

Lemon Tree Hotels

10 August 2026

Operator: Ladies and gentlemen, good day and welcome to the Lemon Tree Hotels Limited earnings conference call. As a reminder, all participant lines will be in 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, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anup Pujari from CDR India. Thank you, and over to you, sir.

Anup Pujari – CDR India: Thank you. Good afternoon, everyone, and thank you for joining us on Lemon Tree Hotels' Q1 FY27 earnings conference call. We have with us Mr. Patanjali Keswani, Executive Chairman of Lemon Tree Hotels; Mr. Neelendra Singh, Managing Director of Lemon Tree Hotels; Mr. Kapil Sharma, Executive Director and CFO of Lemon Tree Hotels; Mr. Saurabh Chhatwal, Managing Director and CEO of Fleur Hotels; and Mr. Mayank Sharma, CFO of Fleur 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 now request Mr. Keswani to make his opening remarks.

Patanjali Keswani – Executive Chairman: Good afternoon, everyone, and thank you for joining us. Today, Neil, Managing Director of Lemon Tree Hotels, will cover the business highlights and financial performance for Q1 FY27, after which Saurabh, MD and CEO of Fleur, will brief you on Fleur's business development. Lastly, I will share an update on the pro forma financials for Lemon Tree Hotels Limited and Fleur Hotels Limited upon the demerger scheme becoming effective. Of course, after that, we will open the forum for your questions and suggestions. Neil?

Neelendra Singh – MD: Hi, this is Neil. Let me take you through the key highlights of the quarter. For the quarter, total revenue stood at 346.8 crores, up 9% year-on-year. Net EBITDA stood at 151.9 crores, up 7%. Net EBITDA adjusted for the GST impact and provision for stock appreciation rights stood at Rs. 162.5 crores in Q1 FY27, up 14% compared with 142.1 crores in Q1 FY26. PAT grew 19% to 57.3 crores, and cash profit grew 17% to 96 crores. Our gross ARR stood at Rs. 6,361, up 2% year-on-year, and occupancy was 75.7%, up 314 basis points versus last year.

Our net EBITDA margin for Q1 FY27 stood at 43.8%, which was 99 basis points lower than the 44.8% we achieved in Q1 FY26. This decline was due to the provision for stock appreciation rights and the loss of input credit on the GST levied, which increased our expenses by 3.5% of total revenue in Q1 this year versus zero in the same quarter of the previous year.

Our gross debt as of June 30, 2026, stood at 1,475 crores, down 11% from 1,657.9 crores a year ago, and our cost of debt reduced to 7.48%, down 53 basis points versus a year ago. In Q1 FY27, on the asset-light side, we opened six managed and franchised hotels with 334 rooms, which we had signed approximately {? 30 months ?} ago, as a ballpark figure. In this quarter, we also signed 13 managed and franchised hotels with 1,020 rooms, which is more than 3 times the inventory that we opened.

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Our combined operational and pipeline inventory now stands at 23,381 rooms across 279 hotels in more than 170 cities, of which 135 hotels, representing 11,946 rooms across more than 80 cities, are already operational. Network revenue for the quarter grew 16% year-on-year to 576 crores, with owned hotels contributing 320 crores and managed and franchised hotels contributing 256 crores. Therefore, owned hotels contributed 56% of the network revenue in this quarter.

Fee income from management and franchise contracts from third-party-owned hotels stood at 22.8 crores in Q1 this year, an increase of 42% year-on-year. The fee from Fleur Hotels stood at 22.6 crores, up 6% year-on-year. Total management fee for Lemon Tree stood at 45.4 crores, an increase of 21% year-on-year. I now hand over to Saurabh for an update from Fleur.

Saurabh Chhatwal – MD & CEO – Fleur Hotels: Thank you, Neil. Thank you, everyone, for joining us on the call. Let me give you a quick update on our hotels under development.

At Aurika Shimla, our owned 90-room hotel, we have deployed approximately 108 crores of capital as of June 30, 2026. Finishing work and operational licenses are at the final stage, and we expect the hotel to open shortly.

At Aurika Shillong, a leased 165-room hotel, we have deployed approximately 33 crores as of June 30, 2026, with the expected opening in H2 FY28.

At Aurika Varanasi, a 47-room leased heritage hotel, we have begun the work, with an expected opening in FY29.

At Aurika Nehru Place, Delhi, final approvals are pending from the authorities, with the expected capital deployment to be announced in due course and an expected opening in or after FY30. Recently, Fleur received an extension of the validity of the letter of award for another year from DDA, providing ample time for the project to attain all approvals.

We renovated 300 rooms this quarter, for which we spent approximately 10 crores, and we anticipate a similar number in the next quarter. As for the Keys portfolio, renovation was two-thirds complete as of June 30, 2026, and the portfolio is showing significantly improved performance, with double-digit growth across all locations.

Keys portfolio RevPAR in Q1 FY27 was up 19% year-on-year to 2,885 rupees, on the back of a 350-basis-point improvement in occupancy to 67% and 13% growth in average room rate to 3,808 rupees.

On the pipeline side, we continue to evaluate a growing number of opportunities, whether an existing operating hotel or the development of a new hotel. I now hand the forum back to Patu. Thank you.

Patanjali Keswani – Executive Chairman: Thanks, Saurabh. I want to take this opportunity to continue our conversation on the demerger scheme. Like last quarter, we have again shared pro forma financials for both Lemon Tree and Fleur Hotels as they would appear upon the scheme becoming effective.

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For Lemon Tree, on a pro forma basis in Q1 FY27, revenue stood at 65.7 crores versus 54 crores in Q1 last year, which is up 22%. Net EBITDA before provision for stock appreciation rights was 38.1 crores versus 29.3 crores, and net EBITDA margin improved to 58.1% from 54.2%, up 383 basis points. PBT after share of profit of associates was 46.3 crores versus 38.4 crores, up 21%. PAT was 33.6 crores versus 27.5 crores, up 22%, and cash profit was 40 crores versus 30.5 crores, up 31%.

For Fleur, on a pro forma basis, Q1 FY27 revenue stood at 311.4 crores versus 292 crores, up 7%. Net EBITDA without the GST impact was 125.1 crores versus 114 crores, up 10%, with a margin of 40.2%, up 112 basis points from 39.1%. PBT was 46.5 crores versus 35.5 crores, up 31%, and PAT was 34.7 crores versus 28.3 crores, up 23%. Cash profit was 68.4 crores versus 61 crores, up 12%.

With this, we come to the end of our opening remarks. We will ask the moderator to open the floor for the questions that you may have.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will now wait for a moment while the question queue assembles. Our first question is from the line of Archana Gude with IDBI Capital. Please go ahead.

Archana Gude – IDBI Capital: Hi, thank you for the opportunity. I have a few questions, starting with Keys. With 19% RevPAR growth, Keys is surely outperforming the flagship brand. Does this match the growth we envisaged before we undertook the renovation, or is there more to look forward to in the upcoming quarters? That is my first question.

Neelendra Singh – MD: Should I answer?

Patanjali Keswani – Executive Chairman: Yes, sure.

Neelendra Singh – MD: Archana, what we said about a year and a half to 2 years ago, when we started the renovation, was that we were targeting Keys to achieve Red Fox ARR, which, if I remember correctly, was 4,500 rupees, and we are close to that now.

However, Keys is still a work in progress. We will be renovating many more rooms this year. Therefore, we expect that next year Keys will operate at full performance, which means occupancies will be close to the Lemon Tree average occupancies, and the ARR will continue to improve and reflect the full performance.

Basically, I had said that we are targeting 60 crores of EBITDA from Keys, and I think that is something we will achieve. I would also add quickly, Archana, that almost 75% of the Keys portfolio is now renovated.

The interesting thing is, and we have discussed this in earlier calls as well, that the hotels that were renovated earlier, namely our Pimpri property and our Whitefield property, are showing the results of that renovation. It is a very neat, sharp product, and the high-quality renovation is showing its impact on both occupancy and ARR. Therefore, we are not only able to price it better but also fill more rooms after the renovation.

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That is visible today across the portfolio of seven properties, and that is why the entire portfolio could deliver a 19% RevPAR increase over last year.

Archana Gude – IDBI Capital: Just to follow up on this, what would be the operating expenses for the Keys renovation this year? I think we will be completing everything by the end of this year, correct?

Neelendra Singh – MD: The operating expenses will depend on which part of the portfolio we are discussing. The hotels that underwent a full renovation and complete upgrade were Keys Pimpri, which cost roughly 11 crores, and Keys Whitefield, which cost us approximately 23 crores. These are now complete.

We are now investing in the second-level Keys properties. We have finished Keys Ludhiana, and we are now working on Keys Kochi, Keys Trivandrum, and Keys Vizag, which will be at approximately 4–5 lakhs per key. I would say that by the time we finish the full portfolio, the balance spend on 300 rooms would be approximately 13–14 crores.

Archana Gude – IDBI Capital: One more question. We have done extremely well in some of the key markets, such as Delhi, Pune, and Hyderabad, in terms of occupancy. At the same time, we could not do as well in Mumbai and Gurgaon. For the markets where we performed well, was this driven by a few events that led to this kind of growth, or should we view this as a sustainable number going forward? What is the outlook for the Bombay and Gurgaon markets going forward?

Neelendra Singh – MD: Thanks, Archana. Let me broadly summarize the major impact we had in Q1, which is what most of the hospitality industry experienced: the West Asia conflict.

That led to multiple effects. The biggest impact was, of course, lower inbound traffic and uncertainty. This had second-order effects. In our segment, it translated largely into lower domestic travel as a second-order effect of lower inbound travel.

We saw corporate demand decline in most of our high-density CBD locations, such as Bombay, and also in Hyderabad and Bangalore. There was less travel in our segment, particularly in our corporate segment. There was less hiring and less relocation. Therefore, it was clear in early April that this segment would typically be softer, as companies were tightening their belts on travel and T&E expenses or simply traveling less.

This was therefore compensated in many cases by a retail strategy. We increased our ability to fill our hotels through retail because of the softness in corporate demand in cities such as—I am now answering your question—

Patu: In cities such as Delhi, Hyderabad, and Bangalore, we could more than compensate for the decline in corporate traffic that occurred because of the West Asia conflict. In Bombay, we could not, and in Gurgaon, we could not. Hence, you would see softness in the Bombay and Gurgaon markets, whereas Delhi, Bangalore, and Hyderabad continued to do well.

There is also still the lag effect of the 2,000 new rooms that have opened in the Bombay micro-market near the airport over the last 2 years, and that supply is still being absorbed. Some Novotels, Radissons, and other brands opened there, and together they added 2,000 rooms.

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However, Bombay is such a market that when supply injections of this scale occur, there might be a temporary mismatch between supply and demand, but demand catches up very rapidly. I think you will see that even with us in the quarters going forward.

Archana Gude – IDBI Capital: On this point, I will squeeze in one last question. How was the situation in July and the first 10 days of August? Was there some improvement over Q1 in terms of demand?

Patu: Absolutely. I think Q1 was when everybody caught a little bit of a cold. Q2 is significantly better. July was great, with a good recovery, and August continues to be solid as well.

Archana Gude – IDBI Capital: That was really helpful. Thank you, and all the best.

Patu: Thank you.

Operator: Thank you. Our next question is from the line of Achal Kumar with HSBC. Please go ahead.

Achal Kumar – HSBC: Hi. Thanks for taking my question. The first one is on ARR. ARR in this quarter was up only 2% despite 19% growth in Keys. What is going on? I understand that you probably reduced the rates to boost occupancy. Is that the strategy we should expect going forward, or are you going to change that strategy and boost ARR? I just want to understand this better.

Patu: Achal, it is good to hear you again. You are right. Going back to what I said to Archana, when, in early April, and in fact as early as March, we understood that corporate demand, both inbound-led demand and domestic travel, would be affected, we had to pivot to filling rooms through our retail channels.

These channels come at a lower net ARR in that sense. Hence, when we deploy a more volume- and retail-based strategy, occupancy looks much better in Q1 versus last year, but at the cost of ARR. You are right.

However, I would say this is temporary. This was undertaken largely to react to the situation we had in Q1. We are back to a more balanced approach in July and August. That is the way to look at it: driving ARR higher while maintaining our strength in occupancy as well. Therefore, it was temporary in Q1.

Achal Kumar – HSBC: So you mean that from Q2 onwards we should expect a change in the strategy, correct?

Patu: Yes. Our strategy generally has been to maintain our strength in occupancy and drive a higher ARR premium. Q1, as you know, was an aberration for almost everybody in our segment. Therefore, in the mid-scale segment, we had to resort to a more volume-based, retail-based tactical strategy rather than continue to drive ARR, which was already soft.

Achal Kumar – HSBC: My second question was around your growth pipeline. You have mentioned the growth pipeline for the next year, but what I am trying to understand is whether you have mapped out your growth by brand. Should we expect the majority of the growth in the higher-end

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or upper-end brands, or do you expect more growth from Keys? I want to understand this so that we can assess what kind of GST impact you will continue to face.

Patu: That is an interesting question. From the pipeline that Saurabh discussed, most of the properties are Aurikas. At the top end of the business, we will continue to expand in Aurikas and in Lemon Tree in demand-dense areas or key destinations. That does not go away, Achal. These are areas where we will deploy our own capital and build larger destinations.

However, as we expand into Tier 2 and Tier 3 India, we will also use both the Lemon Tree Hotels and Keys brands to penetrate India more deeply. On the asset-light side, I would say the approach towards expansion is two-pronged.

First, we will continue to use our upper-mid-scale and upper-scale brands to penetrate demand-dense areas. Second, we will use our mid-scale brands, namely Lemon Tree Hotels and the Keys portfolio, to penetrate more deeply into India.

Saurabh: Sorry, Achal, this is Saurabh. I would just like to add something on capital deployment. Last quarter also, we said that we were pursuing approximately 2,500 keys. That pursuit is still ongoing, and we are very hopeful of achieving that in the next few quarters. We are very confident on the capital side.

Patu: Saurabh mentioned this for both of you, so we are discussing two absolutely different strategies.

One is the asset-light growth of Lemon Tree, which will come from signed hotels that typically start opening 30 months, as Neil mentioned in his opening remarks, or 30-36 months after they are signed.

If the rate of growth of our signings is much higher than the rate of growth of openings, it means that what we are opening is what was signed approximately 2.5 years ago, while what we sign now will open 2.5 years later. That will tell you the rate of acceleration of our asset-light management fee business.

If you overlay that with the fact that Fleur is now growing fairly aggressively, and that we will have, I am quite sure, a number of announcements in the next few months regarding the acquisitions or developments we are going to undertake, that will add further fee income to Lemon Tree.

It is the combination of the two that we are considering from Lemon Tree's perspective in terms of where it will be over the next year and the years ahead. We have a fairly clear line of sight.

If those of you who are interested look at what we signed in 2023, you will find that we opened those properties this year. What we signed in 2024 will start opening toward the end of this year. What we signed in 2025 will open a year after that. Therefore, the fee income stream is fairly clearly defined.

The other factor we have to overlay on this, within the third-party-owned hotels, is the quality of the fees. If it is a Tier 1 city or a metro, the fees are much higher than those in Tier 2 cities, and those are higher than those in Tier 3 cities, and so on.

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We have a full model for this, and we have a fairly clear line of sight as to where Lemon Tree's fee income will be over the next 3-4 years because it is based on the signings we have at present.

If we overlay that with the fees we will earn from the current and future hotels of Fleur, we have the aggregate of the two, and that is also an interesting number. Over the next 8-12 quarters, you will start seeing an acceleration in Lemon Tree's fee income.

This quarter, in spite of the slowdown, our supply increased by 15-16%, while fee income grew 42%. This is very clear evidence that Lemon Tree's ROCE will become very high, and you will see that play out, especially since we have given one piece of guidance: our long-term plan over the next 3-4 years is to have an EBITDA margin of approximately 75-80% on a much larger base of hotels that we manage and charge fees for. Does that answer your question?

Achal Kumar – HSBC: Yes, that is absolutely fine. I have one more question, but I will come back in the queue. Thank you.

Patu: Sorry, I did not answer your debt question.

Achal Kumar – HSBC: My final question is regarding your strategy in terms of debt and ROCE. The picture around Lemon Tree looks quite bright. It is an asset-light model with very healthy margins, very healthy ROCE, and probably dividends. However, on the Fleur side, are you worried that if the model is only asset-heavy, at some point you will become very debt-heavy? Are you comfortable with that, or do you think Fleur could also change the model at some point and consider doing something asset-light? I would appreciate some perspective on that.

Patu: The very purpose of separating the two is to have two different kinds of companies with two different mandates and two different risk-return profiles. Fleur is a company that will focus only on asset creation, whether through development or acquisition.

The only asset-light side of Fleur's business, if we use the term asset-light in an asset-heavy business, is through leases. When Fleur leases a hotel, think of it very simply as follows: if a hotel today costs 1.5 crores per key, including land, a 200-room hotel costs 300 crores.

The way to look at leases is that we will put in perhaps 5-10% of the capital when we take a hotel, possibly more depending on the agreement, but we will typically receive 50-60% of the EBITDA.

For example, a 300-crore hotel making 35 crores or 40 crores of EBITDA would require us to invest perhaps 40 crores, and we would receive 20 crores of the EBITDA. A portion of that would go as fees to Lemon Tree, and the balance would remain with Fleur. That is the only asset-light side of Fleur.

However, Fleur's return on capital is meaningful even today. If I look at FY26, Fleur generated net EBITDA after all fees of 550 crores on total capital deployed of, if I remember correctly, approximately 4,300 crores. That was approximately 12.5-13%.

Once we complete the Keys renovation and the entire renovation, our expectation is that Fleur should move toward a 15% ROCE.

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Lemon Tree has reported a {? 58 point some percent ?} EBITDA margin. Lemon Tree's ROCE will be meaningfully higher. I do not want to comment on what the ROCE will be because the capital deployed by Lemon Tree is marginal. It will hardly need any capital going forward other than investments in the brand, marketing, generative search, and technology, which are not meaningful.

Its fee income will continue to accelerate. You would have seen that this quarter, in spite of the slowdown, our supply increased by 15–16%, while fee income grew 42%. This is very clear evidence that Lemon Tree's ROCE will become very high, and you will see that play out, especially since we have given one piece of guidance: our long-term plan over the next 3–4 years is to have an EBITDA margin of approximately 75–80% on a much larger base of hotels that we manage and charge fees for. Does that answer your question?

Achal Kumar – HSBC: Yes, that is absolutely fine. I have one more question, but I will come back in the queue. Thank you.

Patu: Sorry, I did not answer your debt question. We are very clear. We are broadly looking at debt-to-EBITDA. Occasionally, if we are building six large hotels, which is our plan, debt may briefly cross 2 times existing EBITDA. However, our long-term plan is for Fleur's debt-to-EBITDA to hover around 2.

That is a good sign because it means we are able to deploy capital productively. If debt-to-EBITDA falls below 2:1, you can ask the reverse question: why are you not growing? It is a balanced approach.

Right now, our debt in Fleur is only approximately 1,200 crores or 1,100 crores. The numbers we announced excluded the cash position in Lemon Tree and Fleur, which is approximately 200 crores. Therefore, our debt is actually 200 crores less than what Neil mentioned.

At a group level, it is 1,275 crores. Is that correct, Kapil?

Kapil: Yes.

Patu: Our EBITDA was 700 crores, so we are in a zone where there is comfort and an ability to deploy meaningful capital.

Keep in mind that Warburg has to put in 960 crores, and that too will be deployed in Fleur before we list. As Saurabh mentioned, we also have a number of very exciting opportunities. Some of them are going through a phase where we will be able to make announcements fairly quickly.

Wait for the next 6 months. You may be very pleasantly surprised.

Achal Kumar – HSBC: Perfect. Thank you, and I wish you good luck.

Patu: Thanks, Achal.

Operator: Thank you. Our next question comes from the line of Karan Khanna with Ambit Capital. Please go ahead.

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Karan Khanna – Ambit Capital: Thanks for the opportunity. I have 2 questions. First, Patu, and perhaps Saurabh could also take this, following up on Mumbai performance. A couple of quarters ago, you spoke about significant pricing power for Aurika Mumbai in FY27, given that occupancies had stabilized.

Since then, we have had the West Asia crisis. Fundamentally, given the performance for Mumbai this quarter, would you like to bring down the guidance for Mumbai for FY27? Would it be single-digit RevPAR growth this year, or are you confident of double-digit RevPAR growth?

Patu: Regarding Aurika Bombay, given the supply addition and everything that has happened, I would still say Q1 was an aberration. Q2 will be better.

As far as RevPAR growth is concerned, I think we now feel that we have stabilized Aurika. We will focus on the ARR of Aurika. Let us see what happens in Q2, Karan, and then we can have this conversation.

Patu: Anything I say becomes very guidance-oriented, but all I can say is that we are focusing on pricing. In fact, Neil is personally focusing on it. Would you like to give a broad comment on this, Neil?

Neil: In my current role, and again, it is good to speak to you, Karan. I think we all believe, and we have discussed this in past calls as well, that Aurika Mumbai is now a stable brand. It is well recognized, and therefore, at the kind of occupancies it delivers, we believe it is a good time to start repricing it and price it according to the positioning we want Aurika to have.

Without regard to the current aberration, we will continue to drive Aurika's pricing higher than today, and you will see that in the RevPAR improvement going forward.

Karan Khanna – Ambit Capital: Secondly, Neil, if I look at slide 63 of the presentation, where you are targeting the opening of 2,000 keys in FY27, Q1 was at 334 keys. Is there a risk of slippage in the number of openings in FY27, or are you confident of opening all 2,000 keys during the year?

Neil: That is a good point, Karan. In this business, there is always some movement or slippage here and there. Broadly, I am quite confident that we will be around the 2,000-keys mark.

Things happen, but considering the pipeline we have today and the kind of relationships we have with our owners, I feel largely confident unless something significant falls on our heads. However, 2,000 should be achievable.

Karan Khanna – Ambit Capital: Lastly, Saurabh, regarding Fleur, you are considering investing approximately 2,500–3,000 crores, probably at the peak of an upcycle, in Fleur after the demerger.

One of the advantages Lemon Tree has enjoyed in the past has always been investing in a downturn and waiting during an upcycle. Could you help us understand how you are thinking about IRRs in this expansion strategy? Also, regarding the 960 crores of capital infusion by Warburg, is there an update on the timelines?

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Management: Thank you, Karan, for your question. From an investment-timeline perspective, we would deploy capital based on the best opportunities available and our internal assessment of the ROCE we want to achieve.

There is no hurry. We want to deploy capital using the right strategy, in the right locations, and where we believe our capital deployment will generate the right return.

From an investment-upside perspective, we remain focused on markets with deep demand in the top 6-7 cities in India. That is where we want to pursue opportunities.

We are also looking at markets that are approximately 3-5 hours away from India, where many Indians are still traveling overseas. We see that as an upside over the next 2, 3, and 5 years, given the size of the economy and the growth in per-capita income.

Those are our 2 larger strategies. We are also looking at upcoming leisure locations, such as temple tourism and other tourism destinations where many Indians are traveling. These are the 3 focus strategies from an investment perspective.

As Patu said, not all of these will be pure investments. Some will be brownfield assets, and some will be operating assets that we will look to acquire at multiples of 6-8. Some will be deep-demand greenfield assets. For better returns, some will be long-lease buildings that we may take as brownfield, operating, or greenfield assets.

Our strategy is a mix of all these 4-5 approaches, with a full focus on return on capital, given that Warburg has provided us with 960 crores and we currently have approximately 200-300 crores of balance-sheet capital.

Patu: Let me add to that for a minute, Karan. We are not in an upcycle. We are not in an upcycle. India's occupancy is still in the mid-60s, and I do not know why people say we are in an upcycle.

An upcycle is defined as a period when India's occupancy is above 70-72%. At the rate of growth of our economy, I think we will be in an upcycle next year or the year after.

Therefore, deploying capital in demand-dense markets means that the level of volatility in a demand-dense market, whether it is a downcycle, mid-cycle, or upcycle, is much lower because, by definition, a demand-dense market is supply-constrained. There is more demand than supply. That is the reason it is demand-dense.

A classic example of a demand-dense market is Outer Ring Road, Bangalore. Another demand-dense market is BKC, Bombay. Another is the market where we have 1,000 rooms near the airport in Bombay.

Even after 2,000 rooms were added, occupancy in that market is still in the early 70s. One may say that we are targeting an ROCE of 16% post fees in a situation where significant supply is coming into a demand-dense market. That means expensive supply has come in.

These markets are moats, which are essentially cost-led or capital-deployment-led. We are fairly confident, based on our ability to attract customers to our brand, that we will perform well in these

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markets.

We do not really consider the bottom, middle, or top of the cycle. We look at how we are performing and say, "This is what we think we will deliver." We know our cost structure, and we know the kind of revenue we can generate. We make capital-allocation decisions based on that knowledge.

Debt is always taken assuming downcycle conditions, to provide a margin of safety. That is all.

Karan Khanna – Ambit Capital: This is helpful, Patu. I will come back in the queue for follow-ups. Thank you.

Operator: Thank you. Our next question is from the line of Sameer Sinha with Macquarie. Please go ahead.

Sameer Sinha – Macquarie: Thank you very much. Patu, picking up on what you discussed regarding management fees, there has clearly been good performance, and I think everyone is waiting for the compounding to start in that business.

We saw year-over-year average revenue per room increase 12%. For the last 3 quarters, it had been negative. Should we assume that it will remain in this range going forward on a sustainable and durable basis?

I understand that in your business, a new batch or cohort of rooms can suddenly come in, and that number could go down. However, could you give us a sense of how that line would compound? I then have a couple of follow-up questions.

Patu: We are certainly not happy with the Q1 performance. We feel we could have done better. However, from Q2 onwards, we are definitely going to look at double-digit growth numbers.

That is at the company level. As far as management fees are concerned, the moment Fleur reaches double-digit growth, the management fee from Fleur will also reach double-digit growth. Fleur still accounts for 56% of our network revenue.

If Fleur is growing well, it creates a virtuous cycle. The better Fleur grows, the better our fee income from Fleur grows.

The third-party business is a different matter. It is growing very rapidly. I have said this before: the rate of growth of operational rooms in third-party hotels is finally set to accelerate.

If you go back in time, 3 years ago we signed 2,000 rooms. Two years ago we signed 3,500 rooms. Last year we signed nearly 5,000 rooms.

The rate of growth of these signings translates into openings 3 years later, and therefore into fee income from those hotels. As long as the rate of growth of signings is significantly higher than the rate of growth of openings, it creates a positive trajectory and a flywheel effect.

You are going to see that very clearly in Lemon Tree over the next 2 years and going forward. We are very optimistic about it. In fact, I should say we are confident about it.

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At the same time, Fleur will now start deploying capital, which will ultimately lead to ROCE for Fleur and fee income for Lemon Tree. The sum of the two is quite exciting.

Neil: Sameer, I will quickly share some numbers. Between last Q1 and this Q1, we added 1,300 rooms. Last year, compared with the preceding years, was the biggest year in terms of room additions and signings, so this compounding is bound to happen.

I am repeating what Patu said: as long as we continue to open or sign significantly more rooms than we open, and both continue to grow, you will start seeing this compounding.

The first batch of approximately 1,300 rooms that opened in Q1, or between last Q1 and this Q1, is illustrative of what you will see at least in this quarter. You will see similar trends next quarter as well.

Patu: Think of it this way, Sameer. We signed 5,000 rooms last year, in FY26. In FY29, all going well, we will open approximately 5,000 rooms in Lemon Tree's portfolio of managed hotels. This excludes anything that Fleur may add.

To give you context, we are currently operating only 12,000 rooms. Therefore, in FY29, or in the year from FY29 to FY30, we will open 5,000 rooms, which is 45% of our current inventory in the managed portfolio.

Sameer Sinha – Macquarie: That makes perfect sense. I can see the flywheel is about to turn.

Secondly, on the margin side, EBITDA margin compressed by approximately 90 basis points. This is better than we expected. I think you had guided to a much larger decline for the year.

How should we think about the progression for the year, given that the second quarter seems to be turning around nicely? What sort of margins should we expect for the full year?

Patu: Let me ask you: what do you expect Lemon Tree's net EBITDA to be for FY27?

Sameer Sinha – Macquarie: I can probably give you my numbers, but I am curious about management's expectation.

Patu: I am looking at my numbers. I am at 7.5 billion.

Sameer Sinha – Macquarie: I am asking about the percentage.

Patu: Approximately 47%.

Sameer Sinha – Macquarie: It will be better than that.

Patu: I will reveal something very interesting to you. Our EBITDA margins are fundamentally compressed because a number of expenses that are not normal are still affecting us.

One of them was unanticipated, which was the GST impact. Our mitigation strategy for GST is to constantly look at how we can move rooms priced below 7,500 to above 7,500.

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What was the ARR in Q1? It was approximately 6,300. Our ARR in Q1 was 6,300. Neil is saying that he will focus on increasing ARR.

Let us assume a 5–6% improvement in Q2. In winter, that should increase by another 10%, hopefully. Therefore, you will see more and more rooms being sold above 7,500, which will reduce the GST impact.

The second factor, which is very significant for us, is the amount of money we have spent on renovation. It is an enormous amount, and that will drop dramatically next year—dramatically.

What should the net EBITDA margin be next year on a consolidated basis? It may not be visible because we will hopefully demerge next year. However, if I look at it, it should be 50%.

Our performing hotels' EBITDA margin is already in the high 50s at the hotel level. As revenue grows, below-the-line expenses get distributed over larger revenue. GST will hopefully reduce, and renovation will drop dramatically.

Therefore, there is no reason why net EBITDA margin should not be at least 50%. I am saying this in front of Neil and putting pressure on him and Saurabh. You will have to see what happens in Q2 and going into Q3. Q2 will also have a significant amount of renovation expense.

Neil: I will add to that. You have seen the trend that our renovation is also tapering, Sameer. That will help. Our ARR will also improve, and that will clearly help.

The GST impact, broadly speaking, is still approximately 2% of our overall revenue. However, banking on a much stronger H2 of the year, I also agree that 50% is not too difficult to achieve.

Sameer Sinha – Macquarie: Is that for FY28?

Patu: No, FY27. FY27 will not be 47%; it will be better. However, if we do not achieve 50% in FY28, then we will have underperformed.

Sameer Sinha – Macquarie: Got it. Thank you very much. All the best.

Operator: [inaudible]

Operator: Thank you. Our next question comes from the line of Dikshi with Incred Research. Please go ahead.

Dikshi – Incred Research: Thank you for taking the question. My first question is regarding the number of rooms we added this quarter for management fees. The net addition appears to be only 134 rooms, whereas we mentioned that we opened 334 rooms. Have any of the hotels' management contracts ended, and how do we see this going forward? Is the 2,000-room addition under management contracts a gross addition, or will it be a net addition?

Management: Dikshi, just to clarify and rephrase what you are saying, first of all, we added 1,300 rooms from last quarter to this quarter—from last Q1 to this Q1. Therefore, on a year-on-year basis, we added 1,300 rooms. Did you get that?

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Dikshi – Incred Research: I am asking about the change from Q4 to Q1.

Management: What happened is that we mutually terminated one contract in Tarudhan Valley, which was a 70-room resort.

Then there was a hotel called Nestor Hotel, which we inherited from Keys. It was generating no fees, but it was in the portfolio. We have now taken it to NCLT. We have taken it to NCLT. Therefore, it was not reflected in fee income, but it was reflected in the inventory. Are you following me?

Between these 2 properties, we removed 70 rooms from Tarudhan Valley and 130 rooms from Nestor, which totals 200 rooms.

However, the income loss was only from Tarudhan. There was no income loss from Nestor because we were not even charging fees there. It simply had our Keys brand, and we were trying to resolve the payment they owed to Keys when we acquired it.

We acquired it in 2019, and they owe a large amount of money to Keys. This was therefore only notional. The only upside is that if they pay the old fees they owed to Keys, the amount is fairly substantial. If we receive it, that would be positive. However, it has had no impact from a revenue perspective. The impact has been from the 70 rooms of Tarudhan Valley.

By the way, to alert everybody, we are very clear that we are signing many hotels. There will be cases where we terminate agreements because of a lack of adherence to our brand standards.

Therefore, as you have rightly pointed out, one must look at net room addition. As we grow more aggressively, there will be some reduction due to friction in managed hotels. There will be some losses, but as far as possible, they will obviously not be material compared with the number of hotel rooms we open.

Dikshi – Incred Research: My next question is regarding the ADR growth we saw for the quarter. There has been growth only in the Keys portfolio. There has not been growth in the Lemon Tree portfolio, the Lemon Tree Premier portfolio, or Red Fox. How do we see this moving over the next 2 years?

Management: There has been a small growth in ARR of approximately 2.5–3%, if I remember correctly. The main reason for this is that we have been pushing the retail segment and had reduced prices somewhat in order to increase occupancy. That was specifically based on the conditions in Q1.

We are not so affected by inbound travel. What affects us is large corporates, who are our customers, and their managers and deputy general managers who travel and stay with us.

Large corporates decided to tighten their belts because of the uncertainty in Q1. We know this because we spoke with a number of those CEOs. For a large corporate, travel is discretionary to some extent. Some of them even told me directly that they had asked their employees to conduct Zoom calls rather than travel.

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That was the impact. However, the interesting thing is that we are seeing this return in Q2. As I said, Q1 was an aberration. I still feel and maintain that we could have done better.

In Q2, I think all these issues will be resolved, and we will return to the expected level of improvement in revenue through a more balanced mix of ARR and occupancy.

Dikshi – Incred Research: Have we completed any renovations for Red Fox or Lemon Tree Premier, where we have seen good ARR growth?

Management: Look at Delhi. It is the only portfolio where—one reason you are seeing negative ARR growth for Red Fox by Lemon Tree in Q1 versus the previous Q1 is that we rebranded Red Fox Delhi Airport as Lemon Tree Delhi Airport.

The last part of the renovation remains. I think that, in the entire portfolio of 487 rooms, 37 rooms remain under renovation.

The unfortunate thing is that both hotels are operating at more than 90% occupancy, so there is a real loss of revenue. However, we will open these rooms by the end of Q2.

These 2 Delhi hotels are fully renovated hotels. Hyderabad Hi-Tech City is also now fully renovated. These properties are showing good improvement despite market conditions not necessarily being conducive.

Wherever we have renovated, we see that the customer response is good. Local market conditions may be different, but we are confident that this renovation will lead to a significant improvement in RevPAR as it plays out by the end of this year.

Dikshi – Incred Research: Thank you for taking the question.

Operator: Thank you. Our next question comes from the line of Vineet Agarwal with Bajaj Alternates. Please go ahead.

Vineet Agarwal – Bajaj Alternates: Thank you for the opportunity. I have a couple of questions. With 3 international destinations now operational—Nepal, Bhutan, and Dubai—and with fresh Nepal signings this quarter, what is the medium-term ambition for the international contribution to network revenue and fees? Are further overseas markets under evaluation?

Management: We are interested in markets that are preferably within a 3-hour flight from us and where many Indians travel. It is now time for us to monetize our loyalty program and the fact that, in our existing markets in India, 45% of our demand is repeat demand.

Of this 45% demand, only half is in our loyalty program, which still accounts for 2.5 million members. In our internal surveys and conversations with these members, we find that many of them travel internationally on short-haul trips.

What are the markets where Indians travel? The biggest and best market is the UAE. You will be surprised to know that, despite the war, the movement of Indians to the UAE was not significantly affected apart from a few days. It is still very much present.

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The next market is Nepal, where we are already expanding significantly, followed by Thailand, specifically Bangkok and Phuket. In South Asia, Sri Lanka is not as significant, but the Maldives certainly is.

When we look at this, there are many Indians traveling to these destinations, and many of them are loyalty members. Therefore, it raises the question that if 32 million Indians traveled overseas last year, more than 12 million traveled to the 3 markets I mentioned. It is probably a larger number, but this is an old figure I have.

In my opinion, it is very simple: go where your customers go. Marriott did that in the 1950s and 1960s, as did Hilton and other international brands. They always went where their familiar and comfortable customers who liked their brands went.

There is no reason why Indian brands should not also go international. We now have the numbers of Indians traveling overseas, so why should we not capture that share of the wallet?

Vineet Agarwal – Bajaj Alternates: What incremental RevPAR uplift are you expecting once the renovation of the remaining Keys properties is complete?

Management: I would not describe it as RevPAR uplift. I would simply say that we have a straightforward target: Keys should generate 6.5 lakhs of EBITDA per key.

If Keys has an EBITDA margin of 50% when it is stable, that implies revenue of 13–14 lakhs per room. That is what we want. We want revenue of approximately 115–120 crores from Keys and EBITDA of 60 crores.

Vineet Agarwal – Bajaj Alternates: Understood. Thank you very much, and all the best for future quarters.

Management: Thanks, Vineet.

Operator: Thank you. Our next question comes from the line of Jinesh Joshi with PL Capital. Please go ahead.

Jinesh Joshi – PL Capital: Thank you for the opportunity. I wanted one small clarification. I think our total fee income, comprising third-party fees and Fleur fees, is mentioned at approximately 45 crores in the presentation. However, if I look at our pro forma financials, the figure mentioned there is approximately 66 crores. Could you please clarify this?

Management: That is not fees. In the pro forma, we still have 2 leased hotels in Lemon Tree that are not being transferred to Fleur because their remaining lease terms are perhaps 6–7 years. There is a restriction in our lease agreement that means we would not be able to assign them to another company.

What you are seeing is approximately 20 crores of revenue from them?

Management: EBITDA.

Management: Yes, EBITDA. Does that answer your question?

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Jinesh Joshi – PL Capital: Yes, it does. I have one additional observation. If I look at our network and franchised revenue, the number reported in the presentation appears to have grown approximately 29%, whereas owned hotels have grown approximately 6%.

Is this higher growth simply due to the addition of managed rooms on a year-on-year basis, or is there also an impact from network revenue on the managed side performing somewhat better than our owned hotels? Could you clarify this? Lastly, what will be our capex for FY27 and FY28?

Management: There were several questions. Same-store revenue growth for the managed portfolio was in the high single digits. I think it was 9–10%.

One reason is that some hotels opened last year were not yet stable in the managed portfolio, so they stabilized this year. On a low base, there was therefore a higher impact on revenue.

The second factor is that the new hotels we opened also added to the revenue of the managed portfolio. While they are not performing at full revenue-per-key capacity because they are still new and will take a year or more to stabilize, they are incrementally adding to fee income.

If you add the different components, there is 9–10% same-store growth, along with the contribution from new hotels, and that led to this growth.

If what we are seeing is correct, then as we add more and more hotels—representing the catch-up from what we signed over the last 3 years—the rate of growth of fee income will be enormous. That is something I would recommend you track.

That was the first answer. What was the other question you asked?

Jinesh Joshi – PL Capital: Capex figures for FY27 and FY28, if you could highlight them.

Management: This year it is approximately—sorry—

Management: We will call you and tell you. I think Nipun says he will provide you with the exact details because we have to search for these numbers.

What I can say is that, from next year onward, capex and opex for renovation will move toward 1% of revenue, compared with what they were in the past 3 years.

Jinesh Joshi – PL Capital: Thank you very much.

Operator: Thank you. Our next question comes from the line of Vaibhav Munjal with Haitong Securities. Please go ahead.

Vaibhav Munjal – Haitong Securities: Hi, thanks for the opportunity. My first question is again on the renovation. I wanted to discuss the timelines in more detail. I think last time we met on the call you had said—

Vaibhav Munjal – Haitong Securities: The tentative timeline for completing the overall renovation exercise was October. Almost 75% of the inventory is now renovated. What is the revised guidance for completing the overall renovation exercise? Related to that, in this quarter—

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Management: We completed 300 rooms in Q1. We think we will do approximately the same number or slightly more this quarter.

Let me make one clarification. Renovation is of 3 types.

There is high-value renovation costing 10-12 lakhs per key. These are in high-value locations where we believe we can improve both ARR and occupancy, such as Keys Whitefield or Keys Pimpri. These are what I would call large renovations.

Those renovations are more or less complete, except for Lemon Tree's old Red Fox, now Lemon Tree Delhi, and a small portion in Electronic City in Bangalore, which is being rebranded as a Lemon Tree Premier. We also have high-value renovation at Red Fox Hyderabad, which will be rebranded as a Lemon Tree Hotel when it is complete in October.

The other renovations are much smaller interventions and, in some cases, basic refurbishments. Keys Kochi, Keys Visakhapatnam, and Keys Trivandrum will undergo refurbishment, of which approximately one-third or one-half is complete. These refurbishments cost 2.5-3 lakhs per room.

When we say we are renovating 300 rooms and 600-700 rooms in H1 this year, those are high-value renovations. What will flow into Q3 and Q4 will be more in the nature of refurbishments and quicker turnaround.

A refurbishment can take as little as 1 week and at most 1 month. If I refurbish 800 rooms in Q3 and Q4, the cost could be much lower than the renovation of 300 rooms.

Therefore, it is a mix-and-match strategy because we are very careful and mindful of the money we spend in each hotel, based on the earning capacity we expect from the incremental investment.

As far as Lemon Tree is concerned, we will complete the full renovation of the main hotels and the refurbishment of many Keys and other hotels that required intervention in FY27.

In FY28, we will return to normal, which means there will be no major renovations, but refurbishment will continue. Refurbishment can take place when curtains need to be replaced, upholstery needs to be redone, or lighting needs to be improved somewhere. These are minor costs.

That is why I said we typically spend 1-1.2% of our revenue on renovation, and we will return to normal from next year. There may be a small amount of work left here and there, but broadly, the entire portfolio will be new by next year.

Vaibhav Munjal – Haitong Securities: In Q1, we saw an impact of almost 350 basis points on margins due to GST and the SAR provision. However, the margin decline was approximately 100 basis points.

I presume that part of this was because of lower operating expenses and the renovation expense in the P&L, which partly offset the overall impact. Could you elaborate on how much of this offset was due to operating leverage and how much was due to renovation?

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Also, based on what you said about renovation, can we expect an improved margin trajectory because of lower renovation expenses in H2?

Management: We spent approximately 9.8 crores on renovation in Q1, which was about 2.25–2.3% of revenue. That was the total spend.

Normally, what would we have spent? We would normally have spent 3 crores, which is 1% or 1.2%. It varies, but it is not material. Therefore, the incremental spend was approximately 6 crores this year. Next year, that will disappear.

There are 4 or 5 impacts that have played out. One was a one-off property-tax ex gratia expense last year. There is now the ongoing impact of GST, which we are hoping to reduce. There was the massive impact of renovation over the last 3 years.

All these impacts will disappear except for GST. GST has to be addressed from a pricing perspective, and we are very conscious of that.

If you ask me, our EBITDA margin versus last year deteriorated by 1 percentage point on revenue, but our renovation spend was 2.25%. If you look at the waterfall change, it was an incremental 5 crores over last year. Sorry, it was a reduction of 5 crores over last year. Last year, we spent 15 crores on renovation.

Renovation is now tapering off, so EBITDA margins should recover. Next summer, margins should definitely be 2–2.5% higher than they are this year.

In addition, winter EBITDA margins are significantly higher because of seasonality, pricing, demand, and other factors. That is how you arrive at an average increase of at least 150 basis points in net EBITDA margin, which is our expectation for next year.

You should see some elements of this even in Q2 and H2 this year.

Vaibhav Munjal – Haitong Securities: Lastly, regarding the potential acquisition of 2,500 keys that we are planning, given that this will comprise partly an operational portfolio and partly greenfield assets, and with 960 crores being infused by Warburg, we already have approximately 1,200 crores of debt on the books.

Assuming a mid-scale to upper-mid-scale portfolio, will this increase our debt levels to above 2,000 crores for a temporary period at the time of acquisition? Would that take our net debt-to-EBITDA above 3? Is that a correct assumption?

Management: No, that is incorrect. I will explain why.

Suppose I am building a 500-crore hotel, and let us assume it takes 3.5 years to build. The immediate payment, depending on the land value, can typically be 20–30% of the 500 crores. That means I would immediately pay 100–150 crores to acquire the land.

Of the balance 350 crores, the spending occurs in stages. In the first year, we spend only 15% of that because it goes toward excavating the basement and constructing the shell, which is a cold shell and has a low cost.

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In the second year, another 25–30% is spent. It is only in the last year, specifically the last 9 months, that we spend up to 30–35% of the project cost, because that relates to finishing and equipment orders.

Let us use another example. I am building a 100-crore hotel. I pay 20 crores plus 10 crores. I spend 30 crores this year, 20–25 crores next year, and then 40–50 crores in the last year.

How does this money get spent? Assuming a 1:1 debt–equity ratio, which is our general approach, the first 50 crores comes from our pocket and takes care of the first 2 or 2.5 years.

In the last year, that is when debt is technically required. However, we also have cash flows, so we try to match our free cash flow with that requirement.

Therefore, debt-to-equity is not what we look at as much as debt-to-EBITDA. We use operating EBITDA, or known EBITDA, to assess debt for new hotels rather than funding new hotels based on presumed EBITDA. That has been Lemon Tree's standard risk-mitigation practice from the beginning. Does that make sense?

Vaibhav Munjal – Haitong Securities: Yes, that is helpful. Thank you for the detailed answers, and all the best.

Management: Thank you.

Operator: Thank you. Our next question comes from the line of Rajiv Bharti with Nomura. Please go ahead.

Rajiv Bharti – Nomura: Good evening. Thanks for the opportunity. On the renovation side, together we are spending approximately 450 crores, and as you mentioned earlier—

Management: Including capex.

Rajiv Bharti – Nomura: Yes, including capex. This will have a break-even period of approximately 2 years. That means that after 2 years of stabilization, you will add approximately 450 crores in absolute revenue, correct?

Management: Perhaps not, because the operating leverage on incremental revenue is higher. However, we target a 50% EBITDA improvement on the spend.

Rajiv Bharti – Nomura: If I compare Q1 FY26 with Q1 FY27, we have seen a delta of approximately 28–29 crores. Ideally, the capex undertaken before FY25 or including FY25, amounting to approximately 230 crores, should have resulted in at least one-quarter of that flowing through, or perhaps 20%, because you are saying that the operating leverage should have flowed through, assuming everything else remains stable.

Now, a delta in the sector's ARR growth should be added on top of that. Is that how it should have worked?

Management: Yes, absolutely. What you have to look at is where that spend occurred in each year and in which hotel. That is what we track, along with how that hotel performed 2 years later.

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For example, we spent 11 crores upgrading Keys Pimpri. I am just giving you an example. We look at the change in Keys Pimpri's EBITDA before and after that spend. That is what we track.

Rajiv Bharti – Nomura: The Pimpri example has been highlighted and we take note of it. Is there any other case study that—

Management: Lemon Tree Premier Delhi, which has been fully renovated. Please look at that. Nipun, will you share some numbers with him on a phone call?

The fully renovated hotels currently include Lemon Tree Premier Hyderabad and Lemon Tree Premier Delhi. By the end of this quarter, Lemon Tree Hotel Delhi will also be complete. Keys Whitefield will also be included.

These are the high-impact investments. In the case of Lemon Tree Delhi, the 2 hotels together accounted for 50 crores of renovation expense. The question is whether EBITDA increased by 25 crores.

We would be happy to provide those figures. What you need to see is the breakdown of where the money was spent and the incremental EBITDA once the hotel stabilized and reopened as a renovated hotel. Those numbers are very visible.

Rajiv Bharti – Nomura: Is it possible to include more case studies, similar to the Pimpri case study you shared?

Management: Certainly. In the next investor presentation, why don't you include Lemon Tree Premier Hyderabad and Lemon Tree Hotel Delhi, wherever we have spent large amounts of money?

I think we spent 35 crores in Hyderabad, approximately 30–35 crores, and 50 crores in Delhi. That is 85 crores, which is more than 20% of our total spend.

Please look at those properties. We will start showing more and more hotels. You want greater transparency, and we will provide it.

Rajiv Bharti – Nomura: That is all from my side. Thank you, and all the best.

Management: Thank you. I will continue listening, and I will show you the format.

Operator: Thank you. Our next question comes from the line of Subhi Gupta with Rinetra Asset Managers. Please go ahead.

Subhi Gupta – Rinetra Asset Managers: Hi. Am I audible?

Management: Very audible, ma'am.

Subhi Gupta – Rinetra Asset Managers: Most of my questions have been answered. I have one question. Regarding the investments we are making on the technology side, what kind of contribution should we expect from this toward bookings?

Management: Investment in technology has 3 components.

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The first is impossible to quantify in terms of return on investment: improvement in efficiency. This is an ongoing process.

To give everyone some context, Lemon Tree, I must confess, had a very archaic technology-stack architecture during the first 15 years of its operations. We used to work with Excel spreadsheets. We had a small revenue-management system. We also had multiple vendors providing property-management systems, point-of-sale systems, and so on.

Just after COVID, I think Kapil decided to put an ERP in place. Is that correct, Kapil?

Management: The first 1.5 years went into the ERP, and implementation itself was quite a nightmare.

Then we said that, as Lemon Tree was growing, we needed to look at how to become more efficient as an operating company. At that point, we were accelerating our signed contracts. In 2024, we signed 3,500 rooms.

The second area was where we could capture clear upside through revenue management and better sales. We considered how to integrate with and use providers such as Salesforce, which we felt we could finally afford.

We also considered other areas, such as the loyalty program and our website, which needed to be upgraded.

Those initiatives have occupied the last 2.5 years. Some have reached MVP 2, and some have reached MVP 1. We have started rolling them out across our owned portfolio because we did not need to ask any owner for approval.

I can say broadly that certain targets have been met. Certain others are still—

Management: A work in progress. We now have Kartikey on board, who was the Chief Digital and Technology Officer of Coca-Cola. He now runs our technology vertical.

He has been studying everything that is in place, and we are looking for further improvements in our offerings. However, right now, it is still very much an in-house initiative.

Our intention is that once we have rolled it out to our satisfaction within our existing portfolio, we will look at the managed portfolio and offer these services to them.

In our new contracts with managed hotels, we have specifically stated that technology upgrades and similar initiatives will be at their cost and will be linked to our brand standards.

To summarize, we are recognizing these investments, although we are expensing most of them. They are also investments in terms of monetization opportunities for our brand, and this will play out over the next 2 years, in my best estimate.

After that, I think we will be able to provide ROIs once we export these initiatives to third-party hotels.

Subhi Gupta – Rinetra Asset Managers: Thank you so much, sir. Thank you.

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Management: Thank you.

Operator: Thank you. Our next question comes from the line of Nikhil Poptani with Kizuna Wealth. Please go ahead.

Nikhil Poptani – Kizuna Wealth: Thank you for giving me the opportunity. My first question is about our non-negotiated rooms. We have already mentioned that we try to sell them at a higher rate. Can we expect the negotiated rooms to return to the mix, and how much pricing impact would there be if the share of negotiated rooms increases again?

Management: Definitely. As we achieve a better balance, which is already visible in July and August, you will certainly see in the next presentation a better balance between negotiated and non-negotiated business.

It would be difficult for me to comment or speculate because, depending on seasonality, the rate and ARR for the different segments differ. However, I can tell you this with certainty: the balance between retail, negotiated, and non-negotiated business will be better from Q2 onwards.

Nikhil Poptani – Kizuna Wealth: My second question is about the average addition of 2,000 rooms in the coming 4–5 years, from FY27 through FY30. When we are targeting 50% EBITDA margins, once fixed costs increase, will that affect our margins somewhat?

Management: I did not understand the question. I will answer it.

Let me explain how net EBITDA is calculated. Net EBITDA is hotel-level EBITDA less below-the-line expenses. As our revenue grows, below-the-line expenses, which do not grow significantly because we have already made the investments we need in technology and people, will not grow at the rate of revenue.

Therefore, below-the-line expenses, which are fundamentally corporate expenses, will continue to decline as a percentage of sales.

When we say that we are ultimately targeting an EBITDA margin of 75–80% in Lemon Tree, we are essentially saying that we will double our management fee income, while below-the-line expenses, which are primarily talent and technology costs, will decline to 20–25% of revenue.

With growth, fixed costs are distributed over a larger base and margins expand. Variable costs are something we focus on closely. We constantly look at how we can reduce them.

Typically, in our company, half of hotel expenses are variable and half are fixed. We therefore look at variable costs growing with occupancy and fixed costs growing with inflation. That is what we try to achieve.

This is why we said that next year, if our revenue grows by X, whatever that X may be—and I do not want to provide guidance on that—and I am speaking now on a consolidated rather than a disaggregated basis, then EBITDA margins expanding to 50% is not a major challenge.

Also, please do not look at Q1. Q1 is an aberration. It is the full year that matters. Last year, for example, I think we achieved a 49% EBITDA margin.

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What am I saying? I am saying that if renovation expenses decline by 1% of revenue, our EBITDA margin will be 50%.

I would urge you to look at the slide on {? Excel's ?} renovation expenses. Please look at slide 20.

In FY26, we achieved a 49% EBITDA margin with a 5.8% impact from GST, technology, and renovation. We are saying that GST will increase to 2%, which it will, while technology will increase by 50%, from 0.6% to 0.9%. However, renovation expenses will decline.

If you look at the sum of the parts, there is a 1% reduction in expenses, and therefore 49% should logically move to 50%. Is that clear?

Nikhil Poptani – Kizuna Wealth: Yes, sir. One other question: if we are targeting an increase in our average room rate to above 7,500, what would be the timeline to achieve that? Would it take 1 year, 2 years, or 3 years?

Management: No, it will not take that long. Let me explain.

GST applies based on the percentage of rooms sold below 7,500, which determines the input credit we use. For example, the company average was 52% of rooms below 7,500 and 48% above 7,500.

Our intention is not for all rooms to move to 7,500. Our intention is for the percentage of rooms sold above 7,500 to increase progressively.

For example, Red Fox East Delhi will never charge 7,500. Red Fox Jaipur will never charge 7,500. There are hotels that, based on their brand positioning, location, and the markets they serve, will remain in the 3,000–5,000 range.

However, there are many hotels that we believe we can reprice in demand-dense markets where a large amount of our revenue comes from. That is where the GST impact will progressively reduce.

Again, referring to slide 20, we are saying that the 2% will decline to 1.7% and continue to decline, but there will never be a situation in which it becomes zero.

Nikhil Poptani – Kizuna Wealth: The value impact will therefore get lower and lower as the share of rooms priced above 7,500 increases.

Management: Yes. For example, all the new Aurikas we are opening will be priced above 7,500.

Someone raised a question about Aurika Bombay. Aurika Bombay today has less than a 5% GST impact, and we will make it zero by next year.

Lemon Tree Premier Bombay has, I think, approximately 10–12% impact. We will reduce that to 3–5% by next year.

In certain markets, such as Lemon Tree Premier Hyderabad, the impact is 7–8%, and we will reduce it to zero.

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When we look at markets such as Lemon Tree Premier Delhi, this follows the Pareto principle. These properties account for a very large inventory with much higher revenue per room. As we continue to increase rates there, the GST impact will progressively reduce.

Please look at it as a weighted average.

Nikhil Poptani – Kizuna Wealth: Thank you, sir.

Operator: Thank you. Our next question comes from the line of Rahul Majhetia with Stratton Oakmont. Please go ahead.

Rahul Majhetia – Stratton Oakmont: Thank you for taking my question. With our accelerated asset-light expansion into Tier 2 and Tier 3 markets, what is our approach to regional MICE expansion, including local banqueting and regional MICE?

Have we restructured our central sales and advertising and promotion teams to capture this demand, or is this responsibility falling entirely on the franchise partners? Are we expected to charge a higher marketing or franchise fee to fund national-level brand campaigns for these Lemon Tree brands managed by third parties?

Management: For your first question, we have modified our sales structure to bring greater focus, better relationships, and stronger execution to each segment.

When I say segment, I mean airlines as one segment, MICE and weddings as another, and travel trade as another.

Our sales structure is led by these segments at headquarters—airlines, MICE and weddings, and travel trade—as well as by geographies through our regional sales structure, which is divided into 3 clusters: North and East, South, and West.

As we become larger and penetrate India more deeply, we have taken 2 lessons from the past.

First, when we created the initial Lemon Tree model, it did not have much space for banquets. As India and our business have grown, we have learned that weddings and banquet revenue are reasonable sources of revenue.

While we will continue to remain in the range of 75% room revenue and 25% other revenue, banqueting and the development of local MICE opportunities are significant revenue sources.

Therefore, looking at this and the general evolution of our chain in that direction, we have structured or restructured our central sales team to cater to these opportunities.

The leaders for the relevant segments—travel trade, MICE, weddings, and airlines—are all now in place. As we execute in the second half of the year, we expect more output from these segmental opportunities, where our execution so far has been limited.

Regarding your second question, whether we will charge more for national campaigns, the answer is no, not right now.

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We already have a fee structure consisting of a base fee and sales and marketing fees. What we currently do is maintain a clear marketing calendar that addresses 2 aspects: seasonality and the themes for the quarter.

For example, the theme we promoted aggressively in Q1 and part of Q2 is weddings and celebrations. This is aimed at driving overall messages for all our hotels, including third-party-owned and owned hotels.

Therefore, we do not want to charge anything additional to what we are already charging our third-party partners. Patu, please add anything if you want to come in.

Rahul Majhetia – Stratton Oakmont: That will be all from my side. All the best for the coming quarters.

Management: Thanks.

Operator: Thank you. Our next question comes from the line of Shivam Singh with Capital Arch. Please go ahead.

Shivam Singh – Capital Arch: Good evening, sir. Am I audible?

Operator: Shivam, you are not clearly audible.

Shivam Singh – Capital Arch: Am I audible now, sir?

Management: Better.

Shivam Singh – Capital Arch: I wanted to ask why we are not entering the airline-catering business, where we could maximize our F&B revenue or something similar.

Management: That is a great question, Shivam. I will answer it in my way. Patu, please add anything if you want to come in.

The simple answer is that we are focusing on our strengths. Catering could be an exciting business, but our business model is largely driven by maximizing room revenue, and therefore F&B is a relatively smaller part of the business.

The strength of our business model is in driving room revenue and associated business. Therefore, we will keep our focus at this point on penetrating more deeply into India.

As we have always said, what Lemon Tree stands for is a good sleep, a good shower, good Wi-Fi, and a good breakfast for our guests who stay with us across the network.

Shivam Singh – Capital Arch: My second question is regarding the portion of our business related to OTAs.

Management: OTAs account for the mid-30s to late 30s percentage-wise. It depends on the tactic we may deploy in a particular month or quarter, but broadly speaking, it will be in the mid-30s.

Shivam Singh – Capital Arch: When we are spending so much on technology, why not expand our—

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Operator: Hello? Shivam?

Shivam Singh – Capital Arch: Our own marketing and direct bookings instead of going through an OTA?

Management: Absolutely. This is also a frequently used strategy in the industry, where hotels generally try to drive a higher portion of direct bookings through their website and loyalty program. That is our plan as well.

As we improve our loyalty program and website, we do expect the portion of direct bookings to increase.

Management: This is bound to happen. In fact, in Q1, as we deployed a stronger retail plan, the proportion of business from our direct channels also increased.

Shivam Singh – Capital Arch: I had another small question. What was the enterprise value at which we transferred all the hotels to Fleur?

Management: The enterprise value is evident from the fact that today we own 59% of Fleur and Warburg owns 41%. When we transfer everything, we will own 74% and they will own 26%. You can work backward from that.

Shivam Singh – Capital Arch: I have worked on that. The 960 crores that they will invest at a later stage—will the valuation remain the same, or will it reflect the market scenario at that point?

Management: It is a valuation that is fixed at, I think, 1 billion dollars. They are investing in Fleur at a 1-billion-dollar valuation.

Shivam Singh – Capital Arch: So they are providing 100 million dollars for 10% primary shares. Their post-holding would therefore be 36%, with the remaining shares held by us, correct?

Management: No. The demerger scheme envisages the following.

Initially, before they put in this money, we own 74%, they own 26%. Of our 74%, we will distribute 33% to Lemon Tree shareholders. That will lead to an automatic delisting. Are you with me?

Shivam Singh – Capital Arch: Yes, sir.

Management: We will then own 41%, the shareholders will own 33%, and Warburg will own 26%.

Before this, at some point, Warburg will invest 100 million dollars, and its stake will increase from 26 out of 100 to 26 out of 110 because the additional 960 crores will give them 10 more shares. Are you with me?

Shivam Singh – Capital Arch: Yes, sir.

Management: The shareholding then becomes: Lemon Tree will own 41 out of 110, Warburg will own 36 out of 110, and Lemon Tree shareholders will own 33 out of 110.

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Shivam Singh – Capital Arch: That was really helpful. Regarding our growth, when do we expect exponential growth to begin? In the last 5 quarters, we have not been growing at the pace we were confident of achieving at that point. Do we see a tipping point after which we begin an acceleration phase?

Management: When you say growth, what growth do you mean?

Fleur was not a going concern once Aurika Mumbai opened. The capital deployed by APG reached a certain level, and that capital was fully deployed once Aurika Mumbai opened. After that, neither Lemon Tree nor APG deployed any further capital in Fleur.

Therefore, Fleur could only have grown at the rate of its free cash flow.

To address that and take advantage of the opportunities we identified, Warburg bought out APG and is now investing additional capital. That will lead to a significant growth spurt.

We have already said that we are in active discussions, and hopefully 2,500 rooms, whether operating or under development, will come into our portfolio.

Let me give you some numbers. We currently operate slightly fewer than 6,000 rooms. We are building 850–900 rooms. If we acquire these 2,500 rooms, we will be discussing 3,300 rooms, comprising a mix of operating assets and assets that will open over the next 3–3.5 years.

Therefore, Fleur will increase its room count by more than 50% by FY30, approximately speaking, but revenue will increase by much more because the incremental rooms being acquired are all Aurikas, apart from some operating assets.

You can work backward from the numbers once we start making announcements. It is easy to work backward because we provide EBITDA per room for different brands in our quarterly and annual presentations.

All you have to do is calculate the number of new Aurikas opening, multiply that by the average Aurika EBITDA per room, and do the same for Lemon Tree Premiers and the other brands.

That is one aspect of growth, and I am personally very bullish on it. That is why I am staying on as an Executive Director in Fleur for the next 5 years.

As far as Lemon Tree is concerned, it is now reinventing itself as an asset-light player at scale. We did not feel we could execute this split earlier.

Lemon Tree had to demonstrate high growth in fee income and a large amount of fee income for it to become an asset-light player in India, because there is currently no asset-light player of scale in India in the hotel space.

In that sense, we are new, and we hope that over the next 6 quarters the market will understand what Lemon Tree can generate as fee income, how exciting that is, and the rate at which it is growing, and will appropriately decide what it is worth.

Shivam Singh – Capital Arch: That was a very helpful explanation. Thank you so much.

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Management: My pleasure.

Operator: Thank you. Our next question is from the line of Arjav Marwaha with Marsland. Please go ahead.

Arjav Marwaha – Marsland: Thanks for the opportunity. I had a simple question regarding the progress we have made toward the demerger in the last quarter. When can we expect the demerger, specifically the Fleur delisting and demerger that you explained in the last question, to take place?

Management: Kapil will answer that because this relates to the demerger.

Kapil: As we discussed in the last meeting, this is currently at the approval stage with the authorities. It is currently with SEBI. We have received CCI approval and undergone some scrutiny by the stock exchanges. That process is currently underway.

After that, the NCLT process, including filing, meetings, and hearings, will begin.

As we pointed out earlier, calendar year 2027 is when this is expected to be completed. It is not expected to be in the latter part of the year; we should be able to complete the entire demerger exercise and list Fleur in the first half of the year.

Management: You have to keep in mind that all of this is subject to SEBI approval, a shareholder vote, creditors' approval, and then NCLT approval. There is a complete process.

Even after all that, it will still take approximately 1 month for Fleur to be listed. Conservatively, since we have very little control over many of these approval processes, you can say it will be in the latter part of next year. Would you agree with that, Kapil, with some certainty?

Kapil: Hopefully.

Arjav Marwaha – Marsland: That would be approximately 12 months from now. I assume we can track the progress quarter-on-quarter. Thank you.

Operator: Thank you. Our next question is from the line of Vikram Shah with Vikram Securities. Please go ahead.

Vikram Shah – Vikram Securities: Good evening. My question is more about the quality of some of our rooms. I keep track of and travel to Rishikesh and Delhi, and I am afraid to say that the room quality has deteriorated considerably.

I am talking about a Lemon Tree Premier property. I do not want to go into too much detail, but I can see a visible deterioration in quality. What are we doing to renovate or improve these properties?

Management: Which hotels are you referring to specifically?

Vikram Shah – Vikram Securities: Lemon Tree Premier next to the Delhi airport, and the Lemon Tree in Tapovan.

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Management: I am surprised to hear that because the Lemon Tree score has reached {? 4.6 on 5 ?} after renovation. I do not know which room you stayed in or what happened, but our general customer feedback is excellent, and our rates and occupancy have both increased significantly.

I would like to know which room you stayed in. If you could send us the details, we will get back to you.

Rishikesh is a managed-portfolio property that requires renovation. I believe it is being planned. When is it happening?

Management: They are planning it for late this year and next year.

Management: Rishikesh will undergo renovation. However, it is a managed hotel, so the owners have to agree and so on. I believe the owner has also agreed to renovate it.

It would be helpful if you could provide the details. Nipun, please take his number. We would like to receive your input on what you found to be unsatisfactory.

Vikram Shah – Vikram Securities: I will be happy to share pictures and other details. This was intended as a constructive conversation, and I will be happy to share them.

Management: No problem. Please share them. We appreciate that, actually. Thank you for bringing it up. We will come back to you.

Vikram Shah – Vikram Securities: Thank you.

Operator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.

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. Thank you.

Operator: Thank you. On behalf of Lemon Tree Hotels, that concludes this conference. Thank you all for joining us. 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.

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