Lemon Tree Hotels

Operator: Ladies and gentlemen, good day and welcome to the Lemon Tree Hotels Ltd. earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this call is being recorded. I now hand the conference over to Mr. Mitesh Jain from CDR India. Thank you, and over to you, sir.

Mitesh Jain – CDR India: Thank you. Good evening, everyone, and thank you for joining us on the Lemon Tree Hotels Q2 FY27 earnings conference call. We have with us Mr. Patanjali Keswani, Executive Chairman, Lemon Tree Hotels; Mr. Nilendra Singh, Managing Director, Lemon Tree Hotels; Mr. Kapil Sharma, Executive Director and CFO of Lemon Tree Hotels; Mr. Saurabh Shadhal, Managing Director and CEO of Fleur Hotels; Mr. Mayank Sharma, CFO of Fleur Hotels; Vishwpreet Singh Cheema, President, Lemon Tree Hotels; and Vaibhav Jain, Senior Vice President, Sales, Lemon Tree Hotels.

We would like to begin the call with opening remarks from the management, following which we will open the forum for an interactive question-and-answer session. Before we start, I would like to point out that some statements made on today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation that was shared with you earlier. I would now request Mr. Keswani to make his opening remarks.

Patanjali Keswani – Executive Chairman: Thank you. Good afternoon, everyone, and thank you for joining us today. Nil, our Managing Director, will cover the business highlights and financial performance for Q2 FY27. After that, Saurabh, the Managing Director of Fleur, will share an update on Fleur's owned portfolio and hotels under development. Lastly, Kapil Sharma, our CFO, and I will share an update on the demerger scheme. We will then open the forum for your questions and suggestions. Over to you, Nil.

Nilendra Singh – Managing Director: Thanks, Patu. Hi, good afternoon, everyone. Let me take you through the key highlights of the quarter. Q2 FY27 was our best-ever second quarter, with the highest Q2 ARR, revenue, EBITDA, PBT, PAT, and cash profit.

For the quarter, our gross ARR stood at Rs.6,751, up 8% year-on-year, and occupancy was at 76.1%, up 633 basis points year-on-year. As a result, RevPAR grew 18% to Rs.5,137. Total revenue stood at Rs.363.8 crores, up 18% year-on-year. Net EBITDA stood at Rs.162.2 crores, up 22%. PAT grew 90% to Rs.79.8 crores. Cash profit grew 28% to Rs.97.2 crores.

Our net EBITDA margin for Q2 FY27 stood at 44.6%, 157 basis points higher than the 43% that we achieved last year in Q2. We delivered this despite the provision for SAR and the GST impact, which together increased our expenses by 3.2% of total revenue in this quarter. On a like-for-like basis, our margin was therefore at 47.7%, up 474 basis points.

Our gross debt as of September 30, 2026, stood at Rs.1,429.2 crores, down 11% from Rs.1,610.2 crores a year ago. Our cost of debt reduced to 7.44%, down 28 basis points versus a year ago. Fees from management and franchise contracts for third-party-owned hotels increased 30% year-on-year. Total management fees from Lemon Tree stood at Rs.40.8 crores, an increase of 19%

Report is AI-generated and may contain inaccuracies.

year-on-year. In Q2 FY27, on the asset-light side, we opened 8 managed and franchised hotels [trails off]

Partu: ...with 523 rooms. We also signed 11 management and franchise hotels with 825 rooms, approximately 1.6 times the inventory we opened during the quarter. Our combined operational and pipeline inventory now stands at 24,061 rooms across 285 hotels in more than 170 cities. Of these, 138 hotels with 12,131 rooms across more than 80 cities are already operational. I now hand over the forum to Saurabh to give us an update on Fleur.

Saurabh: Thank you, everyone, for joining us on the call. Our owned hotels grew Q2 FY27 revenue by 15% year-on-year to Rs.337 crores, and their hotel EBITDA margin rose 112 basis points to 53%. RevPAR grew in double digits across every brand and every region, ranging from 11% in Mumbai to 25% in Delhi. Aurika and Lemon Tree Premier together earned 63% of hotel EBITDA on 58% of revenue. Our Keys portfolio continues to improve. Keys' RevPAR in Q2 FY27 was up 29% year-on-year to Rs.3,109, on the back of a 976-basis-point improvement in occupancy to 69.7% and 11% growth in ADR to Rs.4,460. Keys' hotel EBITDA margin rose 748 basis points to 50%.

Now, on our hotels under development. This quarter, we acquired land in Bandra East, Mumbai, adjoining BKC, for approximately Rs.120 crores to develop Lemon Tree Premier Bandra, an owned upscale hotel with approximately 172 rooms, expected to open in FY30. It will be our seventh hotel in Mumbai and our first in Bandra. Our owned 90-room hotel, Aurika Shimla, is scheduled to open in Q3 this year. Aurika Shillong, our 165-room leased hotel, is progressing well and is expected to open in FY28. At Aurika Varanasi, our 47-room leased heritage hotel, piling work has begun and it is expected to open in FY29. Lastly, for Aurika Nehru Place, DDA has extended the letter of award until August 2027, which gives us ample time to secure all approvals, and we expect to open the hotel in calendar year 31. Now I hand the forum back to Partu.

Partu: Thank you, Saurabh. This quarter, we have also shared pro forma financials in the earnings presentation for the first half of FY27 for both Lemon Tree and Fleur, as they would appear upon the scheme becoming effective. Kapil, would you like to speak about the schedule and timeline of the demerger?

Kapil: Thank you. As you are aware, we received the CCI approval earlier, after which we also received the stock exchange and SEBI approvals. After receiving those approvals last month, we filed the scheme of arrangement with the NCLT, and the first hearing has already taken place. We are now looking at the proceedings moving forward, after which we will reach a stage where we seek the shareholders' approval for the scheme. As we discussed earlier, we expect that within the next calendar year, which is calendar year 27, we will list Fleur Hotels on the stock exchanges.

Partu: With this, we come to the end of our opening remarks, and I will ask the moderator to open the floor for any questions and suggestions that you may have.

Operator: Thank you, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and then one on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and then two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. A reminder to all participants: you may press star and then one to ask a

Report is AI-generated and may contain inaccuracies.

question. We have the first question from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna – Ambit Capital: Thanks, team, and congratulations on the sharp rebound in RevPAR growth after four or five quarters. My first question, Partu: with the global geopolitical situation hopefully easing, how should we think about the early signs of FIT demand revival that you are picking up? Are there any notable changes in booking behavior or travel trends that you are seeing? As a follow-up, how should we think about the second half, which typically accounts for approximately 55% of your full-year revenue and 60% of your EBITDA? What sort of upside risk do you see to your numbers if FIT comes back in a meaningful manner, especially for your Aurika portfolio?

Partu: Karan, we will stick to that: it should be 55-45 and 60-40. The point is that we are sanguine that this war will end, or at least that the impact of the war, if it goes into stasis, will be positive for us. But I am still not 100% sure that there will be a meaningful jump in demand.

The impact we are hoping for relates to what is affecting India: oil prices, inflation, and the current account deficit. All this uncertainty is leading to a drop in discretionary demand on the corporate side. Surprisingly, the non-negotiated side of the business, as you will see in one of our slides, has gone up, but corporate demand is still muted.

Within corporate demand, one of the main segments we depend on in certain cities like Gurugram is new hirings and new joiners, and this is a very large business from the IT sector. That has not, frankly, picked up yet. I would say there is compensation through non-negotiated business, but those are all not—well, let me say that the corporate side has not picked up as much as it would if the uncertainty of the war reduced and actually disappeared. That will still be a conversation we will probably have after the Q3 results.

Karan Khanna – Ambit Capital: Sure. My second question to Neil is on the hotel openings. Last quarter, you mentioned that approximately 2,000 keys would be opened this year, but if I look at last quarter's number of 334 keys and this quarter's net addition of 185, you are still at approximately 550-odd keys of net addition during the first half. On slide number 88, you are guiding for more than 900 keys opening in the second half. So, effectively, net addition will be closer to 1,500 keys this year. Given this, how should we think about the risk to the net additions of approximately 2,500-plus keys in the pipeline starting from FY28 onwards?

Neil: Hi, Karan. Typically, net additions are an interesting matter. They happened largely in Q1 and Q2 this year. It is not an ongoing phenomenon. We had challenges with some hotels where compliance was an issue, and therefore we had to resort to de-flagging them.

But from a gross opening of 2,000, which is what I had mentioned last time, we are absolutely on track. I will go back to what I had mentioned to you earlier: our signing acceleration started sometime in calendar year 2024, and that is starting to show up in the rate of openings as well. If you recall, last year we opened approximately 1,523 rooms. This year, on a gross basis, we will end up opening approximately 2,000 rooms. [off-mic discussion] We are not de-flagging anything, are we?

Report is AI-generated and may contain inaccuracies.

Management: No.

Neil: There is nothing on the books for de-flagging in Q3 and Q4, and therefore our opening rate will also accelerate going forward at almost the same rate at which we started accelerating signings from next year onwards.

Karan Khanna – Ambit Capital: Sure. My last question, Saurabh, is on Aurika Nehru Place. Is there a change of plan here? Until last quarter, this was 572 keys, and now it is 610 keys. Also, in terms of timelines, earlier we were looking at FY30, but now it is the end of calendar year 31. Can you help explain what is driving these delays from DDA's side? On Bandra East, how are you thinking about ADRs for this asset? Will it be similar to the Lemon Tree Premier at Andheri? That would be my last question.

Saurabh: Thank you, Karan. On Aurika Nehru Place, as you know, we are taking the land from DDA. DDA had certain approvals to provide it to us, which basically involves obtaining approval from the Ridge Management Board and then from the CEC, which is the Empowered Committee. Once that is done, DDA has to obtain tree-felling approval and actually remove the trees from that site. Depending on their performance, the delay is happening from their side [cut off]

Management: ...because those two processes have not yet been completed. However, we have received a one-year extension, from August 26 to August 27, purely because we have readied the building plans and everything. However, we are waiting for the approvals, which are a condition precedent in our bid with DDA.

Management: What has happened, Karan, is a very interesting thing. Obviously, DDA is very keen to do this. It is a big deal for them. It is the first time they have started leasing land rather than selling land, and they were very happy with our bid and were very keen to execute it. However, this being Delhi, and specifically being within the Ridge of the Aravallis, it requires specific approvals. The specific approvals required relate to tree cutting and to the fact that it is, as I said, part of the Aravallis Ridge.

The process is fairly lengthy. It has involved back-and-forth discussions. A couple of meetings have taken place. We are now told that there will be another meeting this month, followed by another meeting next month, after which they will take 2 to 3 months to remove the trees. This is unfortunately not in our hands, but we are given to understand that it will occur in the next few months.

Once it occurs, we will have greater clarity on the FSI and the available height, and we feel we can build approximately 610 rooms, rather than the 570 rooms we had planned earlier. Those drawings are ready. We are simply waiting for the following: the minute the Ridge Management Board gives the formal go-ahead, we will immediately submit the plans. Concurrently, the Delhi Development Authority has identified the land where it will plant 10 times the number of trees. It therefore has to plant 3,500 trees to remove these 350 trees. That will take 3 months.

During that time, we hope to obtain the approvals. These things will happen concurrently and, hopefully—and I am again not clear exactly when this will happen—in the next few months, we should be able to start construction.

Report is AI-generated and may contain inaccuracies.

Karan Khanna – Ambit Capital: Great. That is helpful. Thank you, team, and all the best.

Management: We will construct very quickly. We have worked out the entire process. We are doing Mivan floor plating and so on. We hope that once we obtain the approvals, the loss of time will be at least partly made up through the speed at which we construct it.

Management: I think Karan had a question regarding Bandra East from an ADR underwriting perspective. Karan, Bandra East is next to BKC. Our focus would be the deep demand market of the Bandra Kurla Complex and getting clients from the Bandra Kurla Complex, rather than being dependent on other factors. Our current view is that when the hotel opens, which is in FY30, we are looking at an ADR of approximately {? 12,000 ?} to start with, and then we will build it up from there.

Karan Khanna – Ambit Capital: Great. Thank you, Saurabh. Thank you.

Operator: Thank you. We have the next question from the line of Achal Kumar from HSBC. Please go ahead.

Achal Kumar – HSBC: Hi. Thank you for taking my question. Kindly excuse me if the previous participants asked this question; I was dropped off. It is regarding the land acquisition at BKC where you plan to build the hotel. I wanted to understand whether you would be able to justify this investment in terms of ADR.

I am asking because your Aurika Mumbai hotel, which is a very posh hotel, is a great hotel, and I met Patu there a few months ago. I was checking, and it is selling for approximately {? 8,900 ?} for November and December, while many other hotels are selling for Rs.25,000–30,000. Even Ginger is selling for Rs.8,000.

If that kind of rate is available, and I believe Lemon Tree is going to manage the BKC property, you are not thinking about any fancy names like Marriott and so on. I want to understand the thought process behind opening a hotel at such an expensive place, because BKC is very expensive. Any insight on that would be helpful.

Management: I will answer that. Forgetting ADR and occupancy for a moment, the average EBITDA that we generate in Bombay is approximately Rs.22–25 lakhs per key. To keep it very simple, our investment, which will fructify 2 to 3 years later, will be approximately Rs.2 crores per key.

BKC is a very, very different market from Andheri. We are very confident that we will—let me give you an example. We have a very small hotel there with rooms averaging 120 square feet per room, which are among the smallest rooms in India. That hotel generates an ADR of Rs.7,500–8,000 today at 80% occupancy. It is in Kalina, quite close to where we are building this hotel.

I think we can say with great certainty that we will achieve 12–13% ROCE immediately in this hotel, and if we are lucky, it could be significantly more. If we achieve this target of Rs.12,000, which I think will happen, it will be much higher. I would not be optimistic by saying that we will definitely achieve 12–13% and hopefully achieve more.

Achal Kumar – HSBC: Understood. My second question is about the 8% ADR growth. Previously, we had been saying that renovations were providing some boost to ADR. Do you think a significant

Report is AI-generated and may contain inaccuracies.

portion of the 8% is because of renovations? It would be helpful if you could break this 8% into the amount attributable to underlying ADR growth and the amount attributable to renovations.

Management: It is fundamentally difficult to isolate how much of that is renovation-led and what is not. I can answer this differently for you, Achal. Last quarter, we said that we would balance out RevPAR growth between ADR and occupancy.

If you look at Q1, because of the West Asia conflict, our RevPAR growth was skewed more toward occupancy. We had a stronger retail business, so our ADR growth was muted. This quarter, when demand was better coming out of Q1, if you look at slide 24—you will see that the RevPAR growth is quite consistent across all our brands and most of our cities. That is driven largely through average ADR growth of 8% and occupancy growth of 633 basis points.

There is certainly an element of renovation here for some of our key properties. The biggest example is Keys, where 80% of our renovation is now complete. You can see the development of ADR and occupancy because we are not only able to fill the hotels better, but we are also able to drive higher ADR.

The other example is our hotel in Delhi, where, after the renovation, you can see a significant increase in ADR and occupancy. I can isolate it from a property-to-property perspective, but it is difficult to aggregate or disaggregate the 8% ADR growth.

All I would say is that it is a healthy balance between occupancy and ADR, and hence 18% is a very strong result coming out of Q1.

Achal Kumar - HSBC: I remember that last quarter you said you had been following a somewhat ADR-active, occupancy-passive strategy, where you were keeping ADRs low to boost occupancy. Was that also a factor in the 8% ADR growth, while occupancy was so high?

Management: Not as much, Achal. That was a tactical move in Q1, and therefore occupancy growth was significantly higher than ADR growth. You will see that Q2 is far more balanced in that sense.

There is another point. If you look at the slide that was referenced, you can see where we did not undertake much renovation, and where we did not see much—

Management: The real upside was in the Red Fox portfolio. If you notice, the focus there was refurbishment, not high cost, and driving occupancy because we did not see a significant improvement in pricing. You will notice that in Red Fox there was occupancy growth, but not significant ARR growth. RevPAR grew because of occupancy.

Whereas if you look at Keys, RevPAR grew because both occupancy and ADR grew in certain Keys hotels that were completely renovated. It is a combination. By upgrading a hotel, you try to generate more demand. If it is a price-sensitive market, the focus is more demand and less pricing. If it is a deep market like Delhi, where bricks matter, the situation is different.

Bricks did not matter on the airport side, but they mattered on the Central Delhi side. Even without the bricks, Lemon Tree Premier Delhi and Red Fox, which has now become Lemon Tree Hotel Delhi, have grown by more than 30%, because we have been able to reprice the completely renovated

Report is AI-generated and may contain inaccuracies.

portfolio.

It is a combination. Where we can, we will reprice significantly, but the purpose of the renovation was to bring the hotels up to standard, which led to an improvement in price, occupancy, or both. Does that make sense?

Achal Kumar – HSBC: Yes, absolutely. I understand. My final question is about the second half. We are in the middle of November, so I assume you must have good visibility, especially on the third quarter. I would appreciate some insight into how trading has been in terms of ARR, occupancy, and EBITDA. Any insight on Q4 would also be helpful, although I understand it may be too early. Thank you.

Management: This is where it gets difficult because these are the next 2 big quarters. However, we are not yet in the middle of Q3, and the effect of Diwali between October and November is still being played out. We are just coming out of Diwali and are measuring its impact. It is difficult for us to explain how H2 will develop from here.

All I can say is that we see the momentum we built up in Q2 on the retail side for sure. As Patu said right at the beginning of the call, corporates are slightly tepid in picking up. Generally speaking, this is the time when corporate and retail demand starts picking up anyway.

The real gauge will be after this week, when Diwali, Bhai Dooj, Chhath Puja, and all of that are over. Then we will be able to determine how H2 plays out.

However, purely from a delivery perspective, we believe we will still have a 55-45 share between H2 and H1, as we have broadly maintained that framework every year. Given that H1 is over, you can almost estimate how H2 will perform, since the ratios are in that order: 55-45.

Achal Kumar – HSBC: Perfect. Thank you so much.

Operator: Thank you. We have the next question from the line of Vaibhav Muley from Haitong Securities. Please go ahead.

Vaibhav Muley – Haitong Securities: Hi. Thanks for the opportunity. My first question is on our F&B revenue growth. Given that RevPAR growth has been in the range of 18% and top-line growth is also in the range of 18%, that implies F&B revenue growth has also been very strong in this quarter. I wanted to understand what has led to this growth, and whether this would be a sustainable growth rate going forward as well.

Management: Hi, Vaibhav. The simple answer is yes. It is similar to the overall RevPAR growth, largely driven by MICE and banqueting. These are critical businesses for us in many of our properties.

As the season starts, we generally begin seeing, around the middle of Q2, an uptake in MICE activity, group activity, and sometimes weddings as well. Weddings usually start picking up and peak in Q3 and Q4. I would say nothing extraordinary is happening, but we are expecting MICE, weddings, and the buoyancy of Q3 and Q4 to take place this quarter and the next quarter as well.

Report is AI-generated and may contain inaccuracies.

Vaibhav Muley – Haitong Securities: Understood. My second question is on our management fee income. Fleur Hotels' revenue grew 53% in Q2, but Fleur fee income grew 11%. I wanted to understand why there is a divergence in the fee income received by Lemon Tree relative to the revenue growth reported by Fleur.

Management: It is very simple. While Fleur as a portfolio has grown at 53%—I think in 57—no, the Fleur portfolio has a 53% GOP. Our management fee income, of which approximately one-third to 40% is a function of GOP margins, is affected if the margin is reduced by 2-3%, as it has been this year because of renovation beyond normal levels. The fees therefore come down proportionately.

Think of it this way: when you look at the Fleur portfolio, the two things affecting our margins are GST, which was not present last year in H1, and renovation, which also affected the margins. GST is of course an ongoing matter, but renovation will drop to approximately 1.2% of revenue next year. That alone will improve margins by approximately 1.5%.

We therefore expect management fee income from Fleur to start accelerating in line with the growth rate of Fleur as the EBITDA margins start generating incentive fees for us. Is that clear?

Vaibhav Muley – Haitong Securities: Yes, understood. My last question is on our ADR. For the quarter, we reported approximately 8% ADR growth. For Aurika, ADR growth was approximately 9%. I wanted to get a sense of our revenue-management strategy. Since there is a GST impact below a Rs.7,500 ADR, are we strategically trying to raise ADR rather than focusing on occupancy? Secondly, specifically for Aurika, occupancy has stabilized in the range of 75%. Can we expect ADR growth to be higher from H2 onwards?

Management: Good point, Vaibhav. I will answer the second question first. Yes, I did say last time as well that we all feel Aurika is now mature and occupancy is relatively stable. It is now a well-known brand across the board. Therefore, going forward, we will certainly want to take the ARR route to improve Aurika's performance.

That is also visible in Q1 versus Q2. At 9% ARR growth, this is the highest ARR growth in the Aurika portfolio in many quarters. You can already start seeing that we are pricing Aurika to its potential and to its positioning.

Coming back to your first question around revenue management and GST, what exactly was the point, Vaibhav?

Vaibhav Muley – Haitong Securities: I was trying to understand whether we are focusing on increasing ADR above the Rs.7,500 threshold in order to reduce the GST impact, rather than focusing on occupancy.

Management: [pause] There are 2 ways to look at it, Vaibhav. First, I think the real performance metric is RevPAR. Depending on how the season progresses, which month we are in, and how demand develops, we of course use both levers—occupancy and ARR—to drive RevPAR.

That is principle number 1: RevPAR is the lead metric, and given our kind of volume, we use both levers, ARR and occupancy. The other thing I think is interesting about GST and the Rs.7,500 mark is that many of our hotels are significantly above Rs.7,500, and therefore the question of GST does

Report is AI-generated and may contain inaccuracies.

not arise.

Similarly, a portion of our portfolio is significantly below Rs.7,500, where it would not be possible to raise the price to cross the Rs.7,500 mark because the product is not positioned that way, such as a Red Fox or a Keys hotel.

The logic of getting past the Rs.7,500 mark applies to all those hotels that are approximately in that ARR range, and there are only a few of them. For those hotels, through a combination of pricing strategies and segment strategies, we have been trying to get above the Rs.7,500 mark, and that plays out almost every day. That is where we stand from a revenue perspective.

Patu: From a new-management perspective, to your point, it is important for us as a chain to make sure that any hotel which is potentially on that line of Rs.7,500 goes above it over a period of time, so that we do not have the GST impact that we had previously.

Anybody that is well above Rs.7,500 is not affected. Any hotel that is well below Rs.7,500 cannot be repriced overnight to move above Rs.7,500. I think you will see a slight change. Last year, our percentage of revenue above Rs.7,500 was 48% or something. Is that correct {? Kapil ?}?

Management: Yes.

Patu: This year, it is 50%. We mentioned in some earlier earnings calls that gradually this percentage of revenue above Rs.7,500 will keep increasing as we reprice.

Remember that repricing a Rs.5,000 hotel will not reduce GST, because it may move to Rs.5,300 or Rs.5,500. But repricing a Rs.7,000 hotel will reduce GST. Within a Rs.7,000 hotel, there is also a percentage of business above Rs.7,500 and a percentage below Rs.7,500.

This is very specific to certain hotels, but we are generally confident that over time this percentage, which is now 50% of revenue, will start increasing, and the impact of GST will therefore keep reducing as a percentage of revenue.

Vaibhav Muley – Haitong Securities: Understood. That is perfectly clear. Thank you, and all the best.

Management: Thank you.

Operator: Thank you. We have the next question from the line of Jinesh Joshi from PL Capital. Please go ahead.

Jinesh Joshi – PL Capital: Thank you for the opportunity. My first question is regarding the reduction in our owned key count to approximately 5,600 rooms that we have seen in this quarter. I believe it is predominantly due to the lease termination contract at Gurgaon. Is there any reason for discontinuation of the lease?

A related follow-up is that, even on the management-contract side, approximately 250 keys were de-flagged in the quarter. In the opening remarks, you mentioned that there were some compliance-led challenges. Could you elaborate on that? A related follow-up is whether the guidance of approximately 2,500 keys from FY28 onwards is a gross number or a net number.

Report is AI-generated and may contain inaccuracies.

Patu: [pause] I will answer this. This is Patu. What happened in Gurgaon was that it had 2 basements. Earlier, 1 basement was approved for banquets. Recently, after a fire somewhere, they withdrew that approval and said that banquets could no longer be held there.

As a result, it significantly affected the performance of that hotel, because approximately 30% of the business that the hotel generated came either from banquet income or from the conferences it used to host, and this was a large banquet facility.

This was a force majeure clause. We asked the owner of the asset to try to obtain this approval. They tried for 2-3 months, after which we terminated the agreement, if I remember correctly, on September 30 or October. [off-mic discussion]

Management: August.

Patu: August. August was the last month of operation. On an apples-to-apples basis, that income disappeared from our owned portfolio.

As for the reason for the exceptional item in profit, I am sure that will be a question. Kapil, will you explain it?

Kapil: Certainly. There are 3 elements to it. First, as Mr. Keswani has just explained, there was a termination of the lease agreement. Due to this termination, there was a reversal of the lease liability and the right-of-use asset that had been accounted for as a lease asset. The result of that reversal is revenue, which is an exceptional revenue item in the P&L account. This is one of the major exceptional items, amounting to approximately Rs.41 crores.

Then there are 2 exceptional expense items. One is a provision that we have made as a conservative accounting measure, based on the outcome of a similar case relating to property tax for another hotel chain. We have provided approximately Rs.16 crores toward that liability.

There is also a small Rs.3 crore adjustment relating to diminution in the value of an investment in an associate company of Lemon Tree. Net-net, there is Rs.41 crores of revenue and Rs.16 crores plus Rs.3 crores of expenses, resulting in a net positive impact of Rs.22 crores, which is exceptional revenue coming into the P&L this quarter.

Patu: I also want to add one thing. From time to time, we have to recognize that various agencies in India raise various demands on us. At any given time, there is always some pending demand relating to GST, property tax, and so on, and these demands are often arbitrary in nature.

It is impossible for us to anticipate which state will suddenly raise a demand for property tax or something else. While we report it as an exceptional item, it is in fact exceptional. We do not know who will raise what demand and when.

I want to alert those who are listening that, when we classify something as exceptional, that is why we try to clarify it. What happened in Delhi last year was another exceptional demand. It came with retrospective effect and went to court. Other hotels that faced this demand took the matter to court, the court struck it down, and then they appealed, and so on.

Report is AI-generated and may contain inaccuracies.

In our case, we always try to be conservative and provision for it. If it does not happen, then excellent, but if it happens, as Kapil said, this is in Pune? This property tax?

Management: Bangalore.

Patu: Bangalore. So, in Bangalore, we have now accounted for it. What I want to say is that this entire Rs.45 crore—

Management: Rs.41 crores.

Patu: Rs.41 crores. This Rs.41 crores is non-cash. We have also clarified in our presentation that it is not part of our cash profit, and it is simply on account of this accounting matter, which is why the exceptional item came in.

Jinesh Joshi – PL Capital: Sure. The second part of the question is the de-flagging issue and the compliance argument that you—

Patu: Right. That is why we de-flagged the 80-room hotel from the owned portfolio.

As far as the other hotels are concerned, these issues arise because the authorities suddenly raise a compliance issue. If we feel it is relevant in any form, we give notice and a cure period, and if the owner is unable to obtain the relevant approvals, then we de-flag the hotel.

Your question was whether this will continue. By and large, no. In our business-development assessment, before we sign a hotel operating agreement, we have a list of conditions precedent that includes all necessary compliances.

However, it is possible that, going forward, at some hotel at some time, a sudden event could make it non-compliant. Of the 530 rooms that we de-flagged, excluding the Gurgaon hotel, the remaining 450 rooms were part of an ongoing process. They were not de-flagged in a single quarter.

We had given various time periods, based on the requirements, to various asset owners. We then took a decision to de-flag these hotels. It is possible, although we do not currently have visibility on it, that an owner may correct the issue and come back to us, as has happened in one case.

However, we will remain very conservative in this matter. As you know, compliance relating to fire and life safety has very serious consequences, so we de-flag hotels where required.

As for the 2,500 rooms that Neil has committed to you—not me—Neil, I do not expect there to be any de-flagging next year, or, if there is any, it will be immaterial.

Neil: I was about to say that, Jinesh. These hotels were concentrated across Q1 and Q2, so it looks as though we should start reporting net of de-flagging. However, there is no visibility of any significant de-flagging. If there were any, we would of course announce it at the appropriate time, but these are exceptional moves.

Jinesh Joshi – PL Capital: Understood. One last question from my side. We have also formed a wholly owned subsidiary in the Maldives. I wanted to understand whether we are looking at an

Report is AI-generated and may contain inaccuracies.

operating—

Jinesh Joshi – PL Capital: ...asset there, or whether we have an asset-light arrangement to take the construction risk. Also, could you provide some insight into the ticket size or indicative inventory that we are targeting?

Patu: We were looking at some acquisitions there as well. These were operating assets; this was not a construction project. We do not want to construct anything. This was purely an attempt to acquire an asset that we felt was underperforming and where we could bring in more Indian customers. It was a specific asset.

However, it involved a large ticket size and a large EBITDA acquisition. Recently, the Maldivian government said that 40% of the revenue of a hotel must be retained in Maldivian rupees. This has made the project completely unviable in our opinion, because everything is paid for in US dollars, but if we are forced to retain 40% of the revenue in Maldivian rupees, then the project does not make sense. Nor does any debt on it make sense.

It is currently in cold storage. However, we are very interested in the Maldives, and if this government policy changes, which may happen, then we will evaluate this again.

Jinesh Joshi – PL Capital: Understood. Thank you very much, sir, and all the best.

Patu: Thank you, thank you.

Operator: Thank you. We have the next question from the line of Samit Sinha from Macquarie. Please go ahead.

Samit Sinha – Macquarie: Yes, thank you very much. Apologies for the background noise; I am at an airport. I have a couple of questions.

Patu, we have discussed several times that you look at airline data, air-traffic data, and the number of passengers. That number continues to weaken, but you had a good quarter. Are you already seeing this kind of divergence? What have you learned from this?

The last 2 years have been quite tumultuous, with renovations, unexpected developments, wars, and so on. I want to understand what lessons the management team has learned over the last 2 years that will feed into your strategy or tactical approach over the next few years.

Patu: Let me first talk about revenue. Revenue is in the hands of God. [laughs] There are several factors that affect a hotel. It starts with supply and demand in a micro-market, then the segments from which it gets business, and then the impact of external factors on each of those segments, such as what happened with hiring in the IT sector.

It then extends to the national level, including how the economy is performing. The airline sector is a proxy for travel, but it is not a direct proxy; it is an indirect proxy for hotel demand.

For example, an interesting statistic would be to look at how many same-day air trips take place. If airline traffic grows 10%, but 4% of that growth is from same-day trips, then overnight stays have grown by only 6%. The second factor is how much of it is double occupancy. If a couple is traveling,

Report is AI-generated and may contain inaccuracies.

it requires 1 room, but it is shown as growth of 2 airline seats. There are multiple factors, which is what I am trying to say.

What have we learned? Airline travel is a proxy, and we continue to track it. However, we have seen the impact of other factors: geopolitical conflict, as I mentioned earlier; inflation; and companies cutting discretionary travel because they want to control costs. All these factors affect our sector.

The other thing is that we are in the mid-market. We get demand from companies that is more discretionary, because the CEO may continue to travel and stay in a five-star hotel, as may the senior vice president. However, the manager, who represents a larger volume, may stop traveling or reduce travel.

Our plan was very clear. Renovation was a catch-up exercise. Initially, it had nothing to do with anything other than the fact that we had not undertaken any renovation for more than 3 years, and the Keys portfolio was languishing because it was an extremely old and worn-down portfolio.

Think of it this way: we spend 1.2-1.3% a year on renovation. We had not spent that amount for 3 years, which represented 4%. We also wanted to achieve an improvement in the high-price hotels that we felt we could reprice. All these factors led to our investment in renovation.

By next year, we will return to 1.2% of revenue as our ongoing renovation expenditure, and that will continue indefinitely. The war had an impact linked to what I said earlier.

What is our learning? Our learning is that at all times we must be cost warriors. Our biggest moat is that we have built or managed nearly 6,000 rooms. We have leased 6,000 rooms, and they are in very high-demand markets. I know supply is growing in India, but it is not growing in these high-demand markets. It is actually growing in tier 2, tier 3, and tier 4 markets, where we are completely asset-light.

Our intent is that, by the end of this year, we will have more or less fully upgraded our portfolio. We should be able to reprice and increase occupancy. We should be best-in-class in pricing and cost, so that the operating leverage works in our favor.

The rest, of course, is in the hands of God. When will this war end? When will oil prices come down to $70? These are things we cannot answer. But we want to be future-ready, and I think I can say with some degree of confidence that we are there. You will start seeing this play out quarter by quarter. Hello?

Operator: Samit, do you have any further questions?

Management: [off-mic discussion] Samit was on {? mute ?}. It seemed like he was calling from an airport. I think he was saying there was some background {? noise ?}.

Patu: Samit? Okay, I think we can go to the next person in line.

Operator: Certainly, sir. We have the next question from the line of Prachi Agarwal from Axis Capital. Please go ahead.

Report is AI-generated and may contain inaccuracies.

Prachi Agarwal – Axis Capital: Hi, team. Thank you for the opportunity. My question is about the overall supply coming into the mid-scale segment. We are seeing players like IH and ITC expanding aggressively in the mid-scale segment. This is also accompanied by multiple international brands.

Taking this into consideration, do you see a supply risk, with supply outpacing demand and potentially impacting RevPAR going forward?

Management: Prachi, the simple answer is no. Structurally, there is a clear deficit between supply and demand in India.

As Patu just said, while little supply is coming up in the deep-demand districts of the country, most of the supply is coming into tier 2 and tier 3 markets. While there is competition in those markets, I believe there is enough demand.

This is happening for structural reasons. New destinations are being developed, there are new reasons to visit these destinations, and more highways are being developed. Demand is generally at a structural high, and given where India is heading with all this development, we believe demand will continue at this level.

It is difficult to believe at this point that supply will outstrip demand. We may become competitive in certain areas, but that is bound to happen, Prachi, as tier 2 cities become more attractive for hotel brands, just as they do for consumer brands. Competition is acceptable. Will supply outstrip demand? We do not think so.

Patu: Even if it does, this is not a winner-take-all game, Prachi. When we said supply is growing in tier 2, tier 3, and tier 4 markets, that supply growth is actually an opportunity for us to increase our network.

ITC is a reputable brand, Marriott is a reputable brand, Taj is a reputable brand, and all these companies will increase their footprint. But so will we. This is visible because 50% of our portfolio has not yet opened.

I would not worry about it. If I were a capital allocator, I would question it, but we are not allocating capital to these markets. We are simply building our network there, which is the fee-income side. Does that answer your question?

Prachi Agarwal – Axis Capital: Yes, that is very helpful. Thank you.

Patu: Thanks.

Operator: Thank you. We have the next question from the line of Diksha Jain from InCred Research. Please go ahead.

Diksha Jain – InCred Research: Hi, thank you for taking the question. My first question is regarding the Omaxe deal that we signed during this quarter. Can you give us more information about the investment that we are about to make and when this will be operational? Also, for Fleur Hotels, the total 2,000—

Report is AI-generated and may contain inaccuracies.

Diksha Jain – InCred Research: ...2,500 rooms that are expected to be operational by FY30, what is the timeline looking like for that?

Nilendra: Hi, Diksha. I will answer the Omaxe part, and I will invite Saurabh to address the Fleur part.

The partnership with Omaxe, or the MOU with Omaxe, is asset-light. As developers, they are developing townships and hotels and remodeling bus transit points, or bus stations. We will not make any investment. We will be the managers and brand owners for those properties.

From our perspective, this is in line with our asset-light strategy as we enter deeper markets. The reason it is an interesting partnership is that Omaxe is undertaking 2 kinds of development.

The first is its townships, which are very well located and very large. They cover hundreds of acres, and therefore there is a fair amount of both resident and transit demand in those areas because of their location and population density.

The second kind of development is through a public-private partnership route with the government, where they are remodeling bus stations in some tier 2 and tier 3 cities. As you know, many of these bus stations are very well located in the center of the city. Usually, the cities develop around the bus station.

Therefore, when a hotel comes up next to a bus transit point as part of that development, it is right in the center of demand. We thought that entering Lucknow, Varanasi, Ghaziabad, Greater Noida, and similar cities was in line with where their development is taking place, and hence the MOU with them.

There are approximately 4,000 rooms across 10 properties. Nine of these 10 properties are greenfield. We expect the same timeline of approximately 3 to 3.5 years for them to become operational, although these are large townships, so they may take slightly longer.

One of them, in Greater Noida, may come up in the next 12 to 18 months. The others will take the usual 3 years or more. That is the position on Omaxe, and Saurabh can address the Fleur part.

Saurabh: Hi, Diksha. Regarding the 2,500 rooms becoming operational by FY30 or FY31, we are working toward this. We said that by the time we list, we should have visibility on these 2,500 rooms.

We are working toward this, but given that these are all acquisitions, and because of legal, technical, and soil-testing diligence, as well as financial diligence where there is an operating hotel, the process may take longer than we initially expect. We are dependent on various consultants and the client.

In short, we remain hopeful that we should be able to achieve 2,500 rooms across operational, brownfield, and greenfield assets in the next 9 to 12 months, by the time we are listed. We are quite hopeful that we will achieve this by FY30 or FY31, given the construction timelines and challenges such as those in Delhi during winter, when GRAP applies.

Report is AI-generated and may contain inaccuracies.

The timeline may shift depending on the city or country where we are taking the asset. We will comply with the applicable laws, and some movement in the timeline may occur. We will keep the group updated quarter by quarter.

Diksha Jain – InCred Research: So currently there are no additions planned in FY27 or FY28?

Nilendra: There are some acquisitions that we are evaluating, and they are going through due diligence. Someone earlier asked about the Maldives. There are always ups and downs, but as Saurabh said, we will hopefully achieve these 2,500 rooms, and part of that will be through acquisitions. That will have a direct and immediate impact on Fleur's EBITDA.

Diksha Jain – InCred Research: Thank you for taking the question.

Nilendra: Thanks, Diksha.

Operator: Thank you. We have the next question from the line of Murtuza Arsiwalla from Kotak. Please go ahead.

Murtuza Arsiwalla – Kotak: Hi. This is an extension of the question on additional keys. Warburg Pincus's investment of Rs.960 crores—is there a timing or a contingency attached to it? Will it happen before Fleur is listed or after? Are there any milestones or timelines around that investment?

Nilendra: No, Murtuza. It is entirely dependent on acquisitions and developments. There is no restriction. We can call for it, and they have said they need 2 weeks. Obviously, we will take the money only if we can deploy it, but based on what we are seeing right now, we are nearly 100% sure that we will take the entire amount.

For example, we did not take any money for Bombay because we had cash available. However, some of the new projects we are evaluating can use it. It is on call. Let us put it this way: it is on call, and there is no restriction.

Murtuza Arsiwalla – Kotak: Fantastic. Thanks so much.

Operator: Thank you. We have the next question from the line of Rahul M, from an individual investor. Please go ahead.

Rahul M – Individual Investor: Hi, thank you for taking my question. We frequently talk about growth in our loyalty-member base. I want to look beyond enrollment numbers and focus on utilization.

What percentage of our room nights in Q2 were booked by active loyalty members? When we account for the direct discount given to loyalty members, what is the net EBITDA-margin differential between a loyalty-member booking and an OTA booking after factoring in the commission?

Nilendra: Rahul, there is no discount given to loyalty members. Loyalty members receive the pricing applicable to whichever channel or segment they book through, whether it is our website, the call center, an OTA, or a company.

Report is AI-generated and may contain inaccuracies.

Typically, I do not have the Q2 numbers on hand, and you should obtain those in the future. However, when we last checked a few months ago, we found that approximately 45% of our business came from repeat guests.

Of those repeat guests, out of every 100 customers we receive, 45 are repeat customers, but only 25 are loyalty members. Therefore, today, 25% of our total business is from loyalty members, while 45% is from repeat customers. The runway for us is the remaining 20% or 18%. We should definitely enroll the remaining 20%, which we are trying to do as quickly as possible.

As far as pricing is concerned, there is no impact. However, our typical loyalty payout is approximately 4%. When a customer uses loyalty points, the benefit is 4% of revenue, but that 4% is absorbed within the network.

For example, if someone books a hotel in Delhi and spends Rs.30,000, of which Rs.20,000 is for a 2-night room stay, that person will receive a benefit of Rs.800. The Rs.800 can be spent at another hotel in our network. It is therefore a self-supporting internal system.

There is also something called breakage. For every Rs.1 lakh of benefits given to members, typical breakage is anywhere from 30% to 40%, so actual consumption is only approximately 60-70%. Does that broadly answer the question?

Rahul M – Individual Investor: Yes, that is very helpful. My second question is in a completely different direction. Regarding franchise restructuring, to what extent is our modern franchise restructuring linked to performance milestones?

For instance, do our contracts include escalator clauses that increase our fee percentage once franchise-brand distribution crosses certain thresholds? Conversely, do owners demand de-escalators or fee caps if macroeconomic headwinds or other factors compress their local RevPAR below an agreed baseline?

Nilendra: Franchise is where we have dipped our toes because there is an implication of a lack of control over the asset and therefore a potential impact on the brand. Franchise is essentially a brand and sales-and-distribution agreement. We are not involved in running the hotel, although we use technology to monitor customer feedback and therefore the Net Promoter Score.

Our fees are entirely a function of room revenue and a smaller percentage of F&B revenue. They have nothing to do with performance under the agreement.

However, what is extremely important is that we perform for the owner, which is why he or she is giving us the asset. It is a moral responsibility for us to improve their performance. As long as we improve performance, I do not think they have any issue, because we share [trails off]

Rahul M – Individual Investor: ...share with them how the local market has performed and how we are positioned relative to the local market.

I can say that, by and large, more than 90% of our owners are very happy with the performance we provide for them. There are, of course, owners who feel we could do better, and we are making efforts there, but there is no termination in these matters.

Report is AI-generated and may contain inaccuracies.

Frankly, once they are tied to us, we are tied to them, and the relationship continues. You can treat it somewhat like annuity fees, although it varies based on performance. Does that answer the question?

Rahul M – Individual Investor: Yes. I have one last question on this. What is the approximate A&P spend percentage from franchises as part of our consolidated advertising or promotional spend?

Rahul M – Individual Investor: Do the franchises contribute to our overall consolidated A&P spend? If yes, what percentage would it be?

Management: What do you mean? Can you repeat that? I did not understand.

Rahul M – Individual Investor: Do the franchises contribute to our overall consolidated A&P spend? If yes, what percentage would it be?

Management: It is an indirect spend. There will be some sales and marketing spend, and some local search-engine optimization—now, of course, generative optimization—but it is not significant.

As far as possible, we want to charge a flat percentage, whatever it is: 5% of revenue or room revenue, or 6% of room revenue. That is aspirational, I know. It starts at 4% and goes up to 6%. That should include all the spend that we incur, because ultimately the owner is buying into our brand, and it is our responsibility to deliver revenue for that owner.

Rahul M – Individual Investor: That is very helpful. I would also like to comment on the Aurika properties. I have stayed at some of them, and they are fantastic brands that are very well curated. All the best for the future quarters. I loved the experience there.

Management: Thank you. It is a long journey for us because this is the first time you can say that we are competing with very established brands. We are opening, and will continue to open, many Aurika hotels in key markets. Something like what happened with Lemon Tree over 10-12 years will happen with Aurika.

I understand the impatience among certain investors, but I think Aurika will be a pleasant surprise for investors over the medium term.

Rahul M – Individual Investor: That is all from my side. All the best for the coming quarters.

Management: Thank you.

Operator: Thank you. We have the next follow-up question from the line of Vaibhav Munjal from Haitong Securities. Please go ahead.

Vaibhav Munjal – Haitong Securities: Hi, thanks for the follow-up. I have a bookkeeping question. What capex have we incurred in FY27 so far? Could you also share the capex planned for each of the next 2 to 3 years? Regarding renovation expenses, I think we incurred approximately Rs.120-130 crores of operating expenses toward renovation last year. What would that number be now?

Management: [pause] What 60-40?

Report is AI-generated and may contain inaccuracies.

Management: It includes the projects under construction as well.

Management: No, exclude the projects. First, let us talk about renovation. Approximately 60-65% of renovation would be operating expenditure, and the balance would be capex.

Capex would generally relate to replacing equipment or undertaking a major capital-asset investment in our hotels. As far as investment in our ongoing portfolio is concerned, as you know, we have just invested Rs.120 plus Rs.9 crores, or approximately Rs.130 crores, in the buyout of Bombay.

We must have spent Rs.20-30 crores and perhaps another Rs.50-70 crores in Shimla and Shillong. We have not really started any major expenditure in Varanasi or Nehru Place.

Putting it all together, including operating expenditure and renovation, it would be approximately Rs.180 crores or Rs.200 crores?

Management: Yes, in that range.

Management: Rs.200 crores.

Vaibhav Munjal – Haitong Securities: So renovation and capex expenditure would be approximately Rs.30 crores for this year?

Management: It would be approximately Rs.40 crores, and then you should assume another amount. We have spent Rs.200 crores, including expenditure on the projects, and we have also paid off our debt. You can work backward to see the cash flow generated.

Actually, the way to look at it, Vaibhav, is that you should look at our free cash and then account for all expenditure on capex, whether it is capex for projects or capex for existing hotels.

Vaibhav Munjal – Haitong Securities: Understood. What will the capex be for the next 2 years, FY28 and FY29?

Management: [pause] It is difficult to say because, if we complete the acquisitions we are hoping for and develop the new properties and so on, we estimate that the total will be approximately Rs.3,000 crores over the next 3.5 years.

Vaibhav Munjal – Haitong Securities: Understood. Lastly, on the Bandra land acquisition, you mentioned FY30 as the timeline for operationalization, given that we have just completed the acquisition and approvals and design are still pending. Are you confident that the asset will be operational by FY30, or could it be delayed to FY31?

Management: When we start, we reach a certain stage in the due-diligence process. Bombay had been under consideration for 1 year. Let me explain, because this was a slightly complex acquisition involving multiple owners. I think there were 19 owners or something.

Management: Yes, 19 owners and a society.

Report is AI-generated and may contain inaccuracies.

Management: There was a society that had to be bought out, and so on. I do not want to get into the details, but it took 1 year.

We started designing the hotel once we were fairly certain that the acquisition would proceed, which was approximately 6 months ago. The design is now complete. The architect we have selected is a very competent and well-known architect, and he is currently preparing the hotel drawings for approval.

At the same time, the property has approvals for excavation, which we will hopefully start in the next 2 to 3 weeks. We will simultaneously submit the drawings for approval. As it happens in Bombay, thankfully, we can carry out the excavation at the same time as we submit the drawings.

We estimate that in the next 3 to 5 months we should be out of the basement, the drawings should be fully approved, and we should be able to start building the superstructure.

Typically, in a development project, you try to avoid the monsoon season for excavation. In our case, just as in Delhi you try to avoid GRAP, in Bombay you try to avoid the monsoons.

We hope that the shell will be under construction in the next 3 to 5 months and that we will be out of the basement. We then estimate that it will be 22 floors. Is that correct, Saurabh?

Saurabh: 21.

Management: 21 floors. We should finish it in 20 months. There will, of course, be another 6 months for approvals and interiors.

It is not an unreasonable expectation. Six months plus 21 months plus 6 months is 33 months, or approximately 3 years, and 3 years is what we have actually said, from FY27 to FY30. Does that answer the question?

Vaibhav Munjal – Haitong Securities: Understood.

Management: Do not hold me to it, because tomorrow the government might say that it will take 6 months more. We will always be transparent and tell you where we were delayed and why. However, people should also understand that so much in real-estate development is outside our control.

Vaibhav Munjal – Haitong Securities: Understood. Thank you.

Management: Thank you.

Operator: Thank you. We have the next question from the line of Zahara Patel from Solidarity Advisors. Please go ahead.

Zahara Patel – Solidarity Advisors: Thank you for the opportunity. My question is about the overall Lemon Tree numbers. The EBITDA margin in the standalone business has reduced and is 100 basis points below the provisioned mark, at approximately 56%. Are the reasons again corporate overheads and talent acquisition? When do you think this will reach the expected level of more than 70%?

Report is AI-generated and may contain inaccuracies.

Management: [pause] It is very simple. Our expenses in Lemon Tree standalone are more or less fixed, although they may increase by 4% a year.

The reason we feel it is the right time to demerge the 2 entities is that, as Neil said earlier, the hotels we signed 3 years ago will start opening going forward. What will happen is that most of the incremental revenue will flow through to operating leverage. There will be hardly any impact on expenses.

We therefore feel that, in the medium term, over the next few years, we will definitely achieve 80% flow-through. What does that mean? If our operating expenses for Lemon Tree standalone are Rs.100 crores, working backward, we would like to target Rs.500 crores of fee income and therefore Rs.400 crores of EBITDA.

Management: Of course, the Rs.100 crores will increase by 4% a year, so the Rs.500 crores will also have to be adjusted automatically. However, it is not unreasonable, and it is very common worldwide that as fee income grows, operating leverage starts to play out.

We therefore have to look at it from that perspective. Sorry, I want to add one thing. What you need to see is the net EBITDA margin of Lemon Tree each year, and you can track it. The way to look at it is to assess, every quarter or half-year, year-on-year, how it is changing.

Zahara Patel – Solidarity Advisors: Noted. On the Omaxe deal, given that it involves approximately 4,000 rooms across 10 projects, these are much larger properties than those we usually work with. They would average approximately 400 rooms per project. Which brands will they operate under?

Of the 10 projects, 9 are greenfield. Has the land already been acquired? We are working with much larger properties, whereas we usually work with smaller properties in tier 2 and tier 3 cities. Is this mainly because of the size of the Omaxe projects?

Management: Zara, your voice is not very clear, but I will answer what I understood. Did you ask whether they are large for tier 2 and tier 3 cities, and whether the land is already available?

Zahara Patel – Solidarity Advisors: No, sorry. My first question was about the greenfield capex and greenfield acquisition. Has the land already been acquired by Omaxe? Secondly—

Management: Yes.

Zahara Patel – Solidarity Advisors: Secondly, regarding the project size, if we take 4,000 rooms across 10 projects, that is approximately 400 rooms per project. We usually work with much smaller properties in tier 2 and tier 3 cities. Is this mainly because of the size of the Omaxe projects, or are we changing our approach?

Management: This is based on the project size; that is how the hotels are designed. They have larger inventories.

Another way to look at it is that these are cities such as Lucknow, Ghaziabad, and Greater Noida. If you aggregate inventory across different brands, we may still have that many rooms. It is just that, if we can aggregate approximately 400 rooms in one location, that works in our favor.

Report is AI-generated and may contain inaccuracies.

There is better leverage, better concentration of demand, and better service efficiency. The cost structure also benefits, and we can service demand much more efficiently. Concentrated inventory in a tier 2 town or anywhere is actually a good thing.

Did you also ask which brands these will be? Brands come last. All this land is owned by Omaxe. This is part of their master planning. They have not approached us with some future expectation. These are land banks and larger developments owned by them.

They have already designed areas for hotels in each of these markets, which is why the opportunity is so specific. As Neil said earlier, other than, I think, the Greater Noida hotel, these projects will take 3 to 4 years. Let us assume that the fee income will not come for 4 years.

The inventory design has been done by Omaxe. Now, Neil, you can answer the question on the brands.

Neil: Zara, the brands will be Lemon Tree.

Zahara Patel – Solidarity Advisors: Noted. That was very helpful. Thank you.

Operator: Thank you very much. Ladies and gentlemen, that was the last question. With that, we conclude the question-and-answer session. I now hand the conference back to the management for their closing comments. Thank you, and over to you, sir.

Management: Thank you once again 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 we look forward to interacting with you soon.

Operator: Thank you, members of the management. On behalf of Lemon Tree Hotels Ltd., that concludes this conference. Thank you, everyone, for joining us today. You may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.