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Warburg Pincus-funded Lemon Tree Hotels has embarked on a major restructuring of its business with an eye on unlocking value.

The company plans to separate ownership and management of hospitality assets and is also weighing setting up a third-party hotel management company and introducing new hospitality brands.

Patu Keswani, chairman and managing director, Lemon Tree Hotels Pvt Ltd (LTHPL), confirmed the move to separate brand management from asset ownership. “It certainly is part of our long-term strategy. We will have a very clear division and I hope to do something specific even before our IPO, which should happen within a couple of years from now. To start with, we are planning to merge Red Fox into Lemon Tree and amalgamate the two. Eventually, we will have a company that will own both Lemon Tree and Red Fox brands, the management will reside there and so will a lot of assets,” he said.

Lemon Tree is open to distinct identities for projects provided they “come with tax benefits, “ said Keswani”. What it basically means is we will not downstream or move around any asset that will entail payment of duties, taxes and so on.”

The company has 4-5 projects – with 100% asset ownerships – in its portfolio.

As a long-term strategy, the management is looking at aggregating them to create an asset company. “It is an ongoing process, and we are in talks with lots of people to invest with us in the asset company. And as long as we own a majority of that company, we will be open to creating multiple asset companies,” he said.

On the buzz about a Dutch pension fund coming on board as an investor, Keswani said “We are talking to many people, including investors from Europe. Nothing has been finalized yet.”

And is Warburg is in the exit mode?

“Not at all,” said Keswani. “We certainly are hoping that Warburg will stay as it has invested in the main company (LTHPL), which is both an operating as well as a property company.”

Why is the firm bringing in new investors then? Keswani said the company has around six hotels that are with independent subsidiaries whereas LTHPL either owns 100% or a majority stake. “When we tie up with funds – sovereign, pension or a private equity - we may move some of our existing assets that are tax-friendly and we will have new hotels in these asset companies. So, right now, we have 3-4 companies that can loosely be termed as asset companies because they are downstream and pure assets,” he said.

The company is also looking at creating a property company, through the timeframe will depend on when the new investor comes in. “It could take anywhere from the next six months to maybe 2-3 years,

depending on when we partner with somebody (financial investor), the quantum of investment, the alignment and so on,” Said Keswani.

LTHPL is keen to keep a majority stake, while allowing the new investor in the property company to bring in at least ` 1,000 crore. It is likely the investor will secure a very small stake in Lemon Tree Hotels as well. “In fact, whatever conversations we are currently having with a few funds, the figure is in the neighbourhood of `1,500 crore,” said Keswani.

Lemon Tree also has its eyes set on management contracts, “It is going to be a step-down company where we will do joint venture with other people. It could also be a subsidiary of Lemon Tree where we will be managing hotels of other asset owners,” Keswani said.

“We intend to do management contracts only in the mid-scale,upscale and deluxe categories. Thus, three new brands are currently being conceived and the work is at a very preliminary stage. The new brands will be with the management company and we should be ready to unveil them in another 3-4 months from now,” he said.

The company is backing up its intent with some high-profile recruitments.

Murlidhar Rao, who was vice-president (operations) with Alila Hotels & Resorts in Singapore, has already taken over as the chief operating officer (COO) of its newly launched Lemon Tree Premier brand of hotels.

Similarly, Saurabh Nandi, shopper marketing manager-ASEAN, Procter & Gamble, operating out of Thailand, is expected to join as LTHPL's chief marketing officer by mid-march. Nandi will also be entrusted with spearheading new branding initiatives expected to be rolled out before june.

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