Lemon Tree Hotels Limited
Q4 & FY19 Earnings Conference Call Transcript
May 31, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Lemon Tree Hotels’ Q4 and FY19 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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Varun Divadkar of CDR India. Thank you and over to you, sir.

Varun Divadkar: Good afternoon everyone and thank you for joining us on the Q4 and FY19 Earnings Conference Call of Lemon Tree Hotels Limited.

We have with us today Mr. Patanjali Keswani – Chairman and Managing Director; Mr. Rattan Keswani – Deputy Managing Director, Mr. Kapil Sharma – Chief Financial Officer; Mr. Vikramjit Singh – President and Mr. Prashant Mehrotra – Chief Revenue Officer of the company.

Before we begin, I would like to state that some statements made in today’s call may be forward-looking in nature. A detailed statement in this regard is available in the Results Presentation that has been sent to you earlier. I now request Mr. Keswani to make his opening remarks.

Patanjali Keswani: Thank you. Good afternoon everybody and thank you for joining the call. I hope all of you have the opportunity to go through our results presentation which provides details of our operational and financial performance for the fourth quarter and year ended 31st March, 2019.

We have delivered a healthy top-line growth of 14% in FY19 to Rs. 559 crore on the back of 7.3% year-on-year increase in ADR and addition of 292 owned/leased rooms during the year. We continue to maintain our occupancy premium showing a 48 bps year-on-year improvement to 76.3% FY19 from 75.9% in FY18. This was despite the addition of new supply of 377 owned/leased rooms, out of which 292 rooms were added during Q3 this year and 85 rooms were added in March in the end of the previous year that is FY18. Excluding this new supply, on same hotels basis occupancies increased by 188 bps to 77.8%. Fees from managed hotels stood at Rs 16.9 crore, (about 3% of our revenue in FY19) as compared to Rs 10.4 crore (about 2.1% of our revenue in FY18).
ADR hikes during October 2018 were below our initial expectations impacted by multiple factors including challenges faced by the airline industry. Further, the overall slowdown in the economy and consumption led to lower sales in our direct sales channel and also the period leading up to the election outcome resulted in lower corporate travel which is incidentally continued till May. We are confident that the formation of a strong government with a majority mandate at the center should create a strong growth framework which will expand longer-term macro growth opportunities for the country. With acceleration in reforms and decision-making, normalcy restored and consumer confidence rising, we expect an uptick in ADRs in the coming years.

Our focus on cost controls on operating leverage resulted in EBITDA growth of 24.1% year-on-year to Rs. 178.7 crore in FY19 while margins expanded by 268 bps year-on-year to 31.9%. PAT increased 287% to Rs. 56.4 crore from Rs. 14.6 crore in FY18. After adjusting for the deferred tax and the initial losses that we have faced in our recently launched hotels in Pune and Dehradun, Dehradun opened on 22nd October 2018 and Pune opened on 5th December, 2018 that is about six months ago. After adjusting for these losses and deferred tax impact, PAT increased 190% to Rs 35 crore in FY19 from Rs 12.1 crore in FY18. Cash profits increased 64% to Rs 110 crore.

For Q4 FY19 total income stood at Rs 153.1 crore, up 10% as compared to Rs 139.2 crore in Q4 FY18. ADR increased by 4%. Occupancy increased by 32 bps to 77.6%. On a same hotel basis, occupancy rose by 330 bps to 80.7%. So this is the first-time same hotels have crossed 80% on a year-on-year basis. Total expenses increased by 8.3% in Q4 FY19, 96% of this was on account of those new rooms that we had opened. Same hotels cost went up by 0.4%. So this drove 100 bps expansions in EBITDA margins to 33.6% in Q4 FY19. PAT stood at Rs 33.7 crore, up 188% year-on-year while cash profit increased 96% year-on-year to Rs 46 crore.

Our current operational inventory as of the 15th May'19 comprises of 56 hotels and 5,525 rooms of which about 3,000 are owned, 570 are leased and a little under 2,000 are managed. Our active development pipeline as of today consists of a total of 3,275 rooms which include 1,240 owned/leased rooms and 2,035 rooms under management contract. Of these about 1,260 rooms will be operational by the end of Q4 FY20 of which 584 are owned and 677 are managed. The owned room addition includes our 303 roomed Lemon Tree Premier hotel at Andheri East in Mumbai which has now received Occupancy Certificate from the Municipal Corporation of Greater Mumbai four days ago and it is expected to open in June, 2019. Further 142 rooms will be operational in Kolkata and 139 rooms in Udaipur by the end of Q2. We have a large supply of inventory getting operationalized in high barrier to entry and demand dense markets with higher occupancies and ADR’s which should drive strong cash flows in the coming years once they are stabilized.

The project cost to the current pipeline is roughly Rs. 1,615 crore, of this Rs. 887.4 crore has already being deployed by 31st March, 2019. The balance investment of Rs 727.6 crore will be mainly funded through internal accruals and deployed in a phased manner over the next three years.

Further, and we are happy to announce that we are diversifying into the upscale segment under our brand ‘Aurika Hotels & Resorts’. The first hotel under this brand will open in Udaipur as Aurika, Udaipur. This was earlier proposed as Lemon Tree Premier, Udaipur. We also intend to use the brand name Aurika for our second upcoming hotel in Mumbai international Airport. Our main focus will continue to be of course on the mid-scale and economy segment. Through Aurika, however, we
will be servicing the upscale segment which is one notch above the Lemon Tree Premier. The launch of this new brand will enable Lemon Tree to target management contracts in this new segment. We see enormous opportunity to get management contracts in an asset-light way and these are high-value management contracts and also expand our share of wallet to the Indian middle-class.

We are optimistic going into FY20 and expect acceleration in our operating and financial performance. We are well-placed going ahead in terms of our market positioning, sector tailwinds and brand visibility. We will capitalize on the changing industry dynamics with a large inventory of hotels moving towards steady-state that were opened in the last 3 years during the down cycle and which will stabilize in the coming quarters to take advantage of the uptick in demand.

On that note I now come to the end of our opening remarks and would like to ask the moderator to open the lines for Q&A.

**Moderator**

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Nihal Jham from Edelweiss.

**Nihal Jham**

My first question was on this new brand we are launching Aurika, I understand that when the construction of both of Mumbai and Udaipur would have started, they were planned as Lemon Tree Premiers. So why is it that we are planning to launch a fourth brand which is in the Premium segment, so just wanted your thoughts on that first?

**Patanjali Keswani**

So three points, so if you look at the branded hotel segment in India approximately 40% is in the upscale and above space, about 50,000 rooms, another 50,000 odd rooms are in the middle scale and upper mid-scale space and about 20,000-25,000 rooms are in the economy space, so it’s a total of approximately 1,25,000 rooms. We found some very interesting trends; one was that a large number of our customers, we find contrary to conventional wisdom pay very different rates for different reasons for use. For example, there are a large number of Lemon Tree customers who pay us Rs. 3,000 to 4,000 in a Tier II city Lemon Tree or RedFox. But when they go on a holiday to Goa in the same brand that is Lemon Tree they pay us Rs. 8,000. So this movement interested us, so we did a survey and a study across our few hundred thousand customers. That was the first time we realized that many of our customers we could expand the share of wallet, so that was one. The second point was that of the 50,000 upper upscale and luxury rooms in India roughly 25,000 are delivering poor return on capital. So it so happened that when Carnation was launched, a couple of hotels came to us which were technically branded upscale but we took them on as Lemon Tree Premiers and we discovered that our cost structure we could increase operating profit by 20% to 40%. I’m not taking into account any revenue improvement we brought. Now typically fees which are paid for upscale and upper upscale hotels are roughly double the fees that are paid per room for mid-scale and upper mid-scale hotels. So keeping these two in mind which is trying to expand share of wallet of our customers and future customers and the fact that there was distress in the upscale and upper upscale segment and the fact that we were opening this hotel in Udaipur where we felt that the opportunity to target average room rates in the range of Rs. 12,000-15,000 existed which is also one of the reasons by the way why Udaipur was delayed. One was of course that we didn’t want to open it in summer. Number two was we wanted the brand, so we have invested a little more capital in that hotel and we plan to launch Aurika with this main objective, capture greater share of our existing customers and new customers and also massively increase our fees in Carnation Hotels going forward. Same logic applies for the second hotel in Mumbai which is
Mumbai International Airport, it was an interesting exercise. When we initially designed this hotel we were given a lower height than expected. So we decided to expand horizontally and in the process we found we could build much larger rooms and more cost effectively. So actually Mumbai International Airport will not be 570 or 580 rooms as we initially conceived. It is now going to be 670 rooms. It is going to be the largest hotel in India on a standalone basis and it will be under the Aurika brand and we are very confident that because it is Aurika and with the current cache we have with our million plus loyalty members, we will be able to target ARRs about 25% to 40% above what we would get in the Lemon Tree Premier in that city.

Nihal Jham

Just adding on to that, so going forward are we first of all planning to convert any of the other existing owned pipeline into Aurika and will this brand be used mainly for management contracts driven expansion or you plan to start your owned hotels also?

Patanjali Keswani

No, so to answer the point, there is one hotel in Jim Corbett Park which was actually initially designed as a 5 star plus hotel, we took it under management as a Lemon Tree Premier. But we feel that we can reprice it significantly under the Aurika brand. To answer the second point of your question, we have zero intention of building anymore Aurika’s. We intend to target management contracts across India under this brand and basically expand into the—well I am using this word loosely—into the 4.5 star segment.

Nihal Jham

Just on the Mumbai Airport, I have seen the presentation. Is there been a delay in terms of commissioning from March ’21 to November ’21?

Patanjali Keswani

MIAL what’s happened is again the same reason we have redesigned it. There was also an interesting issue and this is one of the problems in India which are un-anticipated. So when we started digging the basement, an apartment building 100 m away from us started complaining about tremors about feeling the vibration and as a result worked was intermittently stopped on and off till finally we went and redesigned that side of the basement and that took 2 months. So this is the reality of development in India with best efforts you can be 100% sure of what you will do but external environment is still very hostile to real-estate development.

Nihal Jham

Just one last question on the current quarter ADR, do understand that it has been impacted by the issues that you mentioned, so in the absence of this what is the kind of pricing fees that you are targeting in this peak season and also if you give me any sense on how the corporate pricing rates have happened for this year?

Patanjali Keswani

If you look at ARR for January-February and March, the increase is coming to, total is coming to 4.4% whereas in the same hotels, the first nine months we did about 8.5% to 9%. So that’s why we have averaged 7.5%, so clearly there has been a slowdown in travel and a shift in mix. So what happens typically is, you see we were hit by three rallies. One, a large amount of airline seats disappeared, initially gradually and as you know with the unfortunate shutdown of Jet Airways, a large percentage I think mid-teens of seat in India have not being replaced. So as a result air rates went up that was the first issue. So now when air rates go up a certain number of people decided not to travel because it becomes unaffordable. As I said in the second impact, there has been a very clear slowdown in the consumption sector, we find it with our consumers also. For example, the demand from the auto sector has really dropped in for hotel rooms, similarly in consumer staple, similarly in FMCG and so on. So certain segments that were going through a slowdown, obviously their consumption of hotel rooms also fell. So we decided
we would focus on the retail segment. Now in order to stimulate retail segment demand requires going online and online is unfortunately in this case we had to actually give discounts on an ad-hoc basis stimulate incremental demand in the retail segments so which is why in Q4 our ARR only increase 4.4%. Now if you look at January last year we went to 8.5%, in February we went up 6.7%, in March we went up 2.1%, so that’s why the average came to 4.4%. Now going forward what is our expectation, it so happens that Mumbai we expect to open in June, so if I look at a same store I would expect that it would be 9% to 10% price hike in October this year but the new hotels that we are opening have typically a price which is 1.2X to 1.8X our ARR and since there a significant amount of inventory we expect weighted average ARR should be north of 10%.

Moderator
The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund.

Sriram Rajaram
Any update on your deal with Keys Hotels? So I see that even the Kolkata property has been pushed to October this year, any reasons for the delay? Can we expect it to open in October or how do you see this?

Patanjali Keswani
Kolkata is ready this month. So any of you are in Kolkata you will see a fully ready hotel, same story. So let me give you some flavor of how approvals happen and why it is so difficult to predict and therefore we often get delayed. So then we applied for Mumbai, they ask for 30 new approvals which were not there in the original list. So when we were running around getting those approvals, in the meantime the officers who ask for the approvals some went on holiday and a large number of them were transferred on election duty. So they disappeared from their seats. Unfortunately in the Bombay Municipal Corporation the situation is such that if an officer who is supposed to sign a file is not there, it is not somebody else who can sign, it is only he who can sign. So that is the main reason why Mumbai got delayed by three months. Kolkata, the hotel is ready, there are only three approvals required. All the three approvals, the officers were on election duty. I’m hopeful that they will be back in June, now back to work and if that is the case I’m assuming they follow the process then it is true we can open this hotel maybe a month or two months even earlier. But I’m giving this as abundant caution based on our experience with Mumbai.

Sriram Rajaram
The deal with Keys, any update on that?

Patanjali Keswani
Yes the due diligence is proceeding very satisfactorily and we hope that we will be able to make announcement by end of June which will address two concerns. One is whether we are taking it and what we expect to do with it and therefore what is the effective multiple we are buying it at and what is the effective multiple we will correct it to within a year. Number two is how we are financing it and we believe that we have found a nice way to finance it with very-very limited risk.

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

Deepika Mundra
Firstly I believe that you have divested some stake in the Carnation subsidiary, could you please some more details around that in terms of valuation or whatever you can disclose?

Patanjali Keswani
What was the rationale of opening Carnation, so roughly 7 years ago we discovered that there was a very large number of distressed hotels in the midscale and upper midscale and economy space which were being run by owners or by other operators where we felt we could add significant value. So as our brand
became better known and as our performance was better understood across the market—and remember this was absolutely down cycle then—a lot of opportunity came our way. Now the problem with managing hotel is that you have to not only manage hotels, you have to rightfully manage the owner’s expectations. So at that point Rattan Keswani, who is our Deputy MD—he was then the President of Trident Hotels in Oberois—he joined us and the understanding was that he would get the 25% stake in this new company which would use the Lemon Tree brand and platform with some sharing of fees. So typically for every Rs. 10 fees we charge Rs. 6 goes to Carnation and Rs. 4 comes directly to Lemon Tree. So in that sense effecting share is not 25% of fees, it is 15% because it is 25 of 60. Now the understanding with Rattan is very simple, we’ve got an external valuation done for our company is for Carnation Hotels and based on that multiple overtime, it is understood that we will buy him out and make Carnation 100% subsidiary of Lemon Tree Hotels. We also of course needed a lot of expertise, quality, patience and skill to set this new company up. So in that sense Rattan was an entrepreneur within our system and I must say he has done a wonderful job. This year he delivered Rs 16.9 crore of fees and it is growing at 30%-40%, in fact going forward probably 50% a year, compounded for the next perhaps indefinite period.

Deepika Mundra

On the RevPAR outlook for next year, you mentioned that with Mumbai coming into the fold there will clearly be an uptick on the ARR. Do you think that what happens with the occupancies next year given that Mumbai is a demand dense market, would you still see occupancies relatively flattish or you think they will get impacted because of the new property?

Patanjali Keswani

Let me explain on the occupancy; so let me explain same hotels versus new hotels so you will get an idea. When we opened our hotels in Dehradun—and I’m giving you actual numbers—when we opened our RedFox hotel which is our 40 years lease in Dehradun in October ‘18, in the first 5 months it did an occupancy of 50.5% last year that is for the average from October to March. I’m very pleased to tell you that today in April and May it has averaged in occupancy of 69% which means it has gone up by roughly 29 percentage points as it becomes stable, so while it made losses in H2 last year it has become highly profitable in Q1 this year. Similarly Lemon Tree Pune which opened on December 5th last year, in the first roughly 4 months it did only 33% odd occupancy. This year it is already trending towards 50%. So it takes time, every time I open a hotel two things happen, each year the hotel’s cost per room is higher than the previous year because of inflation obviously, so an old hotel, 3 years old is much cheaper per room than a new hotel 3 years later. So Pune is in capital terms perhaps twice as expensive as our old hotels because it opened 7-8 years later. The depreciation is higher, the breakeven is higher, obviously we have borrowed money on it so there is interest so even though it might be EBITDA positive, it is PAT negative. So if I really did a disaggregation of our performance for Q4—and I’m going a little off your question—last year our hotels did Rs 5.9 crore same hotel, this year they did Rs 10 crore. So there was a 70% increase in PAT for old same hotel. Other income last year in Q4 was Rs 5.3 crore, this year was Rs 1.8 crore. So therefore on a PAT-to-PAT basis, the PAT appears to only have grown from Rs 11 to Rs 12 crore. Then deferred tax last year was Rs 0.5 crore, this year the benefit was Rs 24.5 crore which is how we hit Rs 36 crore. But the losses of the new hotels was a little under Rs 3 crore, so effectively we showed a Rs 33.7 crore PAT and this was the waterfall of how it came about. The broader point I’m making is that the PAT of the same hotels went up 70%. But because it is the blended average we report, it appears that we have not improved but same hotels have gone up 70%.

Moderator

The next question is from the line of Aadesh Mehta from Ambit Capital.
Aadesh Mehta: For our Mumbai MIAL hotel we have changed the opening date to November ’21, does that also build in some kind of bureaucratic delays?

Patanjali Keswani: Yes it does.

Aadesh Mehta: What kind of buffer you have on this that’s what I want to understand?

Patanjali Keswani: So very-very good point. So here is my learning, earlier before we went public we used to track obviously project performance monthly and evaluate delays and the reasons for them. After we went public we built in a buffer of 2 months assuming that there would be some reason for delay which we cannot anticipate. However what happened as I explained to an earlier question was that it got delayed because our neighboring buildings started complaining about vibrations. Now when we went there but they were hardly there, so clearly there are many events that we cannot account for and these complaints are sometimes somewhat frivolous. But they have a huge impact in the time for development, so as I explained, they delayed it by 3 to 4 months; the basement construction which is incidentally being done by Shapoorji Pallonji. So going forward we decided that we don’t want to give shocks to our investors, so we have built in a further buffer and this anticipates certain delays. If those delays are reduced then we will open before November, if those delays are extended then maybe it will exceed November. So it’s very difficult for me to give a committed date. What I can give you is a committed date when the hotel will be ready. But the date when the government gives me approval is subject to factors beyond our control.

Aadesh Mehta: By what the date will this hotel be ready?

Patanjali Keswani: Let me put it simply. We have given Shapoorji a contract if I remember right for Rs 108 crore to build the shell. In my last meeting with them I said, they said they will take 27 months to build the shell and we of course will start finishing the hotel in terms of interiors and services alongside. So, this November really implies that we hope to finish this hotel by somewhere in the end of July-August. We have assumed 3-4 months approvals.

Aadesh Mehta: 3-4 months of approval is what we are factored in.

Patanjali Keswani: I have told Shapoorji that I will give them an incentive. If instead of 27 months, they give me this hotel in 24 months, so as you can imagine the incentive is significant enough that they have put a lot more people, so November as an outer date. I’m speaking from current knowledge and if we are lucky it would be 3 to 4 months earlier.

Aadesh Mehta: We notice a similar trend in your managed hotels as well where most of the properties if I compare the dates which you had given out in the DRHP versus in the latest investor presentation, there have been on an average around 4 to 9-month delays.

Patanjali Keswani: One reason for delay is the same one I told you. What I am facing obviously they are facing but another reason is that many of these are individual owners and if their main business goes through a cash flow crunch then their ability to fund these hotels gets delayed. So, we go with the scheduled way and work with their architects, we charge technical fees but if there is a delay in payments by two contractors and so on then obviously their project also gets delayed.
Aadesh Mehta: Any assessment how many of these hotels would be exposed to the second risk we have highlighted?

Patanjali Keswani: Of payment terms?

Aadesh Mehta: Yeah in management contracts?

Patanjali Keswani: I would reckon that of the delays that you are saying which is 4-5-6-7-8-9-10-11 months, I would say at least half.

Aadesh Mehta: At least half of the delays are due to the second reason.

Moderator: The next question is from the line of Roshan Paunikar from JM Financial.

Roshan: Basically we are currently incrementally seeing that brand owners are adopting asset light strategy to grow. We also plan to grow significantly through this strategy. So, my question is with the increase in competition are we seeing a squeeze in terms of the management fees or is there any risk emerging to the growth?

Patanjali Keswani: Absolutely not. I will tell you what is happening in our case, just as an overview of management contracts in India. There are two types of management contracts. The large global chains, the management contracts which they tie up with owners of hotels are very solid and the likelihood of the owner exiting the contract unless it is under some specific defined default is very-very dim. Therefore, when a Marriott for example signs a management contract, you can safely DCF their management fees up to the end of the contract which may be 15 or 20 or 25 years. Unfortunately for whatever reasons in India in the last 15 years there has been a slight change in this and many operators are now signing contracts which can be terminated at will literally or at will by asset owners. We were very clear when we started Carnation that the quality of our management contracts would be ironclad and you could not easily terminate us because we would put in a lot of effort to build the hotel’s demand and obviously, we want a fair share of return to do so. What affects us is not actually competition as much as our insistence on adherence to this management contract. We are very clear when we sign a 10-15-20 year management contract. Then line of sight of fees from there should be with very-very low risk in terms of discount. So that will affect us but not the competition. Frankly, we have made a rough estimate, we have another 20 management contracts under consideration as we speak, so while Carnation will cross—already I think 26 hotels it will cross—over 50 hotels in current pipeline in the next 2.5-3 years. We are hopeful that we will hit 100 in 3 years. So that gives you an idea of our expectations and by the way most owners are also recommending us because we do manage and surprisingly do a relatively decent job.

Moderator: The next question is from the line of Himanshu Shah from HDFC Securities.

Himanshu Shah: There is slight increase in our debtor days and absolute debtor amounts, anything specific over here?

Patanjali Keswani: Yes, I will answer that. It’s a question we have been also looking at. Sometimes it’s a question of who owes you what? So, our days sales outstanding at the end of FY18 was only 40 days and in FY19 it went up to 55. There were number of reasons. Some of our smaller credit accounts were going through a cash crunch, so they requested us to give them a month more. Some of the very large clients that we had for their own reasons did not pay us on time as per agreed contract
terms. But I’m happy to tell you that many of them did pay us in April and May and now we are down as of today, our day sales outstanding is down to FY18 levels, it’s about 43 days and we are pretty confident we will bring it down to under 40 days before the end of H1.

Himanshu Shah  Just the timing issue, nothing to worry on that front.

Patanjali Keswani  Everything is linked to the slow down. There is a very clear slowdown and I am hopeful that we are going to come out of it but certain consumption sectors are where we have clients like in the Auto sector and so on. There has been some level of stress and therefore some deferment of payment to us.

Himanshu Shah  What has been this deferred tax reversal related to? I probably foresee this has happened for the first time; I am not able to recall. The tax reversal that has taken place of Rs. 33 crore?

Patanjali Keswani  I was very pleasantly surprised to see it myself. The reversal is our past tax that we paid but because we had made losses if you remember about 3-4 years ago, we were playing a very conservative role in reversing it so I will leave it to Kapil now to answer.

Kapil Sharma  Himanshu, actually we followed a conservative policy because this credit which is coming in this quarter and also reflected in the financial year performance is relating to the MAT credit entitlement. The MAT is adjusted with the regular tax and regular tax is dependent on the positive and volume of profit which is leading to the regular tax liability. In the past we took a conservative call and we said that we will not recognize this credit till we have the continuous performance on the positive PAT. So for the last 6 quarters we have positive PAT and now our auditor also suggested that since you have continuous and sustainable performance on that front now you should recognize this MAT entitlement and which can be further going forward adjusted against the regular tax liability. That was the reason for that.

Himanshu Shah  So fair to assume Kapil that we will have cash benefits when we adjust this deferred tax in the future quarters and future years, basically?

Kapil Sharma  Absolutely because this is not a book entry this is the real cash which is available. Part of it is in this year and then going forward further.

Patanjali Keswani  We will keep getting this benefit but if I summarize Himanshu if you look at our Q4 waterfall as I told you, our same hotels PAT, remember we look at cash profits so in that sense it was Rs 60 crore but our PAT was 10 crore. Then we got other income of Rs 2.6 crore, then we lost money in Dehradun and Pune of Rs 2.6 crore. The deferred tax was positive Rs 24.5 crore, then our funding of Hamstede Living Private Limited was negative Rs 0.6 crore. So, you add it all together that is the breakdown of that Rs 33.7 crore of PAT that we reported this year.

Himanshu Shah  Just on Aurika, what is the additional offering that we are providing to consumer above Lemon Tree Premier or is it just positioning at a slightly higher level with a differential ARR or is there any additional benefits that goes to the consumer?

Patanjali Keswani  Let me put it this way to you the way Aurika is run. The entire team is the highest possible quality today in India and our intention is very simple. We have produced a product at not a significantly higher cost which is much superior to Lemon Tree Premier. In fact, if any of you have time, I will call an analyst meeting in Mumbai
when you should see our new Lemon Tree Premier in Mumbai. This is our new generation hotel, Mumbai and Pune which is the new LTP. This will give you an idea of the direction we are moving. Our intention is very simple and I am going a little again off the topic. The new Lemon Tree premier is a class pact and you have to see the Pune hotel and the Mumbai hotel to understand the difference between the old LTPs and the new LTPs and we have done this with hardly any cost increase so it’s a completely redesigned product. Aurika in my opinion is two steps above, two notches above the new Lemon Tree Premier. We have also added this without a significant cost increase but what we are focusing on is extraordinary levels of service, so if I broadly say what is this product, it’s an upscale product with upper upscale, super levels of service and to answer your point our expectation is a minimum increase in ARR of 50% over any Lemon Tree Premier in that city. So Aurika for example in Udaipur will open at about Rs 12,000-14,000. We have already got a bunch of bookings which is as you can see, actually 3 times our ARR or 2.5 times our ARR. Mumbai, we expect to open at a little under Rs. 7,000 and they will stabilize this year within one of operation. So, obviously the first 6 months which is in this financial year may not be Rs 7,000 but I can promise you that next year will do over 80% occupancy at Rs.7000 in Mumbai and Aurika, Mumbai should have a 50% premium on that with 670 rooms.

**Moderator**

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

**Amit Agarwal**

My question relates to your exposure to Jet Airways as of now and is it possible to get the money back?

**Patanjali Keswani**

We follow a conservative policy as far as exposure. Our track record is that in the last 15 years our total write down has been very-very minimal. This year for good governance we are providing for our Jet exposure, by the way it is relatively very-low because we managed to extract most of it before the airline shutdown but right now it would be about Rs 1.5 crore and we are going to give it another 6 months. We have provisioned part of it this year and we are going to give it 6 months more before we take a final call on how we are going to treat it because there is some chance that the airline will be revived. Now that there is a stable government it appears that large credible groups like Hindujas looking at it. Etihad is somewhat involved, so while we have provided for it and which we can always write-back we will evaluate this by end of Q3 this year. That's a time we have given ourselves with the auditors.

**Amit Agarwal**

What was the exposure in April when this airline stopped flying?

**Patanjali Keswani**

Rs. 3.5 crore.

**Amit Agarwal**

Total Rs 3.5 crore is it?

**Patanjali Keswani**

No, we collected about Rs 2 crore and now it’s down to about Rs 1.5 crore.

**Moderator**

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

**Sumant Kumar**

My question is regarding Aurika, so can you talk about how the cost difference of Aurika is compared to Lemon Tree Premier?

**Patanjali Keswani**

Let me put it in a slightly different perspective; typically our project cost is in a Rs 100 crore investment say on an aggregate basis you can assume Rs 30 crore is the land cost and Rs 70 crore is the project cost which is why if you take 6% our
depreciation is roughly 4.2% on the total project cost which is the cash shield I keep reminding you gentlemen and ladies about. Now in Aurika's case the land cost remains Rs 30 crore, that Rs 70 crore become another Rs 15-25 crore depending on what we are doing specifically. So Udaipur will be a higher cost per room than say Mumbai International Airport because we are making it very ethnic kind of hotel. To broadly answer that Rs 70 crore goes up by 30%-35%-40%. The land cost effectively remains the same per room. So that aggregates it down to a 20%-25% increase in cost but our expectation is that the ARR will be a minimum 50% higher at the same occupancy really what it means with its doubled the EBITDA for 30% more of the cost.

Sumant Kumar  
ARR will be 50% higher?

Patanjali Keswani  
Minimum, actually I’m leaving it to announce to you when I achieve it what it will be.

Sumant Kumar  
What will be the operational cost increase?

Patanjali Keswani  
Operational cost increase will be depending on whether it is in Udaipur or Mumbai. Mumbai will only be about a 10%, Udaipur probably be it 15-25% but keep one thing in mind cost is 50%, revenue is 100 so the revenue goes up, the ARR goes up by 50% revenue goes from 100 to 150 and cost goes up from 50 to 65-70.

Sumant Kumar  
The major difference comes for the employee or other operating expense?

Patanjali Keswani  
Frankly it is in all levels. It is the quality of employees we are putting there. It is the stores and supplies, the inclusions that we provide, the kind of menu that we provide which will require a higher level of food cost, the power and fuel expenses will be higher, everything will be higher. It will not be disproportionate to one cost element it will be across the board, even the bed sheet and the linen and so on.

Sumant Kumar  
What will be the F&B and room revenue breakup for this hotel?

Patanjali Keswani  
For Udaipur it will be higher, so normally across the board is roughly 75% room revenue and 25% other revenue, in this case it will probably be 65-35.

Sumant Kumar  
What will be the fixed cost, variable cost breakup for this hotel?

Patanjali Keswani  
What we do is we follow a very conservative principle, so every time we open a new hotel, we staff it as if it's half a hotel so our general managers are trained in this. So, if I am opening of 200 room hotel and in the first 6 months, I expect to do less than 50% occupancy then we staff it for 50% of the hotel. We also plan power and fuel and other expenses on that basis, so we try and minimize the fixed cost and try and maximize the variable cost which is difficult in this and as we see a ramp up in occupancies then we increase effectively you imagine we create capacity through hiring more staff. So, to give you a number when you look at Dehradun or Pune as an example our staffing is still 50% to 60% of the fully planned staffing but that's because now Pune is trending towards 50% occupancy and Dehradun which has hit 69%, I believe from 1st June we are increasing the staffing.

Moderator  
As there are no further questions, I now hand the conference over to the management for the closing comments.
Patanjali Keswani  
Thank you once again 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 of the discussions. Look forward to interacting with you soon.

Moderator  
Thank you. Ladies and gentlemen on behalf of Lemon Tree Hotels that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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