February 20, 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: Transcript 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 February 13, 2023 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter and nine months ended December 31, 2022 held on Monday, February 13, 2023 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

NIKHIL SETHI

Digitally signed by NIKHIL SETHI
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Date: 2023.02.20 17:15:18 +05'30'

Nikhil Sethi
AVP Legal & Group Company Secretary and Compliance Officer

Lemon Tree Hotels Limited
Q3 & 9M FY23 Earnings Conference Call Transcript
February 13, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Lemon Tree Hotels Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an Moderator: by pressing star and then zero 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: Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels Q3 & 9M FY23 earnings conference call. We have with us today Mr. Patanjali Keswani, Chairman and Managing Director; Mr. Kapil Sharma:, Chief Financial Officer; and Mr. Vikramjit Singh, President of the company. We would like to begin the call with brief opening remarks from the management, following which we'll have the forum open for an interactive question-and-answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the results presentation that was shared with you earlier. I will now request Mr. Keswani to make his opening remarks.

Patanjali Keswani: Good afternoon, everyone, and thank you for joining us on the call. I will be covering the business highlights and the financial performance of Q3 & 9M FY23, post which we'll open the forum for your questions and suggestions.

Q3 FY23 occupancy increased by 133 bps and gross ARR increased by 17% over Q2 FY23. The total revenue for the quarter stood at INR 234.1 crore, which is 19% over Q2 FY23 and 15% up versus Q3 FY20.

The net EBITDA margin for the company in Q3 FY23 was industry-leading at 54.3%, which is 648 bps above Q2 FY23 and 1,265 bps above Q3 FY20. The PAT for Q3 FY23 stands for INR 48.6 crore, which is 151% over Q2 FY23 and 338% up versus Q3 FY20. Q3 FY23 has been the best ever quarter for the company with most key metrics such as gross ARR, total revenue, EBITDA, EBITDA margin percentage, PBT and PAT growing significantly.

We are confident in the company's ability to sustain this growth even more in the coming quarters by focusing on the following growth levers: opening of Aurika, MIAL in Q3 next year; accelerated growth in our management and franchise portfolio with proportionate increase in fee-based income; further improvement in gross ARRs and occupancy for the LTH portfolio and a significant increase in ARR and occupancy in the Keys portfolio post renovations.

We are pleased to share that we have expanded our presence with the signing of 7 new hotels in the cities of Thekkady, Haridwar, Jamshedpur, Dehradun, Chandausi, Banswara and Tezpur. And operationalized 3 hotels in this quarter, namely Lemon Tree Hotel in Kalina, Mumbai; Lemon Tree Hotel in Mukteshwar and Keys Lite by Lemon Tree in Vishakapatnam, which were in the pipeline in Q2 FY23. Our total fee from managed hotels in the 9 months of FY23 stood at INR 25.1 crore, which is 94% up versus the nine months of FY20.

I would also like to mention that the opening dates of some of the hotels in our pipeline have been revised due to license delays and unforeseen circumstances on the owners' side. Our team is working hard with them to avoid any disruptions in this schedule. Moving on, our focus on cost optimization has translated into an expansion of EBITDA margin percentage by 648 bps versus Q2 FY23 and 1,265 bps versus Q3 FY20. Cash profit for Q3 FY23 stood at INR 72.1 crore, which is 63% up versus Q2 FY23 and 114% up versus Q3 FY20.

We are optimistic that we will generate more cash in the coming quarters, allowing us to fund the Aurika, MIAL project through internal accruals. I would like to reiterate that the construction of our largest hotel, Aurika, MIAL is on track and should open by October this year. Compared to the industry, Lemon Tree same-store hotels RevPAR is 18% up versus Q3 FY20, while the industry is 2% up. The company has outperformed in the markets of Mumbai, Hyderabad, Delhi, Bangalore, Pune, Gurgaon and Chandigarh, while Chennai and Goa have not performed to the expected level.

Lastly, diversity of team and gender inclusion is one of the key pillars of our corporate mission. We have been actively engaging with differently abled or economically, educationally, socially or geographically challenged individuals over the years, which we classify as opportunity-deprived individuals. As we look forward, we aim to have around 30% of opportunity-deprived individuals in our team by FY26. Thank you once again for your interest and support.

Moderator: The first question is from the line of Nihal Jham from Nuvama.

Nihal Mahesh Jham: Sir, my first question was that we've seen a strong improvement in RevPAR versus pre-COVID, and there is also a mix in terms of the corporate segment going lower and the website segment growing higher. So is there a mixed element that is there, if you would just want to highlight that?

Patanjali Keswani: No. Well, if you look at our segment mix, if you compare it to Q3 FY22 and Q3 FY 23, in terms of room nights, actually, we did the same in room nights, but since the inventory has gone up, therefore, our percentage is a little down. So when we say that this year, we have done in the portfolio 67.6% actually, Lemon Tree did 71.4% and Keys did 50.6% in this quarter. And if you look at it from that perspective, then actually, we did the same number of room nights in Q3 FY20 as we did in Q3 FY23. What changed was that corporates were a little less and the retail segment was more. And from 61% and 39% in Q3 FY20 it is now 55% and 45%.

Nihal Mahesh Jham: Got that. And the second question was, generally, this is a period where the corporate rate negotiations happen. There are certain other players who are looking at flexi rates. I just wanted to get a sense if we have seen a renegotiation, if they get a sense of the rates or if there are change in contract terms that you want to highlight?

Patanjali Keswani: So there is -- but we haven't increased rates as significantly this year. So we do have fixed rates. From next October, that is this coming October, we are going to move into a little more dynamic pricing. So let me explain how this works. In Q3, what we did is whenever we had high occupancy, the lower category rooms and the lower category rates were not offered. Therefore, automatically, it was the higher category rate -- room and rate that was offered even to corporates. So that in itself led to some ARR increase. So when we say that our ARR increased by 17%, 18%, it really means corporates were 13% and the others were say 20% on a weighted average kind of basis.

And so when I look at it from October, what we will do is we will take our top 20 Key accounts who we treat as filler accounts, maybe those rates will go up 8% to 10%. And these accounts will account for about 20% of our total room nights. The other 15% of corporates or 19% will really be more dynamic. So we will give them -- we will say, you look at the website and our rate for you. For the full year, will be, say, 10% discount on the website or 15% or 20%, depending on the size of the account and where they use it. And therefore, it will become automatically dynamic.

Nihal Mahesh Jham: Got that. Just to clarify then, in this last October, what is the kind of price hike versus pre-COVID in October '22?

Patanjali Keswani: So see, when you look at our pre-COVID, I think we were about -- let's look at that -- one moment. So we were INR 4,644 in Q3 FY20 and now we were INR 5,738. So there was a 24% hike. Now the corporate rates were lower than this ARR that I have just given you. So in that sense, we did take the corporate rates up by 25%. And we took the non-corporate rates also up, so that the overall average was 24%. But individual segments went differently.

For example, the airline segment remained flat. The travel trade segment went up 30%. OTAs and retail went up 22%. So it's a weighted average kind of thing because the rate anyway of the retail segment was 15% higher than the corporate segment. So when I say I took both up by, say, 20%, 25%, the average rate of the corporate still is below the ARR of this declared ARR, which is INR 5,738.

Nihal Mahesh Jham: Got that. One last question was on the buyback from APG. If you could just highlight what are the terms ahead? Because I think when they made the investment in May- June 2020, maybe the thought was of transferring hotel assets to keep our stake at around 58%- 59% that we have in Fleur.

Patanjali Keswani: Correct. So I'll ask Kapil to answer this. But fundamentally, we put in INR 100, we have to put in INR 150 to equalize. And that means we had to put INR 150 worth of assets. Now slump sales are no longer tax effective. So to put INR 150 worth of assets, the tax was an extremely high concurrent. So it was better for us in that sense to value the company. And since this is like an equity instrument and buy 60% from them. And Kapil there's anything you want to add, please do so.

Kapil Sharma: No, that is correct, Nihal, because of the high transfer costs, we evaluated the transfer of assets does not make sense at this point in time. So it's better to get a buyback of the CCPS, which is an equity instrument, and it is generally bought back at the current valuation of the company, which is generally done by the merchant banker. So as per the normal FEMA regulation that is what we have planned to do now to ensure that our Lemon Tree shareholding in Fleur remains the same as it was earlier before the issuance of CCPS.

Nihal Mahesh Jham: So does this take the stake to the ideal 58% that we are targeting or there is still some more buybacks that we require?

Kapil Sharma: There would be some more, but major part is already happening now. There could be more, yes.

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

Archana Gude: Congrats on very strong set of numbers. I have 2-3 questions, first one to follow up on what you discussed earlier. With this 24%, 25% increase in the gross ARR compared to the pre-COVID quarters, when the occupancy are still subdued. So is it fair to assume that the next leg of growth in sales would be from incremental occupancy rather than ARR? How we should look at it from the midterm perspective?

Patanjali Keswani: See, in H1, just when COVID got over, we decided to take our rates up, and we took them up about 20%. So when H1 got over, in H2, we took a further hike of 17%, 18%. So really, customers have seen 2 hikes within the space of 6 months. We tried to equalize it. Now the broad thought was that in October 1, we reprice. So we repriced and the focus was on getting the price up. That's why the occupancy was still a little muted.

And that's why I said, if you look at the occupancy of the 2 hotel divisions, so to speak, Lemon Tree did an occupancy of 71.4% at INR 6,100 in Q3, okay. It was Keys which did an occupancy of INR 3,500 at about 51%, which is why we did a weighted average of INR 5,738 at 67.6%. But the focus was, get the price hike done. So it automatically led to some churning of some low rate customers. If you now move to Q4, our focus is now to increase the occupancy because we've done the price hike. And what you will find is in Q4, broadly, I expect that we will do over 75% in the group occupancy, which means Lemon Tree will be at 80%, and the ARR will also be above what it was in Q3.

So what you are seeing is a series of steps. First was a 20% price hike for H1, then a 20 or nearly 20% price hike for Q3 and a further small price hike in Q4 and a significant hike in occupancy. So it's an ongoing process because this is 1 year after COVID. So obviously, there are different things we have to do. But what I can tell you is in Q4, Lemon Tree will do its best ever occupancy at the highest ever ARR. In fact, Keys will also probably do much better.

Archana Gude: Sure. Sir, my second question is like when I look at our mix of inventory in terms of owned and managed currently stands at close to 60%, 40% respectively, so going forward, what number will be at comfort level? And any guidance of incremental EBITDA margin due to this change in mix?

Patanjali Keswani: Yes. So keep one thing in mind. Anything we do in managed is 100% flow through, okay? So to give you a number. This year, we have so far signed 20 hotels and about 1,100 rooms. We've also opened 5 hotels and about 220 rooms. Now the hotels that we have signed will open next year and the following year. By the end of Q4, we are very confident that in this financial year, we will sign a total of 26 hotels with 1,400 rooms. What do we expect in FY24? We will sign another 35 hotels with about 2,000 rooms, we will open 23 managed hotels with about 1,500 rooms plus we will open Mumbai International Airport.

So from the current 87 hotels, they will grow by 24 more hotels to 111 hotels by the end of FY25. We have 8,350 rooms. They will cross 11,500 rooms by the end FY25, operating. We operate in 53 cities. We will operate in 71 cities by the end of FY25. And we will have another 2,000-odd rooms, which we will have signed, which will open in the following year or 2. So the guidance is 111 hotels, 11,500 rooms, 71 cities and the mix will be 50-50, owned to managed.

Archana Gude: Sure, sir. And sir, lastly, if you can give some color on the Bangalore and Goa markets?

Patanjali Keswani: We have a lot of hotels in the very IT-dependent markets, which is Electronic City and Whitefield. So those have been a little subdued, both the Keys and the Lemon Tree Hotels. Gurgaon, you noticed, has picked up, and it has picked up fully now in this quarter. And you will find now all the 9 key markets, well, we are outperforming vis-a-vis our Q3 performance in Q4. I've given you a guidance, I said we'll do 75% in Q4 and we will do a slightly better ARR, so you can work backwards.

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

Karan Khanna: Congrats on a good set of results. So firstly, regarding the transaction with APG Group, I'm just curious to understand how the 50% premium valuations were arrived at? If you would comment on the rationale as to how these numbers arrived at? And secondly, how you plan to fund this acquisition?

Kapil Sharma: As I just mentioned that this is as per the current valuation of Fleur Hotels, which is done by the merchant banker. And based on that, whatever changes have happened because you know the valuation as of June 2020 of the company and even if you look at from the industry perspective was much lower at that point of time. And now industry has come back very much on the business side and the kind of performance you have seen, especially this is the first quarter post COVID, which is a season quarter, Q3, which performance you have just seen.

So based on this and further projections, which are generally done by the merchant banker, they have evaluated, and the transaction is happening for purchase of the CCPS from APG at the valuation of Fleur Hotels. So that's how you are seeing the change in the value, which is FY21 versus FY23-24, basically.

Karan Khanna: Sir, regarding funding for the acquisition, will this add debt on the parent's book given most of the cashflow will be used towards investing in the MIAL project?

Kapil Sharma: Not really because as you have seen that in this quarter only, in Q3, we have had a cash profit of INR 72 crore. And this kind of performance is likely looking at from the market perspective is likely to continue. So there are a robust internal accrual in the company, which can take care of this acquisition as well as the capex which is required for the Aurika, Mumbai property. So that is not much different from the debt level, which would happen. There could be a small change, but it's not a significant change, which would happen from here onwards.

Patanjali Keswani: Actually Karan, if I could add something. You should look at our cash profit in Q4. You will get an understanding of what Kapil is saying. Number two, the transfer cost of an asset firstly, the assets were not getting valued right. So we would have transferred it at a lower price than we said was fair. On top of it, there was a very high stamp duty cost, very high. So it did not make sense for us to transfer assets. Rather, it made sense for us to simply buy 58%.

Karan Khanna: Yes. No, sir, what I wanted to understand is if you're seeing any structural shift in demand towards more premium products like Lemon Tree Premier, and if that's the case, how should one think about occupancies and the outlook for Red Fox and Keys Hotels?

Patanjali Keswani: See, Red Fox, if you look at the occupancy change in Q3 FY23, the point is that the ARR went up 20%, and it is a relatively price-sensitive market. So, even though the occupancy came down by 5 percentage points versus Q3 FY20, the RevPAR went up 11%. And I think that's the key number because we did not want very low-rate business there and Red Fox was operating in a low-rate business. So, when you take the ARR up to INR 4,300, you are really touching parts of the Lemon Tree. So I would not suggest you look at it like that.

It is an ongoing process. As I said, obviously, when we started hiking prices at the upper end of the band, there is less price sensitivity at the lower end of the product like a Red Fox, there is more sensitivity. So you will -- what I'm saying is wait for Q4, you will get a complete picture because this is an ongoing process. And Q4 will tell you the results of what we did in the previous 9 months, what we stabilized at.

Karan Khanna: Sure. So third question on the sustainability of the operating efficiencies, do you feel that the reductions that you've achieved post-COVID especially on the employee front is sustainable given the high attrition rate that we are seeing in the industry?

Patanjali Keswani: It is completely sustainable because for the last 3 quarters, every quarter, we increased it to the full occupancy level, if you noticed, in a certain slide in our presentation, we have shown that in December, we were doing 77% occupancy.

October was a crash because there was Diwali and Dussehra and then in November picked up to about 72% and December was 77%, and we did not increase our staffing significantly. So if you just look at it from the P&L perspective, we have kind of stabilized at, I think all in our costs are roughly, I would say, about INR 105 crore to INR 110 crore a quarter and the balance is our EBITDA.

And an increase in occupancy, there is an increase in variable costs of 10%, 12%. If there is an increase in food sales, there is an increase in variable cost of 30%, the company average is about 23%.

Karan Khanna: Sure. Sure. That's helpful. And my last question is on Aurika Mumbai. So MIAL is one of the most contested markets with premium names like JW Marriott, ITC Maratha and Grand Hyatt being in the market with another 600-room Fairmont that's opening up closer to the date of Aurika launch so how should one think about the demand uptake in terms of the ARRs and occupancies for Aurika in the first year of launch?

Patanjali Keswani: Okay. I don't want to give you a statement on this quarter. I suggest you look at how Lemon Tree Premier Mumbai did in Q4, and it will completely answer your question. Remember, it is operating in the same market. It opened a few months before COVID hit. So it had no chance to stabilize. The hotel really started operating in a normal market only from April - 9 months from April to December, have a look at its performance in Q4.

So if you look at Slide 11, we have said that in Mumbai, our occupancy in Q3 was only 79% at INR 8,500. Now have a look at it in Q4 and then ask yourself what Aurika Mumbai would do. If a 300-room hotel can do nearly 90% occupancy at INR 9,000-plus in Q4, then surely, Aurika can do much better than that. In fact, you should have a look at how Aurika did in Q3 because I had said earlier that I'm not dropping prices in summer because I wanted to set a standard for this hotel.

So we did only 53% in Q3 at about INR 17,000. Now have a look at how we do in Q4, you will be astounded at how that hotel has done. And so will you be astounded at how the Mumbai hotel has done. So it will give you an idea of how indeed we can price Aurika and the kind of occupancy of Mumbai gets even for a Lemon Tree Premier.

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

Sumant Kumar: So my question is, except Mumbai and Pune, where we have seen a better than pre-pandemic occupancy, other key markets like Delhi, Gurugram and Hyderabad and Bengaluru, we are still lower than pre-pandemic occupancy rate. So can we expect in the coming quarter, the occupancy will reach the pre-pandemic level? And what are the key reasons for that, the occupancy going to the pre-pandemic level?

Patanjali Keswani: In Q3 FY20, we did 71%. In Q3 FY23, we did 68%, about 3%, 3.5% down or nearly 4% down. But we took the ARR up by 24%. What I told you is that this was a work in progress. Please wait to see a stable performance because we've taken prices up by nearly 40% in the space of 9 months; first in April and then again in October and then marginally in January also. So if -- let me assume we get to 75% occupancy in Q4 at a higher ARR than Q3 FY23, I think that will answer your question.

Sumant Kumar: Yes. So what about the Keys hotel? The occupancy is still at the lower side.

Patanjali Keswani: Yes. Because Keys, what you are seeing in Slide 11 is the partial quarter. So we acquired Keys in the middle of Q3 and we are very clear that it has to be renovated. So what we are selling today is, frankly, a very mediocre product. And in certain markets, it is very low demand, even today, like Kerala or Ludhiana. It is only Bangalore and Pune, where we are able to take prices up somewhat, though we are not able to really hike the occupancy because that market, Bangalore is quite low, the 2 IT districts.

So you are right, the occupancy came down versus Q3 FY20, but we did reprice the hotel up by 18%. And now you are seeing a 10% fall in RevPAR in Q3 FY23, but you will see we'll catch up in Q4 because it's an ongoing thing. But really, one of the key levers for our future growth in revenues is post renovating these hotels. So I think I mentioned earlier that we have now designed the new rooms for the Keys portfolio. It's actually in Pune. It's been designed and done. All the designs are ready for all the hotels.

We are putting in a fair amount of money in the Bangalore and Pune hotels in order to reprice it by at least INR 1,000. And we are putting in the bare minimum in the other hotels to bring it up to what we consider are the minimum brand standards. So the total investment in Keys over the next 2 years will be INR 5 lakhs for half the portfolio per room, that is about INR 25 crore and INR 1 lakh per room for the other half. So we would spend INR 30 crore. We have spent a little bit already, but we would spend INR 30 crore over the next 2 years, and we are pretty confident that we will take the ARR north of INR 4,500, and we'll take the occupancy above pre-COVID, which was 66%.

Sumant Kumar: So going INR 1,000 increase, I think Keys hotel ARR is likely to be near to Red Fox room rent?

Patanjali Keswani: No, Red Fox will go up even further, as you will see in Q4. So really, the way to look at it is that Keys, 1 year from now or at least half the portfolio will move to the Red Fox level today, which is about INR 4,300 in Q3, and Keys did about INR 3,500 in Q3. So what I'm saying is that we will take it up by INR 700, INR 800, but when it's fully renovated, then I think you will see it even higher.

Sumant Kumar: So next 2 years, all the Keys hotel will be renovated and the product quality will be improved.

Patanjali Keswani: Correct. In all aspects because Keys is a very tired product. You see when we bought it, our intention was to renovate it the following summer. We had actually got approvals, etcetera. But COVID hit so it was put on hold and for 2 years, these hotels were practically shut. So that is the problem.

Sumant Kumar: So we can expect the occupancy will improve post renovation.

Patanjali Keswani: What I am saying is that we will exceed 66%, which is what we did in Q3 FY20, and we will increase the price by at least 20%.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand Capital.

Sanjaya Satapathy: Sir, I just wanted to confirm that this 75% occupancy you're talking about in Q4 that is against this 68% in Q3, right, sir?

Patanjali Keswani: I'm talking about the group, including Keys, the overall occupancy.

Sanjaya Satapathy: Yes, overall occupancy, which you reported at 67.6% in Q3 will be going to 60 -- 75% in Q4?

Patanjali Keswani: Yes, about 75%.

Sanjaya Satapathy: Yes. And you are also talking about increasing ARR in almost all in the last 3 categories that is Keys as well as Red Fox, etcetera, and that is where you were also talking about the price sensitiveness. So why -- and the fact that the prices are already up 20%, 30% in last 3 years, why are you taking such an aggressive stance in terms of pricing?

Patanjali Keswani: Because we think we can get that price. We think the products are capable of that price. And if the segments above us are going 20%, then we will naturally also go at 20%.

Sanjaya Satapathy: Understood. And sir, when you also spoke about the Q4 and considering that you have already become so profitable in terms of EBITDA margin in the industry and probably with the kind of ARR and occupancy you're talking about in Q4, the profit margin probably will go up a lot higher. So is there some kind of sustainable number that which you can share with us?

Patanjali Keswani: So let me say one thing, Sanjaya. No analysts believed us when we said that we will do double our income this year, and we will do minimum 50% net EBITDA. And what I can tell you is that if you look at the 9 months, we have already crossed 50% net EBITDA. This quarter, I'm already indirectly told, is much better than Q3, where we did nearly 53% net EBITDA. And therefore, we will be over 50% net EBITDA, in fact, significantly over 50% net EBITDA and certainly well over double the income of the last year. Is it sustainable? Well, this is a business that operates on demand and supply.

For the next 4 years, supply will not grow more than 5%. Demand of the branded hotel room is growing at 12% to 14% annually. That was the normal situation pre-COVID, and I presume it will continue now. So therefore, you are going to -- and plus a lot of hotels shut down during COVID and have not come back. Therefore, there has been a constrained supply. There has been an improvement in occupancy, it is not linked to revenge travel.

Revenge travel for leisure purposes may have occurred in the first 6 to 9 months. I don't think it will be at that level now that international travel has opened. But for Lemon Tree where 85% of our inventory is business hotels, it is the business hotels that have bounced. And I -- unless there is some black swan event, this imbalance of demand being more than supply will definitely continue for the next 4 years.

And you are going to be surprised that the kind of pricing hikes we will see. I'll give you an example. Lemon Tree's ARR in 2006, when we had only 6 hotels, was INR 9,000. Those kinds of prices are going to come back. And you will see it yourself. In fact, I think you will start seeing it in Q4 itself, this Q4. And every quarter, there will be an increase in prices.

Sanjaya Satapathy: The reason why we're asking that, that is because we are seeing quite a few consumers durable as well as consumer companies, who have taken massive price hike over the last 1-odd year or the last 3 years, in fact, are starting to see some kind of a consumer backlash against prices and several segments are starting to see softness in demand. And almost most categories have stopped taking price hikes because of that. Of course, you have a compelling case for hotel industry. But we'll appreciate your thoughts on this, if you can just help us and also the demand outlook...

Patanjali Keswani: See, let me answer that. Sanjay, no supply will come in at current prices. Because the cost of replacement, cost of building a hotel today with the kind of inflation we have seen and the high cost of debt, nobody will build a hotel at the current rates, ARR -- even at the current ARRs. It will make sense to build a hotel, say, a Lemon Tree Premier equivalent only at an INR 8,000, INR 8,500, okay? And we are still 15%, 20% below that. So until there is a sustainable price at that level, supply will automatically be constrained.

So I would not worry about it because this is a situation where you have to see 2 or 3 years of sustained pricing before new supply is planned. Otherwise, it's a self-regulating kind of thing like a commodity cycle. So sure, some customers won't like it, they will move down. So some 5-star customers will come to Lemon Tree Premier. Some Lemon Tree Premier customers will go to Lemon Tree. Some Lemon Tree customers will go to Red Fox and so on. But we operate across the entire chain, right? We operate from -- well, from Lemon Tree Premier, which is 4 star to Red Fox which is 2 star. So if there is a movement, it will be within our system.

And what I want you to realize is if you look at Slide 11, Lemon Tree Premier's ARR in Q3 FY20 was slightly higher than the Lemon Tree hotels ARR in Q3 FY23. Similarly, Lemon Tree Hotel's ARR in Q3 FY20 was just slightly higher than the Red Fox Hotel ARR this quarter. And Red Fox's ARR in Q3 FY20 was equal to the Keys ARR today.

So basically, the customer, if he wants that price point, will go down. So Lemon Tree -- you can see it in the diagrams, if you just look at this slide. We are not losing any customers. We may go down at the ARR of the lower hotels, but we are getting enough customers at Lemon Tree Premier from the 5 stars.

Sanjaya Satapathy: Yes, sir, just wanted to hear that, I mean, you're fairly confident about Q4, but if you can just give a bit of color about the demand for the subsequent period. Otherwise, it is fine. That's all from my side.

Patanjali Keswani: So typically, what happens in H1 is there is a 5% fall in ARR, and 3%, 4%, 5% fall in occupancy because it is off season. So it is like if you look at pricing, so let me explain, if pricing in summer in 1 year is 100 bucks, and in winter, it goes to 120, then in summer, it comes down to, say, 110 or 112. So 100, 120, then it comes down to 112, then it goes back to 130. So it's a step up, step down, step up, step down and each time the step down is higher than the previous summer.

That's the first point. As far as occupancy goes, if you do 65% in summer and say, 72% in winter, then the next summer, you will do 68%, 69%, if it's an upswing and the following winter, you will do 75%. So again, it's a step up, step down, step up, step down. And if you look at our performance pre-COVID, it is very clearly reflected there.

Moderator: The next question is from the line of Prateek from Jefferies.

Prateek: Yes. So sir, basically, we'll exit this year probably on a high in terms of pricing and factoring in the seasonality, which you mentioned for Q1 and Q2 thereafter, for FY24 basis, we should still be like higher by like close to double digit in terms of ARR year-on-year in FY24 versus FY23?

Patanjali Keswani: Let me put it this way. We will do better than 20% higher revenue in FY24 over FY23 and our net EBITDA margin will be above the net EBITDA margin of FY 23.

Prateek: Okay. So the 20% higher revenues and margins higher than this year, okay.

Patanjali Keswani: Yes. So basically, I'm saying our PAT will be 40%, 50% higher.

Prateek: Right. Right. And on occupancies and demand, one small question. Basically, besides the IT sector, there's some impact on micro markets related to IT sector, but is there any other segment which is showing any signs of softness except for the step-downing of some of the customers from one segment to another, but is there any specific slowdown from any segment which is witnessed now?

Patanjali Keswani: Not really. In fact, the IT sector is also showing signs of picking up by the way. And typically, they take a lot of our rooms in Electronic City and in Whitefield for new joiners. And we seem to have been given an indication that there will be a lot of hiring this summer, number one. Number 2 is that the sectors that really give us a lot of business, which is financial services, pharma and so on, we find those sectors are growing very fast. So on an overall basis, the retail segment is growing super-fast. And a large part of the corporate segment is growing super-fast. In fact, IT only accounts for about 5%, 6% of our total business. So even if it drops by 20% or 25%, it will be 3%, 2% drop.

Prateek: Right. And which will be like top 5 segments like the way you mentioned 5% for IT?

Patanjali Keswani: IT is a very important segment because it gives us a lot of business in our IT-heavy markets like Hinjewadi in Pune or Electronic City or in Whitefield.

Prateek: Right. No, so I was asking which should be other like top 5 segments for us, like pharma, you mentioned?

Patanjali Keswani: Pharma, financial services, auto, retail.

Prateek: Right. Okay. Okay. And one last question...

Patanjali Keswani: Any of the large services sector. See when the Indian economy is growing at 6%, 7%, the services sector is growing at 10%, manufacturing may be at 4% now may be higher because of PLI and agriculture is anywhere from 1% to 3%. We are 85%, 90% dependent on the services sector. So when it grows at 10%, then our demand normally grows at 1.2, 1.3 times that. So that is why when I say demand for branded hotels is growing 12%, 13%, in fact, my guess is it will be even more now.

It is just for this reason. Retail sector growing and these segments further. Now what is not come back fully is the foreigners.

Typically, foreigners account for 10% of our revenue, and I know that the tourism minister recently said a lot of foreign travel has started. I think he was referring to the domestic, the Indians, the NRIs coming back, actual foreign travel is still, I think, 40% down and that will come from this coming year.

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

Kunal Lakhan: Sir, my first question was on Keys. You mentioned you're doing some renovation to get this portfolio going. So just to understand if the issue is with the markets there and the demand in those markets or the issue is with the kind of product that we have.

Patanjali Keswani: Actually, it is 3 problems. In certain markets, the issue is that the market itself is down, but we are not even able to get our fair share in that market because the product is even more down. So we feel that if we spend, say, a lakh a room in those markets, we'll be able to bring the product back, and it may not take the ARR up, but it will take the occupancy up. So in those hotels, it's an occupancy strategy, like Kerala, 2 hotels in Kerala and a hotel in Ludhiana, which is 350 rooms put together and partly in Visakhapatnam, where we have another 100 rooms.

In the other 2 markets, which is Pune and Bangalore, where we have another 450 rooms, there, if we upgrade the product, we will be able to reprice. So there, it's an occupancy and pricing strategy for Bangalore and Pune. And in the others, it is merely an occupancy strategy. And the capital allocation is done on that basis, the return on the incremental capital. So let me tell you an interesting thing. We feel that by spending INR 30 crore we will get a more than 100% return in EBITDA per year from Keys.

Kunal Lakhan: That's great. That's very helpful, sir. And my second question was on Fleur transaction. So we're buying 22 lakh CCPS this -- before 31 March, that would still be about 31 lakh CCPS to be bought and what will be the timeline for this and I would assume that, that will entail again based on current valuation spend of INR 150 crore-plus and how will we fund that?

Patanjali Keswani: Kapil, will you answer?

Kapil Sharma: Yes. So which number you are referring to, I think you are looking at the entire CCPS block. But need not buy actually entire CCPS, which were issued to the APG. Second thing is that as you already know that the conversion date was extended till 30 June 2023. So that would happen in June. So what we are doing is, we have to make sure that we acquire enough CCPS to ensure our existing shareholding before conversion remains the same.

So if you look at the current quantum which we have declared and which has been approved by the Board, which is 22 lakh CCPS out of roughly 54 lakh CCPS. So that brings Lemon Tree shareholding in Fleur to roughly 58%, which is close to the current one only. So that is the situation after this conversion happens for the current acquired share CCPS of 22 lakhs.

Kunal Lakhan: Yes. So incrementally, we may not buy any further CCPS shares, that is what you are saying?

Kapil Sharma: We'll have to look at that. But as I mentioned earlier that major part is already been done now.

Kunal Lakhan: Sure. Sir, that's helpful. And just 2 follow-ups on that. Did we pay any preference dividend to APG in the last 3 years on these CCPS?

Kapil Sharma: No. These were 0.01% CCPS, but no dividend has been paid.

Kunal Lakhan: Sure. And if you can share some numbers on Fleur in the 9 months, like what kind of revenue growth and what kind of margins we are doing there, if you can.

Kapil Sharma: So I think we'll share with you offline about this because we do not -- in our earnings presentation, bifurcate in that manner because it's by brand, by markets and on a group level.

Moderator: The next question is from the line of Rajiv from DAM Capital.

Rajiv Bharati Sir, on the CCPS thing, so another 18%, 19% needs to be bought. So the valuation will be recalibrated from here onwards or the current valuation will hold for that?

Kapil Sharma: No, as per FEMA regulation, whenever you do a transaction, you have to get a current valuation done at the time of the transaction. So it would depend on what valuation comes at if there is any further transaction.

Rajiv Bharati And is it possible to provide ARR assumption for Aurika MIAL which you have taken

Patanjali Keswani: I have said INR 12,500 in the first stable year, which will be obviously FY25. But we are pretty confident we'll stabilize if we open it in October, October and November will be very low months because of Diwali now moving into November in this year and Dussehra being in October. So during that period, people generally don't travel, whether it's -- definitely not for business reasons. So that is why you will see this year in this last 9 months, in October, we only did 54%, which was actually low because we had also repriced. So our thought is that Aurika had earlier given a guidance would do INR 12,500. But if it -- so let me give you a range, it will do anywhere from INR 13,000 to INR 15,000.

Rajiv Bharati And from Q2 to Q3, if we do, let's say, incremental EBITDAR margin, it looks like you are actually doing a better EBITDAR, I mean, even higher than the revenue growth sequentially in the sense of the incremental EBITDA margin for some of the assets are over 100%, how is that happening? For example, for Lemon Tree, Lemon Tree Premier, Lemon Tree Hotels, your incremental EBITDAR is actually higher than the revenue growth.

Patanjali Keswani: Yes, because we are expensing renovation in some hotels. So what I have always told you gentlemen, is that -- and ladies, is that for us, we spend significant amounts of money every year in renovation. And therefore, for us, the depreciation is just cash because it is effectively double digit because I'm already showing it pre-EBITDA as an operating expense with a little bit of capex later. But typically, of my renovation, 75% is opex. And depreciation, therefore, which is about INR 110 crore a year, is pure cash profit because I've already spent the money in renovating and upgrading the hotel.

So it depends sometimes on the hotel. If we spend a lot of money in renovating it, then obviously, the EBITDA comes down. If we stop the next year, then the EBITDA goes up. So I don't know which hotel you are specifically referring to. But what I can tell you is that I see that there was a certain amount of skepticism about us saying that this is our cost structure. And now you will see it over 4 quarters. And I think you will find that any increase in our expenses is linked to the net increase in the room revenue and the other income.

So if the room revenue goes up mostly and not the food then the margin is -- the contribution is 90%. If the F&B revenue goes up, then the contribution is 70%. And if some other revenue goes up, which is like spa and so on, then the contribution is 40%. So it's a question of which part of the mix went up. But broadly, since we are driving room sales first, the EBITDA margins will keep going up.

Rajiv Bharati: So let me specify on your Page 10 of your slide. If you look at, for example, Lemon Tree Premier your revenue I've back-calculated your revenue for the quarter must be close to INR 94.2 crore. And for the last quarter, in a sense of Q2 FY23 must be INR 84.3, so there INR 9.9 crore swing in terms of your revenue and the EBITDA swing is INR 15.7 crore

Patanjali Keswani: So there may have been some renovation that did occur. Let me put it this way we are the lowest cost operator, that is why we can talk at our level of ARR and occupancy, we can talk at north of 50% EBITDA. Some of the EBITDA gets reduced because there was renovation and so on. So if we can talk offline and you can give me specific figures, I'll answer that.

Rajiv Bharati: Sure. And in terms of, let's say, because other hoteliers have been talking about renovation, which was due from COVID period onwards. Do we have a similar quantum, which is, for example, lined up in this year in reference to the subsequent year?

Patanjali Keswani: Yes. We normally spend INR 30 crore, INR 35 crore this year, we'll spend INR 50 crore.

Rajiv Bharati: And this will continue in the next fiscal as well...

Patanjali Keswani: Yes, yes. 100%. But when I report to you my EBITDA, it will be it will not come from the cash flow post it will be pre the net EBITDA. So if I say I'm going to spend INR 50 crore, you can assume INR 35 crore is going pre-EBITDA and INR 15 crore is going post EBITDA as capex.

Rajiv Bharati: Sure. Sure. And just one clarification. On the revenue side, the revenue growth for FY24, you said it's a 20% revenue growth or 20% RevPAR?

Patanjali Keswani:	I said revenue growth. I don't want to give specifics. It will be a 20% revenue growth and our net EBITDA margin will be higher than this year. And therefore, PAT will be at least 40% higher than this year.
Rajiv Bharati:	Sure. And lastly, some counterparts, for example, Hilton during a recent con-call had kind of subdued -- or given a slightly subdued commentary in terms of flat occupancy for the current calendar year and less than 5% ARR growth. I mean the main reason they cited was inflation. And a participant asked a similar question. I was just wondering whether are we seeing any risk of that playing out in Indian context as well?
Patanjali Keswani:	You are talking about Hilton's global con-call?
Rajiv Bharati:	Yes, yes.
Patanjali Keswani:	I'm sorry, I'm not familiar with it. I can talk about India. And in India, I don't see that as an issue because you see what happens is when demand grows. See it this way, 4 days in a week, I'm sold out. I mean there is unconstrained demand, which is greater than my supply. So obviously, I churn. I keep increasing the prices, still, I do a 98%, 100% occupancy. And I let go the bottom 10%, 15%, which is the lowest rate and this is how my retail segment ARR keeps growing, and I'm not seeing any slowdown in that in spite of inflation.
Moderator:	The next question is from the line of Nikhil Agrawal from VT Capital.
Nikhil Agrawal:	Sir, I wanted to know what was the retail and corporate contribution in Q3? If possible.
Patanjali Keswani:	Retail and corporate contribution is there in a certain slide. I have it here, just hold on. Retail gave us 1,532 rooms, corporate gave us 1,300 rooms, airlines gave us 290 and travel trade, which is the leisure side, gave us 370 totalling to 3,440, which is 67.6%.
Nikhil Agrawal:	Okay. So sir that means retail still a significant portion of your demand portfolio. Sir, I wanted to know that like the Gustavs and Roasters of the world that is coming up like in all these tourist places. So are you seeing that as a threat to your demand to for demand for your hotels in any way?

Patanjali Keswani: I don't have any leisure in the owned portfolio, I have very little leisure. It is Aurika plus a 100 rooms in Goa and a few rooms in Alleppey and a few rooms in Bandhavgarh. And then we are in markets where there is leisure and business like Aurangabad, Jaipur and so on, where we are doing quite fine.

In fact, Chandigarh, I think we do over 80% or something like that. And Jaipur, we are doing 75% with 108 rooms. So it's not really affected us. You see what we are talking about is not these guys, it is more the villas, which are on offer in Goa and so on, and these are affecting more the 5-star hotels' villas because they are quite highly priced.

But the demand in Goa is such that in spite of a lot of villa accommodation, hotels still continue to do well.

Nikhil Agrawal: Got it. Great, sir. And sir, any guidance on the management fee, you've talked INR 25 crore in the 9 months this year...

Patanjali Keswani: So I said we'll do INR 35 crore, INR 36 crore this year, and we should do 50% more next year. Our broad intent is that we will increase our management fees but we'll hit a INR 100 crore, hopefully, by next to next year.

Moderator: The next question is from the line of Aditya Damani, as an individual investor.

Aditya Damani: Congratulations all around. You've answered most of my questions, but I have a question on -- I recently read a news report where you were quoted in a business today forum, where you said in 18 months, you'll expect ARRs to go up 100% almost. Is that base case, best case or whether you see that stabilizing -- maybe worst case?

Patanjali Keswani: If things continue like this, and I'm making 2 assumptions that inflation will come under control. And number 2 is that this war will go and that there will be regular foreign travel, which I'm hoping will happen from this October, but it may go to the next October. So yes, if that happens, prices will hit that level.

Aditya Damani: Wow. Okay. So then is it fair to assume that obviously that if you're hitting low 50s in EBITDA, we could easily surpass 60% maybe?

Patanjali Keswani: We did surpass it in 2005, '06 and '07.

Aditya Damani: Excellent, sir. Okay. That's great sir, And secondly the question is with all the wellness stays like Yoga and the likes, we have a dearth in the country. We have your Anandas and Vanas in the north. We have your Windflower for example, in the south. And these are -- I mean, there is a massive shortage. There aren't really very good spaces to go to. Is that under active consideration?

Patanjali Keswani: Not for me because I think we are very, very focused on the 2 to 4 star and now the upscale segment, and we want to saturate the Indian market. We want to go to 100 cities, which we hope we will reach, and we were to hit 25,000 rooms in the next 4 years.

Aditya Damani: Right, sir. In continuation to that question, when you say foreign travel comes in, a lot of that goes towards a lot of wellness stays, wouldn't that be a low-hanging fruit?

Patanjali Keswani: Yes, that's true. But I'm not focused on that. I'm focused on the domestic Indian consumer.

Aditya Damani: Fair enough.

Patanjali Keswani: And I want to be focused I don't want to go all over the place, plus I don't have spa expertise. I outsource spa. And I'm quite happy with the results as they are because we want to, as I said, saturate the mid-market in India.

Aditya Damani: Absolutely, sir. Okay. And lastly, where are we in terms of largest rooms in terms of ranking? I'd say, Marriott, Taj or if I say OYO in that same breath, where are we ranked close to -- because and the reason...

Patanjali Keswani: I don't think you should bring OYO into this. But we are the third largest owners of hotel rooms in India and currently the sixth largest in terms of total managed and owned. But there are others like the international guys are number 1 and so on because they only manage, they don't have capital deployed in asset ownership. So...

Aditya Damani: The reason I asked was because of the IPO coming in and the kind of crazy valuation that...

Patanjali Keswani: I wish them the best, but they are not really competitors with us.

Aditya Damani: Yes. Fair enough. No, I was only referring to the valuation. That's all. And so that could increase our values absolutely in valuation directly, if that makes sense?

Patanjali Keswani: Well, I hope you are right. Let us see.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing comments.

Patanjali Keswani: Thank you, everybody, for your interest and support. We will continue to stay engaged. Please be in touch with our Investor Relations team or CDR India for any further details or discussions. I look forward to interacting with you soon. Thank you.

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