Lemon Tree Hotels Limited

Q2 FY 2019 Earning Conference Call Transcript
November 15, 2018

Moderator: Ladies and Gentlemen, Good day and Welcome to the Lemon Tree Hotels Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Anoop Poojari Thank You. Good Afternoon everyone and thank you for joining us on the Q2 FY 2019 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.

Before we begin, I would like to state that some statements made in today's call maybe forward looking in nature and a detailed statement in this regard is available in the result presentation that has been sent to you earlier.

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

Patanjali Keswani: Good Afternoon, Everybody. We have delivered another strong performance in Q2 FY19 with a top line growth of 20% year-on-year in seasonally weak quarter. Our strong cost control and operating leverage resulted in EBITDA growth of 44% year-on-year with EBITDA margins expanding by 514 bps. We have posted a profit after tax of Rs. 65 million in Q2 as compared to a loss of Rs. 44 million in Q2 last year while cash profits grew 128% year-on-year from Rs. 85 million last year Q2 to Rs. 197 million in Q2 this year. We have been able to drive a 9% year-on-year increase in ADR in Q2 FY19 on the back of price hikes taken in H2 FY18. Occupancy has improved 230 bps year-on-year resulting in a robust RevPAR growth of 12% year-on-year. Demand growth in the hotel sector is projected at 12.5% while supply is estimated to grow at 8% between FY18 to FY21 which is leading to higher occupancies for the industry. Given the large demand-supply mismatch in the mid-priced hotel sector, we expect steeper price hike going forward resulting in very robust RevPAR growth.

Our capacity addition plans are tracking well. We have operationalized a 91 rooms Red Fox hotel in Dehradun in October 2018. This is on a 40-year lease. Further, we have a large supply of very high value inventory in demand-based regions like

Mumbai, Pune and Udaipur which is to be operationalized over the next few quarters. With this we expect our debt cycle to peak within the next 12 months. Price hikes coupled with our operational cost efficiencies will drive strong cash flows in the coming years and capacity growth beyond FY22 will be largely via the managed contract route. So, it will continue to lead to strong free cash generation.

We are now on a strong footing as we go into the second half of the year which is peak season for us and accounts for majority of the annual revenue and EBITDA. The hotel industry itself is at the cusp of an upcycle and we are at the forefront to capitalize on the strong industry dynamics on the back of our brand and our unique value proposition.The large inventory of hotels moving towards steady state in Lemon Tree which were opened over the past three years, higher pricing, the operationalization of high value inventory in the coming quarters and our cost leadership will be key drivers of our performance going forward. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question is as you said we are going into busy season in the second half, so what kind of price hike one could expect given the occupancy level in the mid-market and secondly in terms of Mumbai property which we are going to commence, so what is the status on that?

Patanjali Keswani: So, let me explain price hike. This depends from I think company to company because price hikes in our business comprise of hiking prices of three different segments. One segment where the prices are annually hiked is the large corporate segment which is normally a request for proposal segment so these are very large corporates like IBM and equivalent and they increase prices for their hotel vendors every year on 1stJanuary. So, price hike of that segment of your business which is large corporate occurs every calendar year. A second segment is the small, medium and micro enterprises segment which is also significant in India.There the prices are typically high either in September or October. The third segment is your retail segment. This segment prices are very dynamic like the airline segment and it is entirely a function of demand and supply on a literally daily basis because these are retail prices that either the online travel agents or your own website typically offers customers. So, when you ask me how are prices tracking? Broadly, it is a function in our business as I said of how these three segments interplay. So, for Lemon Tree Hotels over the last three years we have deliberately looked at reducing our share of large corporate maintaining our shares of small, medium and micro enterprises and expanding our share of retail. So, we have done it fairly successfully and if you look at our figure for the last three years for example large corporate have fallen from close to from over 40% to about 32%, small and micro and medium enterprises share has been maintained at about 35% and others which is retail has increased to over 35%. What is this mean? It means our ability to price to the retail sector is consistently and constantly improving and our ability to re-price is highest with retail.That is true for the airline sector and it is very much true for us. So, what is my expectation? My expectation is that the pricing of Lemon Tree in the next two quarters will track at two levels there will be a 6% to 7% price hike for Q3 and then a further price hike in Q4 for the other sector segment who we normally re-price on 1stJanuary. Now I do not want to give a forward-looking statement but let me say the first half of the price hike which will happen from Q3 will be over 6%. Point two, about your view on Mumbai, we are completely on track in Mumbai.Of course unlike other sectors and industries, we are very dependent on the government giving us approvals to open the hotel. So, broadly let me say that our first hotel which is Pune will open in time in December. Mumbai which is supposed to open in January, we are 99% there. We are very hopeful that unless of course there is some delay by the government and regulatory authority we will manage to open it by end of January this coming calendar.

Manish Ostwal: Second question on the total estimate project cost of Rs. 1,725 crore.So this entirely routed through the Lemon Tree Hotels consolidate balance sheet or there will be some investment through the JV partner? What is the consolidated level capex from the Lemon Tree balance sheet?

Patanjali Keswani: The total investment is little under Rs. 1,800 crore. We have already funded about Rs. 1,000 crore. The balance Rs. 800 crore will come partly through debt and the majority through internal accruals. Conservatively, we expect our debt to peak by the next 12 months to about Rs. 1,350 crore and the balance Rs. 400-500 crore will come through internal accruals. To answer your point where it is funded from? We have fully equitized this project. The balance funding of Rs. 800 crore, as I said, Rs. 300 crore will come through debt and Rs. 500 crore through internal accruals. Most of these projects are in our joint venture with our Dutch pension fund partner, but one large project which is the Mumbai Andheri-Kurla hotel, which is about 300 rooms and opening in the next few months, that is 100% owned directly by Lemon Tree Hotelsand all these are fully equitized, so there is no further equity required.

Moderator: The next question is from the line of Christopher Lai from Royal Bank of Canada. Please go ahead.

Christopher Lai: I just want to ask in terms of your guidance for the number of rooms that are going to be built is that still on track for the next 12 months?

Patanjali Keswani: Absolutely on track in fact our guidance has changed slightly if you look at our snapshot,three months ago we had said that we would be having a total of about 8,200 rooms in the next two and half years, but it has now become about 8,600 rooms because we have added to our room inventory. Typically, every quarter we add between 300 to 400 rooms. So, this quarter we have added a little under 400 rooms and broadly I want to just alert everybody that this number of 8,600 rooms of Lemon Tree Hotels actually excludes 100 rooms in Mumbai because our new project in Mumbai which is the Mumbai International Airport Limited where we had earlier planned on 577 rooms, we have managed to re-design and we have submitted this for approval and it will now be a 669 room hotel to be exact and it will be actually the single largest hotel in India in terms of room inventory across all hotels and as you know it is the best market in India. So, these 8,600 rooms which we have currently reflected as our plan for FY21 will certainly be over 8,700. We are fully on track for the next 12 months to open the following hotels. We will open Pune by December - 200 rooms which is in our joint venture with APG. In end January, we will open a 300 room hotel in Mumbai, which is a 100% subsidiary of Lemon Tree Hotels itself. In April, we will open Lemon Tree Premier Kolkata which is about 140 rooms and we have deliberately shifted the opening of our Udaipur hotels from April to October next year and that is another 140 odd rooms. All these are on schedule. The reason Udaipur has been delayed is an internal decision that we have taken. We can open this hotel by April'19 or May'19, but we have two reasons to differ this. The first is that summer is traditionally not a good time to launch a hotel especially in a market like Udaipur. We had earlier planned to launch Udaipur by February and there was a delay to April. So, when our marketing team went and investigated this market, they strongly recommended that we launch this hotel by October. The other advantage of course is by deferring it till October our opening losses or when revenue is significantly less than expenses will also be reduced because we are not opening this for the wrong time of the year. The other good news is our assessment is that the Udaipur market is an enormously strong market. So, we are in fact upgrading our products there somewhat because we feel that we were pessimistic with the projections of performance for this hotel and that fits in quite nicely with our plan to re-launch it in October as a superior product to what it was originally envisaged as.

Christopher Lai: As a follow up question, this is not quite related, I just want to know about the kind of competitive landscape overall kind of obviously the demand is growing faster than supply, room rates are going up and have there been any kind of talks about any new entrants coming in or obviously someone like OYO is in a different price segment wondering if there is any large scale supply that would change the dynamics?

Patanjali Keswani: So, let me step back and answer your question in two parts. So, I will answer the second part first. See there is a limited amount of supply in India hotel rooms. Any new person who comes in can only try to get that supply through either acquisition which is highly unlikely or through management. So, the broad point I am making is supply itself is limited and to create new supply in India for a variety of reasons takes anywhere from 4 to 5 years. So, what do you know very clearly is based on existing supply and supply under active development,what you know is how much supply there will be in India over the next five years which is why we are so bullish. So, if a new player comes in how does that operate that. So, let us assume Hilton becomes more aggressive in India where they will they get new inventory from. They will acquire it from either a Marriot or an equivalent player. So, it is not that there is no more supply being created. It is only that supply shifting brands or flags. I hope that answers your questions. OYO for example operates really at the bottom end of the market and OYO is I am not even quite sure what the business model is. So, I would not like to comment on OYO, but I do know is that the established hotel brands they are all targeting the same inventory because there is no growth of inventory. Excluding us, I am not even familiar with any hotel chain which is adding rooms in the next two, three years. Point number two, on competitive intensity. You know it is interesting that you mention this. Now in India there is a misalignment of incentives. The broad point is that an operator or manager of hotel is incentivized on revenue and on profits. Unfortunately, an owner is only incentivized on profits. So, this misalignment of incentive in my opinion is leading to still some level of underpricing. For example, I was looking at the few published figures that are available today and I find that in India while we increased our prices in H1 by 12% others have been singularly under aggressive and have increased prices by 2%, 3%, 4%. So, I am personally a little amazed and I would really expect that owners of assets in India will become necessarily far more aggressive and we are hoping that by being aggressive ourselves and in some senses leader in the market they are taking prices up. We will incentivize other companies in India to also take the prices up. So, if you noticefor Lemon Tree we managed to take not only pricing up but even occupancy up and I mean our RevPAR is 17% over the previous period and I am amazed that the few figures I have looked at are significantly below that.

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

Aadesh Mehta: Sir, you are mentioning that your peers have been passing on rate hikes only in the range of single digit, but when I see your sub-segments I see in Lemon Tree Premier we have seen a massive increase in occupancies it is now touching 85%, but if I see the ADR increase over there is only 5%, so what can explain this sir ideally if the occupancies are over above 75%,you should have seen a much stronger ADR hike?

Patanjali Keswani: I agree with you, but you see within an existing market we can be weak and operate across the spectrum of aggressiveness. We cannot be independently hiking rates when nobody else is. So, I think what you have to understand is three or four things, how does pricing operate. First, I told you it is an aggregation of multiple segments. Then, it is an impact of competitive action and occasionally it is an impact of some black swan events and sometimes supply injections which are still playing out in India in a micro-market. So, let me give you an example, no supply played out in the hotel where I am currently sitting which is Delhi International Airport. There was no black swan event so in this market our prices went up by 15% to 20% versus last quarter. Now you take up market like Ahmadabad which is still working its way through massive supply injection. So, our ability to re-price is far more limited there than in say Delhi, similarly Jaipur. So, in Kerala for example we were hugely affected by the flood and therefore we are underpricing today because there is no market actually for tourists today in Kerala. So, I would recommend that you not look at individual segments rather look at the entire performance and also look at the performance on a half yearly basis rather than a quarterly basis for pricing because that is when you see it play out. So, broadly my view is very simple, it is that I know supply is not going to grow at more than 8% a year for the next five years because it takes four to five years to create new supply and all the non-supplies put together, assuming all of it develops it is only 8.5% per annum. Now if I look at the last seven years in India demand has grown minimum at 12.5%. So, clearly there is a supply-demand imbalance and clearly this pricing will play out. It will start playing out in micro-markets first but my broad guess is that over the next year or two most likely two years, it will play across the whole of India. But some companies let me just take randomly a company that has many assets in say Mumbai or Delhi will benefit more than a company that is more diversified.

Aadesh Mehta: So, sir my other question is that even if I see on an absolute basis I am seeing an ADR hike of around 9% on a YoY basis that is lower than the 13% to 16% kind of ADR increase we were doing over the last one or two quarters, so is this 9% a new norm?

Patanjali Keswani: Without giving a guidance gentleman, I am going to give you an idea on how our pricing will play out in the next three to four years, so I am going to be conservative. So, what do we have currently is we have an existing owned portfolio of 3,200 rooms. These are mostly stable rooms. So, keep in mind when you are a high growth company like we are because we are adding owned/leased inventory at the rate of 20% a year over the next three to four years. The new inventory that we inject into our market is subject to local market conditions which means what is the competitive intensity there, how are we positioned there, are demand conditions good, will we be able to re-price our hotel, will we be forced to underprice our hotel, will we be able to stabilize that hotel fastso it is not a drag on your EBITDA, these are all local area conditions. But if you look at Lemon Tree now and assume that it is a portfolio where the current 3,200 odd rooms are stable. I am happy to inform you that we launched a hotel in Banjara hills in March'18, it stabilized in 20 days and it is EBITDA accretive from H1. So, that is very encouraging because it is not that Hyderabad is a great market. It is just that there is this gradual pick up across India. Similarly, we have launched a 91-room hotel on 22nd October, we expect it will very rapidly stabilize and be EBITDA accretive. So, it will not be a drag on EBITDA, it will be an addition to our EBITDA. Now if you look at our 3,200 rooms and let us assume that over the next three to four years, we will have an annual price hike of 9% as you mentioned. We are also adding 800 new rooms in the next one year. This is in markets where we know that the average rate of these hotels will be 1.5 x of our hotels because these are all Lemon Tree Premier. Remember our ARR that you are seeing is the aggregate,Red Fox is very often in the Rs. 2,000, a Lemon Tree which is in the Rs. 3,000 and then a

Lemon Tree Premier which is in the Rs. 4,000-5,000. This is a massive mix change. So, let me give you a simple number this group ARR of this 800 rooms will be a minimum of 1.5 times our normal ARR and let us assume this will also increase at 9%. Now if you do just the weighted average numbers, I have 3,200 rooms and I am adding 25% more inventory which is 800 rooms where I expect the average rate to be 1.5 x of the normal inventory. Then my weighted average price hike for these 4,000 rooms over the next three years will be a minimum of 13%. Then we are adding Mumbai international airport which is 670 rooms as I mentioned to you in the next two and half years where we expect the ARR to be 2x.Sojust add that then you will see that on a CAGR basis I do not want to comment on an individual year. On a CAGR basis over a next four years I will be personally very disappointed if our average rate on a conservative basis was below 14% a year.

Aadesh Mehta: Last question from my side we have seen some postponement in date of opening even in your managed hotel the one is Rishikesh or Shirdi. So sir even those would be planned delays in opening or there could be some approval?

Patanjali Keswani: You see we have two hotels which are going to open for Lemon Tree which are owned by us where we feel we can re-price significantly. One of them is Udaipur and one is Mumbai international airport. So, when we looked at Udaipur, we did our market study and it is an ongoing study, we felt that we upgrade this hotel a little bit with an incremental investment. Our return on the overall project will improve by 3% to 4% points. So, let me put it this way if the hotel cost Rs. 150 crore and I get a return of 12%, by investing Rs. 50 more crore I could get on the entire hotel a return of 16%. So, we took a decision to upgrade this hotel. Number two was we do not want the opening of this hotel to be drag on our EBITDA obviously and what we understood is that if we launch this hotel after April therefore six months, we will not be able to stabilize it we will not even be able to get any level of occupancy because it is down season. So, once the project was delayed inadvertentlyfrom February to April, then we took an internal decision to extend that from April to October. So hope that answers the question about the deferment of opening of Udaipur.As far asmanaged hotels go, the reality is that these hotels are owned by other people who have their own constraints whether it is financing, whether it is approvals, whether it is wishful thinking I do not know, I don't even want to comment on it. The reality is you are right that there has been not a significant delay but a delay in a number of hotels maybe eight or nine hotels which are not in our control because these are assets owned by other people as I said, but just to clarify the impact is negligible in terms of lost fees. We expect that all these hotels are delayed as we have specified the total loss in fees will be less than Rs. 2 crore because this is start of the project you know the first six month of hotel opening and so on. So, it is not material I would urge you only to really consider delays by owned hotels only.

Moderator: The next question is from the line of Vikas Ahuja from HSBC. Please go ahead.

Vikas Ahuja: I have one question. You said third of your business comes from large corporate so just trying to understand how is the concentration there I mean the top five customers, top 10 customers contribute to what percentage of the total revenues of large corporate, the reason why I am asking is if concentration is high it is harder for you to renegotiate pricing and all?

Patanjali Keswani: Let me break your answer into two parts. You are asking me the question on concentration nationally if I take my largest five account put together they are only Rs. 10 crore put together, my top five accounts on a Pareto principle are 1.5% of my revenue. So, their ability to negotiate with me is not that strong. However what could affect us is if there is a large corporate account in one market where in that single market accounts for 20-25% of my business in that micro market. Fortunately for us we are not even in a situation like that. If I take my top 10 customers, my top 10 large corporates put together it it's about Rs. 15 crore, well under 3% of my revenue. So, there is no concentration risk we are not over dependent on these clients but can worse be because these are large clients, we get disproportionate attention from our peers and our competitors. So, unfortunately, when everybody says Deloitte is a large account then everybody goes after Deloitte and pricing becomes irrational so it is not us who are being irrational it is broadly the market which is irrational with large corporate customers. By the way, HSBC is also a large corporate customer of ours though it is not in the top 10. Broadly my view is the following which is that the rate of growth of aspirational middle-class retail demand is so significant in our business that strategically we should look at consistently and on an ongoing basis reducing our dependence on large corporate. I am leaving it to others who are happy with lower rates. So, long term if you ask me, I see Lemon Tree 100% if you add our entire corporate sector together in the next three years it will be less than 50% of our business and it is currently about 63-64%.

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

Jatin Nayak: Sir my question is what would be the rate hike that you would have taken in the corporate segment in this recent renegotiation?

Patanjali Keswani: 6% I told you.

Jatin Nayak: My second question is what would be your assessment of the new Ginger properties with the renewed strategy of providing a better property and better experience with better rates, so what would be your assessment of that, do you see it as good competition because your competition is talking about growing that category of the product very aggressively?

Patanjali Keswani: Broadly I do not see Taj as competition because Taj typically operates above us so we are in between actually. Ginger is really an economy product. Lemon Tree its three brands are mid-market products and Taj where its main income comes from is upscale to an above so basically say 4.5 and above. I think it is a good strategy for Taj to reposition Ginger because unfortunately for whatever reason Ginger has been seen increasingly as a low-cost offering and strategically it is a good move so that is my first comment. I do not necessarily see it as a negative step for Lemon Tree because Ginger really competes with our Red Fox brand if it is upgraded. The formulation of Ginger and of that market will ultimately help the entire market. So, from that perspective you see I am quite biased I love the Tata group, I worked in the Taj so I will always wish them well so I think it is a good move, good strategy so I do not see it as a problem.

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

Himanshu Shah: Out of the 11% opex growth around 3.5% is on account of higher commission to OTA which would actually amount to around Rs. 3 crore. Now, if I assume an average commission rate of ~16-17%it would amount to an incremental revenue of Rs. 18-20 crore from OTAs alone versus last year which is like entire revenue growth coming from OTA segment.Is that fair to assume? Or there has been some significant jump up in the commission rates to the OTA which has led to this growth?

Patanjali Keswani: So, let me explain to you. So, remember when I started this discussion, I had mentioned that our our retail segment has really grown and it is today the largest segment of Lemon Tree it is 35% of our total rooms. In terms of revenue it is about 38%. So, this 35% was 26% three years ago. Every year it has been increasing and this is a deliberate strategy by us. So, this increase of about 9% of retail business 7% of that 9% has been OTAs. So, simply put 7% of my business and if you broadly take, I am just taking a number please this is not a guidance but suppose you take my revenue at Rs. 600 crore, 7% of that is about Rs. 40 crore take commission at 15%. We are talking 6% borrowing commission. Could you repeat what was your number you saw in commission?

Himanshu Shah: Rs. 3 crore incremental.

Patanjali Keswani: So, we have increased the revenue by Rs. 40 crore but the commission by Rs. 3 crore so that should tell you a little bit of what our strategy has been. I do not want to comment more specifically. Similarly, our revenue of lemontreehotels.com has increased by 50% in the last two years. So, we are conscious that a lot of retail segment is coming to us either through online travel agents or through our own website or through our call center. Clearly online travel agents is actually an alternate sales agent for us for which we have to pay commission, but it is our job in Lemon Tree that once these customers book through these online travel agents and come and stay with us and then we should try to convert them to our website immediately.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir what average price we realize from corporate, SME or retail can you bifurcate?

Patanjali Keswani: I think that is the kind of information I do not want to broadly share, but let me put it this way that the lowest price is the large corporate, the middle price is the small medium micro enterprises.

Ravi Naredi: We are growing at 20% CAGR. How many rooms will we construct and how many rooms will we acquire can you give some broad idea?

Patanjali Keswani: See I cannot give a statement I can only give a snapshot as of today. So, if you look at Lemon Tree, Lemon Tree today is broadly has about 5,100 rooms of which about two-third or 70% are owned/leased by us and we are adding another 3,500 rooms in the next two and half years of which about 50% are owned by us.

Ravi Naredi: And how much commission do we give to these online sites usually for retail business?

Patanjali Keswani: So, it is typically 15% to 18% somewhere in between there.

Moderator: The next question is from the line of Harish Shiyad an Individual Investor. Please go ahead.

Harish Shiyad: My question is in response to your reply to one of the participants you said that once the online customer come to our hotel, stay with us we try to convert into the website customer, so I just want to understand how do we do that, do you give some special discount to them or how it is?

Patanjali Keswani: So, you are asking a very interesting question and it would normally take me one hour and lot of tears to answer it, but I will try and not cry. See this is a global fight right now. What is our business. The hotel business is three businesses. One is who owns the hotel, number two who manages the hotels and number three is who sells the hotel. So, typically take the world's largest hotel company Marriott or India's largest which is Taj or Marriott, these are brands that try and get customers to book directly with them because obviously that is the cheapest way to get sales, but since the advent of these technology companies like booking.com or Expedia and in India there is MakeMyTrip and so on. These are disruptors of the market who are trying to commoditize hotel brands. So, I find it very interesting that sometimes when I read customer feedback, they say I went to this very nice MakeMyTrip hotel,it was not a MakeMyTrip it was actually a Taj or Lemon Tree or an Oberoi or a Marriott customer for some peculiar reason is calling MakeMyTrip hotel. Now what is MakeMyTrip. MakeMyTrip simply is a seller of hotel rooms. He is not actually an aggregator he is actually a seller of hotel rooms. In your mind like a travel agent but except that he is an online travel agent, as his definition, a platform. So, now we are trying to aggregate and get these customers who are these retail customers on their platform so they have a very peculiar system. Suppose I give 15% commission to MakeMyTrip and I charge him Rs. 5,000.So the first deal is very simple. My Rs. 5,000 which I offered to MakeMyTrip I cannot offer a lower price on my website. So, on any given day if you go to see a hotel of ours which is priced for Rs. 5,000 on MakeMyTrip, we will also price it at Rs. 5,000 at lemontreehotels.com. But what MakeMyTrip has started doing and so have others, is that they are offering a cash back. So, Lemon Tree is obviously not going to offer a cash back for its own hotels. So, I give a room to MakeMyTrip at Rs. 5,000 I pay him a commission of Rs. 750, so the net rate I get is 4,250 and MakeMyTrip offers this room to a customer at Rs. 5,000 with Rs. 1,500 cash back. So, really MakeMyTrip earns Rs. 3,500. So, what they are doing is they are using our commission to take business away from us only and topping it up with some more money which we are showing as marketing and promotion expenses. So, I joke with MakeMyTrip, because they are friends of ours, that you take money from me to take business from me and then you lose more money to take that same customer, now how do I compete with that. So, what I do is I offer free breakfast, I will offer Wi-Fi, I will offer some more facilities but I cannot offer Rs. 1,500 cash. So, I am waiting patiently for a time when MakeMyTrip and other OTA stop offering these cash back and then we will compete with them on an equal basis and let me also tell you a normal hotel company strategy with these online travel agents will be that when the markets picks up and I am 100% sure it will pick up in the next couple of years when there is shortage of rooms in India then the big hotel chains will give less rooms to the online travel agents as an allocation and tell them we would not give you more than 10 rooms in Delhi or 20 rooms in Mumbai and we will keep the rest of the rooms available on their website.

Harish Shiyad: Direct channel.

Patanjali Keswani: Yeah direct channel.

Moderator: The next question is a follow up from the line of Jatin Nayak from ICICI Mutual Fund. Please go ahead.

JatinNayak: Sir, just one thing,do you think you are little late in opening up your property in Mumbai?

Patanjali Keswani: We bought this land in 2009. I do not want to make more comments. It took us 9 years to get approvals. Now you can read between the lines. Why there are no hotels in Mumbai and why only five guys can build hotels in Mumbai and they are all real estate developers. So, there was no delay it is expected, but fortunately for us we bought that land for Rs. 50 crore, we bought it out of our own equity we did not take any leverage.I see that the opportunity cost is that Rs. 50 crore of land is now worth say Rs. 200 crore assuming 15% CAGR and I expect now a return on that Rs. 200 crore. So, I am giving you an indication of what return I expect for that hotel.

Jatin Naik: But in terms of how much we will be spending to construct our entire hotel and the timeframe in which it is going to come you are expecting a good ROC again?

Patanjali Keswani: Unfortunately, in India for whatever reasons people look at ROC on historical cost basis. So, on a historical cost basis I expect a very high ROC for this hotel. I expect for example Mumbai and Pune in one year to give me at least a Rs. 50 crore EBITDA which is next year on a standalone basis, together by the way, not separately. Now in Mumbai we have invested about Rs. 300 crore so if we get a return of 11% or 12% in year 1 it is a good return which means that if we get about a Rs. 35 crore return in Mumbai we will be pretty pleased in FY20, but I revalue Mumbai because I revalued at land for the holding cost then my project cost on a revalued basis should be Rs. 150 crore more which means Rs. 450 crore which means in year 1 I am getting an 8% return. It is also not too bad in the hotel business because really your returns start after a couple of years, but on a historical cost basis we will have a good return. I hope I made sense to you basically I internally revalued the hotel at about Rs. 450 crore because of the holding cost of the land.

Jatin Nayak: My last question was is your rate hike somewhere depended on what rate hike the 5-star guy take if they have to take probably an 8% and 9% then you will go ahead and take 7%, 8% or you are going to go ahead and take that rate hike irrespective?

Patanjali Keswani: It depends on who is the market leader. So, in India because of the peculiarities of the supply pyramid in India for the last 20 years it has been the 5-star hotels that were price leaders normally. However, it is a mid-market worldwide that leads pricing. Now to answer your question if in a local market a 5-star hotel takes its prices up by 7% or 8% then typically I am constraint in a range I cannot take my price such that my price becomes the same as the 5-stars price so I am constraint as a top end. However as a deliberate strategy last year and this year we have decided to be aggressive irrespective of how 5-star behave near us and if you notice and I think these numbers will come out gradually you will find that we have increased our prices far above what I think the Indian market has increased in the last two years and I am very much hopeful that now the Indian market itself will see increases because it really needs to.

Jatin Nayak: Because what we see is the 5-star guys as of yet have not gone ahead and taken any meaningful price hike so even though you have taken probably, they have to at least start taking now for you to continue to take that hike increment?

Patanjali Keswani: I am hoping analysts like you will help them drag them towards that direction, but the reality is let me also be very clear here, owners of hotels who manage hotels will be more aggressive in taking prices up, but guys who are pure managers of hotel like the international brands unfortunately are not taking prices up and that is the sad part of what is happening in India because we are not aligned in incentives.

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

Patanjali Keswani Thank you everybody. I have got a very informative set of questions.

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