Management Discussion

Mitesh Jain - Investor Relations, CDR India
Thank you. Good evening everyone and thank you for joining us on Lemon Tree Hotels Q2 FY27 earnings conference call. We have with us Mr. Patanjali Keswani, Executive Chairman, Lemon Tree Hotels, Mr. Neelendra Singh, Managing Director, Lemon Tree Hotels, Mr. Kapil Sharma, Executive Director and CFO of Lemon Tree Hotels, Mr. Saurabh Shatdal, Managing Director and CEO of Lemon Tree Hotels, Mr. Mayank Sharma, CFO of Lemon Tree Hotels, Vishvapreet Singh Cheema, President, Lemon Tree Hotels, a Would like to begin the call with opening remarks from the management, following which we have the forum open for an interactive question and answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation that was shared with you all earlier. I would now request Mr. Keswani to make his opening remarks.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank you. Good afternoon everyone and thank you for joining us today. Neel, our Managing Director, will cover the business highlights and financial performance for Q2 '27. Post that, Saurabh, the Managing Director of Fleur, will share an update on Fleur's own 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, Neel.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Thanks, Patu. Hi, good afternoon everyone. Um, 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 INR6,751, up 8% year-on-year, and occupancy was at 76.1%. Up 633 basis points year-on-year. As a result, RevPAR grew at 18% to INR5,137. Total revenue stood at INR363.8 crores, up 18% YonY. Net EBITDA stood at INR162.2 crores, up 22%. PAT grew at 90% to INR79.8 crores.

Cash profit grew at 28% to INR97.2 crores. Our net EBITDA margin for Q2 FY27 stood at 44.6%, 157 basis points higher than 43% which we achieved last quarter in Q2 last year. We delivered this despite the provision for SAR and GST impact, which together increased our expenses by 3.2% of total revenue in this quarter. On a like-to-like basis, our margins therefore was at 77.7%- yeah, 47.7%, up 474 basis points. Our gross debt as on 30th September '26 stood at INR1,429.2 crores, down 11% from INR1,610.2 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 INR40.8 crores, an increase of 19% year-on-year. In Q2 FY27, on the asset-light side, we opened eight managed and franchised hotels with 523 rooms. We also signed 11 managed and franchised hotels with 825 rooms, about 1.6x of the inventory we opened during the quarter. Our combined operational and pipeline inventory now stands at 24,061 rooms, across 285 hotels in 170-plus cities, of which 138 hotels with 12,131 rooms across 80-plus cities are already operational.

Now I hand over the forum to Saurabh to give us an update on flow.

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
Thank you everyone for joining us on the call. Our owned hotels grew Q2 FY27 revenue by 15% YoY to INR337 crores, and their hotel EBITDA margin percentage 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% YoY to INR3,109 on the back of a 976 basis point improvement in occupancy to 69.7% and 11% growth in ARR to.

INR4,460. 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 about INR120 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 own 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 is expected to open in FY29. Lastly, for Aurika Nehru Place, DDA has extended the letter of award till 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 over the forum back to Patu.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank you, Saurabh. This quarter also we have 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 on the scheduled timeline of the demerger?

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
Yeah, thank you. So as you are aware, we got the CCI approval earlier, and post which we have also received the share- the Stock Exchange and the SEBI approval. After receiving that last month, we have filed the scheme of arrangement with NCLT, and for which the first hearing has already happened. And now we are looking at proceedings to go on further, and then we reach a stage where we seek the shareholders' approval for the scheme. And we expect, as we discussed earlier, that within next calendar year, which is calendar year '27, we list fewer hotels on the stock exchanges.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
With this, we come to the end of our opening remarks, and I'll ask the moderator to open the forum for any questions and suggestions that you may have.

Questions & Answers

Operator
Thank you, sir. We will now begin with the question and answer session. [Operator Instructions] We have the first question from the line of Karan Khanna from Ambit Capital.

Please go ahead. Thanks,

Karan Khanna - Analyst, AMBIT Capital
Team, and congrats on the sharp rebound in RevPAR growth after four or five quarters. First

question, Patu, with the global geopolitical situation hopefully easing out, how should we think about early signs of FIT demand revival that you are picking up? Any notable changes in booking behaviors or travel trends that you're seeing? And as a follow-up, how should we think about 2H, which typically accounts for about 55% of your full-year revenue and 60% of your EBITDA? What sort of an upside risk do you see to your numbers if FIT comes back in a meaningful manner, especially for your Aurika portfolio?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So, Karan, we, will stick to that. Uh, that it should be 55-45 and 60-40. Um, uh, now the point is that this- we are, you know, sanguine that this war will get over, or at least the impact of the war, if it goes into stasis, will, uh, will be positive for us. But I'm still not 100% sure that, uh, you know, there will be a meaningful jump in demand. And really, the, impact we are hoping for- see, what is affecting India is oil prices, inflation, and the current account deficit. And all this uncertainty is leading to a drop in discretionary demand in the corporate side.

Okay. Surprisingly, the, non-negotiated side of the business, as you will see in one of our slides, has gone up. But the corporate demand is still muted. And within corporate demand, one of the main segments we depend on in certain cities like Gurgaon is, you know, new hirings, joinees from- and this is very large business from the IT sector. And that has not frankly yet picked up. So 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 and inflation reduced and the uncertainty of the war actually disappeared.

So that would still be a conversation we will probably have after Q3 results.

Karan Khanna - Analyst, AMBIT Capital
Sure. Second question to you, Neel, is on the hotel openings. Last quarter you mentioned about 2,000 Keys will be open this year, but if I look at last quarter number of 334 Keys and this quarter's net addition of 185, you're still at about 550-odd Keys net addition during 1H. And then on slide number 88, you're guiding about 900-plus keys opening in 2H. So effectively, net addition will be closer to 1,500 Keys this year. Given this, how should we think about risk to the net additions of about 2,500-plus pipeline starting from FY28 onwards?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Hi, Karan. So typically, the net addition is an interesting one. It happened largely in Q1 and Q2 this year. It's not an ongoing phenomena. We, had, we had challenges with some, some hotels with, compliance challenges, and therefore we had to resort to deflying them. But from a gross opening of 2,000, which is what I had mentioned last time, we are absolutely on track. And, I'll go back to what I had mentioned again, let's say mentioned to you earlier, that our signing acceleration started somehow sometime, let's say, in.

2024 calendar year last year, and that starts showing up in the rate of opening as well. So if you reckon last year we opened about 1,523 rooms odd, this will- this year gross, we will end up opening, uh, 2,000-ish.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Uh, no, it doesn't.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
And there's nothing on, the paper for deflagging in Q3 and Q4, and therefore our, opening rate will also accelerate going at almost the same rate as we started accelerating the openings next year onwards. Sure. And

Karan Khanna - Analyst, AMBIT Capital
Then last question, Saurabh, on Aurika Nehru Place. Is there a change of plan here? Because until last quarter this was 572 Keys and now it's 610 keys. And also in terms of timelines, earlier we were looking at FY30 but now it's CY31 end. So what- can you help explain what's driving these delays from DDA side? And on Bandra East, uh, you know, how are you thinking about the ARR for this asset? Will it be similar to the Lemon Tree Premier at Andheri? That will be my last question.

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
Okay, thanks, Karan. So on Aurika Nehru Place, as you know, we have- we are taking the land from DDA. DDA had certain approvals to provide it to us, which is basically getting approval from the Ridge Management Board and then the CEC, which is the empowered committee, you know. And once that is done, then, uh, uh, DD has to get the tree felling approval and actually removing the trees from that site. So depending on their performance, that delay is happening from there because of those two processes not yet completed.

However, We have got one more year extension from August '26 to August '27 now, purely from the fact that we have, uh, readied the, you know, building plans and everything. However, we are waiting for the approvals, which is a condition precedent in our bid, uh, with DDA.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
See, what's happened, Karan, is a very interesting thing. Obviously, DDA is very keen to do this. It's a big deal for them. It is the first time They, they last year they 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 this being specifically within the, ridge of the Aravallis, it requires specific approvals. So the specific approvals required relate to Uh, the tree cutting basically, and the fact that it is, as I said, part of the Aravallis Ridge.

Now, yeah, the process is fairly lengthy. It has been going back and forth. A couple of meetings have happened. We are now told that there will be another meeting this month, and then there will be perhaps another meeting next month. After which they will take two to three months to remove the trees. Now, this is unfortunately not in our hands, but we are given to understand that, you know, this will occur in the next few months. Once it happens, then the, FSI available and the height available, we have got greater clarity on it, and we feel we can build about 610 rooms.

Not 570 as we had earlier planned. So those drawings are ready. We are simply waiting for the following, that the minute the Ridge Management Board gives the formal go-ahead, we will immediately submit the plans. And concurrently, Delhi Development Authority has identified the land where they will plant 10x the number of trees. So they have to basically plant 3,500 trees to remove these 350 trees. That will take three months. So in that time, we hope to get the approval. So one, these things will happen concurrently, and hopefully- and I am again, of course, uh, not clear when this will happen, but hopefully in the next few months, uh, we should be able to start construction.

Karan Khanna - Analyst, AMBIT Capital
Great, this is helpful. Thank you, team, and all the best.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Yeah, but we will construct very fast. We've worked out the entire process. We are doing Mivan floor plating, so on and so forth. So we hope that once we get approvals, the loss of time will be a little made up, at least half made up, in the speed at which we construct it.

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
And I think Karan had a question regarding Bandra East from an ARR underwriting. I'm sure, Karan, Bandra East is next to BKC, so our, focus would be a deep demand market of Bandra Kurla Complex. And get the clients coming from Bandra Kurla Complex rather than being dependent on there. So our, view is currently when the hotel opens, which is FY30, we are looking at around INR12,000 approx as an ARR to start with, and then we build it up from there.

Karan Khanna - Analyst, AMBIT Capital
Great, thanks a lot. Thank you.

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

Achal Kumar - Analyst, HSBC
Uh, yeah, hi, thanks for taking my question. Um, so, um, and kindly excuse me if, if the previous, uh, guy has asked this question, I just dropped off. Um, uh, I mean, it's regarding the, land acquisition at BKC, um, where you plan to build a hotel. Um, you know, um, so I just want to understand, I mean, would you be able to sort of, um, you know justify this investment in terms of ARR? Um, and why I'm asking is because, you know, so your Aurika Mumbai hotel, which is a very posh hotel, is a great hotel, and, I met Pat there, um, a few months back.

Um, and still I was checking, um, it is selling for like INR8,900 for November-December, while many other hotels are selling for INR25,000, INR30,000, and even Ginger is selling for INR8,000 So I mean, if that kind of rate is there, and I believe Lemon Tree is going to manage, uh, the BKC property, and you're not thinking about any fancy names like Marriott and all. So my question, I just want to understand, you know, what are your thought process behind, um, opening hotel at such an expensive place? And BKC is very expensive.

And then so any color on that would be helpful, please.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
I'll answer that. It is basically at- forget for a moment the ARR and occupancy, the average revenue, average EBITDA that we do in Bombay is about 22 lakhs to 25 lakhs a key. Make it very simple. Our investment, which will fructify two years, three years later, will be at roughly 2 crores a key. Now, BKC is a very, very, very different market to Andheri. We are very, very confident that we will- let me give you an example. We have a very small hotel there with rooms at an average of 120 square feet a room, okay, which is like the smallest rooms in India.

That hotel does INR7,500 to INR8,000 ARR today at 80% occupancy, and 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. You know, if we hit this target of 12,000, which I think will happen, uh, it will be much higher. So I would not be, um, I think optimistic by saying we will achieve 12-13% definitely and better hopefully.

Achal Kumar - Analyst, HSBC
Okay, um, understood. Perfect. Then my second question is about, uh, the ARR growth of 8%. I think, uh, previously, uh, we've been saying that, uh, because of the renovations we are getting some boost for ARR. Now 8%, um, do you think it's quite a lot is because of the renovations? Um, would be really helpful if you can break this 8% into, you know, how much was because of underlying growth in the underlying increase in the ARR or how much was because of the renovations and all, that would be very helpful, please.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
So very fundamentally difficult to isolate how much of that is, let's say renovation-led and what is not. What I'll answer this differently for you, Achal. And the- in the last, quarter we had said we'll start, you know, we'll, we'll, we'll balance out the RevPAR growth between, between ARR and occupancy. And if you- and if you see Q1, because of the West Asia conflict, it was- the ARR growth was skewed more towards occupancy. We had a stronger retail play, so our ARR growth was a little muted.

This quarter, um, where there's- where demand was better emerging out of Q1, we, did- if you can see the, slide 24 on the- sorry, slide I'll just rename the number. Give me a second. Slide 24 it is. You will see that the RevPAR growth is quite consistent across all our brands and most of our cities. And that is driven largely through 8% on an average ADR growth and occupancy growth, which is 633 basis points. So there is an element of- certainly there's an element of renovation here for some of our key properties.

The biggest example of which is Keys, where 80% of our renovation is now complete, and you can see the development of ARR and occupancy because we're not only able to- we not only are able to get- fill the hotels better, but we're also able to drive higher ARR. And the other example is our hotel like the hotel in Delhi, where again after having now been renovated, you see a significant increase in- you can see a significant increase in ARR and occupancy. So I can isolate it from a property-to-property perspective, but it's difficult to aggregate or disaggregate the 8%, let's say, ARR growth.

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

Achal Kumar - Analyst, HSBC
And, then I remember last quarter I think you said that, um, that, um, you have been sort of following, um, a bit of an ARR active load occupancy level passive strategy. So where you are keeping your ARR low to boost your occupancy. So was that also a factor in your sort of 8% ARR growth but the occupancy was so high?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Not as much. That was a, that was a tactical move in Q1, uh, and therefore occupancy was significantly- occupancy growth was significantly higher than ARR growth. You will see that, uh, that Q2 is far more balanced in that sense.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So I think, I think there's another point. If you look at the slides that was referenced to you, see where did we not do much renovation, where we did not see much upside, was in the Red Fox. Portfolio. So if you notice there, the focus was refurbishment, not high cost, and drive occupancy

because we did not see a significant improvement in pricing there. So you will notice in Red Fox there was an occupancy growth but not a significant ARR growth, but the, uh, the RevPAR grew because of occupancy.

Whereas if you look at, you know, say Keys, the RevPAR grew because both the occupancy and the ADR grew in certain of the Keys that were completely renovated. So it's a, it's, you know, it's a combination. By uplifting a hotel, basically you, try to get more demand. If it's a price-sensitive market, then the focus is more demand, less pricing. And if it is a, deep market like Delhi where we I mean, you, you know, BRICS occurred, but BRICS didn't matter to the airport side, it mattered to the Central Delhi side.

But in BRICS, uh, without BRICS also, Lemon Tree Premier Delhi and Red Fox, which has now become Lemon Tree Hotel Delhi, these have grown north of 30%. And that's because we've been able to reprice the, completely renovated portfolio. So it's a combo. Where you can, you will reprice significantly, but the purpose of renovation was to come up standards which led to an improvement in price/occupancy/both. Does it kind of make sense?

Achal Kumar - Analyst, HSBC
Yeah, absolutely. No, understood. Fair enough. And my final question is, um, on, the color in the second half. I guess especially we are in the middle of November, so I guess you must have been- you must have got a very good visibility, especially in third quarter. So would really appreciate if you could give us a bit of a color in terms of how the trading has been, in terms of ARR, occupancy, and sort of EBITDA. Um, and, definitely, you know, um, any color- I think it's too early, but any color on Q4 would also be helpful.

Thank you.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Yeah, great, great. This is where, this is where it gets difficult because this is the, big, the, next two big quarters. However, I would say that, I mean, we, we're yet not in the middle of Q3, and, the effect of Diwali between October and November is still getting played out. We're just coming out of Diwali, so we're measuring how the Diwali impact has been. So difficult for us to, explain, um, how, how will the H2 go from here. All I can say is that the momentum that we, built up in Q2, um, we see that momentum on the retail side for sure.

There's like Patu said right in the beginning of the call, corporates are slightly tepid to pick up. But generally speaking, this is the time when corporate and retail demand starts picking up anyway. So I guess the real, let's say, gauge will be after this week when Diwali, Bhai Dooj, Chhath Puja, all of that gets over. Then we'll get to figure out how H2 plays out. However, we believe totally from a delivery perspective, we will still be in the 55% or 55-45 share between H2 and H1, like we've broadly been on that frame, uh, every year.

So given that H1 is over, you can almost estimate how, how H2 will go given the ratios are in that order, 55-45.

Achal Kumar - Analyst, HSBC
Okay, 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 - Analyst, Haitong Securities
Hi, thanks for the opportunity. My first question was on our F&B revenue growth. Given RevPAR growth has been in the range of 18% and top line growth is also in the range of 18%, that implies that F&B revenue growth has also been very strong in this quarter. So just wanted to understand what has led to this growth and would this be a sustainable growth rate going forward as well in the year?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Yeah, hi, I mean, simple answer, yes, it is, it is, it is similar to the overall RevPAR growth, largely driven by MICE and banqueting. Uh, you know, these are, you know, these are critical businesses for us in many of our properties. And, as you know, as this season starts, we generally start seeing around, around the middle Q2 sometimes, the uptake in MICE activity, group activity, and sometimes wedding as well. Those weddings start peaking- usually weddings start peaking in Q3 and Q4.

So I, would say nothing extraordinary, but expecting, expecting MICE, wedding, and, just the, let's say, the buoyancy of Q3, Q4 take us- take place this, quarter as well. Quarter and the next quarter as well.

Vaibhav Muley - Analyst, Haitong Securities
Understood. Uh, secondly, on our management fee income, uh, our Fleur Hotels revenue has grown by 15% in Q2, but Fleur fee income has grown by 11%. So just wanted to understand why is there a divergence in the fee income that's being received by Lemon Tree, uh, with respect to the revenue growth reported by Fleur.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So it's very simple. While Fleur as a portfolio has grown at 53%, I think in,

Uh,

No, in the portfolio of Fleur has a 53% GOP. Our management fee income, about one-third of it to 40%, is a function of GOP margins. And if the margin is affected by 2-3%, as it has this year because of the renovation beyond normal, then the fees come down proportionately. So think of it this way, that when, uh, you look at the portfolio, the two things that are impacting our margins is GST, uh, and which was not there last year in the- in, H1, and the renovation, which anyway affected the margins.

Both of, you know, GST is of course an ongoing thing, but renovation will drop to, you know, 1.2% of revenue next year, and that will itself improve the margins by about 1.5%. So we expect that the management fee income in Fleur will start accelerating with the rate of growth of Fleur as we, as the EBITDA margins start paying us incentive fees. Is that clear?

Vaibhav Muley - Analyst, Haitong Securities
Yes, understood. Uh, my last question was on our ADR. So for the quarter, we have reported 8% on ADR growth. Uh, in the Aurika, again, the ADR growth has been at around 9%. Uh, just wanted to get the sense of our revenue management strategy since there is a GST impact below 7,500 ADR. So, uh, are we not strategically trying to raise the ADR rather than focusing on the occupancy? And secondly, related to Aurika specifically, uh, uh, now again occupancy has stabilized in the range of 75%, so can we expect ADR growth to be higher from H2 onwards?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Uh, good point. And I'll answer the second question first. Uh, yes, Aurika, we,- I did say last time as

well that I do feel, we all feel that Aurika is now mature and frequencies is relatively stable. It's a, it's a, it's a well-known brand, uh, now across, the board. And therefore, going forward, we will certainly, uh, want to take the ARR route to improve, uh, our performance. That is also visible, uh, Q1 versus Q2. I mean, at 9% ARR growth, this is the highest- Aurika's highest ARR growth in the Aurika portfolio in, many quarters.

Um, in the past. So you can start, start seeing this already, that we are pricing Aurika to its potential and to its, to its positioning. Um, coming back on your first question, coming back on your first question around revenue management and GST, I mean, what, what exactly was the point, Vaibhav?

Vaibhav Muley - Analyst, Haitong Securities
So I was trying to understand, uh, are we not trying to focus on increasing the ADR above 7,500 threshold? In order to reduce the GST impact rather than focusing

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
On- So there are two ways to look at it. First, I think the real performance is RevPAR, and therefore, you know, depending on how the season goes, where we are, which month we are in, and how the demand plays out, we of course use both the levers, occupancy and RevPAR, to be able to drive occupancy and ARR to drive the RevPAR. So that's principle number one, that RevPAR is the major metric. And as a- and as with our kind of volume, we use both levers, ARR and occupancy. The other thing I think on GST or the 7,500 mark is interesting, that if you- many of our hotels are significantly above 7,500 mark, and therefore GST, the question on GST doesn't arise.

Similarly, a bunch of our portfolio is let's say significantly below INR7,500, where, it will not be possible to raise the price to cross the INR7,500 mark because the product is not like that, aka let's say a Red Fox or a Keys hotel. So, this- so the, so the logic of getting past the INR7,500 mark applies to all those hotels which are ballpark in that ARR range, which are, which are few. And then on those, hotels Of course, through a combination of, let's say, pricing strategies, segment strategies, we've been trying to get over the 7,500 mark, and that plays out every day actually.

And so therefore, from a revenue management perspective, to your point, it is important for us as a chain to make sure that anybody- that any hotel which is potentially on that, let's say, line of 7,500 over a period of time goes past it so that we are able to, you know, we don't have the GST impact like we had in the previous times. Anybody who's way above 7,500 doesn't apply. Any hotel that is way below 7,500, uh, we can't reprice them overnight to be over 7,500.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
No, but I think you will see a slight change that I think last year our, uh, percentage of revenue over 7,500 was 48%. To something. Is that correct? And this year it is 50%. So I think we mentioned this in some earlier earnings calls, that gradually this percentage of revenue which is over INR7,500 will keep increasing as we reprice. But remember that repricing a INR5,000 hotel is, uh, will not lead to a reduction in GST because it will go to INR5,355. But repricing a INR7,000 hotel will lead to a reduction in GST.

So within a INR7,000 hotel, again, there is a percentage of the business over INR7,500 and a percentage of the business below INR7,500. So this is very specific to very some hotels, but we are generally sure that over time this percentage, which is now 50% of the revenue, will start inching up and the impact of GST therefore, uh, will keep reducing. As a percentage of revenue.

Vaibhav Muley - Analyst, Haitong Securities
Understood, that is perfectly fine. Thank you and all the best.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank you.

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

Jinesh Joshi - Analyst, PL Capital
Uh, yeah, sir, uh, thanks for the opportunity. Uh, then my first question is, uh, the reduction in our own key count, uh, to about 5,600-odd rooms. That we have seen in this quarter. I believe it is predominantly due to the lease termination contract at Gurgaon. So any, reason for discontinuation of the lease? That is question one. And the related follow-up is that even on the management contract side, I think there were about 250-odd keys that got deflagged in the quarter. And I think in the opening remarks you mentioned that there were some compliance-led challenges.

If you can maybe elaborate a bit on that, and the related follow-up will also be that the guidance of 2,500-odd keys that we are giving from FY28 and beyond, is it, is it a gross number or a net number?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Okay, so I'll answer this. The- this is Patu here. So what happened in Gurgaon was that it had two basements. Earlier, one basement was approved for, uh, banquets. Then recently, after a fire somewhere, they withdrew that approval and they said you cannot any longer have banquets there. As a result, it significantly affected the performance of that hotel because about 30% of the business that hotel got came from either banquet income or the, conferences that it used to get. This was a large banquet So this was a force majeure clause.

We asked the owner of the asset to try and get this approval. They tried for 2-3 months, and after which we terminated it, if I remember right, on 30th of September or October- August. So we terminated it in August, and it was shut down from when? From August

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
Was the last month of operation. Yeah, so, apple

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
To apple, that income disappeared actually from our owned portfolio. Uh, and, uh, the, reason that there are some- I will ask Kapil, will you explain why there is that exceptional item of profit, which I'm sure would be a question?

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
Yeah, sure. So there are three elements to it. So one is, as Mr. Keswani has just explained, that there is a termination of the lease agreement. So due to termination, there is reversal of lease liability and right-to-use asset which are accounted for, a lease asset. So due to that reversal, there is a result of a revenue actually, which is an exceptional revenue in the P&L account, which is one of the major exceptional item, which is roughly INR41 crore. Then there are two exceptional items which is relating to expenses.

One is the provision for which we have made as a conservative accounting based on outcome of a similar case relating to property tax for some other hotel chain. So we have provided around INR16 crore towards that liability. And then there is a small INR3 crore adjustment which is diminution in the value of investment in one of the facilities, one of the associate company of Lemon Tree. So net-net it is coming INR41 crore is the revenue, INR16 crore plus INR3 crore is the expense, so net INR22 crore positive impact, which is exceptional revenue coming in the P&L this quarter.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Now I want to also add one thing. On and off, I think one, thing we have to recognize is that various agencies in India raise various demands on us, okay? At any given time, there is always some pending demand on GST or on property tax, so on and so forth. And these are often by nature arbitrary. It is impossible for us to, actually anticipate which state will suddenly make a demand on property tax or XYZ. So, uh, you know, while we report it as an exceptional thing, it is actually that we do not know who will raise what demand when.

So I just want to alert those who are listening that it is Uh, you know, when we make- that is why we try and clarify these are exceptional. What happened in Delhi last year was, uh, was an exceptional demand. Again, it came with bad back effect. It went to court. Other hotels who went through this demand took this matter to court. The court then struck it down. Then they appealed, so on and so forth. So in our case, what we always try and do is we are conservative. We try and provision for it. And if it does not happen, of course, but if it happens, as Kapil said, uh, this is in Pune, this property tax issue.

Bangalore. So this in Bangalore, we have accounted for it. But what I want to say is that this entire, uh, 45 crores-

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
41

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Crores is non-cash. So we have also clarified this in presentation that it is not part of our cash profit, so on and so forth. And it is just on account of this accounting thing, uh, uh, which is where the exceptional came in.

Jinesh Joshi - Analyst, PL Capital
Sure, sir. And the second part of the question, deflagging issue, uh, the compliance article that-

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So the- so that is why we deflagged that 80-room hotel which is from the own portfolio. Now, as far as the other hotels go, these are again rent- you know, these issues come because suddenly the authorities will raise a compliance issue, and if we feel it is relevant in any form, we give a notice, we give a cure period, and if the owner is unable to get the relevant approvals, then we deflag. Your question was, will this continue? By and large, no, because in our business development, uh, uh, you know, assessment, we- before we sign a hotel operating agreement, we have a list of condition precedents which include all necessary compliances.

But it is possible that going forward, in some hotel at some time, like happened in Gurgaon, there could be a sudden event that makes it non-compliant. Now, the 530 rooms that we deflagged, uh, if I exclude the, uh, the Gurgaon one, the 450 rooms, uh, these were an ongoing thing, by the way. It

was not that it was deflagged just in one quarter. We had given various time periods based on the requirements to various asset owners, and then we took a call that we would deflag these. It is possible, however, and not that we have line of sight on it, that some owner may actually get it corrected and come back to us, as has happened in one case.

But, uh, but we will, uh, we will be very conservative in this matter because, as you know, compliance relating to fire life safety, uh, these are issues which have very grave consequences. So, you know, we, deflag where required, but next year the 2,500 which Neel has committed to you, please note not me. I do not expect, Neel, that there will be any deflagging, or if it will be, it will be very not material.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Yeah, I was about to say that, Jinesh. This was- these hotels, of course, because they're concentrated across Q1 and Q2, it looks like we should start reporting net of deflagging, but there's no line of sight of any, significant deflagging. Therefore, you know, and if there were, if there were any, if there were to be any, we'll, we'll of course announce that at the right time. But, these are exceptional, exceptional moves.

Jinesh Joshi - Analyst, PL Capital
Uh, understood. Uh, one last question from my side. Uh, sir, I think we have also formed a wholly owned subsidiary in Maldives. Uh, so just wanted to get some, uh, sense. Are we kind of looking out for an operating asset over there, or are we, are we kind of willing to take the construction risk. Also, any color on ticket size or indicative inventory that we are targeting over here?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So we were looking at some acquisitions there too. These were operating assets. This was not construction. We do not feel we want to construct anything. So this was purely a play to acquire an asset which we felt was underperforming and where we could push more Indian customers, which was- it was a specific asset. However, um, it was a large ticket size and a large EBITDA acquisition. But recently the Maldivian government has said that 40% of the revenue of a hotel must be kept in Maldivian rupees.

So this has made this project completely unviable in our opinion. Because everything is paid for in US dollars. But if we are forced to keep 40% of the revenue in Maldivian rupees, then the project absolutely does not make sense, nor does any debt on it make sense. So it is right now in cold storage. But the- but we are very interested in Maldives, as- and if this government policy changes, which may happen, then we will evaluate this again.

Jinesh Joshi - Analyst, PL Capital
Understood. Thank you so much, sir, and all the best.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank you.

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

Sameet Sinha - Analyst, Macquarie
Yes, thank you very much. I apologize for the background noise. A couple of questions. So, Patu, we've discussed several times, you look at airline data, look at air traffic data. Number of passengers. That number continues to weaken, but we did have a good quarter. So any learnings from that? Are you already seeing this sort of divergence? And the second thing is, the last few years have been quite tumultuous between renovations and things coming from left field, you know, wars, etc. I just wanted to understand what sort of learnings have you as managing team got over the last few years that will feed into your strategy or your tactical approach over the next few years?

Thank you.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So let me first talk about revenue. Revenue is in the hands of God, okay? Uh, there are- what affects a hotel starts from supply-demand in a micro market, then in the, uh, the segments it gets business from. Then the impact in each of those segments with external factors, like, you know, we all know what happened with hiring in the IT sector. Then it continues on to at the national level into how the economy is doing. And even the airline sector is a, is a proxy for travel, but it is not a direct proxy, it is an indirect proxy for hotel demand.

Because, uh, for example, an interesting statistic would be, Sameet, to look at how many same-day air trips happen. So if airline traffic grows 10% but 4% of that is same-day trips, then really overnight stays only the 6%. Then the second thing is how much of that is double occupancy. So if it is a couple traveling, it requires one room, but it actually shown as growth of 2 airline seats. So there are multiple factors is what I'm trying to say. What have we learned? Airline travel is a proxy. We continue to track it, but what we have seen is the impact of other stuff- geopolitical conflict, as I said earlier, inflation, companies cutting down on discretionary travel out of, you know, a desire to control their costs.

All these play out into our sector. The other thing is that we are in the mid-market, so we get demand from companies which is more discretionary because the CEO may continue to travel and stay in a 5-star, or the senior vice president, but the manager, well, they, which is a larger volume, may stop traveling or may reduce traveling. What we have seen is that our plan was very clear. Renovation was a catch-up. It had nothing to do initially with anything other than the fact that for over three years we had not done any renovation and the Keys portfolio was languishing because it was an extremely old, uh, you know, worn-down portfolio.

So the entire renovation catch-up- think of it that we spend 1.2-1.3% a year in renovation. For three years we had not spent that, was 4%. And then there was an improvement that we wanted to achieve in the high-priced hotels, which we felt we could reprice. So all these factors led to our investment in renovation, and we will by next year go back to 1.2% of revenue as our ongoing renovation, and that will go on forever. The war had an impact linked to what I had said earlier. What is our learning?

Our learning is that at all times we must be cost warriors. So our biggest moat is one, is that we have built nearly 6,000 rooms- built or we leased 6,000 rooms. 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 the Tier 2, Tier 3, Tier 4, where we are absolutely asset-light. Uh, our intent is that we, at the end of this year, we will have more or less fully upgraded our portfolio. We should be able to reprice slash increase occupancy.

We should be best in class in pricing, in cost, so that the operating leverage plays out for us. Now the rest, of course, is in the hands of God. When will this war get over? When will oil prices come 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, we are there. And you will start seeing this play out now quarter by quarter.

Operator
Hello, do you have any further questions?

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
Sameet like he was calling from an airport. Yeah, I think he was saying to some- yeah,

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Sameet. Okay, I think we can go to the next person in line.

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

Prachi Agarwal - Analyst, Axis Capital
Hi team, thank you for the opportunity. So my question is on the overall supply which is coming in the segment. We are seeing players like IH and ITC aggressively expanding in the non-hospital segment. This is also accompanied by multiple international brands as well. So taking this into consideration, do you see a supply risk, you know, supply outpacing demand which could potentially impact the RevPAR going forward?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Well, simple answer, no. Uh, structurally what's happening to India, there's, there's a clear deficit between supply and demand. And while, like this, Patu said, while, in the deep demand, let's say, districts of the country, there's, there's little, little supply coming up. Most of the supply is coming in, Tier 2, Tier 3 markets where, while, there is competition, but I guess there's, there's enough demand, uh, also One, because of the structural reasons. Secondly, you know, there are new destinations getting developed, uh, there are new reasons to go to these destinations, there are more highways getting developed.

So demand generally is on a structural high, and given where India is heading with all this development, we believe that demand will continue like this. So it's difficult to believe at this point of time that supply will outstrip demand. We might get in certain areas, in certain- we might get competitive, but that is bound to happen, Prachi, as Tier 2 cities get lucrative for hotel brands, as it happens in consumer brands as well. So competition is okay. Will it- will supply outstrip demand? We don't think so.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
But even if it does, it's not a- Prachi, this is not a winner-take-all big ball game. So when we said supply is growing in Tier 2, Tier 3, Tier 4 markets, the supply growth is actually an opportunity for us to increase our network. And surely, I mean, ITC is a reputable brand, Marriott is a reputable brand, Taj and so on. All these guys will increase their footprint, but so will we. And that is visible because 50% of portfolio is not open yet, and I would not worry about it. If I was a capital allocator, I would, I would question it, but we are not allocating capital to these markets.

We are simply going after building our network there, which is the fee income side. So does that answer your question?

Prachi Agarwal - Analyst, Axis Capital
Yeah, that's very helpful. Thank you.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thanks.

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

Dikshi Jain - Analyst, InCred Research
Hi, thank you for taking the question. My first question is regarding the Omaxe deal that, uh, we signed during this quarter. Can you give us a little more information about the investment that we are about to do, and also, uh, when will this be operational? Also, for Fleur Hotels, the total 2,500 rooms that are expected to be operational by FY30. What is the timeline looking like for that?

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Hi, this is Neelendra. I'll answer the Omaxe part and I'll invite Saurabh to do the Fleur part. So the, so the Omaxe, the, partnership with Omaxe or the MOU with Omaxe, you see, is asset light. So they, they as developers are developing townships and hotels and, remodeling bus transit points or bus stations. So we don't have any investment. We will be managers and brand owners for those properties. So from our perspective, this, is in line with our asset-light strategy as we go into, let's say, deeper markets.

The, reason it is an interesting, let's say, partnership is because the, 2 kinds of development Omaxe is doing, um, one is clearly their townships which are very well located and very large. They, they are over hundreds of acres, and therefore there's fair amount of both resident and transit demand in those areas because of the location and the density of population where they come from. And the other, let's say, kind of development that they're doing is through PPP route with the government where they're remodeling bus stations in some- in a certain few Tier 2, Tier 3 cities.

As you, as you know, many of these bus addas are very well located at the center of the heart of the city. Usually the cities come around the bazaars, and then therefore, you know, as a part of that development, when a hotel comes up next to a bus transit point, it, you know, it is right in the thick of demand. We thought going to Lucknow, let's say Lucknow, Varanasi, Ghaziabad, Greater Noida, and such cities is in line with where their development is happening, and hence the, MOU with them.

Most of these, are- therefore there are 4,000 rooms ballpark in 10 properties. nine out of these 10 properties, Dikshi, are greenfield. So expect the same timeline, around three years, 3.5 years to, fructify. And these are large townships, so it might take slightly longer, if you will. So one of them, which is in Greater Noida, might come in the next 12 to 18 months. The others will take the usual three years plus. So that's on, that's on Omaxe, and Saurabh can help you with the Fleur.

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
So on 2,500 rooms operational by FY30, FY31, uh, we are, we are working towards this. We said that by the time we list, we should have a site of these 2,500 rooms. Uh, we, are working towards this. But given that these are all acquisitions, and because of diligence of, you know, legal, technical, uh,

you know, soil testing, plus if there is an operational hotel, the financial diligence, all that, because we are dependent on various consultants and the client, it might- it takes a time more than what we might envisage at those point of view.

So long story short, 2,500 rooms Uh, we are still very hopeful that we should be able to achieve that between operational brownfield and greenfield assets in the next nine to 12 months by the time we get listed. And FY30-'31, we are quite hopeful that we should be able to do that given the construction timelines and challenges. Like in Delhi, during, wintertime now, you get the GRAB, so it might shift the construction timeline. So depending which city or which country we are taking this asset in, we will abide by those laws.

And sometime here and there might happen, and quarter-wise we'll keep the group posted.

Dikshi Jain - Analyst, InCred Research
So currently there are no additions planned in FY27-'28??

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
There are some acquisitions we are looking at, and, uh, they are through- going through due diligence. I mean, somebody earlier asked about Maldives. So there are always ups and downs, but as Saurabh said, we will hopefully achieve this 2,500 rooms, and part of it is acquisition. So that will have a direct and immediate impact on the EBITDA of Fleur.

Dikshi Jain - Analyst, InCred Research
Okay, thank you for taking the question.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thanks.

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

Murtuza Arsiwalla - Analyst, Kotak
Hi, just an extension to those additional Keys question. You know, Warburg Pincus investment of INR960 crore, is there a timing or a contingency to it? Will it happen before Fleur is listed? Will it happen after? Are there any milestones? Do we have any timelines around that investment?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
No, it is entirely dependent on acquisitions acquisitions/developments. There is no restriction. We can call for it. They said they need 2 weeks. Obviously, we will take the money if and 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, Bombay, we didn't take any money because we had it in cash with us. But, uh, you know, some of the new projects we are looking at, and, uh, you know, it's on call. Let's put it this way, it's on call.

There is no restriction.

Murtuza Arsiwalla - Analyst, Kotak
Okay, 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 - Analyst, Individual Investor
Hi, thanks for taking my question. So we frequently talk about the growth in our loyalty member base. I want to look past our enrollment numbers and look at utilization. What percentage of our rough, uh, room nights in Q2 were booked by active loyalty members? And when we account for the direct discount given to the loyalty members, um, what is the net EBIT margin differential of a loyalty member booking versus an OTA booking after factoring in the commissions?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So, uh, Rahul, there is no discount given to loyalty members. What loyalty members get is whichever channel or segment they book from, they have pricing there, whether it is through our website, whether it is through the call center, whether through- it's an OTA, whether it's through a company. Typically, I don't have the numbers offhand of Q2, you should get that in future, but about 45% of our business when we last checked, which is about a few months ago, we found was repeat guests. And of them, so out of every 100, uh, customers we get, 45 are repeat, but only 25 are loyalty members.

So today, 25% of our total business is loyalty, 45 is repeat. So the runway for us is actually another 90% of 80%, we should definitely enroll the other 20%, which we are trying to do as quickly as possible. And as far as pricing goes, there is no impact, but typically our loyalty payout is about 4%. So when a customer uses the loyalty points, it is 4% of revenue, but that 4% gets absorbed within the network. So somebody who buys books a hotel in, I don't know, in Delhi and spends INR30,000, of which INR20,000 for 2 nights is a room, he will get a benefit or she will get a benefit of INR800.

And this INR800 can go and, uh, you know, they can, they can spend this in another hotel of our network. So really, uh, it's a self-supporting kind of internal system. And not only that, there is something called breakage. So we, uh, for every, you know, INR1 lakh that are benefits given to members, typical breakage is anywhere from 30% to 40%. So actual consumption is only about 60-70%. Does that broadly answer the question?

Rahul M - Analyst, Individual Investor
Yeah, that's very helpful. Uh, my second question is in a totally different direction. So regarding franchisee tree structure, to what extent of as are our modern franchise fee structures linked to performance milestones, for instance, like do our contracts include any escalator clauses that increase of fee percentage once our centralized brand distribution process haven closed for some other reasons that compress their local RevPAR below some agreed-upon baseline?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Actually, franchise is where we have dipped our toes because there is an implication of lack of control over the asset and therefore a potential impact on the brand. But franchise is 100%- it's a basically, think of it as a brand/sales and distribution agreement. We are not involved in the running of the hotel, though we use technology to monitor the customer feedback and therefore the Net Promoter Score. Our fees are entirely a function of the- typically the room revenue and a smaller percentage of the F&B revenue.

Uh, it has nothing to do with the performance in, terms of the agreement. However, what is super

important is that we perform for that owner, which is why he or she is giving us their asset. So it's a- it's actually a moral responsibility for us to improve their performance. And as long as we improve the performance, I don't think they have any issue because we share with them local, uh, you know, what the local market has performed and how we are standing relative to the local market. And I can say, by and large, I would say over 90% of our owners are very happy with the performance that we are providing for them.

Uh, there are of course owners who are, uh, who feel we could do better, and we are making efforts there. But there is no termination in these matters. Frankly, once you tie us up, we tie you up, and it continues. And therefore you can treat it as a little bit like annuity fees, though it varies based on performance. Does that answer it?

Rahul M - Analyst, Individual Investor
Uh, yes, just a last, uh, inquiry on this. Uh, what is the rough A&P spend percentage, uh, like from the franchisees as part of our, uh, consolidated ad spend or promotional spend?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Uh, what do you mean? Can you read?

Rahul M - Analyst, Individual Investor
Do the franchisees

contribute to our overall consolidated A&P spend and Yes, what percentage would it be?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So, you know, it is an indirect spend. So there'll be some sales and marketing spend, there'll be some, uh, local search engine. Now, of course, generative optimization, but it is not significant. As far as possible, we want to charge a flat percentage, you know, whatever it is- 5% of revenue or room revenue, 6% of room revenue- and That is aspirational, I know. It starts at 4, goes up to 6, and, uh, that should include all the spend that we do because ultimately he is buying into our brand and it is our responsibility to deliver revenue for that owner.

Rahul M - Analyst, Individual Investor
Yes, that, that's very helpful. Uh, just a comment on the Aurika properties. I have stayed at some of them and they are fantastic brands and really well curated. So all the best for the future quarters, and I loved the experience there.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank you. Actually, it's a long haul for us because this is the first time you can say we compete with very established brands. And, uh, but we are opening- going to open so many Aurikas in so many key markets that something like what happened with Lemon Tree over 10-12 years will have- will happen with Aurika. Uh, I understand the impatience with certain investors investors. But I think Aurika will be a pleasant surprise for investors over the medium term.

Rahul M - Analyst, Individual Investor
That is from my side. All the best for the coming quarters.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Thank

You.

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

Vaibhav Muley - Analyst, Haitong Securities
Hi, thanks for the follow-up. Uh, a bookkeeping question from my side. Uh, what is our capex done in FY27 till now? And if you can also share the, uh, capex planned over next two to three years for each year. And, uh, regarding the renovation expense, I think we were incurring around INR120 crores to INR130 crores of, uh, opex towards renovation, uh, last year. So what would be that number now?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
About 60-40.

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
So it includes the projects under construction? No, exclude

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
The projects. First, let's talk about renovation.

Kapil Sharma - Executive Director and Chief Financial Officer, Lemon Tree Hotels Limited
Renovation,

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
It would be about 60-65% would be opex and the balance capex. So capex would be basically when we replace some equipment or do some major capital asset, uh, investment in our hotels. As far as investments in our ongoing portfolio goes, as you know, we've just invested 120 plus 9, about 130 crores in the buyout of Bombay. Uh, we must have spent 20-30 crores in, uh, maybe another 50-70 crores in Shimla and Shillong. We have not really started any major expense in Varanasi nor in Nehru Place. So you can say put together we have, uh, including capex renovation, and that would be about 180-200 crores.

200 crores.

Vaibhav Muley - Analyst, Haitong Securities
Okay, so renovation expense in capex should be around 30

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Crore position Well, yeah, 40 and then you assume another, so about we have spent 200 crore. You assume including then the projects, and we have also paid off our debt, so you can work backwards to see the cashflow generated. Actually the way to I it happens. Look at our free cash, okay? And then account for all the expenditure on, uh, capex, whether it is in projects or whether it is in, uh, capex of existing hotels.

Vaibhav Muley - Analyst, Haitong Securities
Understood. And what will be the capex for next two years, '28 and '29?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Difficult, because if we, uh, do the acquisitions we are hoping for and the, uh, the new properties and so on, then we reckon that it will total to about INR3,000 crores over the next 3.5 years.

Vaibhav Muley - Analyst, Haitong Securities
Understood. Uh, lastly, on the, uh, Bandra land acquisition, you mentioned the timeline for operationalization as FY30. Given we have just completed the acquisition now and approvals and design are still pending, so, uh, are you confident that, uh, asset will be operational by FY30, or would there be a possibility of delay to '31.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Okay, so basically we- when we start, we reach a certain stage in due diligence. Uh, you see, Bombay has been going on for one year. Let me explain, because this was a slightly complex acquisition. There were multiple owners in it, I think 19 owners or something.

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
Yeah,

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Yeah. So there was a society that had to be bought out, all that. So I don't want to get into the details, but it took a year. Now, uh, we started designing- once we were pretty clear that it was happening, which was about six months ago, we started designing the hotel. And as it happens, the design is complete. The architect we have selected is a very competent, well-known architect, and he is now, as we speak, drawing the hotel, uh, drawing- making these drawings for, uh, for approval. At the same time, the hotel has- that property has approvals to excavate, which we will start hopefully in the next 2-3 weeks.

Yes. And, uh, simultaneously submit the drawings, uh, for approval. And as it happens in Bombay, thankfully we can do the excavation at the same time as we have submitted drawings. So we reckon that in the next three to five months, we should be out of the basement, the drawing should be fully approved, and we can start building the superstructure. Typically, in a development case, you try to avoid the monsoons for digging. So in our case, like in Delhi, you try to avoid GRAP, and in Bombay, you try to avoid monsoons.

So Uh, we hope that the shell will be under construction, uh, in the next three to five months, and we are out of the basement. And then we reckon it's 22 floors, is that right?

Saurabh Shatdal - Managing Director and Chief Executive Officer, Lemon Tree Hotels Limited
21 floors.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So in 20 months we should finish it. And of course there'll be six months for approval and interiors and so on. So it's not an unreasonable expectation. six months plus 21 months six months is the 33 months, say three years. And three years is what we have actually said, FY27 to FY30. Does that answer?

Vaibhav Muley - Analyst, Haitong Securities
Yes.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Yeah, but don't hold me

To it because tomorrow the government might say we'll take six months more. And you know, we will always be transparent and tell you where we got delayed and why. But I think, uh, people should

also understand that there is so much in development in real estate that is out of our control.

Vaibhav Muley - Analyst, Haitong Securities
Understood.

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

Zahra Patel - Analyst, Solidarity Advisors
Thank you for the opportunity. My question is on the pro forma numbers. So the EBITDA margin has reduced, like it is sort of a reflection of the top provision of SAR. It is about 56%. So are the reasons again the corporate overheads and talent acquisitions? And by when do you see this going to the expected numbers of 70% plus?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
So very simple, our expenses are fixed more or less. They may escalate at 4% a year in, uh, the, uh, the Lemon Tree standalone. Uh, why we feel it is the right time for us to demerge the 2 entities is that Lemon Tree, as Neel had said earlier, the hotels we signed three years ago will start opening up going forward. And, uh, what will happen is that it will be mostly flowing for operating leverage. There will be hardly any impact on the expenses. So we do feel that in the Medium term, in the next few years, we will definitely hit 80% flow-through.

So what, what does that mean? If our operating expenses are, you know, if you work backwards, our operating expenses are 100 crores, say, for, uh, for, uh, Lemon Tree standalone, uh, we would like to target INR500 crores fee income and therefore have a 400 crore EBITDA. Of course, the INR100 crores will go up by 4% a year, therefore that INR500 crores will also be automatically- I mean, has to be adjusted for. But it's not unreasonable, and it is very common worldwide that as the fee income grows, the- obviously the operating leverage starts playing out.

So we have to look at it from that perspective.

Zahra Patel - Analyst, Solidarity Advisors
Got it. And, um, secondly,

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
sorry, sorry, I want

To add one thing. What you need to see is every year what is the net EBITDA margin of Lemon Tree, and you can track it. Actually, the way to look at it is every, uh, quarter or half year, year-on-year, how is it changing.

Zahra Patel - Analyst, Solidarity Advisors
Uh, on the Omaze deal, so given it is about 4,000 rooms with 10 projects, so this is much larger properties that we are working on. So these are like approximately to take 400 rooms per project. So this will be under which brand are the greenfield? Out of the 10, 9 are greenfield. Uh, it's the land acquired over here and we're working with much larger property, which is usually in the tier 2, 3 cities we work with smaller property. So this is mainly because of Omaze project side.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
So okay, so Zahra, your voice is not very clear, but I'll, I'll answer from what I What I understood. Uh, did you, did you say, are they large for Tier 2, Tier 3 cities? Is that what you meant?

Zahra Patel - Analyst, Solidarity Advisors
Yeah. No, no, sorry.

Uh, first question was in terms of the greenfield of capex, greenfield acquisition. So the, uh, is the land acquired over there from Omaxes side already?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Secondly, yes. Sorry, secondly,

Zahra Patel - Analyst, Solidarity Advisors
Secondly, in terms of the project size, if we take 4,000 rooms for 10 projects, which is one project of approximately 400 rooms, so we usually work with much lower size properties in the tier 2, 3 cities. So is this only because of the project size of Omaxe, or are we changing away or something?

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Yeah,

No, so okay, so I'll answer this. Fair point. Fair. So yeah, this is according to the project size, that's how the hotels are, they're larger inventory. And the other way to look at this is that there are cities like Lucknow and Ghaziabad and Greater Noida, they typically if you aggregate our inventory across different brands we still might have so many rooms. It's just that in one location if we are able to aggregate let's say on an average 400 rooms, that actually works in our favor. There is better leverage, there is better concentration on demand, and we can service- and the cost, of course- and we can- we are able to service demand in a much more efficient way.

So, concentrated inventory in a Tier 2 town or anywhere actually is a good thing. And, um, and which- did you also ask which brands will this be?

Brands come last. Yeah, this land is all owned by Omaxe. This is all their master planning. So they have not come to us with some future expectation. These are all land banks, larger developments owned by them. They have already designed the areas for the hotels in each of these markets, which is why it is so specific. And what Neel had said earlier is, other than I think the Greater Noida Hotel, these will take three to four years Out. So the fee income will not come for 4 years, let us assume that. And, uh, the inventory design is all at Omaxe has done.

Okay, now the brands, Neel, you can answer.

Neelendra Singh - Managing Director, Lemon Tree Hotels Limited
Yeah, the brand will be Lemon Tree.

Operator
Thank you very much, ladies and gentlemen. That was the last question. And 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.

Patanjali Govind Keswani - Executive Chairman, Lemon Tree Hotels Limited
Okay, thank, thank you once again for your interest and support. We'll 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. Thank you. Thank

Operator
[Operator Closing Remarks]