November 18, 2022

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400001

NSE Scrip Symbol: LEMONTREE

BSE Scrip Code: 541233

Subject: Disclosure under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Ref: Outcome of Conference Call with Analysts/Institutional Investors

Dear Sir

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that in continuation to the disclosure made on November 14, 2022 wr.t. the audio recordings of the conference call on unaudited financial results for the quarter and half year ended September 30, 2022 held on Monday, November 14, 2022 please find enclosed herewith the transcript of the conference call with investors/analysts.

Kindly take the same on your record.

Thanking You

For **Lemon Tree Hotels Limited**

Nikhil Sethi

Digitally signed by Nikhil Sethi
DN: c=IN, o=Personal,
2.5.4.20=ae9580dd81b25cc21dafdadd6050c1e576b3797a5820
c8183d929d51e618cfff, postalCode=110015, st=Delhi,
serialNumber=095c8ada187fec0f77f9becb63f7323b82981eb37
891f2cafa895971d52a63c6, cn=Nikhil Sethi
Date: 2022.11.18 19:44:44 +05'30'

Nikhil Sethi
AVP Legal & Group Company Secretary
and Compliance Officer

Lemon Tree Hotels Limited
Q2 FY23 Earnings Conference Call Transcript
November 14, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the Lemon Tree Hotels Limited Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone.

Please note that this conference is being recorded.

I now hand the conference over to Ms. Aesha Shah from CDR India. Thank you, and over to you, ma'am.

Aesha Shah: Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotel Q2 & H1 FY23 earnings conference call. We have with us today, Mr. Patanjali Keswani, Chairman and Managing Director; Mr. Kapil Sharma, Chief Financial Officer; and Mr. Vikramjit Singh, President of the company.

We would like to begin the call with brief opening remarks from the management, following which we'll have the forum open for an interactive question-and-answer session.

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

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

Patanjali Keswani: Good afternoon, everyone, and thank you for joining us on the call. I will be covering the quarterly business highlights and the financial performance for Q2 FY23, the post which we'll open the forum for questions and suggestions.

This quarter, we have centered our presentation around the comparison with Q2 FY20 to highlight the impact of the structural changes in the costs that have been implemented post-COVID.

Q2 FY23 saw a further rise in ARR, while occupancy remained in line with the previous quarter due to the normal seasonal nature of the hotel business. Total revenues for Q2 FY23 stood at INR 197.4 crore, which is 28% up versus Q2 FY20 and 3% up on a quarter-on-quarter basis. Net EBITDA margin stands at 47.8%, which is 1,567 bps above from Q2 FY20 and down 48 bps on a Q-on-Q basis. This very slight fall was due to a rise in payroll costs as our hotels have now ramped up to prepare for Q3 FY23, which typically has higher occupancies.

The PAT for the quarter stands at INR19.4 crore, which is up 742% when compared with Q2 FY20 and 43% up on a quarter-on-quarter basis. Despite occupancy not recovering to pre-COVID levels, Q2 FY23 has recorded the best gross ARR EBITDA and PAT in the last 14 preceding quarters.

Demand from corporate travel remains robust, and it continues to be the highest contributor to room nights sold which is at 44% with a revenue share of 41%. Corporate travel, along with airline and travel trade, contributes 55% of room nights sold and 52% to the revenue. The contribution of the retail segment has grown significantly. Retail's contribution towards room night sold is up 5 percentage points to 45% versus Q2 FY20 and revenue share is up 7 percentage points to 48% versus Q2 FY20.

In terms of future demand, we see a significant improvement in consumer sentiment. Leisure and corporate travel continue to gain traction. We anticipate that consumption will strengthen even further in the coming quarters. The Gross ARR stands at INR 4,917, which is up 19% versus Q2 20 and up 2% on a Q-on-Q basis. Our focus on cost optimization has translated into an expansion of EBITDA by 1,567 bps versus Q2 FY20 with a reduction of 557 bps in payroll, 239 bps in raw material costs, 127 bps in HLP, and 643 bps in other expenses. HLP is power.

We are happy to share that we have expanded our presence with the signing of five new hotels in Hubli, Rajkot, Goa, Erode, Kanha, and two hotels - Keys Lite in Visakhapatnam and Lemon Tree Hotel in Mumbai, Kalina were operationalized in October 2022. Our current operational inventory comprises 85 hotels and about 8,300 rooms with another 2,600 rooms in the pipeline. Hence, based on the current pipeline, by 2025, our total operational inventory will be approximately 10,900 and 115 hotels.

Compared to the industry Lemon Tree same-store hotels, RevPAR grew 14% versus Q2 FY20, while the industry grew 7% in the same period. Lemon Tree same-store hotels recovered faster than the industry in Q2 FY23 versus Q2 FY20 in Mumbai, Hyderabad, Delhi, Bangalore, Pune, Gurugram, and Chennai.

Diversity of team and gender inclusion is one of the key pillars of our corporate mission. We've been actively engaging with differently abled or economically, educationally, socially, or geographically challenged individuals over the years. As we look forward, we aim to have about 30% of them on our team by FY26.

With this, I come to the end of my opening remarks and hand them over to the moderator.

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

Archana Gude: Congratulations on a good set of numbers. I have 2 or 3 questions. Sir, firstly, on the occupancy part. So, I'm referring to Slide number 12 of our presentation. So, I see this healthy improvement for us in Mumbai and Pune when I compared it to Q2 FY20 in terms of occupancy. But still in our major markets, we have yet to reach Q2 FY20 levels. So, my question to you is, is there any structural change in these markets in terms of competition, or demand itself is subdued and it may take a while to reach to original level?

Patanjali Keswani: Well, the market has not changed nor has there been any fundamental change. If you look at our business, there is one segment, which is our retail, which is like online travel agents and direct bookings with our hotels. And one is the corporate travel trade the one would call the airline segment. So, what we find is that if you look at our occupancy, vis-a-vis Q2 FY20 is down by about 8 percentage points. But the number of rooms that we have operationalized has gone up. So, in Q2 FY20, we had approximately 3,975 owned and leased rooms, which today is about 5,100. So the number of rooms has increased by over 1,000 rooms.

The actual demand for rooms, if you look at it from an aggregate basis, has shrunk by about 500 room nights per day, and that is entirely on account of corporate. So what we are finding is that in some key markets like Gurgaon and in Bangalore, which are MNC-heavy demand markets because while 55% of our national demand is corporate and travel late and so on, it is much higher in Bangalore and Gurgaon and we have a disproportionately high share of inventory there, which is about 1,300 - 1,400 rooms, or about 25% of our inventory. There, the corporate demand has not reached pre-COVID levels yet and that will really occur in H2, which is why there is a slightly skewed perspective, as you mentioned. But I have no doubt it will come back to full normal as in pre-COVID.

Archana Gude: On this Aurika, Udaipur, when I look at the numbers, the numbers are still subdued. And so, like to know how has been October for us? And how is wedding season looking for our Udaipur hotel?

Patanjali Keswani: I'm trying to win in this market and since it's our very first Aurika, and our second one, which is managed has opened in Coorg, I'm trying to position this brand, right, because our plans in this brand are actually very large. As I said, this is our first summer with Aurika because we opened just before COVID. This is a journey of discovery for us so I mean, as I said earlier, also in the conference call, I am raising the prices. I want to see how the market accepts the brand and we are still doing very well in terms of revenue and in terms of EBITDA.

Perhaps we could do a better occupancy even in winter if we drop the price, but that's not our strategy right now. So, as you will notice throughout, our intention is really to maximize revenue per available room, which is the actual return per room and that requires you to play with the two levels of pricing and occupancy. So sometimes you will trade off on occupancy by keeping a higher price in order to maximize RevPAR.

Archana Gude: Lastly, on Aurika, Mumbai so should we expect some cost escalation given the prices of most of the costs have substantially gone up recently?

Patanjali Keswani: So if you look at our cost structure, we are pretty good at controlling costs. So we have given an indication that it will cost approximately Rs. 950 -1000 crore to the business hotel, but I think we will be still at Rs. 950.crore. We will open it in Q3 next year, as far as the cost structure goes and the target goes, we are still very much there and if there is a change, it can't be material it might be 1%-1.5%, but it won't be significant.

Moderator: Our next question is from the line Nihal Jham from Nuvama.

Nihal Jham: Congratulations on the performance. Sir, a couple of questions from my side. First has the trend that we've seen till September continued ahead in October and November also and based on the business on books that you're currently seeing for the H2 part of the year?

Patanjali Keswani: This is a seasonal business normally, H1 is lower in occupancy, lower in demand, and therefore, lower in price than H2. That's always the case and within H1 and H2, typically, the high demand in H1 is in the first quarter, it is seasonally a little weaker in the second quarter, though I know we have done better. Then the third quarter is better than the second quarter but not as good as the fourth quarter. Because in the third quarter, in October, for example, this year, you have what's called Dussehra, Diwali, and so forth.

So, for a business hotel-heavy company like us, where about 85% of our inventory is business hotels, actually, Diwali and Dussehra are periods when you do relatively lower occupancy. So as of now, and I'm talking mid-November, things have gone exactly as we anticipated, which is October will be weak and November will be very strong. Let me say, Q3 looks to be just as we anticipated.

Q4, based on advanced demand, also looks to be about what we thought it would be. So broadly, in H2, it could depend on how well you do 130% - 140% of the revenue we do in H1. So, if we do INR100 in H1, you can do anywhere from INR115- INR140 in H2. I don't want to give an exact number because I've already given guidance on the full year. It's as we expected and perhaps slightly better.

Nihal Jham: That is helpful, sir. The second question was that you did allude in the last call that incrementally, you are looking at pricing the rooms right, even if there is a slight loss in occupancy. And I think the results are in a way also reflecting that.

Patanjali Keswani: The results will show you in Q2.

Nihal Jham: In Q2?

Patanjali Keswani: Exactly what I said.

Nihal Jham: Yes. Absolutely. But just I had this observation on Red Fox specifically where the pricing is much higher while say, for the brand like Lemon Tree or Lemon Tree Premier, there is still a pricing room in terms of the customer set, but does for Red Fox, which is a value-focused brand from our side, this kind of an aggressive pricing changes the mix of the brand? Or ideally, would it be fair to say that going for pricing in the Red Fox brand is the right way ahead for you all?

Patanjali Keswani: So let me be specific here, see Red Fox , it's our value brand. But the reality is that it had a very low base in the past. So, if you look at Q2 FY20 on Slide 11, you will see that it was priced at INR 3,000. And all we've done is, we've kind of repriced it now in line with what the replacement cost of these assets should be. So, it is these assets are typically at 50% of the cost of sale, which is why we look at even the EBITDA per room. We've tried to bring the EBITDA up in these hotels. And as you will see in the quarter, it was INR 1.3 lakh versus, for example, a premium was INR 2.8 lakh. So it required a bigger increase in pricing than a Lemon Tree Premier. And therefore, it had a bigger impact on its occupancy and the RevPAR is up only 8%. But remember, Red Foxes are far more in the tier well in the less prime locations than a Lemon Tree Premier or even a Lemon Tree. And therefore, the kind of customers we get there are also more by definition, value-conscious, and willing to take a trade-off on location and price.

So it's a process, let me be honest. It's a process of discovery for us. But what we are very clear about is we are going to price right and therefore maximize RevPAR rather than focus only on occupancy, which used to be our strategy earlier. And now I know this may not exactly answer your question, but we are quite clear that we will catch up on occupancy to pre-COVID levels. And it is, therefore, a short-term pain of repricing and then building demand up to pre-COVID levels. I would much prefer we don't go to the other route, which is to build up demand at a low price and then try and raise the price because, at that point, it is very difficult to change pricing.

Nihal Jham: Yes. And I just had a final clarification on the occupancy comment that you made that you have some belief that by keeping these prices also, you can get the occupancy back to what Red Fox used to do earlier.

Patanjali Keswani: No, I'm saying our prices will go still up. What you are seeing is the prices of Q2. I'm saying that Q3 will be a surprise to you in pricing and we will trade off occupancy because we are convinced that within this year itself, whether in Q3 or in Q4, at some point, our occupancy will catch up to pre-COVID.

What am I saying? I'm saying your ARR, which was whatever it was, say, it was INR 4,900. We are very clear, we are to target at least a 10% improvement in that ARR in Q3, and a further improvement in Q4. And there will be a catch-up in occupancy. This 18%-19% improvement in ARR is not what we want, we want a much higher improvement in ARR, and catch-up in occupancy subsequently, but within the quarter.

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

Karan Khanna: Just a couple of questions from my side. First, we're hearing a lot of international and Indian hotel chains that are looking to expand in the mid-income segment and also the Tier 2 and Tier 3 cities. So how do you think this could impact the ask rate for management fees for the industry?

Patanjali Keswani: See, as long as the branded hotels, by and large, the bigger branded hotel sales are rational in the fees they ask because there is a very big difference between a listed branded player, so to speak, whether international or Indian or a much smaller branded player who focuses more on management contracts. So see, if you are looking only as a relatively smaller player, you are focused on cash flow. So you will pay off fees because your game is to basically get more and more hotels and earn management fees.

The larger players are more interested in two things: one, a fair fee, which means it's typically a much higher fee, and number two, the longevity of contracts. So if you look at the contract between, say, a Taj or a Marriott sign and say standalone smaller chain signs, and I'm not going to comment on Lemon Tree I'm talking in general, the quality of the contract of the former are much stronger. And in fact, you can value that contract based on an NPV of future management, whereas the quality of the contract signed by a local operator of the hotel is very weak, and it is normally the owner of the hotel of the contract with no consequences. Now we have deliberately followed the former strategy, which is we want strong contracts so that we can price our contracts as an NPV of future fees.

When you look at those competitors and a lot of them are getting into the market, which is the branded players, I do not see that there will be a trade-off on fees. Yes, there will be more competition, but whoever gets it, will get it at the right price. The more I see this happening, the better I feel because all it's doing is organizing a very fragmented market. And I do not see it as a disadvantage. I see it actually as a great advantage because the more consolidated the hotel industry gets in India, the more rationale will be the behavior, whether it's pricing or in terms of quality of rates and so on.

Karan Khanna: In terms of Capex, so what we are seeing is that the total Capex stood at INR 470 crore for the Aurika and the other hotel as of September versus INR 440 crore as of the end of the June quarter. So just wondering, assuming INR 30 crore of the quarterly run rate that takes for six to eight quarters before you complete the balance of INR 500 crore of Capex. So are you on track?

Patanjali Keswani: Very much on track. Let me explain. Think of it as a takeoff. So when the hotel is under construction, what happens is that the first up to about six to nine months before it is ready, the consumption of capital is relatively low because you are really building the structure, okay, which is a low-cost part of the hotel. The high cost part of the hotel is the finishing and the ordering of equipment, which typically, as I said, happens about six to nine months before the hotel opens.

So really, the pickup you will see in expenditure will be from Q4 this year because if we are going to open the hotel in Q3 next year, which is the October, December quarter, then, really, you will see a pickup in Capex from, say, January or February this coming year. Even in that INR950 crore, which we have said we will spend and let's assume we have spent by then, say, INR500 crore, including this quarter, the next INR450 crore, at least INR100 crore will be spent after opening the hotel because those are related to performance clauses, which contractors when they build our hotels or supply equipment, and we settled that six months to maybe even nine months after opening.

So broadly, we will require about INR 350 crore next year to open this hotel next calendar and another INR 100 crore post opening. And that is why we said we tried to align our cash flow. And you will find even our gross debt has, in fact, remained flat in spite of us constantly investing capital in this hotel.

Karan Khanna: So just continuing the Capex, you mentioned roughly INR 540 crore of Capex, which has to be incurred over the next 1.5 years. So, do you think that the internal cash flows will be sufficient to sort of fund this INR 540 crore? Or do you think the debt levels will also go up because of this?

Patanjali Keswani: I have said earlier that, by and large, our gross debt will remain the same. And that implies, of course, that we see that we can fund all this through our internal accruals.

Karan Khanna: Just an extension because your quarterly finance cost run rate is around INR 45 crore, which implies roughly INR 270 crore to INR 300 crore over the next 1.5 years. And if you add the Capex amount of around INR 540 crore, that translates into roughly INR 850 crore to INR 900 crore kind of a cash outflow and versus this, you believe that INR 800 crore kind of a cash flow over the next 1.5 years will be achievable.

Patanjali Keswani: Broadly, yes.

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

Sumant Kumar: So room rent range of INR 2,500 - 3,500 across branded players, we have seen occupancy rate is lower than pre-pandemic versus luxury. Is it because of pressure from the unbranded player or supply is higher? Can you talk on that?

Patanjali Keswani: No, you'll have to be specific. So are you talking about Red Fox total?

Sumant Kumar: So I'm talking about all the room rent we have at Red Fox and other hotels, which is in the range of INR2,500- 3,500 room rent. The observation in the occupancy not just for you, for others branded players also it is lower. Maybe the room rent is higher for other players as well. But is there any supply side pressure in this segment?

Patanjali Keswani: No. Actually, quite the reverse so. If you go to Slide 11, you will see we always give by brand occupancy in ARR and then by region. So what I want to alert you about is pre-COVID that Q2 FY20 quarter we are referring to was Keys. There was no Keys then. We had not acquired Keys. As you know, we acquired Keys 3 months before COVID hit. So the way I look at it is, what did we do without Keys and what did we do with Keys. So then there is another slide a little ahead, which I would like you to look at, which is Slide 21. And I think that answers your point.

So our occupancy actually in Q2 FY23, if you go to Slide 21, was a little short of 70%, with an inventory of 4,154 rooms, which means really, these were 200 additional rooms we added because our inventory of owned rooms was INR 3,975 in Q2 FY20. Then you add Keys and Keys is the deflator as you will see. So when you look here, let me just put it in perspective. Keys has 2 components. One is about 50% of its inventory is in Bangalore and Pune, where the occupancy we did was a little under 65%, about 63%- 60%. And the other 50%, which is another 470 rooms was in cities like Trivandrum, Kochi, and Ludhiana and so on, where our occupancy even now was sub-40% because Kerala has not recovered at least in this segment. So the average occupancy Keys did was 53%. But the average occupancy Lemon Tree did was a little short of 70%. And that's the key point I'm making. Because if you go even citywide like Bangalore if you go back to my Slide 11. If you go to Bangalore, we did 68% occupancy instead of 80% pre-COVID. But what was that?

Actually, what it meant was that we did in Keys about 61%- 62% and in the original Lemon Tree Hotels, we were well north of 70%. But you can see the average, which is 60%. The real comparison of 80% in Q2 FY20 is with the Lemon Tree products, which did much better than the Keys products. Same logic applies in Pune. If we look at rest of India, where we have 1,660 rooms. If I take out Keys, then we were much higher than this. I haven't calculated exactly, but it was much higher than this 52% that you are seeing, which is the aggregate.

So really, as I have said in the earlier concalls also, Keys is a product which we were unable to renovate because COVID hit us just 3 months after its acquisition. We are in the process of renovating Keys. We have started it, in fact, this summer. By next summer, we will have renovated all these 936 rooms. Our plan is very simple. We think in Bangalore and Hyderabad and Pune, we can reprice it by at least 40% more than it is today. So we are going to invest more capital there in the upgrade. And in the remaining markets, we are going to bring the product up to what we think is a minimum brand standards level. We think there too, we can reprice by 10%- 15%. So really, the upside will be captured next year. So whatever you see about Lemon Tree this year, will be really without Keys contributing to it, which will really show next year.

Sumant Kumar: Can you talk about the corporate rate hike in the upcoming months?

Patanjali Keswani: We have already hiked corporate rates and if you look at corporate rates today in Q2 FY23 versus Q2 FY20, they are already up by north of 15%. This segment, is up by INR 600 in the corporate, airline and travel trade segment versus Q2 FY20. In the retail segment, we are up to INR 1,000. That's why you're seeing a weighted average increase of about INR 800.

Sumant Kumar: Alright. And the mix has increased, right?

Patanjali Keswani: No, mix has changed. When you look at the demand drop, which is occupancy, as I said. So now I'm aggregating Keys and Lemon Tree. The actual in numbers are in Q2 FY23, we did 3,370 rooms on our base of 5090, which translated to that occupancy of 66%-67%, whatever we have announced. But in Q2 FY20 on a smaller inventory, we did a higher RPD. And if I break the 2, then I see that the traditional segment of corporate airline and travel trade is the segment that has really come down.

The retails segment has continued and pick up and that is really the corporate segment which is lagging. So that is why I said that impact has come in Gurgaon mostly and Bangalore, where a lot of corporate still have not picked up travel to the full levels, and I expect it will catch up in H2.

Sumant Kumar: Is there any wastage from the corporate side or industries are not giving more inventory to the corporate?

Patanjali Keswani: No. Actually, month by month, I see corporate demand picking up slightly, except in some markets, see, normally 55% of our business comes from non-retail. In some markets, it's 80% like Gurgaon or Bangalore, okay? So in those markets where we are more dependent on corporate, especially large corporates. Some of those large corporates have not really come back to the full level. It is possible they may never come back to the full level. But the trend line shows that the demand from those segments is increasing, but has not caught up to pre-COVID. So some segments have caught up to pre-COVID and some haven't. And there, we are very dependent on those segments, which is Gurgaon and Bangalore. The catch-up is still to happen fully.

Sumant Kumar: And can you talk about the demand side for the upcoming quarter and the correlation that the G20 things are also happening? So how the demand is going to be your thoughts on that?

Patanjali Keswani: I think demand is going to be phenomenal with G20, we're going to have hundreds of meetings all over India. And in some cities, the government has already blocked hotels and told them they want rooms from them. So I have no doubt it will be very accretive in terms of value, obviously, to the hotel industry in the calendar year 2023.

As far as demand goes, as we expected, October was a very slow month because of the Dussehra, and Diwali. November is the catch-up month. So it's doing very well. December will also be in our anticipation of our trend line, a good month until about 20th of December when slowdown starts due to Christmas, New Year, but that's an annual event. And Q4 will be again a phenomenal quarter. So it's growing as we expected there are no negative surprises. And I think the positive upside, I do think happened in Q4 because of G20. But I cannot comment on it currently.

Sumant Kumar: So G20 has the higher surprises in Q4, not Q3.

Patanjali Keswani: See, what happens G20, they'll book obviously a certain number of room nights everywhere, and therefore, there will be an improvement in demand, and therefore, that will play out in pricing and demand. So, I have not worked out what will be in Q4 with G20. But we feel it will have a significant impact.

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

Sanjaya Satapathy: My question is that the recovery hasn't happened at the lower end and also recovery hasn't happened on the corporate side. So, should I conclude that the rooms dedicated to corporate are mainly the lower-yield ones?

Patanjali Keswani: Don't assume that because in some markets, even if corporate is not caught up, the retail demand has been replaced. There are multiple things even though by and large supply additions have been very marginal, pre-COVID, there were supply additions planned disproportionately in some markets and less in others. So for example, Hyderabad, Gurgaon, and Bangalore have gone through a supply growth to a minor extent, but it is happening.

Demand growth has not been significant on the retail side. These are markets which are heavily dependent on corporate and especially IT. So sometimes combinations like that can affect the demand-supply dynamics of a micro market. What you are seeing is the aggregate. We did very well. But Gurgaon and Bangalore relatively led to negative RevPAR. And while I understand where you're going, I'm repeating to you if you take out Keys because Keys is 20% of our inventory the rest of the group did very well actually. Because if you take Keys out, not only were the occupancy much higher, our ARR was also much higher. I mean just in your mind, just go to Slide 21, and you will understand exactly what I'm saying.

So go to Slide 21 you will see Lemon Tree's ARR grew 25% on FY20 to FY23 from INR 4,100 to INR 5,000 crore to INR 5,200. Occupancy only slipped 5%, okay, for a repricing at the level of 25%. It was Keys that slowed down and specifically in Trivandrum and Cochin and so. So it's just a catch-up there. You have to really think of it as 2 groups and the performance of Keys is what is currently on a weighted average slowing us, but that is the one we are most confident we'll be able to pick up. So it's low hanging fruit in that sense.

Sanjaya Satapathy: And my next question is that this corporate sector recovery in Gurgaon and Bangalore, which you are talking about, are you attributing that to this work from home phenomenon or something more?

Patanjali Keswani: No, you see what happens is there is all types of corporates. In some markets, there is heavy dependence on small, medium enterprises. In some markets, there are large corporates in some markets, the largest share is MNCs or tech company and stuff like that. So Gurgaon and Bangalore is really tech companies and large MNCs. And that's where I don't see currently demand fully back to pre-COVID levels.

Sanjaya Satapathy: I mean because of work from home or something else looking

Patanjali Keswani: No, I think you're gradually picking up here. I mean, they all say the demand is coming back our sales team says it, the customers say, so I think it's just a question of catch-up. Everything doesn't catch up at the same time.

Moderator: Our next question is from the line of Venil Shah from Prabhudas Lilladher.

Venil Shah: Yes. So I have a couple of questions. One being our total expenses have come down nearly 15% compared to Q2 FY20. How much of this should reverse going ahead, especially on the employee cost side as we gear up for a stronger season in H2? And is there a significant portion of temporary workers in our employee mix?

Patanjali Keswani: No, we don't have temporary employees and all that. We have either permanent employees or outsourced employees. So certain roles like security or some housekeeping, etc. we have outsourced employees, but they are not temporary at all because once we take people on, we do not like to ask them to go, whether directly or indirectly. As far as the cost structure goes, see it's a permanent reduction. I have said this before. So, I think you will see it play out. In fact, I had said in the last conference call, I recollect that we are going to keep adding staffing until we find the right level.

Currently, we are nearly there. Our staffing levels are, I think, 0.63 or 0.64 per room or maybe 0.65 and it will stabilize at 0.66 staff per room, which used to be 1 staff per room pre-COVID. So the short answer, though I've given you a long one is our cost structure is permanent, what you are seeing. And as you will notice that if you look at, for example, Slide 21, again, I'm just having a look here, our expenses without Keys hotels, down by about INR 14 crore versus Q2 FY20, although we added about 200 rooms. And Keys was the reason that the aggregate expenses went up, but even so, it has been less than FY20. So this cost structure will not change.

And as I have said, this will lead an net EBITDA margin north of 50% even in this financial year, as you will see it playing out because think of it very simply. If we did INR 390 crore, what did we do? We did INR 390 crore in H1, even if we do a 10% improvement technically in H2, that is INR 424 crore, INR 430 crore, and we will cross INR 800 crore, which is double of FY22. And that INR 30 - 40 crore of incremental income, the increase in cost will be less than 25% because our variable cost is 23%. So a simple back of the envelope calculation, if we cross INR 810 crore that is we do H2, which is marginally better than H1. Then we will north of 50% and a revenue which is 100% over the previous financial year.

Venil Shah: Sir, taking this question, you mentioned that our staff per room to be around 1, and that has come down to now 0.6, 0.63. Is this something which you're witnessing across the industry? Or is it something specific to our strategy?

Patanjali Keswani: Well, to a great or lesser extent across the industry. But in our case, it is much more because we have done some level of automation also.

Venil Shah: Sir, and my second question would be the fee for managed dates was around INR 15 crore for H1. Where should we build this number? And where do you think, this will trend say by FY 25? Should this be closer to INR 100 crore?

Patanjali Keswani: Well, it's simple. H1, normally, the fees from managed hotels is much less than H2 because you have what's called incentive fees, which is earned by you based on the EBITDA performance of managed hotel. And normally, in H2, as I said, the income is 22%- 30% above H1, and that really gives you an uplift in your EBITDA. So H1 into H2 is, again, 1:1.5, maybe because the fees are much higher. And 3 years later, we have a projection, which is based on how many rooms we expect to operationalize. So right now, when I told you, we, as of today, we'll have 11,000 rooms approximately in the next 2 years, we are also signing very rapidly, and I have given some broad guidance on it. Now if all that plays out, then our fee structure will be north of INR 100 crore in FY25.

Venil Shah: Got it. Sir, and one final question. You mentioned about undergoing some Capex or renovating the entire Keys portfolio. Could we know the quantum for the same?

Patanjali Keswani: So it's very simple. It's INR 4 lakhs a key for half the portfolio and INR 1 lakhs a key for the other half. So, if you average it, it is INR 2.5 lakhs for 1,000 rooms, about INR 25 crore, of which we have spent some this year, which is actually part of the expenses. I think we have spent about INR 7 crore on renovation already this year. And we will spend the balance next year and the following year, and it comes out of before the net EBITDA figures you see.

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

Prateek Kumar: My questions are both like earlier. So first question is, when you say on second half revenues like higher by 15% to 40% versus first half. So like it feels like with present industry or a company do like a 15% versus first half, that will be a negative surprise standing in like today?

Patanjali Keswani: Assume I do INR 100 in Q1. Typically, I expect to do INR 95 -100 in Q2. So, let's assume I do INR 200 in H1. In H2, I should do, assuming everything is normal, I mean the industry, this is not a guidance for Lemon Tree, you should do anywhere from INR110 to INR120 in Q3 and INR125 to INR135 in Q4.

So what I'm saying really is that if you do INR 200 in summer, you should do INR 230, say, INR 260 in winter. So therefore, your annual revenue will be INR 430 to INR460. However, your expenses, like if your expenses are INR 100, and let's assume you do an EBITDA of INR 100 in H1, in H2, your revenue is INR 430 to INR 460, but your expenses go up only by 25% of the incremental revenue. So if you do INR430, your expenses in H2 will be INR 107 or INR 108.

Prateek Kumar: Sure, sir, my question actually was slightly different. So I was asking, like, let's say, in H2 like sitting today in terms of general expectation, in H2 if we do like closer to 15%, I mean 115% of H1revenue in H2, that will be a negative surprise sitting today? Or I mean, because we are also we can also do like 140% of first half in second half.

Patanjali Keswani: No, actually it's a function of 2 things here. Frankly, it's difficult for me to give a clear number for H2, I can only give you a range. But I'm saying that the broad numbers, which I have given you are true for the industry. And as I said upfront, what I have the guidance I have given is for the full year, we will do more than double last year's revenue, and we will do a net EBITDA north of 50%. That's all. The rest depends on how Q3 and Q4 play out, and how much is the impact of this war continuing impact in terms of, for example, a lot of charter traffic to Goa has been affected. So there are negatives there. Then how will G20, what will play out in Q4, that will be positive? So these are the imponderables, I cannot give specific guidelines on them.

Prateek Kumar: Sure, sir. And my second question is about cost. So are there any pent-up costs in the system, which we foresee?

Patanjali Keswani: No, we are very clear we are very transparent. We don't defer any costs. We are audited by a big 4. So, there are no surprises, negative or positive in our cost. The only point I would urge you to look at is we are not sure what our final tax will be. So, we have been conservative in our taxes.

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

Rajiv Bharati: Sir, on your ROI, which is rest of India, the price increase in Q2 versus the base quarter Q2 FY20, there is INR 1,000 increase, which we see. And the similar number is what we see in case of INR 1,100 in Hyderabad. So -- and while the occupancies are, I mean, down in rest of India. So is there experimentation you are trying to do on the pricing side to test the ROI market possibly because the supply of good hotels there is lower? Or is this an established trend already?

Patanjali Keswani: No. So one is, again, you will have to separate the performance of the rest of India between Keys and Lemon Tree. The occupancy was about 60% and the ARR was north of INR4,500, okay. It is the Keys portfolio that underperformed. Now the pricing that we are growing the most of the pricing changes that you are seeing, in fact, all of them are with the Lemon Tree portfolio. The Keys portfolio is not yet giving us any change from pre-COVID because pre-COVID, we didn't have it actually. So really Keys is the portfolio that will give us the maximum upside next year. This year, because we are in the middle of our digital transformation, we are focusing heavily on revenue management and the exercise has just started. We will continue to reprice to where we maximize RevPAR and therefore, hotel-level EBITDA. We are personally, at this point, a little indifferent to occupancy. We are only focused on maximizing the revenue per room. So we increased the rate by 10%, and it has a drop in occupancy of 5%. We are quite okay with that. So we are trying to discover the right pricing to maximize EBITDA.

The whole purpose of this digital exercise in revenue management is to maximize EBITDA. So it's an ongoing process, and I think it will continue even into Q4, which is why I say, I would urge you to look at the RevPAR growth in our company and the EBITDAR growth in our company rather than the occupancy versus ARR because ARR has gone up 19%. But if you notice, our ARR grew 31% in the rest of India, but the occupancy went down 15% and therefore, RevPAR only changed by 1. And that change is what we should track because that is going to flow through to the EBITDAR. So it's not a pricing strategy or occupancy strategy, it's a combo of the 2.

Rajiv Bharati: And referring to your Slide 15, where you have given the market share. So pre-COVID number, the market share in terms of room revenue and the night so largely similar so the rates apparently are similar. And now you are basically the room revenue market share on the retail side is higher. So pre-

COVID the retail should be paying you, I mean, my basic understanding retail is traditionally higher than corporate, right? And you are able to price higher .

Patanjali Keswani: Absolutely right, If you look at revenue share pre-COVID in corporate, it was merely the room night share. So, the room night share of corporate pre-COVID was 48% and revenue share was 47%. But because we increased the ARR, you have to look at it not as a percentage, but as an ARR number. We increased the ARR of retail more, if you look at pre-COVID to post-COVID, our retail ARR has gone up over INR1,000. And our non-retail, that is corporate, airline and travel trade has gone up only INR600, which is why the revenue share of corporate now is 3% less than the room nights share and the revenue share of non-corporates, which is OTAs and web and others, which is the FIT, is higher than the room night share. And that's what you will see playing out. And pre-COVID, if you notice, OTAs was 29%, room nights, 29%. Revenue share is now 34% to 36%. And even in the web, you can't tell, 2 to 2, but it's 2 to 2.5.

Rajiv Bharati: So, I was under the impression that pre-COVID also the behavior should have been the same, right? The market share versus room night market share, what should be different than the retail versus corporate?

Patanjali Keswani: If you aggregate all as you aggregate all it was about 3%- 4% because you have to look at the columns, the 3 columns on the right and the 3 columns on the left. But remember, this is again including Keys. So, you are not really getting the full picture. If you want to see the full picture, we haven't given it in that form, but if you go to Slide 21, you get a very clear idea of what's happening, and then you can break it backwards.

Rajiv Bharati: And my last question is on I don't know whether this is correct way of looking at it, incremental EBITDA margin on a quarter-on-quarter basis by brand. So, I'm looking at, let's say, Lemon Tree Premier. So, it's not that in your slides. I'm just basically doing Q2 minus Q1, I'm doing in terms of essential EBITDAR and divided by the revenue differential, Q2 minus Q1. So, the incremental flow-through in terms of EBITDA margin. And Lemon Tree Premier looks like it's 33% versus historically, incremental margin has come 75- 80%.

Patanjali Keswani: Go to Slide 11.

Rajiv Bharati: Yes.

Patanjali Keswani: If you go to Slide 11, it's all there, the hotel level EBITDA margins.

Rajiv Bharati: No, I get it. I mean, Q2 versus Q2, I'm talking about Q2 versus Q1. So, because your prices are going up, our RevPAR in fact, has gone up, but the incremental flow-through in Lemon Tree Premier portfolio in terms of EBITDA divided by the incremental revenue you have made is 33% flow-through. I mean maybe I'll take this offline.

Patanjali Keswani: I'm not getting the question. Yes, I would be happy to answer it. But I would urge you just look at a simple number, which is Slide 11. And there, you will find, although Keys is an underperforming portfolio, it has still done an

EBITDA margin of 52%. So, what you're seeing right now is still a work-in-progress. Across the board, you will find that our EBITDA are at the hotel level, the EBITDA margins are 51%. And what we are reporting at 48%, that 3% is due to basically corporate expenses and of course, there is an ad flow-through of management fee. So, the column you should look at for whichever question you want to ask is the last one on Slide 11.

Moderator: Our next question is from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Just wanted to understand what would be this ratio of outsourced employees to your total employees?

Patanjali Keswani: I would reckon that permanent are like 70% and outsourced would be 30% or maybe 75%- 25%, roughly that. But in terms of cost I think your bigger question is the variable cost. But in terms of cost, it may be 25% of our staff, but it will be only 15% of cost because obviously, the permanent employees are include managers and senior staff. So, that cost is higher for employment.

Pallavi Deshpande: And this ratio, how would it move like after this Mumbai property is opened up?

Patanjali Keswani: Very similar, Pallavi. It will remain the same because certain departments are outsourced and certain are permanent. So, that does not really change.

Pallavi Deshpande: And sir, secondly, on the social security code op, any estimate on what kind of provision may be required on that end?

Patanjali Keswani: On which end?

Pallavi Deshpande: For the social security code? On the employee expenses part for pension provisions.

Patanjali Keswani: I didn't get the question.

Pallavi Deshpande: I'm alluding to the notes to accounts mentioned about the social security code that has yet to be implemented and you are examining

Kapil Sharma: So, as you rightly mentioned special security code, we are doing an assessment on this. And probably by next quarter, we will be completing this exercise and we'll get back to you the exact number, what impact will be there if it is. But we feel that it's not going to be very significant.

Moderator: Our next question is from the line of Kushal Shah, an Individual Investor.

Kushal Shah: My question was on the industry room supply additions. So, if I see your return on capital for the quarter or the projections for the year, it is still low-double digits. That too, which is on a historical cost of land and historical cost of construction. So, if I were to calculate the return on capital for constructing a new hotel on today's cost of land and cost of construction, I believe it would be low-single digits. Also, we are one of the most efficient players with some management fee income as well, which flows through our bottom line. So in this context, can you help me understand that how much do ARRs have to go up from here where that will become lucrative for an institutional investor or an HNI investor to invest in building on new hotels? And are you seeing any new supply additions being planned already?

Patanjali Keswani: So supply, what you know for a fact is future supply growth up to 5 years out because there are enough agencies in India, professional agencies who track it and supply takes 3 to 5 years to anyway, operationalize. So, future supply growth has really slowed down. There are different estimates, but it would be low-single digits. So between, I would reckon my best guess is it will be 3.5% to 5% supply growth on an annualized basis for the next 3 to 4 years. The replacement cost of hotels, you're absolutely right, has gone up enormously. And if pricing doesn't catch up, then it does not make rational sense to build new hotels. Now traditionally, Lemon Tree's problem has been that unlike most other players in India,

So in our case, for example, roughly 50% of our capital deployed was operationalized in the 15, 18 months before COVID, which didn't really give a return. And that return is now starting to play out. And in our case, I expect that our ROCEs will show on a quarterly basis, an enormous improvement from H2 onwards. And this will continue in my opinion for the next 3 years because demand typically grows at 12% or 1.6% to 1.7% of GDP growth for branded hotels on a secular trend basis.

So if that plays out, then my guess is that India's GDP growth on a real basis at 6%-7%, then demand will grow at 11%-12% and supply will grow at 5%, which means year-on-year, there will be an improvement in occupancy and automatically an improvement in trade for the next 3 years, certainly. So it is no doubt that the industry is at the cuts of an upcycle. When that happens, ROCEs will change very dramatically. And I'll give you an amazing number. 70% of hotels return in a cycle between 7 to 10 years occurs in two years. It's a Pareto principle. That in the two years of top cycle, the hotel makes 60%- 70% of the capital. So, that's where we are at today.

So, I have no doubt that new supply will be planned in the next year or two or three, but it will take five years to come out. So in that period, the hotel industry will do very well, including the new hotels that we have opened, which have much higher cost per room than the old hotels because as you correctly said, the book value is very much lower of the old hotels . So, that's how I expect it to play out. And yes, HNIs and institutional investors will plan to build hotels probably from next year end onwards.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

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

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.