between corporate, retail and MSME or leisure travel, if there is any segmental?

Patanjali Keswani Majority would be retail, more than 50% and the next segment would be Small Medium Micro Enterprises. The corporate segment has not picked up yet. I think most large corporates are not opening offices, a few did and then shut it down quickly and I don't expect that to come back from what I understand till we have some level of large scale of vaccination.

Adhidev C Second question is for Mumbai Hotel, Aurika, you said now the calendar year 2023 as the year of operation. So, any plans on how the CAPEX would now flow through for this year and next year?

Patanjali Keswani So, if you really look at it, we have funded about Rs. 70 crore in project in the year gone by, if you look at our cash flow right now, when we have on the books about Rs. 140 crore of cash, or 150, we have spent Rs. 70 crore last year, which is why if you look at our CWIP it has increased to about Rs. 370 crore this year. So, we are keeping MIAL definitely operational. We are building the structure out and that's not a high-cost investment. We are doing it from internal cash flows, and we still very much have a target to open it. On slide 15, where we showed you Mumbai's performance. You will see in Q4 FY21, Mumbai did 81% occupancy, the highest occupancy across. So, it should tell you the strength of that market and our very nicely located hotel. So, we are confident that when things come back and they will come back in our opinion, within the next 6 to 12 months, MIAL be a key player for us. So, we are not delaying it.

Adhidev C Any rough guidance on CAPEX for this year and next year, what would be the construction spend, any percentage?

Patanjali Keswani See, right now we are continuing at the same rate of about Rs. 5 crore a month. See, again this is a second wave you have to understand, April was decent, May was very bad. I think it would have been maybe the worst month ever because nobody was traveling. April was good, May was bad, June is showing some uptick and a reasonable uptick. We are waiting to see what happens in the next three months that is by the end of H-1. If it plays out as we are expecting, we expect that there will be some level of significant recovery between October to December. So, that's why if you notice, I said in my opening statement 6 to 12 months. Now that happens then we will accelerate our spends. But it will be mostly initially funded through internal accruals.

Moderator The next question is from the line of Kunal Lakhani from CLSA.

Kunal Lakhani So, on the occupancy side, we saw a sharp improvement from 42% to 59% in 4th quarter, but ADRs essentially remained flat. When I look at your hotels in Mumbai and Delhi where occupancy levels are pretty good, actually at 84% and 74%, but ADRs were still very subdued. What I wanted to understand was that at what level of occupancy do you expect ADRs will start to normalize?

Patanjali Keswani So Kunal, occupancies can be different across hotels, prices go up when there is a tide in favor of the industry. So, occupancy is already showing a recovery from the last two months. It will continue to recover for the next 3-6 months. ADRs will be lagged by 3 months. So, till there is a sustained, you see the fear right now for everybody is that let's start with customers. Customers are terrified to go out, unlike the last year, this revenge travel and so on and so forth hasn't started at all because of you know, we are all aware everybody has somebody they know or even a family member who has suffered due to COVID. The fear of travel is enormous, and I think it is reflected both in air traffic and in hotel occupancy. Now, once that comes back, that is when occupancies are driven across micro markets, not merely at Lemon Tree or at an XYZ hotel, but across an entire micro market, then the industry will have confidence in raising rates. We cannot independently raise rates. You have to understand there is a three-month lag. So, occupancy recovery will be followed by ADR recovery.

Kunal Lakhani I was just expecting that since you mentioned that almost bulk of the demand is retail. I thought that could also translate into some improvement because this is again, leisure travel.

Patanjali Keswani No, we have a lot of business travel also. You will be surprised, a small medium micro enterprises and so on haven't stopped travel. They are still traveling and some of them are coming as retail travel, which is directly booking and not through companies. The broad point I am making with you is that where I see some level of demand impairment and this may continue for the next few years, is in the large corporate segment, which for us is about 20% of our total business, which has mostly disappeared. And we reckon that when it comes back, not only for Lemon Tree but for India, there will be some reduction of 15% to 25% of that 20%. So, demand will permanently disappear by say 5%. But I think it may help you and everybody listening in to understand from an industry perspective, the following, if you look at the last 10 years say 2010 onwards, the rate of growth of demand for branded hotel rooms has grown at approximately 2.2x of GDP. GDP grows by 5%, demand will grow by 11, GDP grows at 6% it'll grow by 13 and these are published figures. In Q1 last year, if you notice GDP shrank by about 25%, therefore occupancy shrank by 50% roughly double and because the occupancy shrank, rates also dropped, which is why Q1 last year was very low in revenue terms. The same will apply in the reverse formation. So, what I see going forward is very simple. There will be demand destruction, there will be a catch-up. So, my guess is this minus 5% of demand, national demand because of large corporates will be more than substituted by the growth in demand of retail, because retail is growing at 15%-20% a year, well, other than the last year and it is already over 40% of our total business. Even if corporate shrinks by 5%, retail will grow by 8% to 10%. More importantly, retail is 1.25 times the rate of corporate. In revenue terms it will bounce back. I have no doubt about that. What I am concerned about as a hotelier is that there is going to be a significant amount of supply disruption in India. So, people talk consolidation, consolidation happens in one of two ways, when some large players acquire the fragmented segments and consolidate. But here consolidation may also happen partially because of shutdown of the weaker players. So, whatever is left of the supply will get technically consolidated because the fragmented supply is disappearing and it's very large. The hotel association is estimated something like 40% of the hotels in India, hotel rooms. So, surviving supply, my guess is for surviving supply, the demand-supply dynamics will change in the favor of supply within the next 12 months.

Kunal Lakhani Thanks. My second question was, again, improvement in the occupancies have not really translated into improvement in the margins sequentially. And when I look at your slide nine, where you have given monthly revenues as well as in the operating expenses, we can see seasonality on a monthly level, but on a cost front, we are seeing like a steady increment in cost month after month. Is this trend going to stay, like the costs will go up, but seasonality in revenue will remain and the 500-700 bps improvement in the margin, which you have guided for post normalization of operations, will that still hold?

Patanjali Keswani Well I'll ask you to look at it slightly differently. So, you look at this slide, you will observe that 40% of the year's profit came only in January, February, March, I think a little over Rs 30 crore out of Rs. 75 crore, which was our total EBITDA. Now, if I just rephrase your question, let me just explain. If I look at quarter of the previous year and quarter of the year that has just gone by, our income dropped by 46%. That is from Rs. 176 crore to Rs. 95 crore. So, there is a slide which you can look at which is slide 10 and this will make it very clear. The income dropped by 46%, the expenses dropped by 42%. Now some of those expenses came back in Q4. So, when you see this drop that we did Rs. 65 crore of roughly expenses in Quarter 4 this year, we were Rs. 112 crore the previous year. So, I would suggest you don't look at it from a trend line because there was so much trauma in Q1, Q2 that a lot of costs were deferred . See, understand there are three types of costs. Cost one is, when you cut flab, cost two is when you cut muscle, which is actually not recommended and cost three is when you defer some expenses. So, these are the three ways you control cost. Fundamentally the point I am making is that when we saw some level of normalization, our cost structure reverted to what should be the norm going forward. So, our cost structure in Q4 was Rs. 65 crore our total cost, versus Rs. 112 crore of the previous year same quarter when the occupancies were the same more or less, it was a 2% difference. So, that will tell you some costs will come back, which are deferred or people who are on leave, there are some hotels which are shut, accrual about, our inventory also improved, our occupancy improved, so variable costs went up. But when you look at the Rs. 65 crore number you get a fair picture of what will happen in normal. So, my broad guess is that if were spending Rs. 100 in running hotels at 75%-76% occupancy, when we get there, this 100 will drop to 80. So, you won't see this 42% fall, it'll be closer to (-20).

Kunal Lakhani Got it. This is very helpful Sir. Just one last question from my side considering the current second wave and risk of future waves also, are we going to revisit our fundraising plans, both at the parent level and the infusion by APG?

Patanjali Keswani We don't need it. I think Kunal there is this, I don't know how to call it an urban legend that we are over leveraged, but I think people don't realize a simple reality. Let me give you a very-very simple perspective on this. Three years ago, that is one year before COVID, Lemon Tree owned 3,400 rooms. Forget the debt for a minute. In the 15-16 months before COVID hit, we added 1800 owned rooms, which is taking our inventory to 5,200. These 1800 owned rooms amounted to Rs. 1,660 crore of investment. My gross debt today is equivalent to the rooms, the hotels, we added one and a quarter years before COVID. So technically think of it in a slightly different way that three years ago we were debt free. We took debt of Rs. 1,660 crore and acquired 1800 rooms and there also in that Rs. 1660 crore spent Rs. 370 crore in building MIAL. Think of it from that perspective. Now these 1800 rooms have not produced any EBITDA. They are unstable. They opened one year before COVID hit, we had no opportunity to stabilize them. I did a Rs. 270 crore or Rs. 260 crore EBITDA the preceding year. That was fundamentally because of these 3,400 rooms. I think what people are not recognizing is these 1800 rooms will also produce EBITDA. If you just do a simple addition, these 1800 rooms earning capacity is (+) 60% over that original 3,400 rooms. In fact, there are many high value hotel rooms in the 1800, like Mumbai, Udaipur, like Pune, like Calcutta. Now, when they start earning as normal, you will find our EBITDA to debt will be very-very reasonable. You have just not been able to see it. So, think of it this way. Today it costs over Rs. 1 crore to build a room. I have 5,200 rooms. I have Rs. 5,200 crore, technically worth of assets. The debt is Rs. 1600 crore. Debt to equity is what, equity is book value, isn't it? If I build a hotel 10 years ago, my debt 10 years ago will be very low because the investment was maybe Rs. 30-40 lakhs. But if I build hotels two years ago at 1 crore a room, then there will be some debt, a higher debt because the book value of the hotel is much higher, but it's the same hotel. The earning capacity will be the same.

Moderator The next question is from the line of Deepika Mundra from JP Morgan.

Deepika Mundra Firstly, you spoke extensively on your leisure and retail. But given that most of your properties are in larger cities, do you think that this will be sufficient essentially to compensate for the lack of corporate demand, let's say even when things normalize?

Patanjali Keswani Totally. Let me explain. I will repeat it, as a portfolio only 20% of our demand comes from large corporates which is the segment which is affected. If we normally do 75% occupancy, normally, only 15 out of that 75 comes from large corporates and I am repeating, I expect permanent impairment of demand in that 15 to be about 3% to 4%. Every year demand grows at some number, so it will be a catch up. The way we have perceived this crisis is, we need to get through it. It's like a gap year. Let's say a gap year of one-and-a-half years, where it stands still. Even when you look at the way we managed our debt, it has always been on the principle of, let us manage the debt, let's make sure net EBITDA is positive and let us wait to come out of this, because this will have a massive impact on the entire industry. So, there will be a massive reduction in supply and that you will see playing out next year, in fact after Q2, when more and more hotels go through empty and so on.

Deepika Mundra When you do see industry consolidation, I mean in the industry a lot of guys change hand, so this time around are you expecting change in branded supply segment?

Patanjali Keswani Now this is an interesting question which unfortunately I cannot answer with clarity. We know about 40% of the hotel rooms in the branded supply in India are shut. So, one of three things will happen. One is it will shut down permanently or convert, like it happened with Meridian in Bangalore. Number two is it will shut down, but when you shut a hotel down it typically takes anywhere because there is a deterioration, your staff are not there because most of these shut down hotels, they are not paying staff salaries. So, to get staff back, train them, reopen the hotel, renovate the hotel is typically a one-to-one-and-a-half-year process. Even your licenses go, you have to reapply for an excise license for XYZ and so on. So, some of that supply will come back. Part of that supply will change hands, part maybe the promoter will find funding and or restructure or whatever and find some way to reopen. So, I don't know the breakdown of these three. But what I am sure of is a fair amount will shut down, especially standalone hotels which are branded by some branded player, but the owner is unable to meet the debt obligations or the operating expenses. So, some will then change hands, or the promoter will start it, and some will just shut down. I am not able to give you a number, I think we will get clarity on this after H-1 this year, because last year there was a moratorium.

Deepika Mundra So, clearly your absolute debt levels have not increased too much, and our operations are consistently being funded without any need for further liquidity. But just on the interest cost given that EBITDA is still not covering interest completely, if in the event of third wave or anything else which is being spoken of, do you think you need to like tap into more liquidity in preparedness for that?

Patanjali Keswani So what do I need money for, fundamentally assuming over a full year, I meet my expenses, the liquidity is required for debt. Is that right Deepika?

Deepika Mundra Yes, that's right.

Patanjali Keswani Now, when you look at debt and I spoke about standstill, suppose I repay you see, because most of my repayments are 5, 6, 7, in fact 8 years later, so let's talk this year FY22 as an example, the repayment of principal I have to do is I think about Rs. 120 crore approximately. I have hardly taken any money under the ECLGS, maybe 30% of what we could take. Technically if I take Rs. 120 crore from ECLGS and repay this debt, all it means is that my debt will remain the same from the start of the year to the end of the year. Are you getting me? And I will have to service that interest, my interest rate now is about 8.3% and if I borrow Rs. 100 crore hypothetically, it will increase my expenses for the year by Rs. 8 crore. That is the impact if there is a third wave and a fourth wave, an increase in my cost by Rs. 8 crore, because I am repaying debt. So, if I take Rs. 100 crore then I repay it, my debt remains the same, my Rs. 8 crore which I would have saved by paying Rs. 100 crore remains on my books for one more year. So that Rs. 100 crore has an impact of Rs. 8 crore on my P&L, my debt remains the same because I borrow 100 and pay 100 for this year.

Deepika Mundra My last question will be, I think we had done couple of transactions with APG where we had to transfer some assets to APG. So, any clarity on those, like which are the assets and valuation and when is that expected to happen?

Patanjali Keswani APG was good. They told us take Rs. 300 crore, we took Rs. 175 crore. We will transfer assets by valuing some Lemon Tree assets after 30 months. And based on that we will transfer those assets to maintain our shareholding but that is after 30 months from the date of injection. So really, if you talk about liquidity, let me give you extreme examples. We have Rs. 350 crore available to us under ECLGS, we have not taken. We have Rs. 125 crore technically available from APG. We have not taken. While we are sitting on cash of Rs. 140 crore which we think is more than sufficient, we also have close to Rs. 500 crore more available should we want it.

Moderator The next question is from the line of Manish Poddar from Nippon India.

Manish Poddar Just two questions, one is on the area width. So, can you probably help me understand what according to you was the industry occupancy in this quarter let's say in the price segment which you operate?

Vikramjit Singh See, very broadly speaking, we have an occupancy premium of about 1.4x the industry. This is the industry as a whole. So, this has bid market, that has luxury deluxe, but typically our occupancy premium at this time is about 1.3 to 1.4, if you are talking about Quarter 4 which has gone by.

Patanjali Keswani So, that answers then, the guess is it could be 40% to 44% occupancy in India in the branded hotel space.

Manish Poddar I am still not able to understand that in this ADR which has dropped given there is three broad points which you mentioned in the call, first is, a lot of branded hotel supply being shut, roughly 40% which you mentioned. The second was, customers shift to brand preferences or at least a change which has at least certain protocols in place. Third is your leadership in the sub-segment which you are operating, why has our ADR dropped materially? I thought your ADR at least should have probably been about a 20% off is fine, but this 45%-50% is a significantly high number. Can you probably help you understand that?

Patanjali Keswani Retail segment is what drives it. Now retail has options. If the whole market is dropping prices, then we have to be aligned to the market. We can't say we will get a guest if we outprice ourselves. So, pricing, I repeat to you is not in our hands as long as the market is in distress as it was in Q4. So, if what Vikram said is that if India did an occupancy of 40% to 45% in the branded segment, you can safely assume that there was an enormous drop in prices across India. I'll give you an instance, if you look at your peer comparison for FY22 versus FY21, and I was just looking at these numbers, Lemon Tree in FY22 versus FY21 was negative 62% in revenue. Taj was (-62), Oberoi was (-67), Chalet was (-69). So, all the four players were between (-60) to (-70) in revenue. In expenses we were (-) 59, Taj was (-45), Oberoi was (-40), Chalet was (-55). So, in terms of costs, it was between (-40) to (-60%). Now the broad point I am making to you is that everybody has controlled costs and everybody's revenue has dropped by 60%-70%. Assuming occupancies are somewhat similar everybody's average rate also went down proportionately. I am using this anecdotally, not to draw comparisons, but just to tell you that this is an industry phenomenon. It is nothing related to Lemon Tree or to an adjoining hotel. If the whole industry's revenue dropped by 60% to 70%, it means there was a huge drop-in rate and no hotel can survive. For example, even in the luxury segment, if there are two hotels, one is priced at 10,000 one is priced at 4,000, well, the 10,000 guy will get no rooms booked, even if that was his ARR last year. So, price, I repeat to you, price is a market condition. You can get a small premium. maybe if you compare me with an adjoining hotel which is also a 4-star hotel and he is doing 2,500 and I am doing 3000, maybe so. But it won't be across the sector and across all markets.

Manish Poddar Just one last one if I can. Just wanted to understand, with this Aurika brand right now we have one property and the other one is coming up, so any of this distressed properties which come up for sale, do you think you can get them on board with this brand or do you think this Aurika brand can come through the manage route at scale without having a few properties being hand hold internally first?

Patanjali Keswani See, I don't know if you have seen the Aurika in Udaipur. I can tell you broadly that if you look at slide 15, it will give you an interesting picture that Aurika in Q4, which was the start of the pandemic the previous year, did a Rs. 14,000 ARR and this Q4 did Rs. 10,000 ARR. And that was effectively four times the company ARR. Occupancy, if you look at, well it did an occupancy of 45% in Q4 this year which is India average occupancy more or less. Aurika has been a very successful brand for us. You will see that even in a very horrible period, it made EBITDA per room of about Rs. 4 lakhs in Quarter 4 when it was doing 45%. So, we are opening an Aurika in Coorg in the next few months. And generally, we feel that this Rs. 24,000-25,000 segment which is where Aurika is positioned, there is a lot of distress, and we will be able to get plenty of hotels. That was the intent. Unfortunately, as you know last one-and-a-half years, we have not been able to follow through on that. But broad point, we feel we will get a large number of hotels under the Aurika brand in the next 2-3 years.

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

Sumant Kumar Can you talk about the March month, revenue declined by Rs. 1.4 crore while expense increased by Rs.1.3 crore. So, can you talk about why expenses have gone up this much?

Patanjali Keswani Because the onset of the second wave was very sudden. So, it is not possible to instantly reduce expenses, which is why the expense reduction would flow through into April and May. So typically, I don't think anybody expected this second wave to be quite as ferocious as it was. And it took us a couple of weeks to respond because when you get into a cost correction mode, you have to do a bunch of stuff. That is the main reason. We were expecting that March would be 10% better than February based on what we saw in February, because March has 10% more room days. So, we thought March would be Rs. 35-36 crore by the way. And we had positioned it then. And then of course, the second wave in the second half of the month completely changed the demand dynamics. And I think you would need to see how this cost structure continues into Q1 this year to understand, but normally it takes a little time to reduce cost. If you see previous years, if you see the slide 9, it starts from April 2020. But if you look at March 2020, which is not here, you will find that it was a very similar trend. Sudden drop in demand, sudden drop in revenue, followed by a couple of weeks to drop expenses, which is why we dropped the expenses fundamentally in April last year.

Sumant Kumar This Rs. 1.3 crore is majorly because of his staff costs.

Patanjali Keswani I think some others asked me. So, really if you look at a quarter-on-quarter, so let's take Q3 versus Q4, our occupancy went up from 42% to 59%. Our ARR remained more or less flat. So, income went up close to 40%, expenses also went up close to 40%, I think 38%. What was the reason for this? Very simple. We were expecting, I mean, like the rest of India, we were expecting some level of normalization. We too thought that there would not be a severe second wave and so on and therefore we were normalizing the hotels operations for continued improvement in occupancy. Because we had already achieved close to 60% in Q4. So, it was the positioning of the hotel for more than 60% occupancy. But unfortunately, the reverse happened. The second wave was very ferocious. But the broad point I am making with you is we are very sure that of the three types of costs that we have looked at savings, we are pretty sure that they will be on an apple-to-apple basis assuming pre-COVID times, our cost structure will be significantly lower and that will expand our EBITDA margins by a significant number.

Sumant Kumar Talking about overall daily better occupancy of 74.5 and Mumbai 80.8, so can you talk about overall demand mix in these two regions, what were the drivers?

Patanjali Keswani So, we have in Delhi as you know four hotels. So, these rooms were really, I would say mostly retail. I think close to zero business related to quarantine. So, retail and a bit of small medium micro enterprises. Mumbai had a large corporate block booking which is ongoing and also got some business, well, from two segments, Oil and Gas and Shipping. And it also gets a fair amount of retail business now. But in Mumbai, I would say it was a larger mix of corporates and say an equal mix of corporates and retail, but in Delhi it was more retail but high demand. These are gateway cities. So basically, you will find Sumant that they get the maximum occupancy normally, Delhi and Mumbai. They are also the highest barriers to entry.

Sumant Kumar When you talk about the ARR, the Keys Hotel ARR declined on QoQ and also overall ARR also declined by 1%.

Patanjali Keswani That's right.

Sumant Kumar So, that is all related to mix changes?

Patanjali Keswani See, actually Keys what happened is it has a large inventory in Kerala. So, a lot of demand in Kerala disappeared. And Keys unfortunately, we acquired in November and COVID hit us by March. So, we had only three or four months. So, we had started planning some stuff, but unfortunately COVID came. So, I feel Keys has, I said this when we acquired it, it has a fair amount of potential, but COVID has completely derailed it and right now we are focused on whatever are the local market conditions in Trivandrum, Cochin and Visakhapatnam, these are markets which we are looking at. If you look at even hotel level EBITDA margins in spite of everything what has happened between Q4 FY21 and Q4 FY20, it has improved by 866 bps from 14% to 23%.

Sumant Kumar Last question, we are talking about the consolidation in industry. Can you throw some color on how things are going to shape up because a lot of hotels are going to have an issue and liquidity, but still the valuation of the hotel is higher and the strong balance sheet hotels like say in the industry is unable to acquire the hotels at this valuation? So, can you throw some light on that?

Patanjali Keswani See, what I understand, we have been in conversation with some large distress funds who have talked to us about partnering with us for these acquisitions. They expect that there will be a fair amount of distressed asset acquisition opportunities in the next six months. What I have understood from them, because we were talking to them purely from an asset light-management perspective. What I have understood is that last year while there was distress the moratorium and so on and so forth, saved a bunch of hotels. This year in the absence of the moratorium and if you look at the ECLGS also, the extension of this scheme really applies to large companies because we are talking beyond Rs.500 core and so on and so forth. So, the distress from what I understand, and I am saying this is anecdotal, will really start appearing after the end of Q1 and Q2, when assets become classified as NPA. So, there will be no doubt in my mind acquisition opportunities, but you are very right that there has to be obviously, at a distressed price means you have to get it at a price well below replacement value. So, the way I am looking at it is very simple. If there are well located hotels in decent markets and good markets which are heavily distressed, the reason for distress is one of three. One is that there is no revenue, therefore no income. Number two is that the cost structure is fundamentally flawed. And number three is the financial structure that is the debt on the books of that asset is, it's too much for that asset to bear, especially in this time. Now, assuming these conditions are there, and the location is decent, then I reckon that most players who can, will get into some form of play to acquire those assets. As I am stating, we would look at it only if somebody funded the acquisition. We would not want to fund it. So, we are not interested in putting capital to work. Some hotels will no doubt come up in the next six months. I had a recent look at actually 220 hotels. And this was exactly the problem which you mentioned, which is the expectation sale value was equal to the replacement value and therefore made no sense to me. So difficult for me to comment. But my broad expectation is that there will be a reversion to normal in 12 months. There will be acquisition/consolidation opportunities in the next six months. There will be a permanent demand drop of 5%-6% maybe. There will be a minimum permanent supply drop of maybe 15%. And when you take all this into account plus our deal cost structure, we are very confident that within 12 months from now, there will be an enormous bounce back for surviving players and I would hope that would include Lemon Tree.

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

Karan Khanna Firstly, if you can comment upon your expansion plans. I am looking at slide 19 of your investor presentation. Firstly, have you completed the expansion at Alleppey in the last quarter or has the plan been shelved? And secondly, what's driving this Rs. 15 crore increase in the overall CAPEX Shimla and Aurika Mumbai expansion?

Patanjali Keswani So, if you look at CWIP it has gone up with the investment that we had…so basically, we invested Rs. 50 crore in MIAL in the last year. We have very minorly invested in Shimla and Alleppey too we have deferred it. So, we are right now focused on ensuring that Aurika Mumbai is the hotel that comes up. You will notice that we have mentioned that it is 669 keys. So, we have gotten the approval from the government to expand the number of keys by about 100 rooms. And we are focused completely on opening this hotel sometime in calendar 2023. And we will really know that period only after another three to six months. Other than that, that is the old portfolio. If you go to the next slide, it will show you that we intend to add, including the Mumbai hotel, about 2000 rooms in the next roughly 2-2.5 years. So, by calendar 2023, we expect that we will have an inventory of about 10,400 rooms.

Karan Khanna In terms of estimated project cost last quarter this was around Rs. 991 crore, this time it's Rs. 1,006 crore, so what's driving that increase?

Patanjali Keswani Well, it must be linked to demand. There was a demand by the government, if I remember right, of some additional development charges and so on in Mumbai.

Karan Khanna Secondly, we have been hearing that the bubble room practice is increasingly gaining prominence in the IT sector across locations like Whitefield, Chennai, Pune, etc., and will further accelerate in case of any delays in vaccinations. So, in that context, are you also seeing any increased inquiries in your properties in Bengaluru and the IT markets because of this?

Vikramjit Singh You are absolutely right. There has been some activity on this front. We have already had some rooms in Calcutta, we have seen some queries coming our way in Hyderabad. So, you are absolutely right. There are queries coming, rooms have started getting occupied but it's still early days. Things have started on that segment, yes.

Karan Khanna Lastly globally, we are also witnessing a trend that based on the location and the evolving demand in the micro markets, hotels and resorts are being permanently converted into alternative assets like co-working boutique, office spaces, co-living residential, etc. So, in that context I was witnessing a similar trend in India. You did mention about upcoming supply getting shelved, but some sort of a conversion into another asset class, are you seeing any developments on that front or is it too early to comment on that?

Patanjali Keswani It is too early Karan. Because what happens is why would somebody convert an asset from say a hotel to a co-living or to an office? That's because they don't see a future in running it as a hotel. You talked about supply growth, keep one very fundamental thing in mind that in the last 10 years demand in India has grown for branded rooms at 12% a year. Forget last year for a moment. Supply has been growing at 15% which is why the hotel industry went through a very major demand-supply imbalance for the last 10 years. It was a prolonged bottom of cycle. Just when it was coming out COVID hit us. So, there will be a bunch of hotels that got affected in the last few years and got even more affected in COVID and perhaps the owner then doesn't want to run it as a hotel anymore. He finds it's too painful. That is a possibility. But my broad view is going forward, supply growth in India is going to be 1% or 2% or 3% at most for the next 4-5 years on a CAGR basis. So, when demand reverts. COVID was not an impact which was a long-term impact, it was a short-term sharp demand drop. When it disappears demand will come back to normal with a catch-up of maybe a year. But supply will not. So, if I look forward a three-year perspective, I would say that it will be a wonderful time for hotels definitely from October next year. Definitely. I have no doubt about that.

Karan Khanna Just following up on that when you say that the supply was say 5%, it has come down to 1%, 2%, 3%, so what kind of markets and what kind of inventory are you seeing a reduction in supply? Is it the upscale or the luxury or say the mid-scale segment and what kind of micro-markets?

Patanjali Keswani It's across the board. So, I'll give you an example. If you go to slide 20, now slide 20 is our pipeline of managed contracts. Here it has 1400 rooms roughly. Other than one or two, in all cases the owners have deferred investment by a few months. So, you look at what I had given in this slide one year before, and you look at it now, all the opening dates have been deferred. And if you notice in our case, the last two, which is Premier, Dindi and Ludhiana, the owner says I am not sure when I will start building this hotel. This is, of course, just a small snapshot, but this distress is across the board. Supply is like an airline. If you talk to a pilot, he will tell you that when you go on a runway and a plane starts taxing, the pilot tells the air traffic controller V1, V1 means he started moving. And when it reaches a certain speed, he says V2, V2 means I have to take off whatever happens. So, some hotels are at V1, they have stopped taxing, they just stopped. But some hotels which were at advanced stages of construction, where they had already taken debt and it was nearly complete before the start of COVID, those hotels will have slowed down, but are still continuing to be constructed. Something like we did with Aurika MIAL. So, my view is that if supply was supposed to grow 5% a year as per HVS, in their report before COVID that 5% will be 20%-30% of that will be on time.

Moderator The next question is from the line of Pranay Agarwal, an Individual Investor.

Pranay Agarwal I would request your patience to understand that this idea about supply disruption in a little bit more detail. Forgive me because you have already answered a lot of questions around that concept. Supply disruption to my understanding is either when an existing hotel starts down completely or a new hotel which was to come up doesn't come up. Everything else is sort of temporary. You can shut down for a few months, then start again. You can defer opening up a hotel by a few months and then start at some point. I don't think we should categorize them as disrupting supply, in my limited understanding. So, my first question is, before COVID started we had about 40 properties which were managed and franchised, and I am sure some of them would be carrying debt on the individual standalone property asset as well. Out of those 40 properties, how many do you think will not survive, will have to close down operations due to COVID?

Patanjali Keswani Which 40 properties are you referring to?

Pranay Agarwal The managed franchise, not the ones we own.

Patanjali Keswani So, the managed ones are more or less all operating. There are a few that have been shut down and you are absolutely right, they have been shut down because there is a complete demand disruption. So, in those cases we have evaluated what is the cost of keeping the hotel open vis-à-vis the income it will earn in the current scenario versus the cost of shutting it down and then incurring some expense when we open the hotel and this is normally a discussion the owner has with us and then we take a call mutually that look in your case I think you should shut the hotel and as the situation evolves maybe in six months we will open it. So, you are absolutely right, a completely temporary decision. In those cases, we normally keep a few staff in the hotel. We keep the hotel operational in the sense that we can open it very quickly within a month from taking a decision and those hotels are not part of the supply disruption I am talking about. The supply disruption I am talking about is if you shut a hotel for a year, or two, then to reopen it is a mammoth task. It's practically like a new hotel opening and it can take a year, year-and-a-half. So, to answer your question, there are three types of supply impairments. Number one is it's a short-term impairment, you have the ability to open the hotel reasonably quickly which is a month, month-and-a-half. Number two is the hotel has been shut for a fairly extended period, you want to re operate it, well, it will take you anywhere from six months to a year, year-and-a-half to get it fully operational. Then of course, there is permanent impairment, which is the hotel technically you can operate it, but because of the financial structure, it's an NPA it's not operating. Now that hotel may either shut down, it may change hands, or somehow the owner or the promoter may get an ability to refinance it and then open it after a year or two. This is all in the air. So, when I told you that 40% of the hotels in the branded segment are shut in India, that was a statement made by the hotel association a couple of weeks back. How many of them come back? When will they come back? How many will not come back? It's just a guess. But anecdotally, I can tell you there will be a fair amount of permanent supply impairment.

Pranay Agarwal On the flip side, if I could just point out three things, which I think may not lead to such a significant supply disruption. First of all, our 40 managed properties not owned by us are not shutting down, which is one parameter that you have just discussed. The second is, if I read ITC, Indian hotels, Oberoi, they are all continuing with their plans for increasing the number of hotels which are on a manager or franchise basis. The third, as you said, the support that the government is providing in terms of liquidity or additional loans at lower interest rates will further support some of these hotels which would have otherwise shut down. And fourth of course, given that the pricing is so abysmally low in the market, to imagine that they will not get any occupancy even at such pricing and not survive, may not sort of sustain. These are just few of my points. If you can correct me or incorrect me on these observations. Because I believe the supply disruption will not be as significant as 15% or anything around those numbers to my understanding.

Patanjali Keswani Well, as a hotelier, I hope you are right. But what is supply disruption? So let me ask you to think of it slightly differently. Suppose I start building a hotel today and it takes me three years to open it. That is supply addition three years later. Suppose I shut a hotel down today and I open it after three years, it is like new supply, isn't it? It disappeared for three years and came back. So, what you have to understand is supply demand is an evolving thing. That's the first point. Number two is what I have understood this ECLGS has not been supportive of the weaker players. You see the point is that while it is guaranteed, it is an emergency credit line guarantee scheme, banks are hesitant to lend to those they don't think will survive. Let me put it this way, if a large player wants ECLGS, the banks will give it to him tomorrow or her tomorrow, but if it is a small struggling player who has a 70-room branded big market hotel somewhere, the banks will not most likely lend to him. Because while the scheme has been crafted by the government and it's a wonderful scheme in my opinion, the transmission of funds is through the banks and that is their decision. Similarly, this new thing that is announced by the RBI, this Rs. 15,000-crore liquidity window, there is still lack of clarity. Our CFO, Kapil, would you like to tell them what is the lack of clarity on this Rs. 15,000-core window announced by RBI?

Kapil Sharma So here, what has been announced is that liquidity tap is available and as you rightly mentioned, it is through the banks and banks can borrow at repo rate and lend it by repo rate and they get some incentive on their reverse repo. So, it is applicable to the banks who would be putting money with the RBI. That's one thing. And that is just a 40-basis point. But secondly, the most important thing from the hospitality player's perspective is that as had happened last year also, banks would like to go for a AAA rated kind of borrowers. So, that creates a challenge for the smaller player, and they don't get the submission support from the banks on this front. Because banks in this case it's not compulsory for them. It is their decision. They have to take a call that whether they want to lend, to whom they want to lend to. So, that's the major issue which is coming.

Pranay Agarwal I think given the fact that a lot of our hotels as was mentioned in the call are based out of large cities and have a more business tilt than leisure tilt. Given those challenges, I think we have done extremely well with our occupancy, our EBITDA and our cost cutting. So, I would just like to compliment all of us, and I look forward to the next call.

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

Patanjali Keswani Well, thank you everybody. As always, we have enjoyed interacting and hearing your views and questions and I look forward to the next quarterly conversation that we will have. Thank you.

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