Lemon Tree Hotels Limited

Issue Snapshot:

Issue Open: Mar 26 – Mar 28, 2018

Price Band: Rs 54 – 56

Issue Size: 185,479,400 Equity Shares (Entirely Offer for sale)

Offer Size: Rs 1001.59cr – 1038.68cr

QIB	Upto	92,739,700 eq sh
Non Institutional	atleast	27,821,910 eq sh
Retail	atleast	64,917,790 eq sh

Face Value: Rs 10

Book value: Rs 15.66 (Dec 31, 2017)

Bid size: - 265 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs 786.41 cr

Post issue Equity: Rs 786.41 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Limited, CLSA India Private Limited, J.P. Morgan India Private Limited, YES Securities (India) Limited

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	31.07	31.07
Public & Others	68.93	68.93
Total	**100.0**	**100.0**

Source for this Note: RHP

Background & Operations:

Lemon Tree Hotels Limited (LTHL) is India's largest hotel chain in the mid-priced hotel sector, and the third largest overall, on the basis of controlling interest in owned and leased rooms, as of June 30, 2017. It is the ninth largest hotel chain in India in terms of owned, leased and managed rooms, as of June 30, 2017. It operates in the mid-priced hotel sector, consisting of the upper-midscale, midscale and economy hotel segments. It seeks to cater to Indian middle class guests and deliver differentiated yet superior service offerings, with a value-for-money proposition. LTHL opened its first hotel with 49 rooms in May 2004 and operated 4,697 rooms in 45 hotels (including managed hotels) across 28 cities in India as of January 31, 2018. Its vision is to be India's largest and most preferred chain of hotels and resorts in each of the upper-midscale, midscale and economy hotel segments. Due to the dynamic and evolving nature of Indian guest's expectations and based on its market research, it has created three brands in order to address these three hotel segments:

- 'Lemon Tree Premier' which is targeted primarily at the upper-midscale hotel segment catering to business and leisure guests who seeks to use hotels at strategic locations and are willing to pay for premium service and hotel properties;
- Lemon Tree Hotels' which is targeted primarily at the midscale hotel segment catering to business and leisure guests and offers a comfortable, cost-effective and convenient experience; and
- 'Red Fox by Lemon Tree Hotels' which is targeted primarily at the economy hotel segment.

Its hotels are located across India, in metro regions, including the NCR, Bengaluru, Hyderabad and Chennai, as well as tier I and tier II cities such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore and Aurangabad. The mid-priced hotel sector is expected to have competitive benefits in offering domestic travellers with hotel solutions in tier II and tier III cities, as per the Horwath Report. Its operations are spread across the value chain and range from acquiring land to owning, leasing, developing, managing and marketing hotels. It undertake its business through: (i) direct ownership of hotel properties, (ii) long-term lease or license arrangements for the land on which it construct its own hotels, (iii) long-term leases for existing hotels which are owned by third parties, and (iv) operating and management agreements. As of January 31, 2018, LTHL has a portfolio of 19 owned hotels, three owned hotels located on leased or licensed land, five leased hotels and 18 managed hotels. It also has project design, management and development capabilities through its Subsidiary, Grey Fox Project Management Company Private Limited.

Objects of Issue:

The objects of the Offer is to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the sale of up to 185,479,400 Equity Shares by the Selling Shareholders. Further, LTHL expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its shareholders. Listing will also provide a public market for the Equity Shares in India. LTHL will not receive any proceeds from the Offer and all the proceeds will go to the Selling Shareholders, in proportion to the Equity Shares offered and sold by the respective Selling Shareholders in the Offer for Sale.

Competitive strengths

Leading mid-priced hotel chain with a differentiated business model: As of June 30, 2017, LTHL is India's largest hotel chain in the mid-priced hotel sector, and the third largest overall, in terms of controlling interest in owned and leased rooms. It has a portfolio of 45 hotels spread across 28 cities, as of January 31, 2018. As of June 30, 2017, its rooms comprised 4.22% of upper-midscale, 7.65% of midscale and

15.30% of economy rooms, aggregating to 6.91% of all mid-priced rooms, available across chain affiliated hotels in India It is well placed to benefit from the expected growth in the mid-priced hotel sector in India by leveraging existing market position in India, geographical spread, presence in key micro-markets, its hotels under development and value-for-money proposition. The key factors which contribute to its leadership position include Strong operational performance and Focus on domestic guests

Strategically positioned in key geographical areas*:* LTHL hotels are located in major metro regions in India, including the NCR, Bengaluru, Hyderabad and Chennai, as well as tier I and tier II cities in India such as Pune, Ahmedabad, Chandigarh, Jaipur, Indore and Aurangabad. In the leisure hotel segment, it operates a resort and a hotel in Goa, one resort in the backwaters of Alleppey, Kerala and one wildlife resort in Bandhavgarh, Madhya Pradesh. It has strategically developed its hotels at locations with high barriers-to-entry within or close to major business centers, airports and other convenient locations. Its presence across the mid-priced hotel sector in India allows to offer its guests with quality yet cost-effective hotel solutions in metro regions and tier I and tier II cities across India. Further, it has focused on certain key micro-markets in order to address demand and optimize pricing. LTHL is a hospitality platform with operations and competencies spread across the hotel value chain. Its operations range from acquiring land to owning, developing, managing and marketing hotels. It has acquired expertise and understanding in site selection, design, development, management and marketing of hotels in the mid-priced hotel sector across India.

Present across the value chain: LTHL is a hospitality platform with operations and competencies spread across the hotel value chain. Its operations range from acquiring land to owning, developing, managing and marketing hotels. It has acquired expertise and understanding in site selection, design, development, management and marketing of hotels in the mid-priced hotel sector across India as follows:

Development and ownership: One of LTHL's strengths has been the ability to identify strategically located land at reasonable rates. its business development, project management and execution process teams are involved in gathering relevant market data
and assessing the potential of different locations. Based on the location of the land available, its price and the existing hotel pricing and occupancy levels in the area,it assess which of its brands is most suitable for that location, in order to maximize returns.

Hotel operations: LTHL's hotel operations team seeks to ensure standardized pre-opening and seamless day-to-day operations, at high levels of service and cost efficiencies. It follow a dynamic pricing policy based on various factors including anticipated demand, market conditions, inflation, competition, the state of micro-markets in which it operates and the economy in general.

Sales and marketing: LTHL's sales, marketing, revenue management and customer relationship management teams work together to increase hotel occupancies enabling its newly opened hotels to achieve operational and financial targets.

Focus on brand excellence, providing a value-for money proposition and strengthening employee culture*:* LTHL's well-differentiated brands target distinct segments in the mid-priced hotel sector, which enables to avoid brand overlap or dilution. Its approach of owning and leasing hotels, which are designed and built or converted to its specific brand standards, has enabled to build a portfolio of proprietary brands with uniform quality and operational parameters. Its brands are recognised for quality and consistency across various price points in the mid-priced hotel sector. LTHL's three brands has a standardized design, appearance, decor, colour and lighting scheme. These brands also provide a set of standardized guest amenities thereby ensuring that it deliver a consistent experience to its guests. It has adopted a personnel management and training and learning model that has been replicated across its hotels, including implementation of standard operating procedures and skill enhancement training. It hotels are preferred for their convenient locations, value-for-money offerings and its efficient service, the combination of which leads to a differentiated guest experience. It has instituted several inclusive culture and sustainability initiatives. It provides employment opportunities to opportunity deprived Indians including differently abled individuals and people from economically, educationally and socially marginalized sections of Indian society.

Experienced promoter and management team: LTHL's promoter**,** Mr. Patanjali Govind Keswani, who is also Chairman and Managing Director, has approximately three decades of experience in the hotel and hospitality industry. Its management team also has substantial experience in the hospitality industry. The strength of its management team and its understanding of the hospitality market in India enables to continue to capitalize on current and future market opportunities. Its management team has a track record of improving hotel performance by well-planned refurbishment, professional centralized sales and marketing and disciplined cost control.

Business strategy:

Strategic allocation of capital*:* LTHL seeks to expand its portfolio of owned hotel properties opportunistically, based on industry developments and supply and demand movements across the mid-priced hotel sector. Its strategy is to invest in buying land in demand dense markets when acquisition costs are low and it is able to obtain debt financing at suitable rates. Once its hotels are operational, it aims to take advantage of growing demand to maximize revenue and returns, as well as to reduce existing debt. Further, as part of this strategy, LTHL has also divested equity interest in certain operational hotels it owns, through its Subsidiaries, Fleur Hotels Private Limited ("Fleur"), Begonia Hotels Private Limited (“Begonia”) and Nightingale Hotels Private Limited (“Nightingale”). In Fleur, Begonia and Nightingale, in addition to operational control, it has majority equity interest of 57.98%, 74.11% and 57.53%, respectively, and APG owns the remaining equity interest of 42.02%, 25.89% and 42.47%, respectively. The agreements entered into by the Company with APG and these Subsidiaries, enable to closely monitor the management of the hotels as well as to apply a consistent management philosophy, including standardized processes for marketing and sales, to such hotels. As a result, LTHL is able to increase revenues and reduce operational as well as capital costs. It intends to continue using this strategy to generate capital from select investors, in order to fund organic and inorganic growth opportunities, expand or redevelop its owned hotels, reduce debt and finance asset enhancement initiatives.

Grow national footprint and diversify geographically: LTHL seeks to diversify its geographical footprint to reduce exposure to local, seasonal and cyclical fluctuations as well as in order to access a more diversified guest base across geographies. It currently intends to enter new markets such as Mumbai and Kolkata, in order to expand its geographical footprint. In addition, it intends to focus its expansion efforts on demand dense markets, where it already has an established presence and can leverage existing presence to expand its market share. LTHL also intends to expand its hotel portfolio in India’s tier II and tier III cities by leveraging its brands. Its expansion in India’s tier II and tier III cities offers it potential for market share gains, brand recognition and economies of scale. Its development, ownership and operating experience in India’s metro, tier I and tier II cities provides it with the local knowledge and resources needed to facilitate expansion quickly, efficiently and cost-effectively.

Expansion through development, acquisitions, leases and management agreements*:* LTHL intends to expand portfolio through development of hotels, acquisition of properties and entering into leases and management agreements that complement its brand attributes, increase existing guest base and enhance guest loyalty by providing a wider selection of locations, properties and services. It seeks to expand portfolio of owned properties opportunistically based on economies of the acquisition costs and plans to invest in buying land and hotels or leasing hotels in demand dense markets with low penetration. It plans to increase the number of its owned hotels and hotels built on leased or licensed land from 22 hotels and 2,796 rooms as of January 31, 2018 to 28 hotels and 4,230 rooms, based on its hotels under development as of January 31, 2018. In addition, LTHL seeks to make strategic acquisitions in key micro markets, where it see opportunities. It also intend to lease hotels through long term lease arrangements, based on market dynamics and the feasibility of leasing a hotel. Its analysis is based on internal profitability and return standards, as well as identifying potential locations where lease rentals are below its minimum expected earnings from such properties. Further, LTHL plans to enter into management agreements which require lower upfront financial investment compared to acquisition of properties.

Improve operating efficiencies to increase returns: LTHL intends to continue to actively manage operating costs to improve margins through the following measures, among others:

- improve staff productivity and efficiency to reduce payroll costs per room through the use of new technology, streamlined management systems, comprehensive training and performance-linked compensation;
- implement energy saving initiatives that are both cost-efficient and environmentally friendly;
- improve margins in revenue generating departments such as telecommunications, restaurants, laundry, spa operations and transportation; and
- reduce average per room costs for head office operations, sales and marketing, loyalty program expenses, among others, through the expansion of network, hotels and rooms.

LTHL intends to continue to maintain low hotel development costs for owned hotels and conversion costs for leased hotels, through efficient project management and oversight. It also seeks to maintain competitive average development cost per room, including through innovative yet easily replicable product designs to lower procurement costs and expedite installation and fit-out time.

Attract consumers through expansion into leisure hotels and through online channels*:* LTHL intends to continue to increase its focus on leisure markets to increase share of the domestic mid-priced hotel sector as well as strengthen presence across India. It has three operational resorts, as of January 31, 2018, in Goa, Alleppey, Kerala and a wildlife resort in Bandhavgarh, Madhya Pradesh. It seeks to increasingly cater to the vacation and leisure travel needs of Indian families and groups in order to address seasonality of demand for rooms. LTHL intends to focus on offering a differentiated brand experience through hospitable and efficient service, convenient locations, contemporary design and value-for-money offerings. It also intends to continue to build on its inclusive culture to ensure its employees remain engaged and committed to delivering exceptional service, such that its brands continue to remain attractive to value conscious middle class domestic LTHL intends to continue to expand and evolve its online presence in order to grow revenue from online direct bookings. It has also introduced a specialist team to work with leading online travel agents (“OTAs”).It intends to continue to work with OTAs to increase its market share of online hotel bookings and increase revenue.

Industry:

Macroeconomic Overview of India

India is the seventh largest economy in the world with nominal GDP of USD 2.26 trillion and third in terms of purchasing power parity as per 2016 estimates. (Source: World Development Indicators Database, World Bank, 17 April 2017). The Indian economy grew by 7.1% in the fiscal year 2017 (estimates) as against 7.6% growth for the fiscal year 2016 (Source: Central Statistics Office, Govt. of India).

Hotel Supply Penetration in India as Compared to a Global Perspective

India has moved from having more luxury and upper scale rooms, at the start of the century, to a more balanced supply scenario, with 19.8 % of the supply estimated to be available in each of the upscale and upper midscale segments, 22.5% of the supply estimated to be available in the midscale and economy segments and 38% of the supply estimated to be available in the luxury and upper upscale levels. The mid-priced hotel sector has traditionally been underserved in terms of chain-affiliated products carrying consistent standards and marketing reach. This sector had been typically served by independent hotels with fragmented and mainly localized ownerships, inconsistent physical products, upkeep and services. The trend of increasing supply in the mid-priced hotel sectors is expected to continue, as can be seen from the supply scenario expected for the fiscal year 2021.

Supply Composition by City

The top 10 markets in India (based on hotel inventory) have 67.7% of hotel inventory in the fiscal year 2017 and each market has at least 3,000 chain-affiliated hotel rooms. Supply share of the top three metros declined from 43.5% in the fiscal year 2002 to 37% in the fiscal year 2017. The share of the other three metros has increased marginally. Chennai added 4,500 new rooms between the fiscal years 2012 and 2017 while demand in Hyderabad stagnated between the fiscal years 2010 to early 2014 due to issues around the creation of the Telangana. Supply share of the four main non-metro cities increased from 10.8% to 16.5%, between adding 17,818 rooms. There was substantial inventory creation in Pune and Ahmedabad, at a CAGR of 20.4% and 17.3% respectively, in this period, which contributed significantly to this growth. During the fiscal years 2002 and 2017, there were 4,002 rooms added in Jaipur and 4,453 rooms were added in Goa. The share of other markets has remained range-bound, supply addition was approximately at 32,000 rooms during the fiscal years 2002 to 2017. Continued supply in new tourist destinations, Tier II and Tier III towns, as also other Tier I cities outside the top 10 markets, helps deepen industry potential and creates opportunities for domestic hotel companies and brands.

Supply Analysis – All India

The top 10 chain-affiliated hotels have changed over the ten year period from the fiscal year 2007 to the fiscal year 2017, with Intercontinental Hotels Group, Accor and Lemon Tree replacing Leela, Royal Orchid and Bharat Hotels on the top 10 list. The addition of over 88,000 rooms between the fiscal years 2007 and 2017 has predominantly been under international chain management or franchise, with Marriott, Starwood, Accor, Carlson, Hyatt, Hilton and Intercontinental Hotels Group taking about 45% of this additional inventory. In comparison, the big three Indian chains, Taj, Oberoi and ITC Hotels, added only about 12,651 rooms. International chains with a more modest presence in India, such as Wyndham, Choice and Best Western, added about 3,800 rooms in this period. During this period, three domestic chains emerged as substantial players in the mid-priced hotels sector, Sarovar Hotels, Lemon Tree and Fortune Hotels (part of the ITC Hotels inventory). The total inventory for these three chains is 12,460 rooms, of which 2,716 rooms were operational as of March 31, 2007 and 9,744 rooms were added during the period leading up to the fiscal year 2017. As of March 31, 2007 based on hotel rooms under ownership, comprising assets where the chain has 50% or more equity interest in a freehold or leasehold asset, Taj has clear leadership followed by ITC Hotels, Oberoi and Lemon Tree Hotels in second, third and fourth place, respectively, across India.

Supply Analysis – Mid-priced sector

International hotel companies have about 50% of the total chain-affiliated supply in India, while their share of supply in the mid-priced hotel sector is only 33.7%. Four of the top five chains in this sector are domestic chains, ITC Hotels (Fortune hotels), Sarovar, Lemon Tree and Taj (Ginger hotels). Only Accor (Ibis, Ibis Styles, Formule One and Mercure), among the international chains, is in the top 5 position. Accor had the largest inventory growth between the fiscal year 2007 and the fiscal year 2017, followed by Lemon Tree and Sarovar both of which had similar inventory additions. Lemon Tree is currently the leader in terms of controlling interest in owned and leased rooms, ahead of Taj (Ginger which is an economy brand with lower capital needs and revenue capacity), ITC Hotels (with a model that has limited investments in this sector) and Accor (which co-invests substantially in this sector, without having majority equity position or ownership control).

Key Demand Drivers

Business Travel

Business travel comprises of inbound and domestic visitation for business related prposes. This includes travel on corporate accounts and by individual business travellers. This segment is a predominant source of demand for hotels located primarily in business oriented locations such as Bengaluru Whitefield, Hinjewadi Pune, Gurugram, and Cyberabad in Hyderabad.

Leisure Travel

Leisure travel comprises of vacation travel, including short duration vacations. Vacation travel is concentrated during school holidays (summer, Diwali and Christmas). Greater affordability, changing attitudes towards lifestyles and improved road and air connectivity have materially encouraged short stay vacations, including those taken on weekends and extended weekends. Seasonality of inbound leisure travel is different, varying more with climactic factors, so that it mainly occurs between October and March and to a lesser extent (with lower visitor profile and travel budgets) during the summer and monsoon seasons.

MICE Visitation

MICE visitation is mainly corporate driven for conferences, training programs and other events that are of customer-facing intent. The demand tends to arise during the working week and occurs during several months of the year, barring the main holiday periods and the months from March through May. MICE demand tends to carry a price sensitivity. Travelers with flexibility in timing, may choose off-season months to have access to lower rates. Hotels in predominantly business locations will generate MICE demand for training and corporate seminars which could be day or residential events. Conferences that include recreational elements, choose city centre locations and resort destinations.

Weddings and social travel

Weddings and social travel mainly involve domestic visitation for family weddings, destination weddings and other family celebrations. Other social demand also arises from time to time with guests increasingly seeking to use hotels in preference to the earlier practise of staying with family or at family houses. Such demand will likely gravitate to hotels that have the function areas, guest room capacity and also the quality to host such events at a level consistent with the status of the host. This does not however rule out upper-midscale and mid-scale hotels, because these can cater to the price sensitive demands in of bigger cities, in fact such hotels are often market leaders in Tier II and Tier III and could then attract the higher element of local demand in those markets.

Diplomatic Travel

Diplomatic travel brings in government leaders and representatives of other countries, arriving for specific purposes and often accompanied by large trade delegations, as well as diplomats posted to India and using hotels during the transition period. This demand is typically seen in major capital cities and other major cities that are source markets for international travel. Thus, New Delhi gets the bulk of such demand followed by Mumbai.

Airlines and airline crew

This demand set helps create a core of demand for hotels, albeit at significantly discounted pricing. Crew demand could arise from international and domestic carriers, while the major international airlines will use upper tier hotels, more price sensitive airlines are open to using upper midscale hotels. This demand is relatively nominal and mainly occurs at hotels that are closer to the airports.

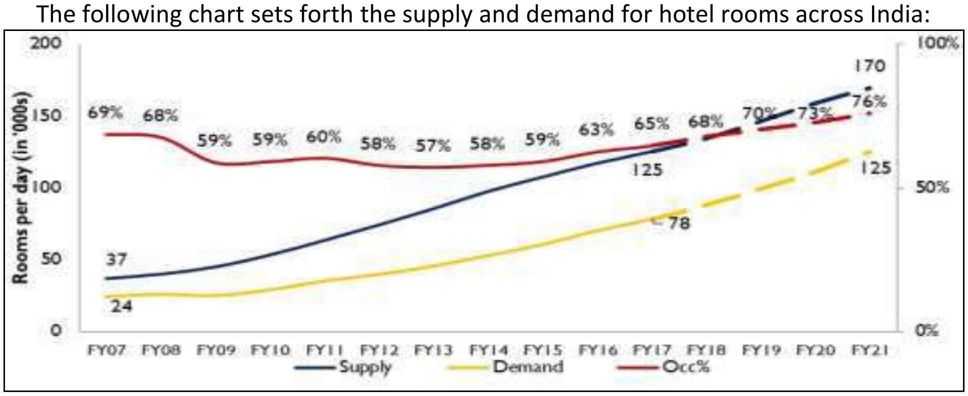
Transit demand

Persons at overnight transits between cities also need to use hotel accommodations, which are typically located close to the point of onward journey. Transit demand could occur on the inward and/ or outward leg of international travel between cities that are connected through a regional hub.

Supply and Demand

Demand levels appear to be modest over the course of the last several years, particularly when taking into account the occupancy levels at hotels. Demand across all segments grew at a CAGR of 12.5% between the fiscal years 2007 and 2016. Supply grew at a CAGR of 13.7% during this period. For upscale and upper midscale segment, the demand to supply growth gap in terms of CAGR between the fiscal years 2007 to 2016 was at a -1.0 percentage point, and it was at +2.9 percentage points for the midscale and economy segments.

The following chart sets forth the supply and demand for hotel rooms across India:



The chart above reflects the improved occupancy scenario over the last two years and a potential for occupancy growth in the foreseeable future, as the pace of demand has started to rise, while supply growth has materially slowed.

Performance of Hotels in India in Recent Years

The following table sets forth a comparison of operating performance across India for the fiscal year 2016:

Parameter	Average Across India's four star hotels	Average Across India's three star hotels	Average Across India's two star hotels
Occupancy (%)	63.4	61.7	61.4
ADR (₹)	4,173	3,023	2,058
RevPAR (₹)	2,646	1,865	1,264
Manpower Ratio/ Room	1.7	1.6	1.3

Source: All India Data: FHRAI study for the fiscal year 2016 published by FHRAI and HVS South Asia

The following table sets forth the revenue composition of the average of all chain-affiliated hotels across India for the fiscal year 2016:

Hotel Category	Four star hotels (%)	Three star hotels (%)	Two star hotels (%)
Rooms	54.2	50.8	53.0
Food and Beverages	40.7	43.6	42.2
Banquets and conferences	13.7	9.6	6.7
Telephone and other	0.3	0.1	0.2
Minor Operated	2.0	1.8	0.8
Rental and others	2.8	3.6	3.8

Source: All India Data: FHRAI study for FY 2015-16 published by FHRAI and HVS South Asia

Food and beverage offerings (including banquets and meetings) are an important element of overall guest expectations in India, with particular need at hotels outside the main metros; in fact this market need also reflects substantial revenue potential.

The hotel sector in India experienced a decrease in occupancy between the fiscal years 2008 and 2009 and again between the fiscal years 2011 and 2013. This was primarily due to the difference between supply and demand in these periods which was caused by a substantial growth in supply and a decline in demand. Slackening of occupancy invariably leads to rate decline thereby impacting RevPAR levels. Further, rate revival lags occupancy revival.

Occupancy levels have increased since the fiscal year 2014 and even more notably since the fiscal year 2015, as demand conditions have improved and the rate of new supply has decelerated. The upward trend in RevPAR has been led by occupancy, and is expected to continue. Further, ADR is expected to improve due to high occupancy levels.

Between the fiscal years 2012 and 2017, demand growth for upper midscale and midscale-economy segments exceeded supply growth, enabling a less severe impact on ADR and positive RevPAR. The upper midscale segment occupancy increased from 55.5% for the fiscal year 2012 to 63.6% for the fiscal year 2017, while number of rooms increased by 10,800. For the midscale–economy segment, occupancy improved from 56% for the fiscal year 2012 to 65% for the fiscal year 2017, while number of rooms increased by 14,500. This is an important indicator of the potential for mid-priced segment hotels in India. Increased availability of such hotels with affordable pricing is beneficial for domestic business and leisure visitors and inbound business visitors. It also facilitates a gradual shift from alternative forms of accommodation (guest houses and staying with relative to hotels.)

Performance of Select Geographical Markets in India

Bengaluru

Bengaluru has an evenly distributed mix of rooms between various hotel segments. The market has seen a substantial growth of supply across segments in recent years. Demand is relatively higher in certain value-priced hotels which are spread across different micro-markets within the market, due to traffic constraints, thereby drawing away some demand from more centrally located upper-tier hotels. There has been a continued supply growth for hotel rooms in Bengaluru, 4,692 new rooms have been added of which 2,439 rooms are luxury and 1,067 are upscale category rooms between the fiscal years 2012 and 2016. The market experiences lack of demand diversity and is dependent on business travel. There is a potential for demand from aerospace and defence sectors. Higher occupancy levels are estimated in the short term, for different micro-markets within the city, with moderate growth rates expected.

NCR

NCR is a relatively large market with concentration of mid-priced sector hotels in certain areas. The market experienced a significant supply increase in recent years, for example, 9,300 new rooms were added between the fiscal years 2011 to 2014. Further approximately 4,200 rooms were added between fiscal years 2015 and 2017. Mid-priced hotels have performed better than the upper segment hotels, with a potential for higher rates and occupancy levels.

Delhi Aerocity

The new supply of rooms the micro-market is nearly complete, with only 200 rooms and certain apartments left to be opened by the calendar year 2018. There is expected to be limited expansion, with midscale and economy segment hotels having only approximately 300 rooms near the airport terminal. Hotels in the upper upscale segment tend to have large function spaces which attract MICE and weddings to Aerocity, which is expected to increase the demand for mid-priced sector hotels. Aerocity has central location, which helps serve the demand for hotel rooms for people headed to Delhi and Gurugram, airline crews and transit guests. There is expected to be economic growth with increased foreign direct investments and an expected increase in capacity expansions at IGI Airport (from 55 million to 75 million passengers by 2020, and 92 million passengers by 2025). Certain hotels are expected to benefit from GST replacing the luxury tax in Delhi.

Gurugram

Gurugram has a substantial new inventory, with 2,744 rooms expected to be added by the fiscal year 2021, which is expected to include 1,600 rooms in the mid-priced sector. Demand is expected to remain concentrated to business travel and MICE segments, while weddings are also expected to drive some increase in occupancy levels. There is expected to be a continued demand growth at a steady pace, however this could possibly be impacted by a deceleration in growth of the IT sector. There has been an increase in competition from Aerocity hotels, which are benefitting from GST replacing the high luxury tax in Delhi.

Hyderabad

Hyderabad has gained from the return of growth and demand in the general market, after the creation of the state of Telangana. The overall performance is moderate, improving from the 50.1% occupancy it was at for the fiscal year 2014. There has been a moderate supply growth of 1,600 rooms, between fiscal years 2014 and 2017, which are spread over different categories. There is expected to be 8.3 million square-foot of new commercial space by the fiscal year 2018. The state government is actively promoting investment in the city and state. Deceleration in growth of the IT sector may result in shift of demand to mid-priced sector hotels from upper hotel segments.

Chennai

Chennai had a growth in supply between the fiscal years 2013 to 2016, adding 3,500 rooms in a four year period, together with 1,100 rooms which were opened in the fiscal years 2011 and 2012. Occupancy levels declined to 54.2% in the fiscal year 2014 and have since gradually recovered, although ADRs remain muted. The growth of supply levels is expected to continue, with 1,220 new rooms to be added by the fiscal year 2021, these additions will predominantly be in the upper midscale (255 rooms) and midscale-economy (572 rooms) segments. An increase in the supply of mid-priced sector hotels is expected to result in moderate performance in the short term. The growth of the manufacturing and services sectors in the city is expected to create demand for hotel rooms, partially offset by the decline in the growth of the IT sector.

Pune

Pune experienced an increase in supply, approximately 5,800 rooms were added between the fiscal years 2008 and 2017, and is now experiencing reduced new supply and simultaneous positive demand growth in the fiscal years 2015, 2016 and 2017. This has helped increase occupancy to 66.8% for the fiscal year 2017 from 52.5% for the fiscal year 2012. New commercial space of 2 million square-feet is expected to be added by the first quarter of 2018, which is expected to benefit the expansion of the service sector. The growth in the manufacturing sector in Pune is also expected to increase demand for hotels, partially offset by a decline in the growth of the IT sector.

Goa

Goa is predominantly dependant on leisure and MICE travel, with a premium being charged in certain peak seasons. There is expected to be a limited supply of new rooms, i.e., 1,628 rooms, until the fiscal year 2021, primarily in upscale and upper midscale segments. A new airport at Mopa, Goa, and a new convention centre are expected to increase demand in Goa. Implementation of GST may negatively impact higher priced hotels on a short or medium term basis, while mid-priced hotels may benefit from lower rates.

Mumbai

The supply for new hotels is moderate with the majority of the new supply located north Mumbai. A convention centre which is expected to open in calendar year 2018 is expected to increase demand, with limited rom inventory in its vicinity. This is expected to help increase overall demand in north Mumbai. Business travel and MICE are expected to be the main sources of demand. Demand from airline crew is expected to continue to grow and may result in increased demand for hotels outside the upper tier, in the event ADR levels rise.

Kolkata

There continues to be a growth in the supply of rooms in Kolkata. Approximately 1,850 rooms are expected to be added by the fiscal year 2021. Certain new upper segment hotels have become operational and the limited gap between upper tier rates and upscale / upper-midscale segment rates is expected to continue.

Udaipur

There is expected to be an increase in demand due to the expansion of the Udaipur airport into international travel. There is expected to be a limited supply of new rooms, i.e. 937 rooms by the fiscal year 2021.

Key concerns

A slowdown in economic growth in India could have an adverse effect on business, results of operations and financial condition*:* LTHL operates in the mid-priced hotel sector in India, where consumer demand for its services is highly dependent on the general economic performance in India. There is a history of increases and decreases in demand for hotel rooms, in occupancy levels and in rates realized by owners and operators of hotels through economic cycles. Variability of results through some of the cycles in the past has been more severe due to changes in the supply of hotel rooms in given markets or in given categories of hotels. It experienced a decline in its ADR and occupancy rates for certain of its hotels, between the fiscal years 2008 and 2012. Any future slowdown in economic growth could affect business and personal discretionary spending levels and lead to a decrease in demand for its services for prolonged periods. Further, LTHL operates in the mid-priced hotel sector alone, and do not have presence in the luxury or upscale sectors. This makes it more susceptible to adverse changes affecting demographic and economic strata of its guests. During periods of such economic contraction, its ongoing investments in developing new properties may not yield results that it anticipated. It cannot be assured that such macroeconomic and other factors, which are beyond control would not significantly affect demand for its services. Consequently, the occurrence of such events could have an adverse effect on the business, results of operations and financial condition.

Rely heavily on existing brands and quality of services at its hotels*:* LTHL operates its hotels under the brands 'Lemon Tree Premier', 'Lemon Tree Hotels' and 'Redfox Hotels by Lemon Tree Hotels', which are focused on catering to guests in the upper-midscale, midscale and economy hotel segments, respectively. Its brand and reputation are among its most important assets and it helps in attracting guests to its hotels. The performance and quality of services at its hotels are critical to the success of the business. These factors depend significantly on the effectiveness of quality control systems and standard operating procedures, which in turn, depend on the skills and experience of LTHL's personnel, the quality of training program, and ability to ensure that such personnel adhere to its policies and guidelines. Any decrease in the quality of services rendered by it including due to reasons beyond control, or allegations of defects, even when false, at any of LTHL's hotel properties could tarnish the image of its brands, result in negative reviews and feedback from its guests on online travel portals and may cause guests to choose the services of its competitors. LTHL is also dependent on third party service providers for providing some of the services to its guests such as spas and laundry, among others, and any failure or deficiency on the part of such service providers may adversely affect the reputation and brand perception. Any adverse development or decline in quality involving brands may impair its reputation, dilute the impact of branding and marketing initiatives and adversely affect LTHL's business, results of operations and financial condition.

Operational risks are inherent in LTHL's business as it includes rendering services at high quality standards*:* Certain operational risks are inherent in LTHL's businesses due to the nature of the industry in which it operates. Its hotels are subject to various operating and business risks common to the hotel and hospitality industry, including the impact of security issues on the quantity of travelers and destinations of business travel; the financial condition of third-party property owners of its hotels; and the financial situation of the aviation industry and its impact on the hotels and hospitality industry. Changes in any of these conditions could adversely affect LTHL's occupancy rates or room rates or otherwise adversely affect results of operations and financial condition. Further, it render hospitality services, including food and beverage, cleaning and housekeeping, and security services, at its hotels. In rendering such services its personnel are required to adhere to regulatory requirements and its internal standard operating procedures with regard to health, safety and hygiene and in their interaction with guests and other members of the public. Similarly, cleaning and housekeeping services involve the handling of chemicals such as cleaning solutions, which if handled improperly may have an adverse impact on the health of its employees, guests and on the environment. Consequently, business is associated with certain safety, privacy and public health concerns. Failure to effectively implement corporate, crisis response, training and management policies and protocols and to adequately address and manage risks inherent in its business, or a failure to meet the requirements of LTHL's guests, or a failure to develop effective risk mitigation measures, could have an adverse effect on its reputation, guest loyalty and consequently, its business, results of operations and financial condition.

LTHL is exposed to risks associated with the ownership and development of its hotel properties*:* As of January 31, 2018, LTHL operates a portfolio of 19 owned hotels; three hotels it owns but which are located on leased or licensed land, and it intend to add an additional six such hotels to its portfolio together with additional rooms in one of its existing hotels. In the event LTHL experience delays in the delivery of the construction works and design and engineering services for its new buildings or improvements for existing buildings or if its contractors fail to comply with their obligations under their respective agreements, LTHL will not be able to start operations until completion of the construction of new buildings or improvements on its existing properties. Further, the consents and approvals it may require to develop and construct its hotels may impose conditions with respect to the height, number of rooms, security features and other operational aspects of its hotels.

LTHL enters into hotel operation agreements to render operation and marketing services in relation to its managed hotels and are subject to risks related to such hotel operation agreements: As of January 31, 2018, 18 of LTHL's hotels, representing 1,504 rooms, were managed hotels. It enter into hotel operation agreements with owners of hotels to render operation and marketing services. The term of such agreements typically ranges from 10 to 15 years, but the parties are entitled to early termination without cause, subject to payment of certain termination fees. Additionally, its hotel operation agreements grant early termination rights to hotel owners upon the occurrence of certain events, such as its failure to meet specified performance tests based upon the hotel's financial and operational criteria. Its ability to meet such financial and operational criteria is subject to, among other things, risks common to the overall hotel industry, such as an inability to attract customers or face competition effectively, which may be outside LTHL's control. It do not own the land and building in relation to its managed hotels. In the event that the hotel owners do not have, or fail to maintain good title to the land on which these hotels are situated, or fail to comply with requirements of applicable law with respect to ownership and use of such land, or if such land is, or becomes subject to, any dispute, it may be required to terminate the hotel operation agreement in relation to such hotel. It do not own the land and building in relation to its managed hotels. In the event that the hotel owners do not have, or fail to maintain good title to the land on which these hotels are situated, or fail to comply with requirements of applicable law with respect to ownership and use of such land, or if such land is, or becomes subject to, any dispute, it may be required to terminate the hotel operation agreement in relation to such hotel. LTHL intends to expand its operations in the future through hotel operation agreements. It intends to open 20 additional managed hotels, representing 1,429 rooms as of January 31, 2018. The success of this strategy will depend on its ability to maintain relationships with hotel owners. Consequently, its inability to maintain, renew and enter into additional hotel operation agreements may have an adverse effect on its business, results of operations and financial condition.

Certain of LTHL's hotels are located on leased or licensed land and it also lease hotels for its business operations: As of January 31, 2018, three of LTHL's hotels were located on leased or licensed land and it had five leased hotels, representing 965 rooms in aggregate. Further, as of January 31, 2018, it have one owned hotel on licensed land and two leased hotels, under development, representing 752 rooms under development. It cannot be assured that it will be able to fully comply with all the terms of the lease deeds or license agreements which it has entered into in relation to such hotels, renew such agreements or enter into new agreements in the future, on terms favorable to it, or at all. In the event that any lease deed or license agreement for its hotels is terminated due to its non-compliance with its terms, or not renewed, it will be unable to utilize such hotels and it may be unable to benefit from the existing capital expenditure and investments made by it in such hotels. Further, under certain lease deeds it has agreed to non-compete obligations which prevents from opening or operating a hotel within a radius of five kilometers from the leased hotel during the term of the lease deed, without the prior written consent of the lessor. In the event a lease deed or license agreement is terminated prior to its tenure, or if it is not renewed, or if LTHL is required to cease business operations at a hotel, for any reason whatsoever, its business, financial condition and results of operations may be adversely affected. Further, if the vacated hotel property is leased or sold to a competitor, it may also face increased competition in that geographic area, which could adversely affect its market share.

Significant portion of revenues are derived from a few hotels and from hotels concentrated in a few geographical regions: LTHL's hotel, Lemon Tree Premier, Delhi Airport, contributed to 12.40%, 12.28%, 12.79% and 8.80% of its total revenue for the nine months ended December 31, 2017 and fiscal years 2017, 2016 and 2015, respectively, and its hotel, Lemon Tree Premier, Hitec City, Hyderabad contributed to 9.39%, 10.46%, 11.02% and 11.70% of its total revenue for the nine months ended December 31, 2017 and the fiscal years 2017, 2016 and 2015, respectively. Further, for the nine months ended December 31, 2017 and the fiscal years 2017, 2016 and 2015, it derived 71.17%, 67.17%, 67.61% and 62.88% of its total revenue from its hotels located in the NCR, Bangalore and Hyderabad. Any decrease in revenues from these hotels, including due to increased competition or supply, or reduction in demand, in the markets in which these hotels operate, may have an adverse effect on LTHL's business, results of operations and financial condition. Further, any significant disruption, including due to social, political or economic factors or natural calamities or civil disruptions, impacting these hotels or these regions may adversely affect the business. Changes in the policies of the state or local governments of the regions where these hotels are located, or the Government of India, could require LTHL to incur significant capital expenditure and change its business strategy.

Business is subject to seasonal and cyclical variations*:* The hotel and hospitality industry in India is subject to seasonal variations. The periods during which LTHL hotel properties experience higher revenues vary from property to property, depending principally upon location and the guests served. Its revenues are generally higher during the second half of each fiscal year as compared to first half of the fiscal year. Seasonality affects leisure travel and the MICE sector (meetings, incentives, conferences and events). Further, foreign leisure travel occurs primarily between October and March and to a lesser extent during the summer and monsoon seasons. This seasonality can be expected to cause quarterly fluctuations in revenue, profit margins and net earnings. Further, the timing of opening of newly constructed or franchised hotels and the timing of any hotel acquisitions or dispositions may cause a variation of revenue and earnings from quarter to quarter. Further, the hospitality industry is cyclical and demand generally follows, on a lagged basis, key macroeconomic indicators. There is a history of increases and decreases in demand for hotel rooms, in occupancy levels and in room rates realized by owners of hotels through economic cycles. The combination of changes in economic conditions and in the supply of hotel rooms, including periods of excess supply, can result in significant volatility in results for owners and managers of hotel properties. The costs of running a hotel tend to be more fixed than variable. As a result, in an environment of declining revenues the rate of decline in profits can be higher than the rate of decline in revenues. As a result of such seasonal fluctuations, LTHL's room rates, sales and results of operations of a given half of the fiscal year may not be reliable indicators of the sales or results of operations of the other half of the fiscal year or of its future performance.

LTHL has a large workforce deployed across hotels, consequently it may be exposed to service related claims and losses or employee disruptions that could have an adverse effect on thereputation, business, results of operations and financial condition*:* LTHL has a large workforce deployed across India. As of January 31, 2018, it had 3,067 employees across its operations. In addition, it utilize 538 personnel on a contract basis at its owned and leased hotels and 1,487 personnel who render services at its managed hotels, who are employees of the respective hotel owners, as of January 31, 2018. The risks associated with the utilization of a large workforce include possible claims relating to:

- Actions, inactions, errors or malicious acts by LTHL's personnel, including matters for which it may have to indemnify its guests;
- Failure of personnel to adequately perform their duties including rendering deficient services, shortage in shift, absenteeism or lateness;
- Violation by personnel of security, privacy, health and safety regulations and procedures;
- Any failure by LTHL to adequately verify personnel backgrounds and qualifications resulting in deficient services;
- Injury or damages to any guest's person or property due to negligence of its personnel; and
- Criminal acts, torts or other negligent acts by its personnel.

These claims may give rise to litigation and claims for damages, which could be time-consuming. These claims may also result in negative publicity and adversely impact LTHL's reputation and brand name. It may also be affected in its operations by the acts of third parties, including subcontractors and service providers. Any losses that it incur in this regard may have an adverse effect on its reputation, business, results of operations and financial condition.

LTHL is subject to extensive government regulation with respect to safety, health, environmental and labour laws: LTHL is subject to a broad range of safety, health, environmental and related laws and regulations in the jurisdictions in which it operates, which impose controls on its operations. Any accidents at LTHL's hotel properties may result in personal injury or loss of life, substantial damage to or destruction of property and equipment resulting in the suspension of operations. Any of the foregoing could subject LTHL to litigation, which may increase its expenses in the event it is found liable, and could adversely affect its reputation. Additionally, the government or the relevant regulatory bodies may require LTHL to shut down its hotel properties. In connection with its ownership and management of hotels and development of properties, it is also subject to various national, state and local laws and regulations relating to environmental laws. It is also subject to the laws and regulations governing relationships with employees in such areas as minimum wages and maximum working hours, overtime, working conditions, ring and termination of employees, contract labour and work permits and maintenance of regulatory/ statutory records and making periodic payments. There is a risk that it may inadvertently fail to comply with such regulations, which could lead to enforced shutdowns and other sanctions imposed by the relevant authorities. Any losses that LTHL incur in this regard could have an adverse effect on its reputation, business, results of operations and financial condition.

The hotel industry is intensely competitive and inability to compete effectively may adversely affect the business, results of operations and financial condition*:* The hotel industry in India is intensely competitive and LTHL competes with large multinational and Indian companies, as well as regional and local companies in each of the regions that it operates. Some of its competitors may be larger than it or develop alliances to compete against it, has more financial and other resources or have greater brand recognition than LTHL. Some of the major international hotel chains may have certain competitive advantages over it due to their global spread of operations, greater brand recognition and greater marketing and distribution networks. Its success is largely dependent upon its ability to compete in areas such as room rates, quality of accommodation, brand recognition, service level, location of the property and the quality and scope of other amenities, including food and beverage facilities. In addition, its competitors may significantly increase their advertising expenses to promote their hotels, which may require it to similarly increase its advertising and marketing expenses and change its pricing strategies, which may have an adverse effect on its business, results of operations and financial condition. As a result, it cannot be assured that it will be able to compete successfully in the future against its existing or potential competitors or that its business and results of operations will not be adversely affected by increased competition.

LTHL is exposed to a variety of risks associated with safety, security and crisis management: LTHL is committed to ensure the safety and security of its guests, employees and assets against natural and man-made threats. These include, but are not limited to, exceptional events such as extreme weather, civil or political unrest, violence and terrorism, serious and organized crime, fraud, employee dishonesty, cybercrime, pandemics, fire and day-to-day accidents, incidents, health crises of guests and petty crime which impact the guest or employee experience, could cause loss of life, sickness or injury and result in compensation claims, fines from regulatory bodies, litigation and impact its reputation. Serious incidents or a combination of events could escalate into a crisis which, if managed poorly, could further expose LTHL and its brands to significant reputational damage. Further, the occurrence of events such as accidents or any criminal activity at any of its hotel properties may subject LTHL to legal proceedings resulting in adverse publicity and cause a loss of consumer confidence in its business

Land title in India can be uncertain and may not be able to identify or correct defects or irregularities in title to the land which it owns, lease or intend to acquire in connection with the development or acquisition of new hotels: There is no central title registry for real property in India and the documentation of land records in India has not been fully computerized. Property records in India are generally maintained at the state and district level and in local languages, and are updated manually through physical records. Therefore, property records may not be available online for inspection or updated in a timely manner, may be illegible, untraceable, incomplete or inaccurate in certain respects, or may have been kept in poor condition, which may impede title investigations or its ability to rely on such property records. In addition, there may be a discrepancy between the duration of the principal lease under different orders issued by state governments in respect of a particular parcel of revenue land. Furthermore, title to land in India is often fragmented, and in many cases, land may have multiple owners. While LTHL obtain title opinions from local counsel on the properties over which its hotels are located from time to time, it may not be able to assess or identify all the risks and liabilities associated with the land, such as faulty or disputed title, unregistered encumbrances or adverse possession rights.

A portion of hotel bookings originate from online travel agents and intermediaries*:* A portion of LTHL's hotel bookings originate from large multinational, regional and local online travel agents and intermediaries, such as online aggregators, with whom it has contractual arrangements and to whom it pay commissions. These third-parties, including online travel agents, offer a wide breadth of services, often across multiple brands, has growing booking and review capabilities, and may create the perception that they offer the lowest prices when compared to its direct booking channels. Some of these online travel agents and intermediaries has strong marketing budgets and aim to create brand awareness and brand loyalty among consumers and may seek to commoditize hotel brands through price and attribute comparison. In the event these companies continue to gain market share, they may impact its profitability, undermine direct booking channels and online web presence and may be able to increase commission rates and negotiate other favorable contract terms. Negative reviews and feedback on online travel portals may cause guests to choose the services of its competitors. Further, LTHL's competitors may be able to negotiate better or more favourable terms with such online travel agents and intermediaries, impacting its bookings from these channels, which in turn may adversely affect its business and results of operations.

LTHL conduct certain of its operations through Subsidiaries in which certain investors has minority equity interest*:* Certain operational hotels LTHL owns, comprising 11 hotels accounting for 1,512 rooms as of January 31, 2018, are held through its Subsidiaries, Fleur, Begonia and Nightingale, in which LTHL has majority equity interest of 57.98%, 74.11% and 57.53%, respectively, and operational control, while APG has the remaining minority interest of 42.02%, 25.89% and 42.47%, respectively. These subsidiaries collectively accounted for 48.16%, 44.93%, 44.25% and 36.32% of its total revenue for the nine months ended December 31, 2017 and fiscal years 2017, 2016 and 2015, respectively. The agreements entered into by LHL with APG, provide certain rights to APG, including in relation to reorganization of the shareholding of Fleur by way of a merger with Begonia and/or Nightingale, which may result in a reduction of its shareholding in these Subsidiaries. These agreements also provide with significant control over operational aspects and it is able to closely monitor the management of the hotels held through these Subsidiaries. While it has a controlling interest in most of these Subsidiaries, its ability to exercise management control through shareholder agreements and receive revenues from these subsidiaries may depend upon receiving the consent or co-operation of minority investors and upon the underlying terms of its agreement with them. LTHL's operations may be affected if disagreements develop with the minority investors. Further, while it has entered into shareholder agreements with these Subsidiaries, which provide the responsibilities and obligations of the shareholders, minority investors may not comply with their obligations under the respective agreements, which may result in legal proceedings, divert the attention of its management and adversely affect its business.

LTHL is subject to risks relating to owning real estate assets: LTHL is subject to risks that generally relate to real estate assets because of the hotels it owns and lease. Regulations and interest rates can make it more expensive and time-consuming to develop real property or expand, modify or renovate hotels. Changes in local markets or neighbourhoods may diminish the value of the real estate assets it hold. Real estate assets may not be as liquid as certain other types of assets, and this lack of liquidity may limit its ability to react promptly to changes in economic, market or other conditions. Its ability to dispose of real estate assets, if required, on advantageous terms depends on factors beyond its control, including competition from other sellers, demand from potential buyers and the availability of attractive financing for potential buyers. It cannot predict the various market conditions affecting real estate assets that may exist at any particular time in the future. Due to the uncertainty of market conditions that may affect the future disposition of LTHL's real estate assets, it cannot be assured that it will be able to sell its real estate assets at a profit in the future, if required.

Operations entail certain fixed costs and recurring costs, and LTHL's inability to reduce such costs during periods of low demand for its services may have an adverse effect on its business, results of operations and financial condition*:* LTHL's operations entail certain fixed costs such as costs incurred towards the maintenance of its hotel properties, employee related costs, property taxes as well as certain significant recurring costs such as utility expenses. Further, the lease deeds it enter into in relation to its leased hotels, typically include agreed periodic increments at fixed rates. It may also has to incur costs towards periodic re-designing, restructuring, refurbishing or repair of defects at its hotels. The hotel industry experiences periodic changes in demand and supply, which it may not be able to predict accurately. Further, its hotel properties may be subject to an increase in operating and other expenses in the event of increases in property and other tax rates, increase in utility costs due to increase in electricity or water supply charges, insurance costs, repairs and maintenance and administrative expenses, which may adversely affect its business, results of operations and financial condition.

LTHL may be unable to successfully grow its business in new markets in India, which may adversely affect the business prospects, results of operations and financial condition*:* LTHL seeks to diversify its geographical footprint, to reduce its exposure to local, seasonal and cyclical fluctuations and to access a more diversified guest base across geographies. It intends to enter new markets such as Mumbai and Kolkata, and other cities in India, in order to expand its geographical footprint. However, it cannot be assured that it will be able to grow its business in these markets. Inability to access infrastructure, logistical challenges in these regions and its relative inexperience with certain newer markets, may prevent it from expanding its presence in these regions. Further, it may be unable to compete effectively with the services of its competitors who are already established in these regions. Its expansion plans may also result in increased advertising and brand building expenditure and challenges caused by distance, language and cultural differences. Also, demand for its services may not grow as anticipated in certain newer markets. If it is unable to grow its business in such markets effectively, its business prospects, results of operations and financial condition may be adversely affected.

Demand for rooms in hotels may be adversely affected by the increased use of business-related technology or change in preference of guests: The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as LTHL's hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for its hotel rooms may decrease from business travellers. Similarly, changes in domestic tourism and preferences of its guests due to evolving cost of travel, spending habits and consumption patterns may lead to a change in the perceived attractiveness of its hotels, services, the locations at which are hotels are situated. Such changes may impact the demand for LTHL's hotel rooms from domestic tourists and guests at its leisure hotels, and its business may be adversely affected.

Business derives a significant portion of its revenue from corporate customers*:* LTHL's hotel operations are dependent on its corporate customers for a significant portion of revenues. Any reduction in growth or a slow-down in the business of its customers in India, could result in a reduction of their requirement for its services, and result in a significant decrease in the revenues it derives from these customers. The loss of one or more of its significant customers or a reduction in the amount of business it obtain from them could have an adverse effect on its business, and thus LTHL's results of operations, financial condition and cash flows. Further, corporate customers may be able to negotiate better or more favorable terms or discounts compared to bookings made through its website or online travel agents. It cannot be assured that it will be able to maintain historic levels of business from such significant customers in the future.

LTHL is exposed to the risk of events that adversely affect domestic or international travel, such as epidemics and terrorism or war: The room rates and occupancy levels of the hotels in LTHL's portfolio could be adversely affected by events that reduce domestic or international travel, such as epidemics and spread of infectious diseases or threats thereof, actual or threatened acts of terrorism or war, political or civil unrest, travel-related accidents or industrial action, natural disasters, or other local factors impacting individual hotels, as well as increased transportation and fuel costs. A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on LTHL's operations and financial results. In addition, inadequate planning, preparation, response or recovery in relation to a major incident or crisis may cause loss of life, prevent operational continuity, or result in financial loss and consequently affect its reputation.

If the brands that LTHL launch are not as successful as it anticipates, its business, results of operations and financial condition may be adversely affected*:* LTHL operates under three brands covering the entire mid-priced hotel sector in India. Its Lemon Tree Premier brand is targeted at upper-midscale guests; its Lemon Tree Hotels brand caters to midscale business and leisure guests; and its Red Fox Hotel by Lemon Tree Hotels brand caters to the economy hotel segment. It may launch additional brands in the future. However, it cannot be assures that any new hotel brands launched by it will be accepted by hotel owners or guests, or that it will be able to recover costs it incurred in developing such brands, or that its new brands will be successful. If the brands that it launches are not as successful as it anticipates, its business, results of operations and financial condition may be adversely affected.

Disruptions or lack of basic infrastructure such as electricity and water supply could adversely affect the operations: LTHL require a significant amount and continuous supply of electricity and water and any disruption in the supply thereof could affect the operations of its hotels and the services to its guests. It currently source its water requirements from governmental water supply undertakings and water tankers and depend on state electricity boards and private suppliers for its energy requirements. Although it has diesel generators to meet exigencies at all of its hotels, it cannot be assured that its hotels will have sufficient power during power failures. Any failure on its part to obtain alternate sources of electricity or water, in a timely fashion, and at an acceptable cost, may have an adverse effect on its business, results of operations and financial condition.

Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of operating results: On listing, LTHL's Equity Shares will be quoted in Indian Rupees on the Stock Exchanges. Any dividends in respect of its Equity Shares will also be paid in Indian Rupees and subsequently converted into the relevant foreign currency for repatriation, if required. Any adverse movement in currency exchange rates during the time that it takes to undertake such conversion may reduce the net dividend to foreign investors. In addition, any adverse movement in currency exchange rates during a delay in repatriating outside India the proceeds from a sale of Equity Shares, for example, because of a delay in regulatory approvals that may be required for the sale of Equity Shares may reduce the proceeds received by Equity Shareholders.

Consolidated Profit & Loss — **Rs in million**

Particulars	9MFY18	FY17	FY16	FY15
Revenue from Operations	3522.5	4119.3	3679.5	2903.6
Finance income	41.5	35.6	37.2	121.5
Other Income	6.2	62.0	21.2	12.2
Total Income	**3570.2**	**4217.0**	**3738.0**	**3037.2**
Total Expenditure	2542.9	2955.7	2667.9	2396.6
Cost of food and beverages consumed	321.2	353.3	346.1	284.4
Employee benefits expense	789.7	968.9	854.0	781.8
Other Expenses	1432.0	1633.5	1467.7	1330.4
PBIDT	**1027.3**	**1261.3**	**1070.1**	**640.7**
Interest	582.9	775.9	720.2	724.6
PBDT	**444.4**	**485.4**	**349.9**	**-83.9**
Depreciation	398.3	510.1	522.6	516.9
PBT	**46.1**	**-24.7**	**-172.8**	**-600.8**
Tax (incl. DT & FBT)	24.3	47.0	125.2	31.6
Tax	9.9	13.7	12.1	-0.6
MAT credit entitlement	34.1	17.2	15.7	36.4
Deferred Tax	-19.7	16.0	97.5	-4.3
Reported Profit After Tax before Minority Interest	**21.8**	**-71.7**	**-298.0**	**-632.4**
Share of Profit /(loss) in Associates	6.6	0.0	0.0	0.0
Adj. Profit	**28.4**	**-71.7**	**-298.0**	**-632.4**
EPS (Rs.)	0.04	-0.1	-0.4	-0.8
Equity	7863.7	7812.1	7780.4	7764.3
Face Value	10.0	10.0	10.0	10.0
OPM (%)	27.8	28.2	27.5	17.5
PATM (%)	0.8	-1.7	-8.1	-21.8

Consolidated Balance Sheet: — **Rs in million**

Particulars	9MFY18	FY17	FY16	FY15
ASSETS				
Non-current Assets				
Property, Plant and Equipment	14541.0	14072.3	12275.5	12320.3
Capital Work-in-Progress	4727.6	3494.1	2592.5	1671.2
Investment Property	24.7	25.0	25.5	25.9
Goodwill	67.6	67.3	0.0	0.0
Intangible Assets	17.7	18.8	13.3	16.3
Intangible Assets under development	24.6	14.0	0.0	0.0

Financial Assets				
Investments	*14.0*	*0.0*	*0.1*	*0.1*
Loans	*160.1*	*108.6*	*76.2*	*92.5*
Other non- current financial assets	*441.4*	*397.0*	*349.2*	*268.1*
Deferred tax assets (net)	*0.0*	*0.0*	*0.0*	*3.9*
Non-current tax assets (Net)	*219.8*	*210.0*	*194.0*	*159.6*
Other Non-current Assets	*2327.7*	*2874.3*	*3799.6*	*3433.0*
Total Non - current Assets	**22566.2**	**21281.4**	**19325.8**	**17990.8**
Current Assets				
Inventories	53.1	49.4	53.9	48.1
Financial Assets				
Trade Receivables	*516.5*	*314.5*	*244.8*	*179.1*
Cash and Cash Equivalents	*225.3*	*175.9*	*138.1*	*300.4*
Investments	*78.0*	*63.4*	*57.7*	*312.4*
Loans	*3.2*	*4.7*	*6.4*	*8.0*
Other current financial assets	46.5	3.2	5.8	3.1
Other Current Assets	362.75	224.9	226.7	119.8
Total Current Assets	**1285.3**	**835.9**	**733.3**	**970.7**
Total Assets	**23851.6**	**22117.3**	**20059.1**	**18961.5**
EQUITY AND LIABILITIES				
Equity				
Equity Share Capital	7863.7	7812.1	7780.4	7764.3
Other Equity	169.4	273.6	318.6	337.6
Non-controlling interests	4282.5	4283.6	4277.3	4222.7
Total Equity	**12315.5**	**12369.3**	**12376.3**	**12324.6**
Non-current Liabilities				
Financial Liabilities				
Borrowings	*8999.8*	*6,907*	*5237.3*	*4865.95*
Other non- current financial liabilities	*6.8*	*4.9*	*14.5*	*15.7*
Provisions	14.3	13.6	11.9	9.5
Deferred tax liabilities (Net)	47.9	67.5	69.0	0.0
Other Non-current Liabilities	256.1	208.3	143.4	80.9
Total Non-current Liabilities	**9324.9**	**7201.2**	**5476.0**	**4972.0**
Current Liabilities				
Financial Liabilities				
Borrowings	314.9	674.6	694.9	669.4
Trade Payables	*733.1*	*604.3*	*511.4*	*334.0*
Other Financial Liabilities	*937.2*	*1058.4*	*853.2*	*563.2*
Other Current Liabilities	200.6	186.9	130.0	87.3
Provisions	25.3	22.65	17.25	11.05
Total Current Liabilities	**2211.1**	**2546.8**	**2206.8**	**1664.9**
Total Equity and Liabilities	**23851.6**	**22117.3**	**20059.1**	**18961.5**

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