

Lemon Tree plans to hive off assets into separate branch

The Economic Times, November 05, 2007, Page No. 07

Will Seek Private Equity Funds For New Subsidiary

Hotel chain Lemon Tree is looking to transfer all its assets to a subsidiary company in which it will also seek private equity participation. The hived-off entity will be a separate subsidiary where Lemon Tree Hotels will own a majority stake.

Lemon Tree Hotel CMD Patu Keswani told ET: "We plan to hive off the assets of Lemon Tree Hotels into a separate company. We are looking at acquiring assets in the future through this subsidiary. We, however, still haven't decided on whether we will do it pre-IPO or post-IPO." Mr Keswani added that the hiving off of the company's assets into a separate subsidiary will help him to grow inorganically and increase asset valuation.

Post-restructuring, the parent company will act as a management entity and the subsidiary will own the assets and pay the parent a fee for managing the properties. The company has appointed PricewaterhouseCoopers (PwC) as advisors and plans to go public by 2008-end. Eventually the hotel chain would list both its entities. The company's current turnover stands at Rs 80 crore.

The hotel chain, which owns all its assets, recently acquired two properties in Aurangabad and Indore. "We are keen on acquiring more properties as well as take our workforce to 3,500," said Mr Keswani. The company claims to be the only hotel chain which offers stock options to its employees.

So far, the company has invested about Rs 900 crore on its brands "Lemon Tree and Red Fox. Lemon Tree is a four star hotel brand and Red Fox is a budget hotel chain. The company plans to take the total number of rooms to 2,500 by 2010. Focused on major cities, the company has acquired 20 sites across the country to build new properties.

Talking about the huge potential of pilgrimage tourism, Mr Keswani said that he would leverage the economy brand Red Fox for a foray in that segment. "We are in the process of setting up three Red Fox hotels in Rishikesh, Tirupathi and Shirdi," he added.

Floated as a hotel chain in 2002, the company is promoted by Patu Keswani and received Rs 280 crore funding from private equity player Warburg Pincus and another Rs 34 crore from Kotak Mahindra Realty Fund, last year. Other investors include Ravi Jaipuria and promoter of consumer electronics company Salora, Gopal Jiwarijka.

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