Moderator

Good Day, Ladies And Gentlemen and Welcome to the Q4 FY 2018 Earnings Conference Call of Lemon Tree Hotels. 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 Pujari from CDR India. Thank you and over to you, Sir!

Anoop Pujari

Thank You. Good Afternoon, Everyone and Thank You for joining us on the Q4 and FY 2018 Earnings Conference Call of Lemon Tree Hotels Limited. We have with us today Mr. Patanjali Keswani -- Chairman and Managing Director; and Mr. Kapil Sharma -- Chief Financial Officer of the company.

We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive Question-and-Answer Session.

Before we start, I would like to state that some statements made in today's conference call may be forward-looking in nature and a detailed statement in this regard is available in the results Presentation that was shared with you earlier.

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

Patanjali Keswani

Thank You. Good Afternoon, Everybody. Firstly, I must apologize that this is our first Earnings Conference Call, so it is going to be a bit of long statement by me. But I am trying to give you context. So I will start by saying on behalf of all my colleagues and Lemon Tree Hotels, I would like to extend a very warm welcome to all of you.

As you are aware, we have just completed our IPO which has received a fairly good response and it has provided liquidity to our existing shareholders and enhanced our visibility and brand image. And I would also like to take this opportunity to thank all our new investors for their faith in our company.

Now we have started a new chapter in our journey and are quite excited about the business prospects going forward and it would also be our endeavor to always maintain best practices in investor interactions.
Before I provide you an overview of the Financial Performance for FY2018, I would like to give you a brief introduction to Lemon Tree and our business model:

We currently have undisputed leadership in India’s mid-priced hotel sector which is really 2-star to 4-star, as we broadly understand it. And we are currently the largest hotel company in terms of ownership in this sector and the third largest overall in India in terms of owned and leased rooms. We currently operate about 5,000 rooms in 50 hotels across 32 cities in India, which is roughly a little under 10% of the mid-market which is about 53,000 rooms in India and mid-market itself constitutes about 40% of all branded rooms in India which is 125,000 as of FY 2018.

Now based on our understanding of Indian consumers, we have created three hotel brands to address the evolving nature of the middle-class Indian guest's needs. As you are probably aware looking at other consumption themes, the middle-class Indian consumer is rapidly evolving especially the younger Indian under the age of 40 with expanding disposable income and this category, we find is highly aspirational and actually reflects a very large percentage of our consumers. Over 82% of our guests are from this category.

So we created three brands – Lemon Tree Premier, which is really a 3.5-star to 4-star kind of hotel which targets what is called the upper mid-scale hotel segment. One step below that is Lemon Tree Hotels, which is basically targeted at the mid-scale hotel consumer and that is a 3-star hotel and one step below that is Red Fox which is our economy brand which is targeted at the price conscious Indian customer and is comparable to a 2-star hotel. Now our entire portfolio of these three proprietary brands, are very well differentiated and target distinctly different segments in the mid-priced hotel sector without overlap of brand dilution.

Over time we have to build end-to-end capabilities across the entire hotel value chain and therefore, we operate from land to guest, which means that we acquire land ourselves, we design hotels, we develop hotels, we own them, we manage them, and we brand/market them. So as I said we are perhaps the only end-to-end hotel company in India. We have currently had a portfolio of about 2,800 fully-owned rooms, about 500 rooms on long-term leases which are typically at least 30 years long and about 1,700 managed rooms as of 15th May 2018.

As I had mentioned earlier, we have a fully integrated project management company as a 100% subsidiary of us called Grey Fox which provides in-house project design, project management and project development capabilities to our group. What this helps do for us is it ensures quicker development to operationalization of our owned/leased assets and in fact, now this company has started to develop the design and develop hotels on behalf of third-party owners for hotels we intend to manage.

One of the key parts of our business model is we focus on easy replicability of our product designs and do fairly innovative space planning with very strict adherence to quality and finish. So this results in lower procurement cost for us and also allows us to pick a time to market because it expedites installation and fit-out time. The result of this has been that it has enabled us to have the lowest development cost per room in the industry, which is being corroborated by the HVS Survey for hotels developed between 2011 and 2015 which is the latest report and effectively our development cost per room in the 3.5-star/4-star category is Rs. 5.9 million compared to Rs. 7.2 million for the industry average in India. Similarly, in the 3-star category we are Rs. 5 million versus Rs. 5.6 million in the category and in budget, however, we have made a point to be a little well, let us put it this way it is a very
fragmented space so our cost per room is Rs. 4.5 million versus Rs. 3.5 million in the India average because we have a slightly more premium look, feel and we have also ensured much more product coherence than existing players in this segment. Now our location, services and pricing policy are geared towards offering a value for money proposition to our guests which in India drives an occupancy premium for our hotels across all the segments where we operate. Now, not only do we have higher occupancy, we also have a higher average daily rate. So put together it has led to much higher revenue per available room compared to these branded industry segments in India. As per the Federation of Hotels and Restaurant Association of India report for 2017, we command a premium, a revenue premium per available room of 10% in the 3.5-star/4-star category which is upper midscale where we compete mostly with international brands and we have a 50% premium in the mid-scale category where we compete with domestic brands and 30% in the economy segment where of course, the brands are all sub-scale and very often operate with below minimum quality staff and so on. So it is a very fragmented space.

Our sales, marketing, revenue management and customer relationship teams have worked very hard to increase our hotel occupancies, leveraging our loyalty program, Lemon Tree Smiles. Now interestingly, this loyalty program was launched by us less than three years ago and today has an active and highly engaged members database of over 7.5 lakh guests. This access to these guests which constitutes in my rough estimate of about 3% to 4% of the consumers, hotel rooms in India enables us to stabilize new hotels very fast.

Now, one of the key focus areas for Lemon Tree is operating cost. And as a percentage of revenue, we are very much lower than industry peers in each segment we operate in. For example, our business model ensures that our staff per room is much-much lower when compared to an average hotel in these categories. So if you look at it across India our staff per room is 30% lower in the upper midscale category 25% lower in the mid-scale category and 35% lower in the economy segment. In FY 2017, this played out as follows: our operating cost per room stood at 57%/58%/57%, so about 57% to 58% of our revenue in all the three segments we operate whereas the industry average across India was 67%, 71% and 74%. So clearly 10% to 15% higher in revenue terms than our cost structure. This has been achieved in our case without compromising on our service delivery or customer satisfaction because this is highlighted for example if you look at the Trip Advisor Certificates of Excellence given in India, 24 of our eligible 33 hotels had that and also, of course, this is substantiated by the occupancy premium we command. Our low-cost structure has also helped us of course during challenging periods which as you might be aware has been in the last 7 years to 8 years in India and going forward with the expected future increase on hotel rates because of very high operating leverage will help drive profitability significantly.

As a company, we have also instituted an inclusive culture and undertaken many sustainability initiatives. For example, all our hotels are built-to-Gold LEED standards and we are also India’s largest employers for people with disability. So we have focused on opportunity-deprived Indians. Not only does this include Indians with physical and mental disabilities, we have about 500 of them in our company, we also target specifically educationally, economically and socially marginalized sections of Indian society. So we have another 500-odd people who are educationally illiterate in Lemon Tree but have been made functionally literate by the company. So such individuals put together as I said number about 1,000 people which is about 18% of our current workforce, we have about 5,500 employees today and we believe that these initiatives lead to a very engaged and committed workforce and helps build our brand visibility with our customers.
We have been ranked among the best companies to work for in India every year since inception from 2011 to 2017 by the annual survey of the Great Place to Work Institute with The Economic Times. For example, last year where the results have been declared, we were ranked the Fourth Best Company to Work for in India and were the only hotel company in the Top 10. This year, we have just been awarded the 12th Best Company to Work for in Asia. Further, our top management team has many decades of experience in the hospitality industry and have a fairly successful track record of improving hotel performance across all relevant parameters.

One other aspect of our business model which I would like to place before you, is our capital recycling/deployment strategy which has enabled us to maintain a fairly strong balance sheet with very low debt-to-equity ratios across the market cycle. So those of you who have looked at our prospectus will notice that our debt-to-equity across the bottom of the cycle was generally 0.5:1 or loan to value of about 33%. This was very deliberately done by us because, at the bottom of the cycle, risk mitigation of debt is the key factor to manage in a business like ours.

Another interesting thing we managed was in 2012 Lemon Tree formed a joint venture with APG, which is the world’s third-largest pension fund manager. It is Dutch pension fund. It currently manages a little under $0.5 trillion of assets. And what we did here was we contributed certain completed and operational properties into an asset joint venture with APG which is called Fleur Hotels. So, we took a 60% stake in this joint venture with APG taking a 40% stake. When we moved these assets into this joint venture APG matched this with a very large capital infusion which was then used by us to develop new hotels in a relatively risk-free fashion. This structure, therefore, enabled us to leverage our development and operating expertise and in the process earn development and management fees from these new hotels. What we find is this model is highly capital efficient and going forward in future will also help us in monetizing our fully and partially owned hotels which will play-in with our future strategy of going asset light.

Further, we have also in 2012 started a new company called Carnation Hotels in a joint venture with Rattan Keswani, he is not related to me, who was the former President of Trident Hotels and those of you who are in Bombay (Mumbai) would know him as the Senior Vice President of Oberoi Hotels in Bombay (Mumbai) earlier. So, this company Carnation is focusing on asset-light management contracts with third-party owners which enables us to provide quality management and branding to these people and it enables us to obviously get fee revenues, pricing and cost synergies as well as extension of our network and brand presence across geographies in India.

Now with this overview, I would like to move to our financial and operating performance for FY18:

Total income was up by about 17% year-on-year to Rs. 4,921 million as compared to Rs. 4,203 million in FY17. More importantly in Q4 FY18, revenue grew by 24% as compared to Q4 FY17. Our average daily rate increased by 13% year-on-year to Rs. 3,896 compared to Rs. 3,449 in FY17 driven by the price hike we undertook in H2 FY18. My expectation is that we undertake such or even larger price hikes to play out in the coming three years to five years.

Occupancies in our company have remained high at 76% in FY18 as compared to 77% in FY17. This has led to RevPAR or revenue per available room growth of about 12% year-on-year in FY18.
EBITDA improved 16% year-on-year to Rs. 1,440 million in FY18. However, for same hotels operating in FY17 and FY18 which are obviously not new hotels, the EBITDA margins improved by 250 bps from 29.7% to 32.2% year-on-year.

In Q4 FY18, EBITDA grew by 55% and EBITDA margins improved by 620 bps versus Q4 FY17. For same hotels, EBITDA margins improved by 970 bps in Q4 FY18 versus Q4 FY17 and part of this was due to some extra income that we got in Q4 which I will explain later.

Now to provide better clarity because in India I think there have been very few listed companies in the hotel space, we have also broken down our operational hotels by age to enable like-to-like comparison. Basically, we have divided our hotels into three subsets which is what we call Adult Hotels – more than 3 years old and therefore somewhat stable in performance. Toddler Hotels, those that are stabilizing, are relatively young from 1 year to 3 years old and Infant Hotels which are less than 1 year old. Infant Hotels typically are those hotels like we opened 4 of them last year. They typically take more than a year to stabilize and in the first year obviously, they either achieve breakeven or even have negative EBITDAs and therefore, in that sense on a weighted average basis deplete the company's performance till they stabilize. We added four such hotels last year.

Now we have significant operating leverage as we expect incremental revenues to come from our existing hotels with stabilizinglow-cost structures which result in fairly robust cash flow generation and we anticipate this will be used to repay debt and/or reinvest in the business going forward.

Profit after tax for FY18 stood at Rs. 145 million as compared to a loss of Rs. 51 million in FY17. Profit after tax for Q4 FY18 stood at Rs. 117 million as compared to a loss of Rs. 22 million in Q4 FY 2017. Now the most important metric for our business is not PAT as much as cash profit, cash profit being PAT plus depreciation. There are two reasons for this: First is I want to emphasize that cash profit is most important because hotels are appreciating assets, they do not depreciate overtime and therefore, depreciation as a replacement reserve is really not used and in Lemon Tree’s case over the last seven years, if you look at how we have used this replacement reserve of depreciation, less than 10% of this depreciation that we apply to our assets actually goes back towards asset upgrades and replacement. The balance 90% is actually cash on our books. So cash profit in our system stood at Rs. 672 million in FY18 as compared to Rs. 460 million in FY17, which was an increase of 46%.

Our balance sheet position today continues to be fairly strong. Our recent IPO as you may know only comprised an offer for sale of about 195.8 million shares by some of our existing shareholders. There was no fresh issue or primary capital raised. The net worth stood at Rs. 12,435 million as on 31stMarch, 2018 as compared to Rs. 12,370 million as of 31stMarch, 2017. Total debt-to-equity today in our system stands at 0.81.

During this year we have opened 1,172 rooms which is 161% year-on-year increase over additions in FY17. As of May 2018, active development pipeline in our system comprises of 1,525 owned/leased rooms and 1,671 rooms under management contracts. Of these, about 870 owned/lease rooms and about 790 managed rooms totaling about 1,660 rooms will be operational in the next 12 months taking our total inventory to about 6,612 rooms in 66 hotels across 44 cities by May 2019. The remaining hotels and rooms will be operationalized by FY21. So basically, assuming we add not a single hotel to own/lease/managed pipeline as of the end of FY21, we will be operating 78 hotels with 8,152 rooms across 54 cities.
This will give us a little over 10% of India’s then mid-market supply which as I had mentioned earlier to you is highly fragmented.

The project cost of the current pipeline is roughly Rs. 17,250 million. Of this, a little over 50% which is Rs. 8,680 million has already been deployed by 31st March, 2018. Our balance investment of Rs. 8,570 million will be more than 50% funded through internal accruals and deployed in a phased manner over the next three years.

The hotel industry today is at an inflection point with greatly improving fundamentals on the back of growth and domestic travel volumes and I expect this to continue with increasing urbanization, higher disposable incomes and these changing aspirations of the consuming Indian middle class. We intend to continue to build and leverage our scale which we think will create higher barriers to entry due to our strong position in the 10 key micro markets of India.

We are well-positioned to capitalize on this enormous domestic consumption-led growth opportunity as we will continue to expand our geographical presence and gain market share in both underserved and demand dense regions across India.

As I had mentioned to you, we have a very solid pipeline of owned, leased and managed hotels, which incidentally is 65% incremental to our current portfolio and all of these will be operational over the next 3 years.

Management agreements which we are aggressively focusing on will enable us to diversify our sources of revenue, distribute our cost source more cheaply and provide career development opportunities to our employees and of course, more than anything else they enable us to monetize our brands and our management team while minimizing investment. We also intend to continue using our asset monetization strategy of these 8,000 odd rooms that will be operational by FY21 close to 5,000 are owned/leased. And we intend to use our asset monetization strategy to generate further capital from select investors with aligned long-term expectations in order to fund both organic and inorganic growth opportunities and expand/redevelop our owned hotels and of course, reduce debt.

Our pan India geographical presence now across key micro-markets, our diversified brand portfolio, and our value for money proposition and low-cost structure, we feel will help sustain our EBITDAR premium. About 60% of our current inventory which is operational today has been added on the last five years during the down-cycle for the hotel industry. And as the cycle now starts finally to turn in favor of supply, we expect significant operating leverage to play out and drive very strong free cash flows in the coming 3 years to 5 years.

Furthermore, blended ARRs are also expected to improve over the next few years due to two reasons – the highest demand-supply mismatch will be seen in the mid-priced hotel sector and this, in my opinion, should lead to sustained price hikes. And the second point is that our planned operationalization of new inventory that we are opening is mostly in very high rate and high occupancy markets like Bombay, Udaipur, and Pune.

I now come to the end of my opening remarks and I would now like to ask the moderator to open the line for Q&A. Thank you.

**Moderator**

Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
Saurabh Kumar: Sir, just on your debt, so where do you think your debt peaks out and by when it should peak-out?

Patanjali Keswani: So right now we have about Rs. 1,000 crore of debt, it will peak to Rs. 1,300 crore in the next 12 months and then based on our fairly conservative projections, we expect that going forward over the next five years we will pay off all the debt in our company. So, we have 2 deployment strategies – 1 is the expected free cash flows in our company, we need about Rs. 8,500 million to complete all the projects in our pipeline. More than 50% of this money will come through internal accruals. But if you look at our free cash flows we will have enough cash generation to pay off this debt by our guess is by FY23, latest FY24.

Saurabh Kumar: Okay. And this includes Rs. 350 crore or Rs. 400 crore odd CAPEX for the Bombay (Mumbai) Hotel that one next to Sahara?

Patanjali Keswani: No, we have two hotels in Bombay (Mumbai). Now, Bombay (Mumbai) is the deepest and most demand dense market in India. Our first hotel which is 100% owned by Lemon Tree which is 300 rooms will open in the next 6 months. The second hotel which may have approx 677 rooms though we have reflected as 577 rooms, this will open by FY 2021 and will be mostly funded through internal accruals.

Saurabh Kumar: And you have started work on this?

Patanjali Keswani: That is correct both hotels but the first one will be ready in six months.

Saurabh Kumar: Okay. And just another question on this hotel level EBITDAR that you have given so Lemon Tree has had some dip in hotel-level EBITDAR why should that happen? So I am looking at Slide #16 of your Presentation.

Patanjali Keswani: Okay, that is EBITDAR per room. This is because we opened new supply last year if you compare this with the next slide which is Slide #17, you will find that we opened four hotels which are less than 1-year-old which is on the extreme right column. So these hotels had very low EBITDAR bringing the weighted average down.

Saurabh Kumar: That is the only thing which explains this 0.6 to 0.51 or?

Patanjali Keswani: That is correct.

Saurabh Kumar: Okay.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: Sir, so I was just asking, currently, we own around 3,200 rooms and from what I understand we have planned some 1,600 rooms on that particular base in next 2 years. So, when is the major part of the depreciation of these 1,600 rooms going to hit us over a period and so what is going to be the incremental interest and depreciation part? Will there be again a situation where we go into temporary P&L losses going forward in next two years?

Patanjali Keswani: Okay. So, let me give you a small preamble first then I will answer your point exactly. See, the revenue growth in Lemon Tree will be led by 2 key factors –
1) Expansion in owned/lease capacity by over 30% for example in the next 1 year in key very high demand and high average daily rate markets like Mumbai and Udaipur. So if you look at it when it stabilizes these hotels what we are adding this year will add an incremental revenue to Lemon Tree of a little over 40%. Add to it price hikes. So last year we achieved a price hike of 13% year-on-year and 16% in fact in Q4. So you can do your own calculations as to what will be our likely revenue growth. If you look at our expenses growth over same hotels in say for the last 3 years, the average growth in expenses has been 4.5% per room which translates to actually 2.5% in terms of revenue. So we are looking at revenue growth which in capacity alone is over 30% then add to that price hikes and remove expense growth at 2.5% of revenue. We also expect that our occupancy will continue to remain over 75% as it has been stable over the last three years. Now, what does this mean? Whenever you open a new hotel as you very rightly said, depreciation really in our business is 4.1% of capital deployed on a weighted average basis. So, after hotel-level EBITDA we have 4 expenses – #1. Lease rentals which are not significant. #2. Corporate office expenses, so if you look at Lemon Tree in FY 2014 as an example more than half of current hotels had not been opened. So the corporate office expense were 9% roughly of the operating capital deployed of the company excluding capital work in progress and interest cost were roughly 4%. So you add the three key cost below the line after hotel-level EBITDAR and I am removing lease/rentals for the moment, you had 4% depreciation, 9% corporate expenses, and 4% interest which was 17%. So obviously for 4 years it was PAT negative and 2 years cash profit negative, but our total cash negative was only Rs. 200 million in the two worst year when we opened the maximum number of hotels. Going forward, if you look at our corporate expenses they are today less than 5% of our capital deployed and when you look at the hotels we are adding in our joint venture Fleur with APG and our asset-light Carnation Hotels, we bill our corporate office expenses to these new hotels. So we expect by FY21 corporate office expenses below the line will be zero. So the only expenses that will actually apply below the line in the next two years will be depreciation which is 4.1% and interest which we expect which is currently at about 3.3% of capital deployed. So to answer your question as far as cash profit goes, we just need to have a return on capital in access of 4.1%. As far as PAT goes we need to have a return on capital on a blended average basis below about 8%.

Pavan Kumar
And generally what has been your experience that whenever new hotel gets opened how much time does it take for it to say reach a respectable occupancy level of some 60% - 70%? And what is generally the breakeven level for your new hotel?

Patanjali Keswani
Okay. So, let us go back for a minute, it depends on fundamentally the micro market where you are opening your hotel and the state of the hotel economy at that time. Now, if you look at the last 9 years in India from global financial crises going forward 8 years the hotel industry in India was in severe trauma because there was a massive supply overhang which was much larger than the rate of growth of demand. So demand grew in the last 10 years by about 12% a year whereas supply grew in access of that. But last two years, the demand-supply imbalance has been resolved and going forward all reports indicate that demand will continue to grow at 12% whereas supply is slowing down to about 7%. In specific markets where we open hotels, we typically find that based on the market conditions, it takes anywhere from 3 months to 12 months for us to achieve EBITDA breakeven and 6 months to 18 months for us to also service interest. So going forward, based on market conditions improving as they are very clearly, we expect that our cash breakeven including interest will be achieved typically in 6 months after the opening our hotels.
Pavan Kumar: So if I understood it right, so you are essentially saying there is an investment phase ahead next 1 year - 2 years but we should look for better times maybe somewhere in mid from FY 2020 onwards.

Patanjali Keswani: Not true. We are opening 850 rooms in very attractive markets this year and we expect all these hotels will be operational and cash positive in FY19.

Pavan Kumar: Okay, sir. Fine. And how many rooms do we plan to add in FY19, sir?

Patanjali Keswani: About 1,700 rooms of which about 870 are owned by us and 790 are managed by us.

Pavan Kumar: Okay. And next half of that 1,700 rooms will come in FY20, right?


Pavan Kumar: FY21, not FY20?

Patanjali Keswani: Not FY20 because it is mainly 671 room hotel in Bombay (Mumbai) next to the Hyatt / the ITC at the Airport.

Pavan Kumar: That is going to be an owned hotel?

Patanjali Keswani: That is correct. It will be owned by the joint venture of Fleur.

Moderator: Thank you. The next question is from the line of Jatin Naik from ICICI Mutual Fund. Please go ahead.

Jatin Naik: I had 2 related questions actually. One is that how challenging is it for you to go ahead with the kind of ARR hike that you are talking about in mid-segment category which is a much more price sensitive market? And second was that you know how dependent is ARR growth for the mid-segment category on the ARR growth taken by a luxury or an upscale category?

Patanjali Keswani: So basically, they are all interlinked. So to answer your first point, as I am sure many of you know I worked for 10 years in Taj, I was their Chief Operating Officer 20 years ago and what I discovered was a very interesting phenomenon, which is in the last 20 years the big shift I find happening in India which is mirroring the shift that started in China in 1990, the shift from staying with friends and family and unbranded small guest houses and hotels towards branded mid-market hotels. So this was first seen in China in the 1990s and continued even to-date and this has started relatively late in India. More clearly in the last 8 years to 9 years and that correlation can be seen with the rate of growth of airline traffic for example. So the industry study undertaken by Horwath which is HTL which is the world’s largest and most successful hotel consulting company for India indicates that demand for mid-market hotel rooms is growing at the rate of 19% a year for the last 5 years and will continue at that rate for the next 5 years. What does this mean? The mid-market consumer in India I agree with you is price sensitive but is fundamentally driven by an aspirational change to stay in mid-market hotel, a branded hotel and is value for money focused. I would not say he is purely price driven, he is driven by value for money. What we find is that the hotel industry in the last 8 years was not increasing prices but if you look at last year my guess is that at least 50% of the hotels in India have increased their prices. It is true you cannot have enormous increases in prices until and unless the hotel sector decides to raise prices. But
12% to 13% even 14% price hike is quite possible, and we found in our case when we did so last year which was a little counter-market because the rest of India did not increase prices, it strangely did not affect our occupancy, so it has given us the confidence to say that we will continue with this price increase strategy and more importantly the demand-supply cycle is now changing in favor of hotels. I will give you an interest anecdote. In 2004, we opened our first hotel in Udyog Vihar, Gurgaon next to us was the Trident Hotel in Gurgaon. We opened roughly at the same time. So in 2004, Lemon Tree was priced at Rs. 2,000; the Trident was priced at Rs. 5,000. Four years later Lemon Tree’s price was Rs. 9,000 and Trident was Rs. 25,000 both have increased their prices 5x, that is what happens as the cycle conditions changed. Today of course, the Trident is down 60% to Rs. 10,000 - Rs. 11,000 and we are down 60% to Rs. 3,600. But I anticipate that in the next year or two demand-supply imbalances will lead to fairly significant price hikes by the hotel industry not necessarily on the Lemon Tree across India but that is a forward view.

Moderator

Thank you. The next question is from the line of Vikas Ahuja. Please go ahead.

Vikas Ahuja

I am just trying to understand in terms of the total bookings, how much of the room booking done through OTAs compare to other direct channels? Also, what kind of commissions we pay them? And also, if you can help us understand the customer profile as well, how many bookings were corporate bookings versus leisure and all that would be helpful? Thank you.

Patanjali Keswani

So, if you look at us in FY18 roughly one-third of our bookings come from large corporates which means people who have pricing power, who have the ability to give you a lot of demand and expects a good price in exchange. So, this could be for an example one of our large customers as an example is Infosys or Wipro or Tata’s so one-third of our business comes from large corporates and typically the price changes once a year either on 1stOctober or 1stJanuary and these are called RFP or request for proposal accounts. Another one-third of our business, which was very little in fact 5 years ago, comes from medium, small and micro enterprises. This sector is I think you are aware about 30% of India’s GDP, it has been formalized by the GST and this is a very large consumer of hotel rooms now, but these people have very limited pricing power because they typically will buy rooms in 2 hotels or 3 hotels at most and this comprises one-third of our market half of them have annual contracts with us and half actually just book directly with us through our call center or our website. The remaining one-third are direct Indian bookings, this is what we call internally the middle-class consumer, these people typically book either through our website or through our call center or through online travel agents or through offline travel agents. Of this one-third, about 27% of this, 33% is online which is very high for India, of this 27%, roughly 20% is online travel agents and 7% is our direct website bookings. Another 7% is through our in-house call center. The 20% online travel agent bookings that we get have commissions wearing anyway from 15% to 20%. But conversely, the rate is also at least 1.3x to 1.5x than our average daily rate. So on a net-net basis, they are still accretive to our system.

Moderator

Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah

Can you give me the break-up of your revenue between room rentals, F&B and others?

Patanjali Keswani

Okay. So, if you look at a normal 5-star hotel in India 55% of the revenues is from rooms 35% is from F&B and 10% is from other income - 55%, 35%, 10%. In Lemon
Tree, it is 73%, 18%, and 9%. There is a reason for this, when you own assets, the highest operating leverage is achieved by the sale of rooms, so we are a very rooms focused company, we feel long-term the hotel industry will not be able to successfully compete with the restaurant industry and they will always get better talent than hotel companies will. So our view was very simple that we would treat food and beverage and other revenue as actually in some ways a means to drive traffic into our rooms, because incremental operating leverage when you sell a room I mean the contribution is 90% - 95%. So obviously we are most focused on it, I will give you an example that if a guest comes to my Delhi hotel and stays for 3 nights at Rs. 6,000. In the Rs. 18,000 income he gives me I make Rs. 17,000 whereas if 100 guys come and eat in my restaurant at Rs. 1,000 each and give me Rs. 1 lakh income I will make less than Rs. 15,000. So obviously it is easier for me to sell 1 room for 3 nights then cater to 100 guests who come and eat in my restaurants.

Keyur Shah: Okay, great. And sir, your ADR includes F&B revenue just well or just purely room revenue?

Patanjali Keswani: It is pure room revenue.

Keyur Shah: And you were going to mention a comment about other income which I guess you missed.

Patanjali Keswani: Yes. So what happened was that I would like to explain it because I do not want to the way it is it should not mislead anybody. I would like actually to drive your attention to two points one is this which is the extra income we have achieved. So you see we had booked a hotel a few years ago in Jaipur which the developer was unable to return to us. So one of the things he had to do was return Rs. 6 crore to us for interest for 2 years FY17 and FY18 and this Rs. 6 crore came into our system both in FY17 and FY18. And in fact, in FY19, he has to pay us approximately Rs. 10 crore, which is the balance amount pending. So this is part of the other income which is reflected in our results but they cancel each other out versus FY17 and FY18. And they will continue in FY19 also, it will be about Rs. 10 crore.

Keyur Shah: Okay. And no further payment after that?

Patanjali Keswani: No, further payment. It is all interest he has to pay to us.

Moderator: Thank you. Next question is from the line of Himanshu Shah from HDFC Securities. Please go ahead.

Himanshu Shah: Sir, just going to your slide number #17, in toddler hotels the ADR has fallen year-on-year despite an increase in occupancy rate anything specific over here, sir?

Patanjali Keswani: Okay. So we are talking slide #17 well, the reason we deliberately put this slide is we wanted to help explain performance across the three buckets that we operate in. So the adult hotels which are the ones over 3 years old, the average daily rate went up from Rs. 3,411 in FY17 to Rs. 3,900 in FY18. It did not come down.

Himanshu Shah: Sir, I am talking about toddler hotels.

Patanjali Keswani: Toddler. Yes, toddler hotel this is you see when you open a hotel, you are not sure of the price, you do an estimate of pricing, so overtime you do price discovery that is what price can you maximize your revenue per available room. You will notice
that we increased our occupancy by 10 percentage points from FY17 to FY18, it necessitated obviously revisiting some of the prices we had offered to some of our customers which is why there is marginal 0.5% fall in average daily rate. But overall it has led to an increase in hotel EBITDAR per room as you can see it has grown by over 50% from FY17 to FY18 and this is because these hotels are now stabilizing and very shortly they will move into adult hotel category. The key point I would like to draw your attention to is in a down cycle if you look at our three buckets. New hotel has given us only Rs. 1.5 lakh EBITDA per room, toddler hotel gives us close to Rs. 5 lakh per room and a stable hotel is close to Rs. 7 lakh a room. Now, what I guess we have to really consider when all our hotels are open, how will they move from right to left from infant to toddler to adults? And that will give you a flavor of how our earnings per room will increase? Number 2 is that this is down cycling results which means the market has not yet really gone for a major re-pricing of hotel rooms. As I said, my expectation is that in the next year or two the hotel industry across India will re-price not only specific players like us. So, in that case, the hotel level EBITDAR per room across adult, toddler and infant hotels will also see a significant hike. To give you an example in the good years the last up cycle in FY06-08, our EBITDA per room was Rs. 15 lakhs to 17 lakhs.

Himanshu Shah

Okay, sir. Fine, sir, this was helpful. Sir, secondly, if you can just provide some overview on management contracts how should we look at over next 3 years to 5 years their contribution in overall revenues has increased to around 3% from 1.5%. How do management contracts operate and where should we see it in 3 years to 5 years’ time frame?

Patanjali Keswani

Okay. So there are multiple reasons why management contracts are sensible in our case but I think the point to note is that typically, globally when you run a hotel, when you manage and brand a hotel. So let me go back for a minute... The hotel business is 4 parts: development of hotels, ownership of hotels, management of hotels and branding of hotels. Now if you look at ROCE in India, if you can develop hotels and then raise third-party capital your ROCE in development because you are taking development risk in India which is quite high compared to the rest of the world. The ROCE of development of hotels is 40%. Ownership of hotel typically, hotel asset owner looks for anywhere between 5-8% cash yield because he gets non-cash capital appreciation of 6-8% on an annualized basis. Management of hotels typically give the ROCE of 25% on scale and branding of hotels what is called franchised globally gives a return in access of 100% ROCE. So obviously, the most profitable part of the business is not owning assets, it is developing asset then finding somebody to buy it like we did with APG and it is managing and selling hotels. The point is that these businesses make sense only at scale. So if you are managing 30 hotels in India actually you are minnow as far as this business goes because your earnings will be in a few crore that is it. Which is why many hotels companies in India in the mid-market space are actually as far as balance sheet go are very-very small. Now, what do you get when you manage and brand a hotel. Typically good managers / brand owner of a top-line hotel charges one-seventh the profit of the hotel. So if I make Rs. 10 crore in a hotel as an asset owner, Rs. 1.5 crore will be taken by the managers / brand company, like say a Marriott. So owing one hotel is as managing seven such hotels from a profit perspective. Though of course, you have all the risk when you own you have no risk when you manage. Our view is very simple. Long-term we want to only manage and brand hotels and develop hotels because we find these are the high return areas where we have core competence today. The reason we owned hotels earlier in Lemon Tree was we wanted to build a brand and we wanted product coherence. The problem in India is all hotels in India are so different from each other you cannot build a brand if you manage other people’s hotels, unless those hotels are built to your specifications. We have now reached the size and scale where third-party owners are coming to us and saying please manage our hotels.
and are willing to pay us two things: not only higher than normal fees but also sign long-term contracts which are not exitable because earlier the quality of management contracts in India was pretty poor and owners could really kick the manager out at their whim. So this is the background. Now going forward what do we expect? We think, right now our pipeline is about 1,700 managed rooms which is the equivalent of owning about 250 rooms which is why it is a very small part of our current revenue stream. But going forward we are doubling this in the next 2 years and our intention is to double it again every 2 years after that. So obviously on an 8-10 years perspective it will be a very significant part of our income stream and it will completely reduce the risk in our system which exists when you own assets. Third is that we are able to use these hotels to reach out to additional customers. So, every time we open a hotel in a city where we do not want to own a hotel, we are able to access the customers in that city and then sell them Lemon Tree Hotels across India. So, network synergy is very strong. It also of course enables us to distribute cost because I am now starting to bill our corporate office expenses to these third-party owners of hotel, so they pay us roughly 2% of their revenues as sales and marketing expenses, another 1% towards our loyalty program, so long-term it is very simple, if I can get enough such hotels under the Lemon Tree brands, then our corporate office as I said becomes a profit center rather than a cost center as it is today.

Moderator

Thank you. The next question is from the line of Rajesh Kothari from Alf Accurate Advisors. Please go ahead.

Rajesh Kothari

My first question is in terms of market size and market share, you mentioned that right now you are at 10% of the mid-market size and in FY21 post doubling the room 60% addition in room, you say you will be 10% of the market. So, I am a little bit confused because I thought the industry is not growing in line with your growth?

Patanjali Keswani

Okay. The mid-market as of last year was according to the Horwath report was 53,000 rooms and we had roughly 4,800 rooms, so we were about 9% of the mid-market. The mid-market is getting organized and it will grow. According to Horwath, if you look at all the hotels that are in the planning stage because what you know in India is supply is five years out because that is the time it takes to build hotels. So according to Horwath in every single hotel in India which is in the design, development, planning or under construction stage in the mid-market every single one of them opens in the next 4 years then they will be about 73,000 rooms in India by FY21-22. Of course, there is normally a slippage, but I have assumed that every single hotel in India under development will open. If that happens then we will have 8,200 rooms out of these 73,000 which is roughly 11%. So I had spoken in a very rounded off sense. Today we are 9% and if the market expands 100% to what is expected then we will be 11%. If it does not expand because typically materialization of development is about 70% in India, if that happens then we will be about 13% to 14% of the mid-market in India.

Rajesh Kothari

Perfect. My second question is in terms of a number of rooms in each category, is it possible for you to give some color on how many rooms will move from toddler to adult and infant to toddler in FY19 and FY20?

Patanjali Keswani

Yes. So well the infant hotels will obviously only move into toddlers and about 850 new rooms will become infants in the next 12 months.

Rajesh Kothari

No, I do not know exact specific dates of each hotel. So by FY19, how do you see the infant will it be 200 plus 850, something like 1,000 rooms or how will it move?
Patanjali Keswani

No, the infant will move into a toddler. Toddler will remain. To answer your point specifically, we will have about 2,700 adult hotels, we will have about 650 toddlers and we will have 850 infants in FY19.

Rajesh Kothari

And in FY20?

Patanjali Keswani

In FY20, there will be about 1,200 toddlers and about 3,000 adults.

Rajesh Kothari

1,200 toddlers and 3,000 adults. And infant?

Patanjali Keswani

Infant will maybe be about 70 - 80, one hotel maybe in Shimla. We are not sure if it will open in 2020 or 2021. In 2021 all the toddlers will move into adults so there will be 4,200 adults and there be another 800 odd infants.

Rajesh Kothari

In FY20, when you said 4,200 adult and toddler will become?

Patanjali Keswani

800.

Rajesh Kothari

800. And by that time the Mumbai will come so infant will become 750 something like that 650 or whatever?

Patanjali Keswani

Sorry, all the toddlers, all the 1,400 toddlers or 1,500 toddlers will move into adults by FY21. So there will be 4,200 adults and there will be 750 infants.

Rajesh Kothari

Infant, okay. Understood.

Patanjali Keswani

But the bigger issue which I see playing out and I would really urge all of you to look at this number which is EBITDAR per room which in FY18, the ROCEs was only 12%, these will start moving significantly up. So what you see currently which is 0.15 million in infant 0.49 million in toddler and 0.67 million in adult, these will be re-priced. You will find that these will start shifting dramatically in the next 2 years to 3 years.

Rajesh Kothari

Understood. One more question, in terms of your slide number #17, where you have given the hotel level return on capital employed. The adult hotels is 12% and then 6% minus 1% and if I compare this with slide number #24, where you have mentioned that top, middle and bottom and there ROCE is 32, 17 and 5. So I am slightly confused on slide number #24 you have mentioned top and then the bracket is 2 what does that bracket 2 means?

Patanjali Keswani

That is the number of years a typical cycle in India operates.

Rajesh Kothari

Understood. So right now, we are at the bottom cycle or between the bottom and middle kind of thing?

Patanjali Keswani

No, we are at the end of the bottom as Winston Churchill said, in World War that this is the end of the beginning. So we are at the end of the bottom.

Rajesh Kothari

So basically at the adult hotel despite 3 years completion because of we are a kind of bottom, we are making only 12% ROCE, is that the right way to interpret?

Patanjali Keswani

That is absolutely the right way.
Rajesh Kothari: Okay. And my last question is how much capital work in progress will come in FY19 and how much it will commence in FY20?

Patanjali Keswani: FY19 capital work in progress, I would say is about Rs. 300 crore this year is balance to finish all these hotels.

Rajesh Kothari: No, my question is how much of the capital work in progress will start commencing business in FY19?

Patanjali Keswani: About Rs. 900 crore.

Rajesh Kothari: So basically Rs. 900 crore CAPEX will attract interest and depreciation, am I right in FY19?

Patanjali Keswani: That is correct. Towards the end of FY19, it will be because most of these hotels are opening in H2 except for one hotel in Dehradun which is opening in a couple of months from now which is a long lease it is a 40 years lease by us.

Rajesh Kothari: And FY20 how much?

Patanjali Keswani: In FY20, these 850 rooms will be operational and will presumably be stable by the middle of the year and there will be no additional capacity addition.

Rajesh Kothari: No, so you mean to say that so in FY19, you said Rs. 900 crore capital work in progress will commence in second-half and in FY20 another Rs. 800 crore CAPEX will commence the business.

Patanjali Keswani: No, that will be in FY21.

Rajesh Kothari: That will be in FY21, so FY20 nothing much and then FY21 will be another Rs. 850 crore kind of thing.

Patanjali Keswani: Yes, basically it will be the 671 rooms in Bombay (Mumbai) which is the only market in India that has not gone through a down cycle, which is still at close to 80% occupancy because it is completely supply constrained as I am sure you know. So really the big deal for Lemon Tree that we are opening 300 owned rooms in Bombay (Mumbai) this year and another close to 700 rooms in Bombay (Mumbai) in FY21. These hotels will stabilize my best guess is within 3 months of opening and they will typically contribute if you look at Bombay (Mumbai) average 1.5 times the average revenue per room of any hotel outside Bombay (Mumbai) and therefore, their revenue impact in our company will not be of 1,000 rooms, it will be a revenue impact of 1,500 rooms and an EBITDAR impact per room of 2,000 rooms that is Bombay (Mumbai).

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead. Manish, your line is in the talk mode. Can you please go ahead with your question?

Manish Ostwal: Yes, I have only one question. Sir, for our managed portfolio what percentage increase we see typically in operating occupancy level, within one year of takeover?

Patanjali Keswani: Well, typically we take over assets which are either new or operating under other brands. So new assets take us 1 year to stabilize. If it is an asset which is run by
another brand we find, on an average basis we are able to improve EBITDAR by
100% which is why many hotel owners who have given us their first hotel have now
given us their second and even third hotel.

Manish Ostwal  Okay. And one question on the slide number #17, in this slide for adult hotels we have given the occupancy level 77.5% in FY17 and 77.6% FY18 so in terms of occupancy increase in this category of hotel which is old vintage hardly increase so I mean these kinds of occupancy we expect to maintain, or we see some improvement occupancy level also.

Patanjali Keswani  So let me explain the difference between, let me explain business hotel performance to you. If you look at top of the cycle which is when you do over 70% occupancy it really means that Monday through to Thursday, the hotel is full. Now, somebody had asked me a question about 20 minutes ago on what are your customer categories? And I said there were three customers buckets. One is the large corporate, one is the small medium and micro corporate and one are what we internally call the middle-class consumers which is the remaining one-third of our customers. When hotels go full on Monday through Thursday when they do our 70% occupancy on these 3 - 4 days not only are you selling more rooms, you are also selling it at a higher price through your channels like your online channels or your own website or your call center. So about half your customers on these days pay an average price which is 1.2 times to 1.4 times your average daily rate. So amusingly enough although it is 4 out of 7 days that you do 100% occupancy the revenue that you earn is not 4 on 7, it is 6 on 7 because in a business hotel, Friday, Saturday and Sunday nights are normally very low occupancy because nobody comes for business on these nights. So when you see over 70% occupancy all it tells you is that that hotel has the ability to re-price. Which is why even in the down market we were able to re-price this by Rs. 500 last year as you will see, which is about 15% increase in average rate.

Manish Ostwal  And one confirmation from your side, is it fair to assume that our renovation related CAPEX will be much lower because most of our properties are new?

Patanjali Keswani  No. So one of the key elements of Lemon Tree’s business model is the following. If you look at typical renovation and CAPEX expenses for well for most luxury players in India they are very large and very spiky so every 5 years to 6 years they shut parts to the hotel, they break bathrooms, they do very large capital expenditures. Lemon Tree’s business model is premised on the following which is we will never do large-scale breakages. The only replacement that we do on an ongoing basis is we replace the soft part of our rooms, lobby’s, restaurants and so on. Let me answer that more specifically. On an average, 75% of our replacement, we replace 20% of our hotel every year, so every 5 years we refresh the hotel or renovate it. Of that 20% we do every year, 15% is OPEX, so it comes under our P&L and will show pre-EBITDA. The remaining 5% is of a capital nature and that is why I stated in the beginning that when we have a depreciation of 4.1% on capital deployed the actual utilization towards renovation / replacement is less than 0.2%, it is 5% of that 4.1% which is why I wanted to make the point that depreciation in an appreciating hotel asset is actually a cash benefit.

Moderator  Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Aadesh Mehta  Sir, we have seen around 13% ADR increase and I guess that some change in customer mix has also had some role to play. So just wanted to know how much of this 13% would be the price hikes you must have done on a Y-o-Y basis?
Patanjali Keswani  
So the price hikes if you look at, if I broadly look at it with the very large corporate clients, we got maybe 5% to 6%. With small medium and micro enterprises, we got maybe 10% - 12% and with the fastest growing segment which is the middle-class consumer we got 20%. So, if you average the three it comes to 13%. But let me tell you even more interesting statistics, 4 years ago 50% of our customer base was large corporate; 35% were medium, small and micro and only 15% were the middle-class consumer. Today with a 60% capacity expansion which means 100 rooms have today become 160 rooms, the break down is large corporate is one-third; medium, small and micro is one-third; and the middle-class consumer is one-third. So, the middle-class consumer has grown 3.5x in the last four years which is the big shift in consumption we are seeing, we are all Indians and the interesting statistics is 50% of them are first time users of hotel rooms in India. And of the other 50%, 80% are repeat customers of ours. So, our game plan is very simple, over time we want to focus more and more on the middle-class consumer which is increasing as the rate as I said of about 60% CAGR in the last four years and we want to convert them as our regulars because that is our 80% success ratio and they are also the highest payers. So, I am not really getting into the way our average daily rate will change but a very large part of it will come through these consumers. Contrary to perception, they are not price sensitive, they are value for money sensitive.

Aadesh Mehta  
Okay, sir. Okay. And sir, in terms of your management fees, what could be your total amount of management fees for FY18 and the break-up of management fees between what Carnation has earned and what we have earned from Fleur?

Patanjali Keswani  
So let me tell you a forward view. Last year I think we did an income of maybe Rs. 100 crore of managed fee hotels. So hotels managed by us did an income of about Rs. 100 crore and we charged fees of about Rs. 7 crore. Of the Rs. 7 crore, Rs. 3 crore came directly to Lemon Tree Hotels for corporate offices expenses in the form of sales and marketing and loyalty program. The remaining Rs. 4 crore remained in Carnation and after expenses of Carnation, I think Carnation made a small profit of about Rs. 1 crore - Rs. 1.5 crore which our economic share was 75%. This year the hotels under management by Carnation Hotels, we will do a revenue in excess of Rs. 200 crore, so we will charge 6% odd of this, so we will do about Rs. 12 crore to Rs. 13 crore revenue.

Aadesh Mehta  
FY19

Patanjali Keswani  
FY19. Of this Rs. 14 crore, Rs. 5 crore or Rs. 6 crore will come to Lemon Tree towards corporate office expenses and the remaining Rs. 8 crore will be in Carnation and Carnation will a profit of about Rs. 5 crore, so we will get about Rs. 4 crore of that. So, if you look at it, we plan to double this every 2 years and that is why the other areas of course in Fleur Hotels our joint venture the inventory is also increasing by about 60% or 50% and thereto we charge management fee income. So while we own, own only 60% of Fleur our economic interest is about 63% because we also charge fees to the company of the minority interest, if you get what I mean? So in Fleur, we charge about 6% - 7% of the revenue as fees and then we share 60% of the balance.

Aadesh Mehta  
Right. And sir, what could be the fees we have earned from this Fleur in FY18?

Patanjali Keswani  
Only Rs. 18 crore.

Aadesh Mehta  
So Rs. 18 crore would overall fees and that would include fees from Carnation, right?
No, Rs. 18 crore was last year. This year we will do about Rs. 18 crore with Fleur in FY19 and Rs. 14 crore from Carnation. So our fee income will be Rs. 32 crore which last year was half.

Right. So we should expect this to double as well. And sir, you mentioned your revenue mix as 73, 18, 9, in terms of room rentals, F&B and all so that would be for the entire FY18, is that right?

That is correct, for owned hotels.

For own, okay, sir. And sir, what could be the quantum of capital advances for March 2018?

Rs. 40 crore.

Rs. 40 crore, okay. This was around Rs. 70 odd crore in FY17, if I am not wrong.

That is correct.

Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

I had two questions, one is your managed hotels like you have given the EBITDAR per room for owned hotels, does it come to around Rs. 70,000 - Rs. 80,000 per managed room would that be a correct assumption?

Absolutely correct. So the bottom of the cycle we expect to do Rs. 70,000 - Rs. 80,000 per room, middle of the cycle we expect to do Rs. 1,20,000, top of the cycle we expect to do Rs. 2 lakhs per room.

Okay. And what are your expenses in this or this is net of expenses? This is all net revenue?

Well, we have fixed expense in Carnation of Rs. 3 crore to Rs. 3.5 crore which we expect when we triple the size of Carnation will go to about Rs. 5 crore.

Okay. So today you have around 1,500 rooms which you are managing and this you are saying you will double every two years, right? Is that correct?

That is correct. Let me point it if it is only double by the way but I want to stay only double.

Okay. And just small clarification this Andheri hotel which you are opening that is owned by you or by Fleur?

Lemon Tree.

That is owned by Lemon Tree, okay.

Thank you. The next question is from the line of Nihal Jha from Edelweiss. Please go ahead.
You mentioned at the start of the conservation that generally all our brands have a premium over the industry average's in each of the 2-star, 3-star or 4-star categories. So just wanted to understand, what has given us this pricing power and also considering that you are focusing on increasing the ARR, is it actually going to be possible for us to increase ARR's in line with the industry while keeping this premium stable?

It will be more than possible. Let me explain one thing to you. In the last 7 years in India before FY17, the average occupancy in India was 58% to 59%. The average occupancy of Lemon Tree in every single one of these years was 1.2 times, the India average. So as far as our track record goes, keep in mind that we have always done 20% higher occupancy premium in all segments always. So I have no doubt we can continue it. I think, the bigger issue here is that pricing when it increases, increases in micro-markets and not across India. So how does pricing work? For example, I will give you an instance of where I am sitting right now which is in Delhi Aerocity, we have increased our prices by 30% versus last year because this market saw the highest demand-supply imbalance coming in. Two years ago, demand-supply was completely against us in this market. Today it has gone completely in favor. So a 30% price hike not only did we achieve it, this year occupancy has gone up from 84% last year to 89%, I am giving you numbers of April for example. So price hikes will happen but they will micro market-driven, so it would not be an all India phenomenon, it is a little like the airline sector that Delhi, Bombay (Mumbai) which has higher demand will see a price hike before perhaps Delhi, Calcutta (Kolkata). So we expect his to play out in different micro-markets based on our assessment over the next two years. When I say we increased our prices by 13% last year, it does not mean every hotel increase by 13%. Some hotels went up as low as 3%, some went up, 25%. But over the next 2 years, this shortage of rooms will start acting in all the key markets in India.

Sure, sir. Sir, just on the micro markets approximately what is our EBITDA contribution, I say EBITDA that can include our management contract fees or so from the top 3 cities, 5 cities, and how does this change by FY21, for which we have our expansion plans already in place?

Okay. So right now, ~70% of our inventory is concentrated, I am talking owned inventory, I want to clarify, is concentrated in the top 10 markets in India where 70% of India’s inventory also operates. Going forward, the 4 key markets we are most focused on, first is Bombay (Mumbai). Bombay (Mumbai) is the highest barrier to entry market in India, it is nearly impossible to build a hotel there. We have managed now to finally open our first, we will open our first hotel this year, we are going to open 1,000 rooms in Bombay, which will give us roughly one in six rooms in Bombay (Mumbai) in the mid-market space. So we will become dominant by FY21. Separately in the key micro-market of Pune which is going through very rapid demand-supply imbalances, we are opening a 200-room hotel which is owned by Fleur in city center Pune which is on Connaught Road next to the Railway Station. This will open in the next four months. Then we are opening a 140-room hotel in a high demand of Calcutta (Kolkata) called Rajarhat Action Area 1, this will open in the next 8 to 9 months and in the fourth key micro market which is Udaipur which is perhaps the best performing, it has overtaken even Goa, it is best performing leisure market in India, we will open 140 room hotel also in the next 8 months to 9 months. So we have put our capital at risk in markets where we see the minimum risk. Other than that we are leasing a hotel which will open in 2 months in Dehradun which is a very strong second-tier market, it is a 90 room hotel, we have leased it for 40 years. So if you look at our expansion, it is very focused, it is focused where we think we will be able to achieve the ROCEs which
are hurdle rates for us and the rest of the markets we are looking at asset light leases or management contracts.

**Moderator**

Thank you. We will take our last question from the line of Prasoon Agarwal from Indus Capital. Please go ahead.

**Prasoon Agarwal**

I wanted to understand on the EBITDAR per room that you briefly mentioned. So I am referring to slide number #17, so broadly there is one ARR and second is the occupancy rate, I am just wondering as the occupancy goes towards 85 odd percent levels and assuming ARR is where it is, what is the potential of this EBITDAR are we talking about this going to 15 lakh odd level?

**Patanjali Keswani**

So let me give you some numbers. Our EBITDAR in Delhi this year will be Rs. 16 lakhs a room in the 300 room Lemon Tree Premier where I am sitting. So it has gone through the first cycle upswing. Our EBITDAR's in Gurgaon Sector 29 which is going through an upswing will be Rs. 12 lakhs a room this year. See, we look at it as a bucket we look at markets as four key markets in India. In our internal calculations, we do not do spread sheets, we look at our metrics which is what is our inventory in market A which is Delhi, Bombay (Mumbai) and Gurgaon Sector 29, which is city center; and Udaipur. Bucket B is our inventory share in Pune city center, in Bengaluru (Bangalore), in Hyderabad, in Goa. What is the inventory in bucket C which is Chennai, which is Pune Hinjawadi which is Ahmedabad, which is Aurangabad, which is Calcutta (Kolkata) and so on and then which is the balanced inventory in the other markets? If you look at the expected returns in these then even down cycle returns are Rs. 3 lakhs to Rs. 4 lakhs a key in tier-IV in bucket D, Rs. 5 lakhs to Rs. 7 lakhs in the bucket C, Rs. 8 lakhs to Rs. 9 lakhs in the bucket B and Rs. 12 lakhs to Rs. 16 lakhs in the bucket A. Now you noticed all our inventory is actually opening in the bucket A and bucket B. And the EBITDA per room will also change with the market dynamics changing. So these numbers that I give you typically go up by 20% to 40% depending on the market. So the new EBITDA will be say 30% and our inventory will be in the bucket A and bucket B so obviously I mean if the things go well then in the next 3 years to 5 years, look I made a statement that Rs. 1,300 crore of debt will be paid off including Rs. 500 crore of additional money I am putting into the new growth in the next five years. So that is making a certain statement.

**Prasoon Agarwal**

Okay. And just looking at the ROCE slide that you have given so if I apply like a 30% peek cycle ROCE then you know we are talking about somewhere between Rs. 15-20 lakh depending on the capital we have deployed Rs. 4.5-5.9 million per room. So, on a peak cycle we are looking at EBITDAR per room north of Rs. 15 lakhs.

**Patanjali Keswani**

Audited numbers for ROCE in FY06 and FY07 was 54%.

**Prasoon Agarwal**

Okay. And my last question is I just wanted to understand once again slide #17 one thing, that if I look at the adult hotels, the occupancy rate is pretty much flat. The ADR has gone up by 14%, but the hotel level EBITDAR has gone up only by 8% from Rs. 6.2 lakhs to Rs. 6.7 lakhs, what would be the reason for that?

**Patanjali Keswani**

So we expended a fair amount of money. You see what happened last year was that some of these hotels went through, if you notice our expenses which typically go 4.5% a year which is a CAGR number I gave you last year went through a much higher expense curve. There were higher expenses in 2 categories or 3 categories which was in food and beverages which was in some commissions that we paid, and which was in salaries. So a number of expenses that we should have incurred in the last 3 years to 4 years we actually deferred because of our cash flow to last
year. But going forward, this will get annulled. So if you see this year onwards, it will slip back with most of the operating leverage coming into play.

Moderator

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

Patanjali Keswani

So thank you very much, everybody. I am quite impressed with the questions and I will keep them all in mind and try and deliver every word that I have stated since all this is recorded. But thank you for your attention.

Moderator

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

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