August 14, 2024

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East)
Mumbai – 400 051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

Name of Scrip: LEMONTREE

BSE Scrip Code: 541233

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

Ref: Outcome of Conference Call with Analysts/Institutional Investors

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to the disclosure made on August 8, 2024 w.r.t the audio recording of the conference call on Unaudited Financial Results for the quarter ended June 30, 2024 held on Thursday, August 8, 2024 at 4:00 PM IST, please find enclosed herewith the transcript of the conference call with Investors/Analysts.

This is for your information and record.

Thanking You

For **Lemon Tree Hotels Limited**

JYOTI VERMA
Digitally signed by JYOTI VERMA
Date: 2024.08.14 23:07:20 +05'30'

Jyoti Verma
Group Company Secretary
& Compliance Officer
M. No.: F7210

Encl: a/a

Lemon Tree Hotels Limited

Q1 FY25 Earnings Conference Call Transcript
August 08, 2024

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

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

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels Q1 FY25 Earnings Conference Call. We have with us today, Mr. Patanjali Keswani, Chairman and Managing Director; and Mr. Kapil Sharma, Chief Financial Officer of the company. We'll begin the call with brief opening remarks from the management, following which we'll open the forum 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 would now request Mr. Keswani to make his opening remarks.

Patanjali Keswani: Good afternoon, everyone, and thank you for joining us on the call. I'll be covering the business highlights and financial performance for Q1 FY25, post which, we'll open the forum for your questions and suggestions. Due to high seasonality of the hotel industry, I would request everybody to consider YoY performance rather than QoQ.

In Q1, despite the headwinds faced by the hotel sector due to the election process and the extreme heat wave, Lemon Tree recorded its highest ever revenue at Rs. 268.4 crore, revenue grew over 19% compared to Q1 FY24, while the EBITDA grew 8% YoY, translating into a net EBITDA margin of 43%, which decreased 4.56% in percentage points over Q1 FY24. Of this fall in EBITDA margin YoY of ~4.6%, about

50% was due to one-off increase in investments in renovation and digital transformation. Q1 FY25 also recorded a gross ARR of Rs. 5,686, which increased 9% YoY. The occupancy for the quarter stood at 66.6%, which decreased 360 bps YoY. This translated into a RevPAR of Rs. 3,788, which increased 4% YoY.

As I have stated in earlier calls, the decrease in EBITDA margin YoY was owing to planned increases in investments in renovation above that spend in Q1 FY24 as well as investments in digital capabilities, expansion of our business development and sales teams and an overall annual payroll increase. The Keys portfolio EBITDA margin decreased by ~10 percentage points YoY due to an increase in renovation expenses of Rs. ~1.8 crore over Q1 FY24 which was actually a 100% increase. During the quarter, ~25% of the total Keys portfolio was shut for renovation, which impacted the ability of the Keys portfolio to increase occupancy which decreased 148 bps YoY. With demand growth expected to exceed supply growth in the next 2 years, accompanied by structural tailwinds that India is currently witnessing, this significant investment in renovation will allow us to better position our hotels going forward to capture superior pricing and position Lemon Tree as the brand of choice in the mid-market segment.

Fees from managed and franchise contracts from third-party hotels stood at Rs. 12.5 crore, up 21% from Rs. 10.5 crore in the previous year same quarter. Total management fees for Lemon Tree were up 22% at Rs. 29.1 crore compared to 22% less in Q1 FY24.

During the quarter, we signed 3 new management and franchise contracts, which added 187 rooms to our pipeline and operationalized 4 hotels, which added 331 rooms. As of 30th June 2024, the inventory for the group stands at 107 operational hotels with 10,125 rooms, and our pipeline comprises an additional 4,000 rooms.

Going forward, we are confident of the company's ability to sustain this growth in the coming quarters by focusing on the following growth levers, the continuing stabilization of Aurika MIAL, which is already EBITDA accretive; accelerated growth in our management and franchise contract with a proportionate increase in fee income timely completion of renovation activities in the owned portfolio to further improve ARRs and occupancy.

Please note that the increased investment and allocation in renovation expenses will continue into FY26 until the full portfolio of owned hotels will be fully renovated. Post this renovation expenses will drop to 1.5% to 1.6% of revenue. Continued efforts under our digital transformation exercise with BCG which involves strengthening our sales processes, revenue management and loyalty program.

With this, I have come to the end of my prepared remarks. But before I ask the moderator to open this forum for any questions, I was briefed by our investor advisers about some questions which they have observed. I thought I would give a kind of extempore explanation of what is going on. See, any business, I think the management has to take a view and preferably a view with conviction. When I talk about a structural uptick, a change, I did reflect back on China and Indonesia in the 2006 and 2007 period, when their GDP per household was roughly the same as India's today. And what happened in the next 6 years then was a massive increase in SUV car sales, a massive increase in four lane highways, a massive increase in runway in airports, a massive increase in airline seats, and this led to a 22% to 25% CAGR growth in mid-market hotel room demand over the next 6 years.

We felt we would prefer to bite the bullet, and I'll explain what I mean by this, and take some short-term pain for what we anticipate will be long-term gain if we get future ready today. Now when I look at Lemon Tree, 1 year before COVID, we had less than 4,000 operating owned rooms, and these old hotels had potentially high value and were actually not renovated subsequent to that 2018-2019 period till last year, because we obviously didn't have the money and we were focusing on rebuilding the business.

Now I remember I met a global CEO of 1 of the top 3 hotel companies. And I had asked him that what is your biggest pain point today, and he had said renovation, because, of course, that company has hotels owned by others and getting them to invest money to renovate was his biggest pain point. So, we took a call, that we would identify 2 sets of hotels. Those which were old hotels with potentially high value in re-pricing and occupancy, renovate the rooms, the food and beverage outlets and the banquets. And basically, when I say renovate, I don't need a traditional renovation. I mean a reinvention to new standards like our new Lemon Tree Premier's like Mumbai and Pune reflects.

Although it would led to a large amount of inventory shutting down in summer this year, we took a call that specifically in the very high demand markets of Delhi, Hyderabad and Bangalore, where the hotels were 10 years or more old, we would invest a very large sum of money this year and shut down rooms and restaurants and in fact, lobbies too and renovate them completely, so that by the end of next year, they would be fully ready for what I anticipate will be a structural shift, starting to show very clearly in hotel room demand in India.

Simultaneously Keys, which was a portfolio we acquired a few months before COVID, we decided to also renovate. And in fact, as I mentioned earlier, 25% of the inventory has been shut and I'm quite surprised and pleased that in spite of 25% of the inventory, the drop in occupancy is 1.5%. Alongside this, we also looked at all our uplift we needed to provide in maintenance, which is more CAPEX oriented like the Keys portfolio needs a replacement of the entire air conditioning system across all 1,000 rooms. So, putting all this together, what we felt is that if we invest enormously and take the pain of shutting down inventory, large amounts of inventory, we would have an entirely new group by the end of FY26. And then after that, we would go back to routine renovation, which is normally 1.5%-1.6% of revenue. That was the first leg of our view towards monetizing this conviction 2 years out.

The second was tech. We said, we need to digitally transform our company, and we focused on 4 legs, which is repricing, which is we created dynamic algorithms, which will now come into play with these new rooms. We created an entirely new sales system which is entirely led by digital capabilities. We are now in the midst of completely reimagining our loyalty program and website with a very large element of mass scale personalized offers. And this is all geared towards capturing 66% of our demand from the retail segment in the next 2 years.

The third leg we focused on was on business development, and we increased the business development team by 4x. This is actually all captured in the cost structure you are seeing. The business development team grew from x people to 4x people. The next word focusing on how we would deliver execution and that was obviously the challenge. There were planned investments and increments in retention and adding new people. For example, the sales team, we increased by 50% in the last 3 months. We've also added 100 management trainees into the system. And basically, the perspective was that although these appear as OPEX, the way our management sees this that the new OPEX is going to demonstrate our ability to juice the old CAPEX that we have invested over the last 20 years in Lemon Tree Hotels. And that would enable us to achieve our stated target of exceeding a 20% ROCE from the next year itself.

Last point is that all the free cash flow that we generate in summer has been going into renovation. But typically, the free cash flow in winter is 2x-2.5x of that and that will go towards debt reduction. And this is how we are looking at not only this year but the following year.

Now I'll hand it over to you, moderator, to open the forum for any questions that the listeners may have.

Moderator: The first question is from Karan Khanna from Ambit Capital.

Karan Khanna: This is Karan Khanna. My first question, you spoke about 5%-12% price hikes in the last call. Barring this quarter, which got impacted because of multiple headwinds, how do you see the RevPAR growth for your portfolio, excluding Aurika? And do you believe you can sustain this low to mid-teens RevPAR growth in FY25 and FY26?

Patanjali Keswani: I'll tell you, Karan, the point is already in this quarter because a certain number of new rooms have come back into the inventory, we are doing 10% better ARR as a group and about 7% for same-store, which is obviously an improvement over Q1 FY24. And I suspect that when the first round of renovation is over, which will be by mid-September, going into peak season, this will obviously improve significantly. So, the perspective I have is I would prefer to answer this question on a full year basis, and then I would adhere to whatever it is.

Karan Khanna: Sure, where I was coming from is, Slide #12 of your investor presentation, where you mentioned that for most of the markets, room rate growth has been in the range of about 3%-7% ex of Mumbai, where the number was 9% because of Aurika MIAL opening up. So, to that extent, do we think that, say, in FY25 rest of the 9 months and potentially FY26, there is enough opportunity for you to really look at a double-digit RevPAR growth during both the years FY25 & FY26.

Patanjali Keswani: FY25, I'm talking this year. See, FY26, I'm very confident because then the entire portfolio by the end of what is called summer will be fully renovated. More or less, there may be a few rooms still not done. This year, about half the rooms will be renovated. In fact, just to give you some numbers, at peak about 700-800 rooms were shut in Lemon Tree.

Now to get an idea about what I mean by this is about 500 rooms of the first 3,500 rooms of our company, the older one was shut, which was 15% of the inventory. And when 15% are shut. And as you start planning the next phase, the 15% remains shut because they are going to open and another 10% are shut for timely renovation. So, at peak 25% of the rooms are shut. And similarly, as I mentioned, Keys, 25% of the portfolio is shut, and we will continue to renovate this winter too so that we are able to renovate the entire portfolio by the end of next year.

Now the view is that, once half of this renovated inventory comes back, we have found that there is a very positive customer response to these new rooms, especially in our old high-value hotels. So, we will have an ability leveraging the new revenue management algorithms we have in place to reprice at least that half of the inventory to maybe Rs. 2,000 higher than the older inventory. I do not see a problem with the RevPAR growth we are talking about.

Karan Khanna: Sure. This is helpful. My second question is on the Aurika Mumbai Hotel. If you could talk about the ARR, the occupancy levels and the customer mix that has trended for Aurika during Q1 FY25 and by when do you expect see this stabilizing?

And as a follow-up, if I look at Slide 12 of the presentation deck, can you help us understand the breakup of the performance of Aurika portfolio in Mumbai and outside Mumbai. And a clarification here your Q1 FY24 presentation had slightly different numbers for the Aurika brand. So, I wanted to understand why it has changed. And if you can elaborate more on the Aurika Mumbai, ramp-up.

Patanjali Keswani: Okay. Aurika in Q1 last year was only Udaipur and this year is Udaipur and Mumbai. So, you are seeing weighted averages. In fact, Aurika Mumbai in Q1 FY25 did 45.9% which is around 300 rooms, now the reason it did this is that we started reducing the crew base and our crew base dropped from 200 plus in Q4 FY24 to about 115 in Q1 FY25, and in fact, has now reduced further to 100 in Q2 FY25.

Now the way we looked at it was very simple. We needed to reduce our dependence on crew and crew contracts, as you know, are long term. So, it's not that we can opportunistically reduce it every month. We are not renewing some contracts because our expectation is that, as I mentioned earlier, one must keep in mind that Aurika is the equivalent of 3 large hotels, 3 large hotels or 2 very large hotels of over 300 rooms. When I reflect back on the first Lemon Tree we opened in Mumbai, which was 300 rooms, it took about 9 months to stabilize it.

So really, to build up demand for a 670 rooms hotel, which is a new brand on top of it, will take, in my opinion, a year. Real results for Aurika will start coming out in Q3 FY25 and will flow into Q4 FY25. My best guess is that you will have a clear idea of how Aurika performs by Q4 FY25.

In Q1 FY25, it did 45.9% and a shade under Rs. 9,000 average rate. So, if you take the weighted average out, I don't have the numbers for Aurika Udaipur right here, but the portfolio did 46%. So you can say both were roughly similar. And that is normal because in Udaipur, there is an extreme high seasonality. Winter is double of summer.

Now coming to Aurika Mumbai going forward, there is some improvement in Q2 FY25. Again, as I said, it's off-season. We are really focused on building demand in 3 segments in Aurika Mumbai. I am reasonably happy with the rate of growth of our corporate segment, which is an immediate sales calling issue. But the building of the retail segment, which is traditionally one of our strong points, needs more work in terms of how we market it and how we reach out to retail customers.

As far as meetings, incentives, conferences go, there is an uptick. But as you know, it has a very large convention space. And my expectation is that will really kick in from Q3 FY25 onwards. On an aggregate basis, I expect that Aurika Mumbai in H2 FY25 will be maybe 2x or 2.5x what it will be in H1 FY25. And we'll have to wait and see to see how that plays out.

Karan Khanna: Sure. And then last question is on the expenses side. And if I'm looking at the P&L, there's the cost of food and beverages consumed has seen almost Rs. 4 crore growth on a YoY basis despite this quarter being relatively soft from a MICE perspective. And likewise, the power and fuel costs also have inched up higher. So, if you could elaborate more on that. And that would be my last question.

Patanjali Keswani: You are asking food and beverage costs. Well, food and beverage cost is what we expected it to be.

Karan Khanna: Despite lesser MICE activities it's gone up from Rs. 12 crore to Rs. 16 crore, I can take this offline otherwise, yes.

Patanjali Keswani: Our food costs normally, Karan, should be 29%-30%. If you look at traditionally historically Lemon Tree's food cost has been 29%-30% of revenue. If you have a very large amount of banquets, banquet food cost is typically 20%. And that lowers the average from, say, 30% depending on the number of banquets you have. As and when the MICE and banquets picks up the food cost as a percentage of the total revenue drops. But we didn't have significant banquets in Q1 FY25. There are some more in Q2 FY25. And then in Q3 and Q4 FY25, it keeps growing. And then the aggregate comes down to maybe 26%-27% for the year.

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

Archana Gude: I have 2 questions. Firstly, given will we be renovating the Keys in the rest of FY25? I understand operating margins would be under pressure. I understand that the renovated inventory would operate with a higher price point, how should we look at the margin profile for, let's say, FY26 and FY27.

Patanjali Keswani: Well, I gave a number that when the Keys portfolio is fully renovated, we are expecting an EBITDA of about Rs. 60 crores from Keys, as you can see, a step change from the current EBITDA. And the reason I'm saying this is the first Keys we renovated was the Keys, Pimpri Pune. And what you will find is that although even as we speak, 30% of the inventory is shut. That means it is only a 70-room hotel. It is doing 100% occupancy at that 70 rooms, and it is doing an average rate 25% higher than pre renovation.

Of course, the expenses, unfortunately, the fixed expenses are still there, although the inventory has dropped by 30%, and the variable costs have reduced, but if I extrapolate on a more conservative basis to the rest of the portfolio, we expect that the increase in rate in the Keys portfolio, it is already, by the way, interestingly evident in Q2 FY25, you will find that on a gradual basis, it will go up 15% or maybe even 20% over what it was pre-COVID. And that is what we are focused on because that will have the maximum flow-through into the EBITDA. I hope that answers it, Archana.

Archana Gude: Right, sir. And sir, of this Hyderabad and Bangalore market there is substantial decline in occupancy because of a shutdown of the Keys inventory or there's more to read into it?

Patanjali Keswani: We have shut down enormous amounts of inventory in Hyderabad and Bangalore. Now the most, highest performing set of, say, Hyderabad was, what is called HITEC City, where we have about a little under 400 rooms, nearly 20%, in fact, maybe more of the inventory is shut. It is undergoing a complete reimagination. We had earlier renovated about, I think, 5%. So those new rooms are being received very well.

Currently, 20-odd percent are shut. And that is part of the reason that you are finding a decline in occupancy because in Hyderabad, Monday, Tuesday, Wednesday, Thursday is when you normally go full. And we had 20% less inventory. At peak on Monday, Tuesday, Wednesday, Thursday, we were doing 80% occupancy rather than 100 last year, that is why you see a deflation there.

As I said, it is temporary, and it is a question of having some short-term pain to ensure that we have significant long-term advantages and gain. In Bangalore, the main reason is while we have shut down less inventory in the Lemon Trees, we have shut down a very large amount of inventory in the Keys portfolios. And that is what is reflecting.

In fact, we recently opened about, out of the 100 rooms under renovation we had shut in Keys Whitefield (~200 rooms hotel), we opened about 40 rooms and now it is going full excluding those 60 rooms, it is going full. It is doing 160 rooms a day. And there is an improvement in ARR. What you are seeing really and I would urge everybody here to understand this very key point is what you are seeing is effectively, if I drew an analogy that if there is a manufacturing company that shuts down 1 out of its 5 lines when the demand is high on Monday, Tuesday, Wednesday, Thursday, but with the intention of really significantly improving that line with a much more high-value product, then obviously, in the short term, you will see a negative. But in a very quick period after that, I expect to catch up. And that is what we are hoping for.

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

Kunal Lakhan: Sir, I just wanted to understand what was the ARR ex-Aurika Mumbai in Q1 FY25?

Patanjali Keswani: It was about Rs. 8,900.

Kunal Lakhan: No, that's Aurika Mumbai. What is the overall ARR for the group, excluding Aurika Mumbai?

Patanjali Keswani: Rs. 5,400.

Kunal Lakhan: Rs. 5,400. And this is partly to do with the overall lower occupancy that we are seeing because of the renovation. Would that understanding be correct? Or is there something.

Patanjali Keswani: Yes. Because I'll give you an example, Kunal. Even in Lemon Tree Premier Delhi and Red Fox Delhi, you are not seeing it clearly, we have shut 80 rooms. And these 2 hotels, which we think can be totally juiced this winter. When the mix changes, so you have not shut down the lower value rooms, you have shut down the higher value rooms, then the weighted average ARR reflects the new weightage, right? So, in the past, if we had, just hypothetically, 100 lower value at rooms and 100 higher-value hotel rooms and now you have 90 lower-value hotel rooms and 60 higher-value hotel rooms, then the weighted average reflects a lower ARR.

Kunal Lakhan: Okay.

Patanjali Keswani: Am I making sense to you?

Kunal Lakhan: Yes. I'm trying to corroborate that with your Slide 11, where you have given the mix of the category-wise rooms

Patanjali Keswani: Slide 11? Let me go to that. What you are seeing is an aggregate. Remember, this is across all the 5,100 rooms we had operational out of about 5,800 rooms. But the hotels that, for example, get a very high number of website bookings, which is Hyderabad, Delhi and Bangalore, rooms were shut. Those hotels in other markets where you get more corporate and less retail, those were open. What you are seeing, unfortunately, well, as a summary, is an aggregate. Just take into account that about 650 rooms were shut and those rooms generally 60% of them reflected a higher rate and more retail. And since they were shut, we were unable on the high demand dates to actually offer those rooms.

Kunal Lakhan: Sure.

Patanjali Keswani: I'll give you another example. When we shut these hotels, we shut some restaurants. When you shut restaurants for renovation, because as I said, it is a complete reimagining of these hotels, the restaurant shifted into the banquets because obviously, we have to continue providing food. When they shifted into the banquets we lost banquet revenue. One flows into the other. But basically, the broad point I'm making is that we have taken a fair amount of pain, and we expect that, that will demonstrate itself the results in H2 FY25.

Kunal Lakhan: Sure. Understood. Also, across these segments, if you can just give us some indication of how the rate differential is like corporates, airlines, travel trade, OTA and other ones. If you can give us some indication of how the rate differential is.

Patanjali Keswani: In commercial rate increase on an aggregate, without Aurika, Mumbai went up 5%. Because we were unable to take more group, I mean, travel trade bookings and MICE bookings because we could turn away some business, we were able to reprice. So, the average rate increase in travel trade was 11%. So as a total, corporate went up 6%. And retail went up, well, OTA remained flat, web went up 8%.

Now if I overlay that with Aurika, so this subtotal of this whole thing was about a 3%-3.5% hike in ARR from Rs. 5,240 odd last year, it went to Rs. 5,416 this year. If I overlay it with Aurika, then the increase was 8%. And the ARR became Rs. 5,688 from Rs. 5,240.

Kunal Lakhan: Understood. Okay. And my second question was on, say, the after the whole renovation plays out, right, for the Keys portfolio this Rs. 3,500 rate that you're seeing goes to what number, like or grows by what number?

Patanjali Keswani: Minimum 4.5k.

Kunal Lakhan: Minimum 4.5k. Around like 30% jump overall?

Patanjali Keswani: Yes. You see even our ability to reprice Pune is affected because while a large number of rooms are renovated, now the public areas and the restaurant is getting renovated, the restaurant has gone into banquets. There is this entire planning process.

Kunal Lakhan: And even the occupancy levels would like normalize, to say, around 70%?

Patanjali Keswani: Kunal, we have only 70 rooms open and they're all going full at a 25% higher rate. We don't have rooms there. And our restaurant is half the size of what it should be in spite of 70% occupancy because the banquets are small there.

Moderator: The next question is from Jinesh Joshi from Prabhudas Liladher Private Limited.

Jinesh Joshi: Sir, I have a question on Aurika Mumbai. You mentioned that the crew base has declined from about 200 rooms to about 100-odd rooms and given the fact that with low-rate business, ideally, I mean, in an environment, we will let go this kind of a business then to get the high rate business, right. But if I look at your occupancy from 66% in the last quarter, if I heard you right, it has gone down to 46%. Why did we let go this business when we were not getting some other high rates business?

Patanjali Keswani: Two reasons. One is you take airline business, it's a year contract. While you may get it in summer, you will regret it in winter. We are far more confident about winter in this hotel. See, if I go back to how Lemon Tree Premier with 300 rooms did in 7 months from an opening occupancy of 40%, it went to 90%. It was fundamentally led by a massive pickup in retail demand month-on-month.

Our view is that we are seeing signs of a similar trend line of retail for Aurika Mumbai. If that happens, we feel that the right inventory to have is about 15% airline crew on an annualized basis, which is about 100 rooms. And we have a good pickup in corporate, which will continue and now early signs of a good pickup in retail. So, if this continues, then in the next 6-8 months, my expectation is retail will cross 200 room today. Corporate will cross 200 rooms. And then there will be the overlay which we'll get from meetings, incentives, conferences. So, this is a call that we took. And as I said, some calls have some short-term pain. And in a quarter, it may reflect negatively. But on an aggregate across the year, it should lead to an improvement in RevPAR.

Jinesh Joshi: Got that. And sir, I mean in the call, a lot of discussion has happened surrounding renovation, and you have given quite a few numbers. But I mean just to understand it simplistically, out of 5,800-odd old rooms that we have, how many were shut in Q1 FY25 because of renovation.

Patanjali Keswani: At peak, about 700.

Jinesh Joshi: Okay. And do you expect this number to be at full potential in the sense that the entire 5,800 rooms will be opened in Q3 or Q4 FY25 when we have the peak business time? Because renovation is an ongoing exercise is what you have mentioned. I just wanted to know whether this number will fall or will it continue?

Patanjali Keswani: No. That's an important question. Thank you. I will explain it in detail. Routine renovation is you polish the bathroom, you replace a few fixtures. You may or may not replace furniture, but you will definitely redo the fabrics, you redo the curtains, you'll relook at your lighting. And typically, that's like a certain cost. And as I said, on an aggregate, since we like to refurbish/renovate 1/6 of our rooms in the inventory every year we typically spend under 2% of the year's revenue on such type of renovation. But what we are doing in many of our old hotels; look at Lemon Tree Premier, Delhi, it is 12 years old. If you look at Lemon Tree Premier, Hyderabad, it is, I don't know, 13-14 years old. If you look at Lemon Tree Premier Bangalore, similar. If you look at Red Fox, the big ones, they are all very old hotels, and they have been going through routine renovation, which is this 1.5%-1.8% of revenue.

But once we opened the new Lemon Trees which were in Calcutta, Mumbai, Pune, by comparison, the old ones were a very old fashioned and old design. So, considering that we personally feel as management that there will be an uptick in demand, a significant uptick due to structural shifts, we wanted to future ready this company.

So, we took a call that now that we've opened the 3 new Lemon Tree Premiers the old Lemon Tree Premiers should reflect a similar standard. So, it's not a 1.8% type of thing. It is more of a 6% type of investment. And that is what you are seeing. It's not a renovation, the way we describe the renovation. This is a reinvention.

And I don't know which of you ever stayed in a Lemon Tree, but those who have told me that they cannot believe the difference. And we are basically doing it to reprice and reposition ourselves as the preferred choice. We don't want to be a leading brand, we want to be the choice in the mid-market and upper mid-market segment.

Jinesh Joshi: Got that. But sir, I was still looking out whether this number, I understand what you're trying to get into. But my question was basically say for instance in Q1 FY25 you mentioned that at peak 700 rooms were under renovation. If during Q3, given the exercise which you are taking, in Q3, which is a peak period for you, even in that quarter if 700 rooms are under renovation and we are basically in a similar environment. I just wanted to know whether that environment will improve or not.

Patanjali Keswani: Let me explain that. When I say renovation, 1,500 rooms are new, which is the new Lemon Tree Premiers, Aurika Mumbai and so on. Those don't need renovation after 2 years, they will need their routine stuff. That leaves 4,400 rooms. 900 of those rooms are what is called Keys. Keys we will continue renovating non-stop, summer, winter whatever and we will get them completely ready by next year, that leaves 3,500 rooms. We did about, if I remember right, about 250-300 rooms last year, over 6 months, and that left about 3,200 rooms. What are we saying? We are saying that we would like to renovate most of these rooms by the end of next year. For any given time in a quarter, 600-700 rooms will be shut.

Since the typical renovation takes 2.5 months. we hope that in summer, we are able to finish the lot, again, next year summer. And then we are a fully ready company. This also includes shutting down of restaurants and banquets and so on and so forth, and in some cases, additional facilities like gyms and so on.

Jinesh Joshi: Got it, sir. This is pretty much clear. Just one small clarification required. When we report our occupancy, do we include the rooms that are shut into our base while calculating that number because essentially that rooms are not available for sales? Just wanted to clarify on that part.

Patanjali Keswani: We reported on full inventory. If you report it on net inventory, then our occupancy is 10% higher than what we reported.

Moderator: Next question is from Meet Jain from Motilal Oswal.

Meet Jain: I need 1 clarification. In terms of our EBITDA for Keys. As we mentioned, our EBITDA from Keys post renovation will be Rs. 60 crore annually, and ARR will be at least Rs. 4,500.

Patanjali Keswani: Yes, that is correct. And the occupancy will be much higher because the occupancy of the Keys portfolio is also very low, partly because of the fact that, of course, 25% of the inventory is shut, but we expect a double whammy of occupancy and rate.

Meet Jain: Understood. And also, we are expecting complete innovation of our entire room inventory by end of FY26, so FY27, you can see all the 5,800 rooms to be renovated and operational fully?

Patanjali Keswani: You will see all 5,900 rooms as a new company.

Meet Jain: Okay. And last thing is like we recently signed a management contract under the brand Aurika. Do we have a pipeline or a target like how many Aurika brands are we looking? I mean locations preferable or a type of greenfield or brownfield? Just some colour on that.

Patanjali Keswani: See, I don't want to give, it becomes forward-looking, but there are other Aurikas in the pipeline.

Moderator: The next question is from Bharat Gianani from Money Control.

Bharat Gianani: Yes, sir. Given that you have highlighted on near-term pain because of rebranding or reinventing, as you pointed out, any sense you could give, what would be the overall revenue number for FY25 and FY26? And margin at the consol level given that you've highlighted renovation expenses, expanding the business development team, investment in technology. So, can you give a ballpark estimate of how the consol revenue number for FY25 and FY26 and consol EBITDA margin would look like?

Patanjali Keswani: You want clear guidance.

Bharat Gianani: Sir, ballpark will do. Because like you said a lot of the mix is different, some of the high earning rooms were shut. Probably a ballpark guidance would be very helpful.

Patanjali Keswani: Look, the world is a very uncertain phase. Somebody asked me that will you do 15% RevPAR growth, and I didn't disagree. I think what you should take from that is last year, we did Rs. 1,076 crore, 15% is another Rs. 170 crore. And I did not disagree nor did I comment on it. Obviously, we should be north of Rs. 1,250 crore, number one. Number two, is we have said clearly that we will achieve 20% return on capital. Our total deployed capital is how much, including retail earnings? About Rs. 4,500 crore? So, what we are saying is somewhere in the next one year or two, we'll start trending to Rs. 900 crore net EBITDA. And that's what we will have to deliver to achieve what we have promised.

At that stage, also keep in mind that our renovation expenses, which has had a big hit on our EBITDA and our digital transformation, which has had a second hit will be subsumed and will reduce to normal, which means the expenditure as a percentage of revenue will come down by maybe 4 percentage points. That means EBITDA will go up by 4%. Actually, I would like to explain something. If you look at the drop in our EBITDA margin, it was 47.6% last year first quarter and 43% this year. What dropped? 2.6% was the fall due to renovation or 2.5% was a fall due to renovation and our digital. Another 2%-2.2% was due to fundamentally increases in business development, sales and marketing teams and increments.

When you aggregate it, it is quite clear that when revenue picks up, this obviously as a percentage will start normalizing. And we will naturally move back to our 50% net EBITDA margins. And I'm very confident about that. So, I understand that this as a one-off might seem a surprising number, but it is because there are one-off, large one-off expenses and those are obviously something we expect to recover. To add another point, I have publicly said that any renovation we do, our payback period must be 2 years. Here's the point. If I invest Rs. 100 crore in renovation, then my expectation is my incremental EBITDA due to that renovation, should be Rs. 50 crore or more every year. And when I finish investing Rs. 200 crore, my EBITDA must increase by at least Rs. 100 crore, and that will be an ongoing increase in EBITDA.

Moderator: The next question is from the line of Rajiv Bharati from Nuvama.

Rajiv Bharati: Sir I'm on slide 12, If I look at your, for example, Lemon Tree Premier and Lemon Tree Hotels, typically for getting a EBITDAR of close to 50%or 50% plus, you need to clock something like a 70% plus kind of occupancy.

Now if I look at Aurika Hotels Resorts, which is 46% occupancy and still it is able to do 49% EBITDAR, where we have Aurika Mumbai, which is a city hotel. I'm not able to connect how, I mean, how does it work in a sense when it reaches its 70%, what is the kind of EBITDAR.

Patanjali Keswani: At 70%, it will do 70%. Keep in mind that Aurika earns up much higher average rate, but the cost structure is slightly more than an LTP. Actually, what we are trying to demonstrate is that it is possible to have a higher priced hotel with a high EBITDA margin. And if I recollect right, Aurika Mumbai in Q4 FY24, when it did 66% occupancy, It did 62% EBITDAR at 66%. At 70%, it will be fundamentally flow through. So it should do 70%.

Sorry, even if I take a Lemon Tree Premier, which in winter is priced at over Rs. 8,000. So, our Lemon Tree Premiers, which are new, highly priced and does high occupancy do 64% to 66% EBITDA, which is what incidentally, Rajiv, we are trying to achieve with Hyderabad, Bangalore and Delhi after the renovation.

Rajiv Bharati: Sure, sir. In our entire network and I'm seeing the data for past also. In season or off-season, we have never reached this kind of 70% kind of number. So, the Aurika, I mean, is the benchmark in itself.

Patanjali Keswani: See, what we report is the aggregate. Lemon Tree Premier, there are 2 or 3 Lemon Tree Premiers, even incidentally, Lemon Tree Premier Delhi in spite of having very old rooms in Q4 FY24 it did 71%. Happy to share it with you if you are ever in Delhi. What you are seeing is, obviously, these are hotel-level EBITDA. Below that is corporate expenses and other expenses. In season, you will find our net EBITDA are in the mid-50s.

Rajiv Bharati: Sure, sir. And second question is on Slide 11. If you were to use back work and calculate the rates per night, now this airline rate, which we are getting for Q1 FY25 is close to Rs. 6,900. Now we have not seen this kind of rate across your portfolio of corporate, airline and trade travel for the last 7-8 quarters. This is just because you have let go of some low-yielding airline crew and is it just the high yielding ones which are remaining with us?

Patanjali Keswani: No. So there is more high yielding because of the 100 rooms in Aurika Mumbai, We've also got some high-yielding crew in a couple of other hotels, but I would like to urge you to consider one thing. This is gross rates what you are seeing. And one impact of airline crew is transportation cost. If I link it to that, the transportation cost in our company went up by about Rs. 40 lakhs, Rs. 50 lakhs in the quarter. So, the flow-through in that sense is less. Am I making sense to you?

Rajiv Bharati: Yes. Can you just talk about the flow-through across the, like say, 4 channels, 4 or 5 channels, what you had reported.

Patanjali Keswani: Okay. Like this year, let's assume we'll do 50% net EBITDA, which means at the hotel level, we will do maybe 55%-56% hotel level EBITDA. Now this means really if I remove corporate expenses and below-the-line expenses, this Rs. 45 that we are spending for every Rs. 100 of revenue at each hotel, roughly half is variable cost and half is fixed costs. Now if I do Rs. 100 at a normal hotel, roughly Rs. 75 is room, Rs. 20 is food and beverage and Rs. 5 is others. In the Rs. 5 that is others, we typically have a flow-through of 30%. In the Rs. 20, that is food and beverage, our flow through, I would say, is 40%. Now 25% gives a flow-through of 35%, but the other 75% gives a flow-through of 75%. Am I making sense? Room income typically has a flow-through of 75%-80%. Now if I look at corporate, the flow-through is 85%. The rate may be lower but the flow-through is higher because we have no other expenses on it. On airlines, the flow-through is less by perhaps 10 percentage points because of transportation, inclusive laundry and so on. In travel trade, the flow-through maybe less because of commissions we pay to travel agents. In OTAs, the flow-through will be less because we give commissions to the online travel agents.

In lemontree.com, the flow through will be maximum because it is the cheapest channel. And in others/FITs, it will be similar to lemontreehotels.com. If I look at the slide you are referring to, corporate will be second highest, Lemon Tree and other FITs will be highest and travel trade and online travel agents, roughly similar and airline will be the least.

Moderator: The next question is from Anuj Upadhyay from Investec.

Anuj Upadhyay: Can you elaborate on our debt repayment plan schedule going ahead based on the anticipated future cash flow, considering the fact we will be having significant expenses towards the renovations over next 2 years?

Patanjali Keswani: See, I'll give you a simple example. Our free cash flow is, say, Rs. 50 crore every quarter, at least Rs. 50 crore in the summer. That, as I said, is going into renovation. In winter, it is normally 2x-2.5x. Last year, if I remember right, our free cash flow was Rs. 300 crore and I think the summer was less than Rs. 100 crore, the rest was in winter.

What I said earlier was, Anuj, that the winter free cash flow will all go to paid debt. Next year, summer, again, we will invest in renovation. Hopefully, our income will be higher because Aurika will be stable. We should have something left over next summer to write down debt. Following winter, it will all go towards debt write down.

The broad statement I had given was that in the next 4 years, and I said it last year, we should be close to debt being 0, which means, really, we are in a position, we feel to write down our debt over 4 years. What I also mentioned is that if we take Fleur public, 80% of our debt resides in Fleur. As and when we take Fleur public, should it be earlier than this, then naturally, our debt will become zero in six years.

Moderator: The next question is from Prateek Kumar from Jefferies.

Prateek Kumar: My question is on, as you said like there's some improvement in trends of ARR like 10% in Q2 versus a lower number in the previous quarter on a like-for-like basis. This trend, is it like sort of pan-India for your hotels? Or is it like specific segment which you're seeing recovery like MICE segment, which was under pressure last quarter or marriage segment? Or like how would you attribute the improvement in Q2 FY25?

Patanjali Keswani: I would say it's overall pricing, including Keys.

Prateek Kumar: Okay. So all segments would have improved maybe to that extent?

Patanjali Keswani: Yes.

Prateek Kumar: Okay. And now more like generic question, most of the other company specific questions are answered. A general question like does the hotel industry, I mean we have seen like sort of very strong years like past 2-3 years. In FY25, have had like sort of a slow start. But Q4 was also relatively slow. So does the hotel industry, like sort of feeling a pinch that maybe the growth may not be like as strong as you are kind of foreseeing that we were seeing 6 months back? Or we remain as bullish as we were like 6 months back for the next 2-4 years?

Patanjali Keswani: See the traditional view on the hotel industry has been cyclical. When supply growth is more than demand growth than over a period of time, there is pain because of operating leverage, hotel drop prices. When this auto corrects, because return on hotel assets reduces, then supply growth reduces and demand growth continues at a secular level based on the economy and then prices pick up as demand picks up, and that was the normal cycle.

Now, when I look at India demand, by the way, it is nowhere near top of cycle even in the last 2 years. Very exceptionally after COVID, in a very fragmented industry, the entire hotel sector took its prices up without waiting for an increase in demand. There was a one-off of leisure travel, revenge travel and so on and so forth. But that was not obviously sustainable.

But what I do see is that there is about a 10% growth in demand every year, and I can use airline demand growth as a proxy. And supply growth will be 6% as per what all the consulting firms inform us. So naturally, we are in the midst of moving towards a top of cycle. Though we are not there yet. Once you hit top cycle, all bets go off because dynamic pricing takes over, and you sell the room as high as a customer is willing to pay. But what I am interested in, that is the cycle. What I'm interested in is the high-frequency indicators, which show a change, a likely change in demand across a very large cohort of Indians who were earlier not consuming branded hotel groups. For example, the current consumers of hotel rooms in India in our best estimate are people where the average household income is north of Rs. 25 lakhs to Rs. 30 lakhs income. There are only 6 million such households in India.

But if I look overlaid with the GDP growth, and I do some level of segmentation and demographic, my best guess is that the 6 million will hit 30 million in the next 5-6 years, simply because the median income going from $3,000 to $3,500-$4,000 or $2,800 to $3,500 to $3,800, the number of people who move into this signal limit of the bell curve grows 5x. It's not a large number. I'm just saying that instead of 6 million, there will be 30 million, but 30 million still will be 10% of India's households or 20% of the urban households. That is exactly what happened in China, in Indonesia, it's playing out right now in Vietnam. And I am hopeful that, that is what will happen in India sometime in the next 2-4 years. So that is a hockey stick change in demand. In China, demand grew from that period on when it was roughly similar to India and Indonesia too at 22% to 25% CAGR growth in demand. So, it was a hockey stick.

What were the high-frequency indicators that started showing up early, growth in airline traffic, growth in airports, growth in aircraft; imagine the number of aircraft in order are 3x of current supply, growth in number of runways; growth in Four-lane highways; which doubled in the last 4 years, just FYI. Growth in SUVs, which show an intent to travel outside the city.

I will give you an interesting example. Time to travel from Delhi to Jaipur has dropped to 3 hours because of the highway or express way. The number of travellers from Delhi to Jaipur have gone up 50% since then. These are the indicators I'm kind of looking at, and that is what I'm hopeful will play out. I'm not playing for the cycle. Actually, I'm playing for the structural shift.

Moderator: Next question is from Jayesh Shah from OHM Portfolio Equi Research.

Jayesh Shah: My first question is, if I understood right, then 700 rooms are shut for renovation for the entire year, which means in second half, we should be short by 700 rooms and you are still maintaining the annual guidance of Rs. 1,250 crore.

Patanjali Keswani: No. I said clearly, we renovate these rooms in 2.5 months and in 6 months, we will renovate, then in winter, we will cash. The next year summer we will renovate and by then all these roughly 3,000 rooms we will renovate.

Jayesh Shah: The renovation cycle will only be in the first half, but in second half, the total inventory will be available.

Patanjali Keswani: Absolutely.

Jayesh Shah: Okay. And a related question is, you've talked about reviewing your own hotels. Now do you see this problem also in your managed hotels? And how would you be grappling with that issue?

Patanjali Keswani: I had referred earlier, good point, to the global CEO who said his biggest problem was renovating the old hotels because the owners were not willing to do so. As it happens, we have accelerated the number of rooms we have in the managed portfolio. About 50% are new. Of the remaining 50%, roughly 2/3 are what I would call old and in need of renovation. Over the last few months, we have been in talks with multiple owners. And I would say that with an 80% acceptance level, they will also be undergoing renovation. In fact, some are undergoing renovation as we speak. And we intend to renovate that part of the portfolio. Now, if that does not happen, we have obviously given them some time, then we are quite clear that the hotels that do not meet our brand standards, especially now that we have such new hotels, we will churn out of the system.

Jayesh Shah: Okay. Then there are 2 consequences. One is if they agree to renovate, do they bear the expenses or does it really impact your management fee? And for people who don't and when you churn out, then does it mean that you would fall short on your 2030 guidance where you've talked of 25,000 rooms.

Patanjali Keswani: Well, the guidance was not for 2030, it was for 2027. And absolutely not. We have literally hundreds of inquiries at this moment. The point is, Jayesh, unlike a traditional management company, which looks at cash flow, we look at longevity of cash flow.

One of the key clauses we have is just this that you must renovate the hotels to our standards. And number two, you cannot exit once you sign a 15-year contract. And if you exit the penalty is very onerous. Basically, you have to pay us the fees for the unexpired term of the contract. This is like an international hotel company would do like a Marriott, for example. In the early stages of starting this third-party management business, we found a lot of pushback, but we adhered to it, which is why in the beginning, it was a little slow. Now we are very clear we do not bear a single expense in the renovation of any hotel. We charge fees to manage and these fees are fixed and variable part on performance part on what we call basic fees and sales and reservation fees.

Typically, our fees are about 8% of revenue. And if the hotel outperforms, then it can move up to 10% of revenue. Number two is, as far as the portfolio goes, there are not many hotel owners who have said no. In fact, a few have asked for some time because Q1 was a little weak, as you can imagine, for everybody. But my instinct tells me all of them will go for renovation.

Jayesh Shah: Which would basically be next summer because obviously, winter they want and you may not want renovate.

Patanjali Keswani: They would renovate in Q2.

Jayesh Shah: Okay. Secondly, coming back to your 2027 guidance of 25,000 rooms.

Patanjali Keswani: It was 20,000 of rooms, including those in the pipeline. We are currently at I think at about 14,500.

Jayesh Shah: Right, I thought 50% of this was supposed to be ownership. So you would still be looking to build a hotel for, say, 5,000 rooms.

Patanjali Keswani: No, What I said is 30% owned 70% managed, which means 6,000 owned 14,000 managed. That if tomorrow Fleur list as a growth development asset-owning platform, then it is entirely possible that it may get into developing new hotels and acquiring hotels. This was as is when we gave this 5-year vision plan, 1 year ago.

Jayesh Shah: Right. And sir, the last question is what you've actually talked about. Instead of if, can I ask when Fleur list for DRHP?

Patanjali Keswani: That's a decision for the Board and for our partner, APG but I would expect it to be sooner rather than later.

Moderator: The next question is from Sanjay Kohli from Goldstone Capital.

Sanjay Kohli: Question on the capital structure, any plans for a rights issue?

Patanjali Keswani: No. We are cash positive, and we can see that we can write down our debt. In fact, the big question for us will be as and when we list Fleur, we will be a debt-free cash accretive company, and so how will we deploy that cash. will we start the dividend process? Will we redeploy. I don't think there is any need for rights in Lemon Tree. If there was, it would have been during COVID, but we managed to avoid that.

Sanjay Kohli: Well we have decent currencies, so one would have thought and maybe it's an opportune time to our rights issue.

Patanjali Keswani: Sanjay barring another COVID, there will be no need.

Sanjay Kohli: Hopefully, there won't be another COVID.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Patanjali Keswani: Everybody, thank you so much for your patience and for listening in and maybe to a little bit of rambling by me, and thank you for your interest and support. We will continue to stay engaged. Please be in touch with our Investor Relations team for any further details or discussions. And I look forward to interacting with you after the Q2 results.
