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| Journalist: | Arnika Thakur | Page No: | 54, 55, 56, 57, 58 |
| MAV/CCM: | 3,375,000/572.84 | Circulation: | 80,000 |

RANK
426*

2021 COMPANY PROFILE

LEMON TREE HOTELS

REVENUE

₹680.31
CRORE

PROFIT

-₹9.54
CRORE

NET WORTH

₹822.99
CRORE

EMPLOYEE COST

₹155.32
CRORE

KEY

- NO CHANGE
- ▲ MOVED UP
- ▼ MOVED DOWN
- ★ NEW

NOTE: THE NUMBER IN BRACKETS DENOTES LAST YEAR'S RANK

LEAN, MEAN, AND LIGHT

The hit from Covid-19 hasn't dampened the spirit of Lemon Tree Hotels' founder Patanjali Keswani. Instead, the "very optimistic" hotelier sees this as an opportunity to expand, with 23 new properties planned in the next two years, via a more sustainable business model.

By Arnika Thakur

"O **BVIOUSLY, DISASTROUS,"** is how Patanjali "Patu" Keswani, managing director and chairman of hotel chain Lemon Tree, sums up 2020. "[We were] among the sectors affected the most because of a confluence of reasons. One is that travel and tourism is completely discretionary, and number two, it is high contact," he says. The extent of the losses are eye-watering. Industry experts estimate that Covid-19 robbed hotels of as much as ₹90,000 crore in revenue last year, and that nearly a quarter of them may not survive.

However, amid the doom and gloom, the 62-year-old Keswani is "very optimistic" about the future of the 19-year-old Lemon Tree, and is, in fact, looking to expand what is already India's largest mid-priced chain, with 84 hotels

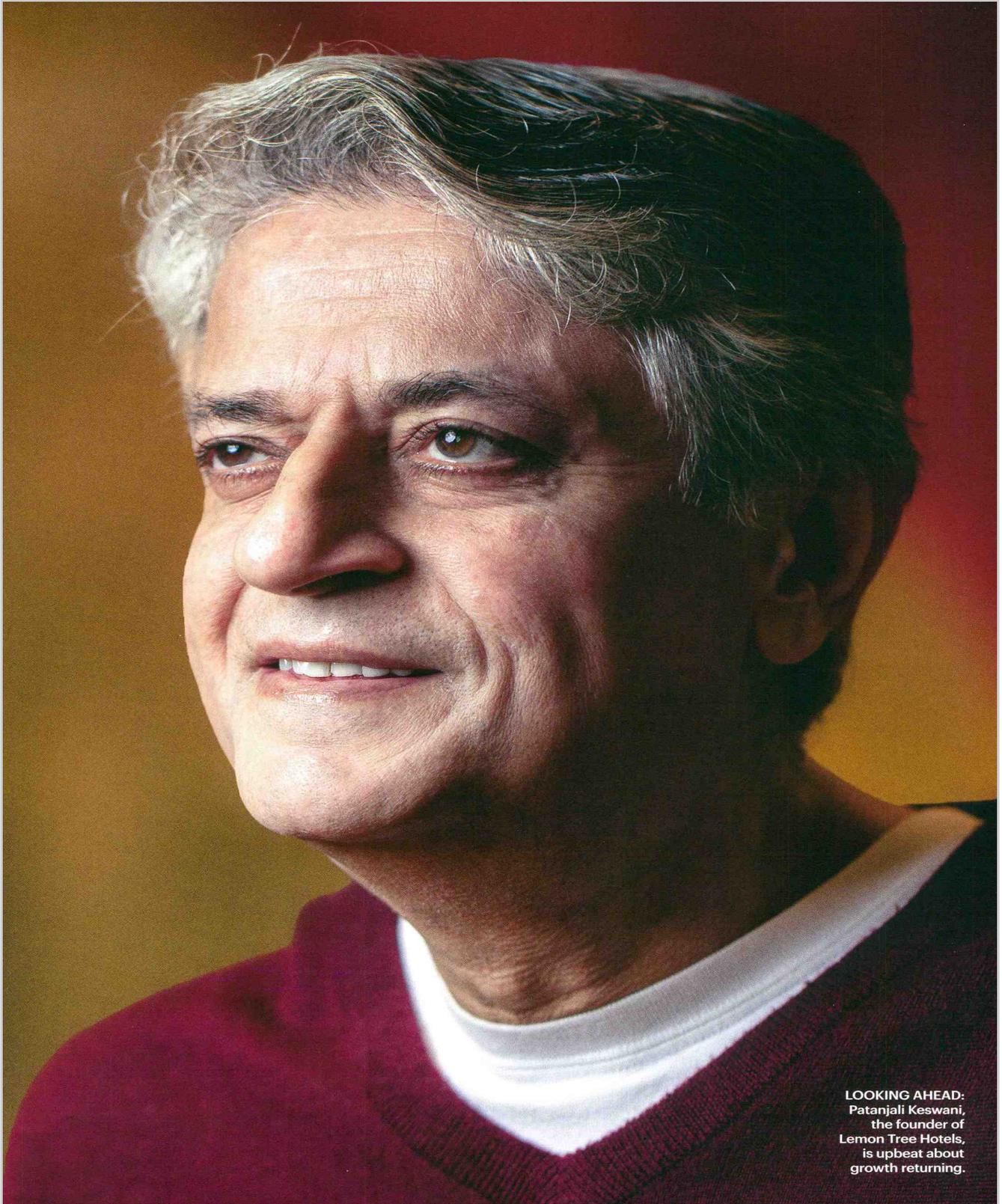
in 51 cities. The company is planning to open 23 properties in the next two years, including India's largest hotel at the Mumbai international airport with 669 rooms. But this time, Keswani is betting on the asset-light model for growth.

"I think that we will come out as super winners. While the pandemic has massively impaired and hurt us obviously, it has also had some enormous advantages. It's made us leaner," says Keswani, who is considered something of a legend in the industry.

Keswani opened the first Lemon Tree hotel—a 49-room property in Gurugram—in 2004. Subsequently, investments from private equity firm

PHOTOGRAPH BY NARENDRA BISHT

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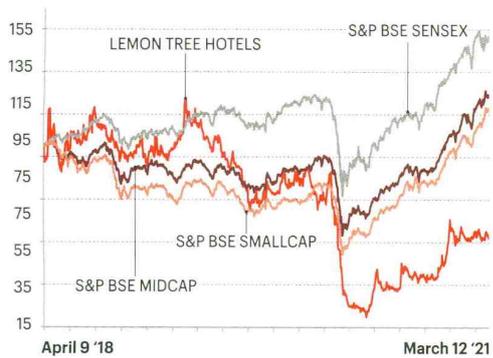
LOOKING AHEAD:
Patanjali Keswani,
the founder of
Lemon Tree Hotels,
is upbeat about
growth returning.

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NUMBERS LORE

OVERCOMING THE PANDEMIC BLUES

COVID-19 HAS HIT THE ENTIRE HOSPITALITY sector hard, and Lemon Tree is no exception. But compared to others, it has done slightly better and is slowly witnessing growth in demand. The company believes a complete recovery will only happen by next year when corporate travel—a major revenue source—reaches pre-pandemic levels.



NOTE: SHARE PRICE AND VALUE OF INDICES ARE REBASED TO 100. SOURCE: PROWESSIQ; FORTUNE INDIA RESEARCH



NOTE: ALL VALUES ARE IN ₹ CRORE. SOURCE: CAPITALINEPLUS; FORTUNE INDIA RESEARCH

Warburg Pincus and a joint venture with Dutch pension fund APG helped the company expand, including into Dubai and Bhutan. Lemon Tree, whose brands range from the premium Aurika Hotels and Resorts to the budget Red Fox Hotels, went public in 2018 and had a market capitalisation of ₹3,319.5 crore as of March 10.

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THE PANDEMIC HIT Lemon Tree—which made its debut on this year's *Fortune India* Next 500 list at No. 426—as harshly as it did the rest of the industry, which was crippled by the total loss of international travellers, a steep drop in domestic travel, and weddings and other events

hitting an unprecedented low. The industry's occupancy rate dropped to 11.7% in April, 2020, from 70.5% in January, according to credit ratings agency CARE Ratings.

However, Lemon Tree, which controls nearly 6% of the about 150,000 branded hotel rooms in India, fared slightly better. Its occupancy rate dropped from 75% in January to 20% by March-end last year when a nationwide lockdown started, says Keswani. In the December quarter of FY21, the company's revenue tumbled 66% year-on-year to ₹68.4 crore, but marked a nearly 44% jump over the previous quarter, signalling a return in demand.

Almost a year into the pandemic, Keswani expects demand from retail, micro, small, and medium enterprises (MSMEs) to recover in about six months. He expects an additional

six-nine months before foreign corporate travel resumes, and forecasts a full recovery in demand and prices by next year.

Industry analysts concur. "We can expect FY23 to be a normal year for the hotel industry. FY22 might have some good quarters as corporate travel is in the recovery phase," says Sumant Kumar, senior vice president, institutional research-midcaps, Motilal Oswal Financial Services.

Covid-19's lingering impact will be on corporate travel, a major revenue source for hotels. A report by hospitality consulting firm HVS Anarock says companies are expected to restrict non-essential and senior management travel, and lower allowance limits for essential employee travel. However, domestic tourists will drive demand, including through 'revenge' travel and by the 25 million

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LEMON TREE HOTELS

Indian travellers who would normally go abroad, the report adds.

Keswani agrees. He sees more people taking staycations, which would help the traditionally underperforming leisure segment. "My expectation is [that] in the next 12 months, we'll be back to normal with higher profits. We will add many more hotels on an asset-light basis and also focus a little more on leisure, which we did not do in the past. We will look at acquiring or managing many more resorts," he says.

The pandemic has made hoteliers more cost-conscious and accelerated their push into an asset-light approach. Keswani is no different. Lemon Tree currently owns about 70% of its hotels, but a majority of the new hotels will be under management contracts, he says. "We are the second-largest owners of hotels in India after Taj hotels. I think as a strategy, we don't want to own more hotels," he adds.

Under management contracts, real-estate developers own the property, while hotel chains run the day-to-day operations for a fee or a share in profit or revenue. Motilal Oswal's

Kumar says this trend is going to continue for most branded hotels. "Their balance sheet is not allowing them to build new hotels [as] it is a very capital intensive business. So they are leveraging their brand and they have a lot of opportunity," he says.

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THE ASSET-LIGHT MODEL is not only inevitable, but crucial, as hoteliers look to reduce their debt, says Mandeep S. Lamba, president of South Asia at HVS Anarock. "Though management contracts are currently preferred in India, we expect franchising to see more traction going forward, as it provides a win-win growth model with lesser risk for both hotel brands as well as asset owners," he says.

Franchising or management contracts allow hotels to expand quickly and cheaply, especially beyond the major metros. The rising demand from the emergence of business hubs and a growing number of middle class tourists has seen many high-end chains open in smaller cities. "There is a lot of opportunity in tier 3-, tier 4 cities. With higher discretionary income, people will want to stay in hygienic places. A customer is ready to pay 10%-20% premium to stay at better hotels," Motilal Oswal's Kumar adds.

Currently, Lemon Tree is developing three hotels—in Shimla, in Alleppey, and at the international airport in Mumbai—at a total estimated cost of ₹991 crore, according to its latest earnings presentation. However, its pipeline includes about 20 hotels under management contracts in smaller cities such as Bhubaneswar, Durgapur, Rishikesh, and Agra.

Even industry leaders like Oberoi Group and Indian Hotels Company Limited (IHCL) are focussed on adopting an asset-light model. IHCL,

THE LEMON TREE FAMILY

Started in 2002 by Patanjali "Patu" Keswani, Lemon Tree has grown to be India's largest mid-priced hotel chain, with 84 hotels in 51 cities. It is planning to open 23 properties in the next two years, including India's largest hotel at Mumbai. Here's a look at its various existing brands:

AURIKA

Currently has 139 rooms; 1 hotel

► The upscale brand was launched in 2019 with the opening of their first hotel in Udaipur. LTH is developing the next Aurika property at the Mumbai International Airport; it will have 669 rooms.

LEMON TREE PREMIERE

Currently has 2,438 rooms; 17 hotels

► The chain of upper midscale business and leisure hotels has a pipeline of 229 rooms in four hotels.

LEMON TREE HOTEL

2,818 rooms; 38 hotels

► The midscale business and leisure brand has a pipeline of 1,184 rooms in 15 hotels.

RED FOX HOTEL

Currently has 1,423 rooms; 12 hotels

► The economy hotel brand has a pipeline of 80 rooms in one hotel in Neelkanth, Uttarakhand, under a management contract.

KEYS HOTELS

Currently has 1,476 rooms; 16 hotels

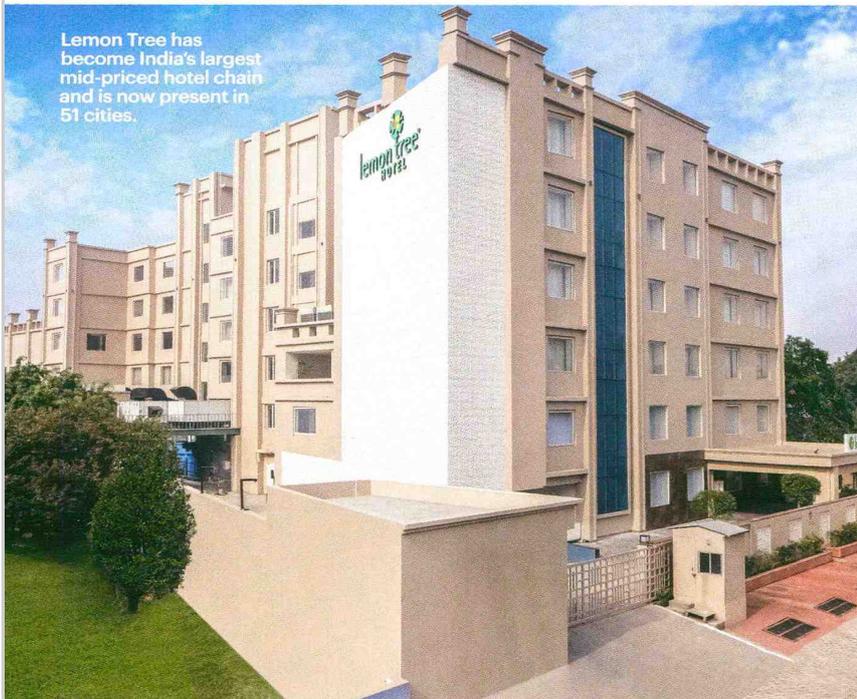
► Lemon Tree bought Berggruen Hotels, which owns Keys Hotels, in 2019. It has a pipeline of 40 rooms in one hotel.

SOURCE: INVESTOR PRESENTATION, LEMON TREE, FEB. 2021

₹ 90K CRORE

THE ESTIMATED HIT ON THE REVENUES OF HOTELS IN 2020 DUE TO COVID-19

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which runs Taj hotels, has a 44% managed portfolio, the company disclosed in early February.

Keswani believes the highly unorganised and fragmented Indian industry will consolidate over the next decade, leaving only three-four critical players in each segment: economy, mid-market, and luxury.

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THE FINANCIAL STRESS due to the pandemic is likely to accelerate consolidation as projects get cancelled or abandoned, according to HVS Anarock, which now expects supply between 2020 and 2024 to increase at a “lower, and at a slower pace” than its forecast of 2.8% CAGR. Shobit Sing-

hal, equity research analyst, Anand Rathi Institutional Broking, says about 20%-25% of standalone hotels will not survive the pandemic.

Keswani sees this as an opportunity to scout for distressed properties to “massively expand our footprint in one shot in the six months of April to September this year”.

But hotels fail all the time, so what’s special now? Keswani’s one-word answer is location. He says that while earlier hotels failed as they weren’t in the right location, now even hotels in the best of locations are struggling to survive the pandemic’s effects. However, “we’re looking at taking advantage of the environment without being carpetbaggers or vultures,” he adds.

Acquiring is also likely to be a better bet than building. “Buying land at today’s prices and building a hotel today is not going to create a healthier IRR [internal rate of return] and

ROC [return of capital]. Existing players and those who have created hotels at good locations are going to benefit,” says Motilal Oswal’s Kumar.

Keswani says the new hotels, which include two in Nepal, will take Lemon Tree’s room count to about 10,700 and still leave it well funded for expansion. But this time, he is cognizant of a different class of travellers—leisure.

Traditionally, business hotels have performed better than leisure hotels in India, but now more people are increasingly travelling for leisure and taking staycations, says Keswani. He adds that millennials and Gen Z will lead to more credit-fuelled travelling. “[It] will fuel some kind of a boom in discretionary travel,” he says.

The biggest learning from the pandemic, says Keswani, is being prepared for the unexpected in a volatile world and to be cost effective. Lemon Tree instituted measures like leave without pay, extensive management-level salary cuts, and froze hiring during the pandemic. It also made Lemon Tree realise that its business can be run with 6,000 employees compared to the 8,500 it currently has. However, it will not let go of any of them; but it will not replace employees who leave.

Sustainability is an important agenda for the hotel chain as well, also because of its investor—Dutch pension fund APG, who Keswani says are very focussed on being more environment friendly. He adds Lemon Tree hotels recycle water and are built in accordance with global standards on energy efficiency.

Keswani is also optimistic about the industry’s post-pandemic revival. He points out that even after the Spanish flu of 1918, which infected about a third of the world’s population, normalcy returned in about three years. “Humans have a very short memory span. We are genetically engineered to forget this stuff,” he says. If indeed we are, and Lemon Tree plays its cards right, it stands a strong chance to be the “super winners” Keswani predicts. ■