Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	1
Circulation:	50,000		

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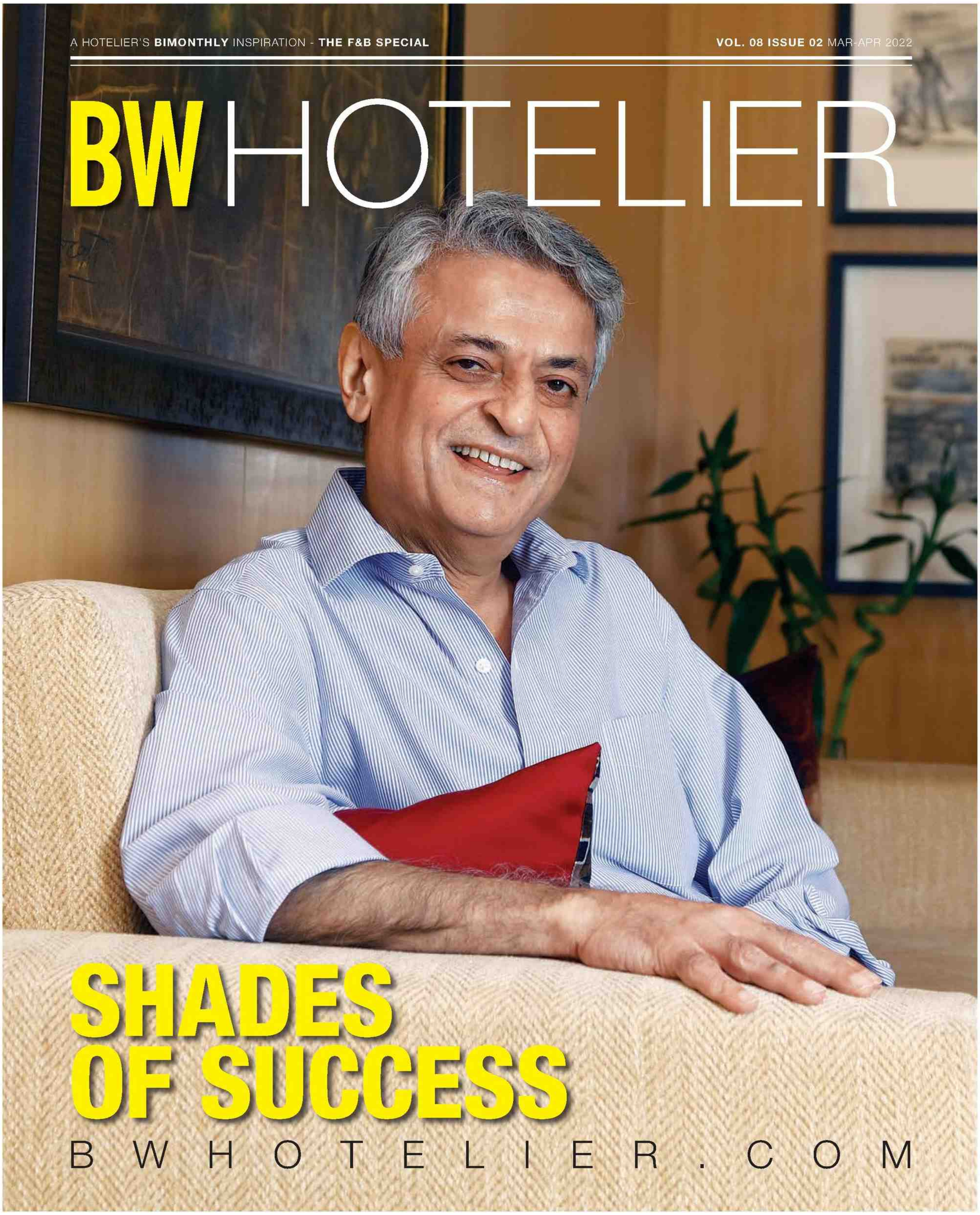

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Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	48
Circulation:	50,000		

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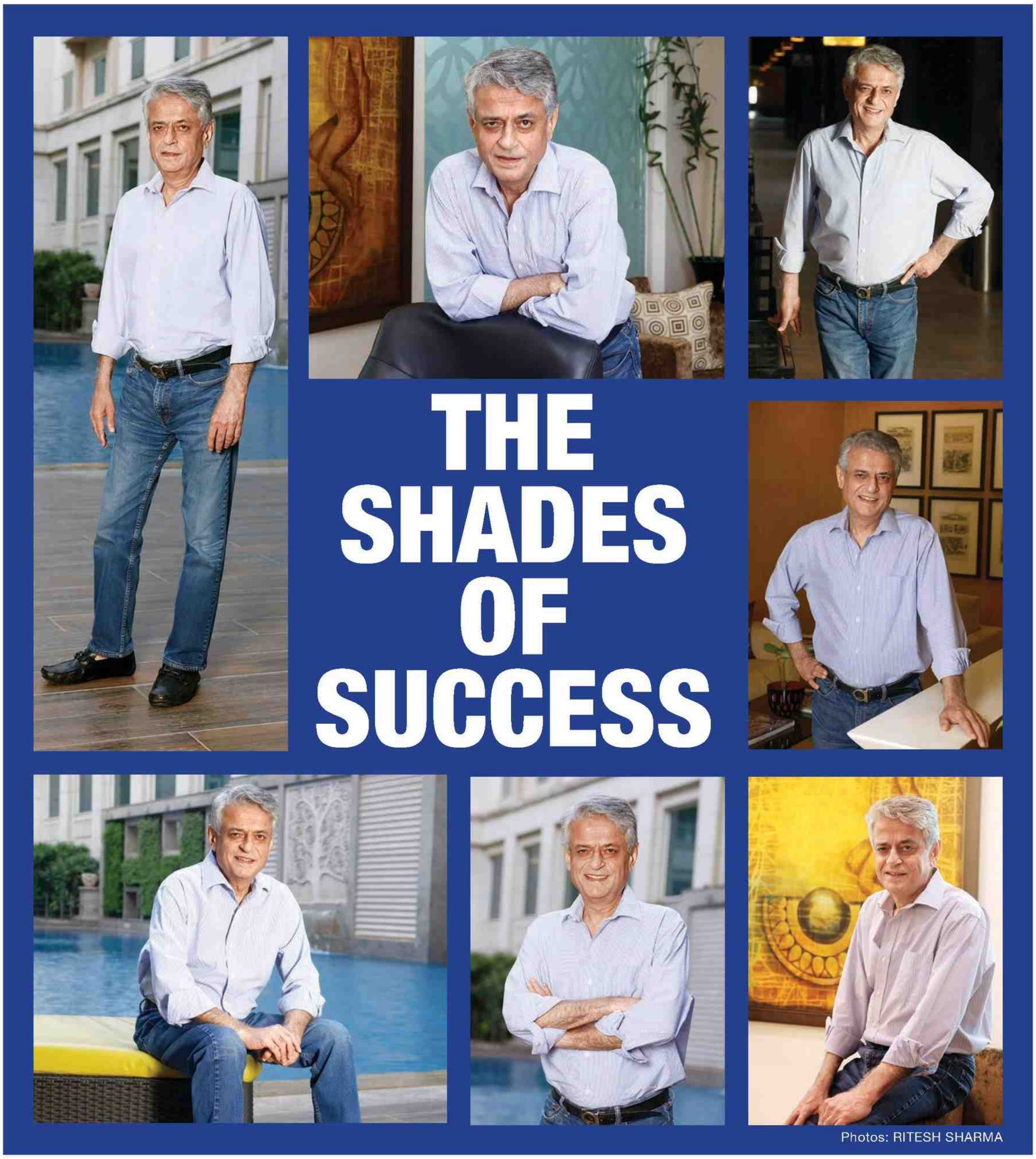

Photos: RITESH SHARMA

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	49
Circulation:	50,000		

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Lazy Lagoon, Baga - A Lemon Tree Resort

PATANJALI G KESWANI, CHAIRMAN & MANAGING DIRECTOR, AND THE SENIOR LEADERSHIP FROM LEMON TREE HOTELS LIMITED, SHARE LEARNINGS FROM THEIR JOURNEYS IN THE HOSPITALITY INDUSTRY

BY **BHUVANESH KHANNA**

LUCKNOW-BORN Patanjali Govind Keswani has been an extraordinary student, not only on the academic front but from having learnt the lessons of life well too. Perhaps the reason why this IIT-Delhi and IIM-Kolkata alumnus, despite having no background in the hospitality business (his father was an Indian Railway Service officer and mother a doctor in the Indian Army), owns one of the fastest growing hotel chains in the country (LTHL). Patu, as he is known in professional and personal circles, worked with the Tata Group for close to a decade-and-a-half. When he decided to quit, Patu was the Senior Vice President and COO of the Taj Group of Hotels. This was in 1998.

But the genius in Patu Keswani wanted to do something different so in 2002, he promoted Lemon Tree Hotels, opening the first hotel with 49 rooms two years later. Lemon Tree, over the years, has gone from organic expansion to inorganic with its acquisition of brands and assets. And then it marked its presence in the upper-upscale space with home-grown uber brand, Aurika. The transition has been almost mercurial. "When we

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	50
Circulation:	50,000		

Lemon Tree Hotel, Dubai

Red Fox Hotel, Neelkanth

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Keys Prima by Lemon Tree Hotels, Aketa, Dehradun

> THE IDEA WAS TO PROVIDE MORE COMPACT ROOMS BUT WITH ALL THE SERVICES OFFERED BY UPSCALE HOTELS

launched our first hotel in 2004, there were around 25,000 branded rooms in India of which 20,000 were equivalent to five-star and remaining, non-five star. If 20,000 rooms in five-stars were doing a certain occupancy, we were looking at an inverted pyramid of supply. In such a case, there should have been enormous but latent demand for mid-market hotels. We started Lemon Tree with that thought process but the problem in India, unlike America or Europe, was that asset creation and ownership was very capital intensive / high cost. In the West, you get debt at a very low cost for a very long period. In India, debt was expensive and short-term. When you get short-term debt in a long gestation business like hotels, it can be a real challenge," says Keswani.

Patu and his team decided on offering smaller rooms for mid-market customers in India. "The idea was to provide more compact rooms but with all the services offered by upscale hotels as Indians are used to full service even if they paid Rs. 1,000 for a room. To create a category where one had all these trade-offs and where it made financial sense to offer rooms at half the price of a five-star hotel, we needed a different business model," he says.

Today, LTHL is the third largest hotel asset owner in India. "To create a brand and develop management capabilities, we needed to create assets first. However, the long-term intent is not to own any assets as asset returns are always less than management which are always less than the branding (franchise) returns, from a Return on Capital perspective," he says.

Developing a hotel in India, opines the Chairman and Managing Director of Lemon Tree Hotels, can be a challenge as the risks are high due to delays in getting approvals but then development returns too are high. "Also, apart from owning an asset that will keep appreciating, the person who owns a hotel gets depreciation benefits too. Now depreciation is a replacement reserve. In hotels, depreciation is cash profit, provided the hotel

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	51
Circulation:	50,000		

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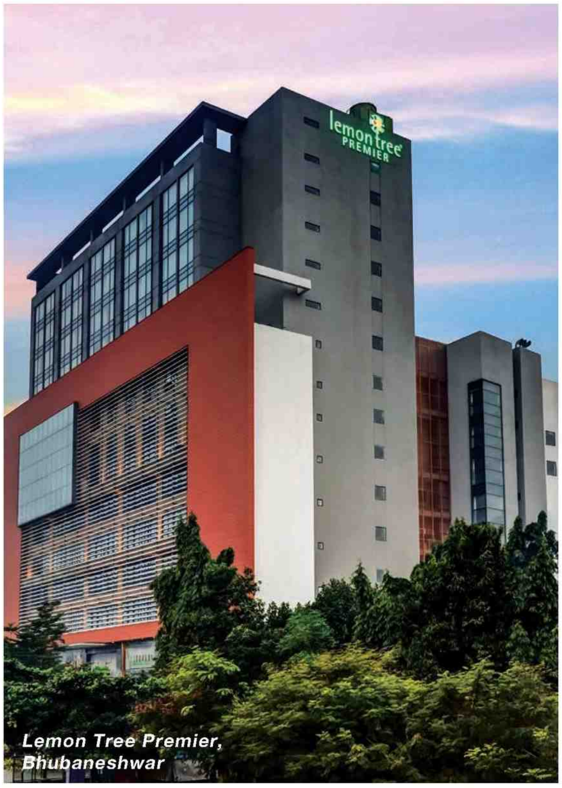
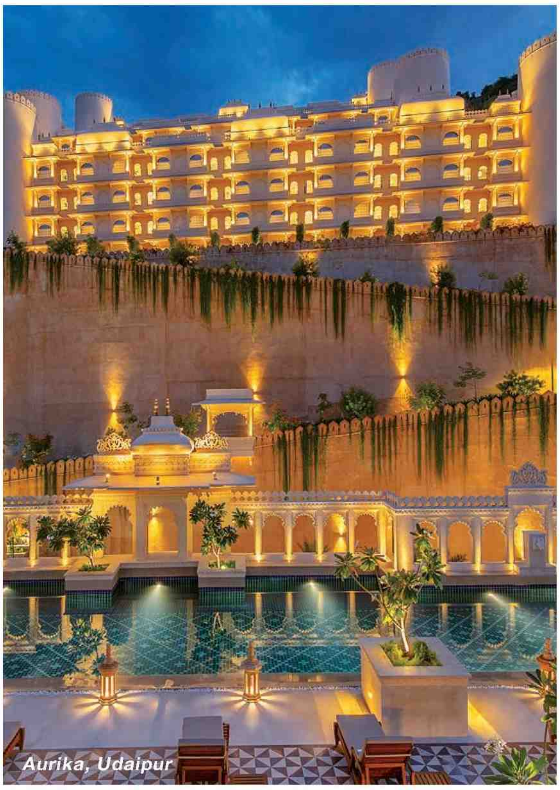


Lemon Tree Premier, Bhubaneshwar



Aurika, Udaipur

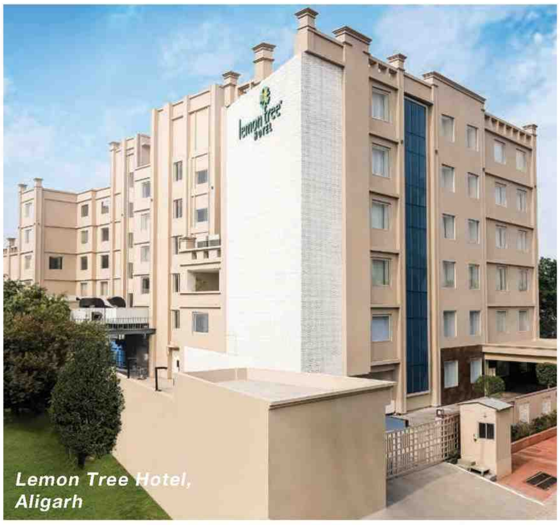
is regularly renovated and then there is no need to replace anything," he says.

While Phase I at Lemon Tree aimed at building their own hotels and creating a brand, Phase II was to get into branding and management of third party owned hotels. "Thereafter, we decided on operating across multiple price points – two-star to five-star. Lemon Tree, at present, constitutes 17 per cent of the branded mid-market space in India and by 2024, will operate one in five branded mid-market rooms in India. Lemon Tree is now a distinct set of brands as one can recognise Lemon Tree because there are unique elements, and a certain look and feel," he says.

Today, the main risk is taken by the asset owner. The only risks the brand owner takes are two. One is at some level on incentive fees and the other on reputation. "Because if you don't perform, the asset owner may lose faith in the brand. We feel we can plug this. For Aurika to move into the upper-upscale space, we undertook a journey two years back and today, we have two Aurika's, one in Udaipur (owned) and another in Coorg (managed) both doing reasonably well, at around Rs. 18000 ADR. Then we have our Mumbai opening where in one-and-a-half years, there will be a 670 rooms Aurika owned by us. We have also signed another 130 rooms Aurika in Rishikesh. We should have 15-20 hotels and resorts under the Aurika brand within the next four years," says Keswani.

In the long term, Keswani says he will dilute asset-owned hotels either entirely or to the maximum extent possible, provided Lemon Tree has control over management. "If a pension fund says they want all my assets, I will be okay with it too but I would want a non-terminable management contract," he avers. Keswani adds that it is a network game. "Many hotel management companies of a certain size and scale in India look at the cash flows but we look at it from an NPV and valuation perspective," he says. Keswani is quick to add that the real imperishable

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	52
Circulation:	50,000		



Lemon Tree Hotel, Aligarh

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> HOTELIERING IS NO ROCKET SCIENCE. IT IS DELIGHTING THE FIVE SENSES OF YOUR CUSTOMERS

assets are your brand and your culture. "It is there I feel a sense of emotional attachment. For me, the employees determine the brand. Hoteliering is no rocket science. It is delighting the five senses of your customers: it is whether you like what you see, smell, taste, touch and hear," he feels.

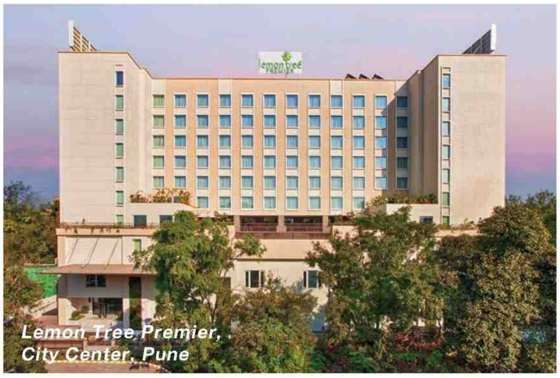
Talking about the future for the industry and LTHL over a horizon of two to five years, Keswani says that leisure as a segment is here to stay while staycations were always there although it increased during the pandemic. He feels, however, that the numbers will return to pre-Covid19 levels soon. "The market of staycations had become 10x due to the pandemic but will go back to x or 2x soon. However, it is not a material segment for us. It is interesting that 10 years ago, leisure was considered far more cyclical than business because a business hotel got demand for five days a week whereas leisure hotels would not get business for half the year. Leisure is now becoming an interesting segment and we are going after leisure in the management space," shares Keswani who is looking for opportunities to open hotels internationally. "Strategically, we would like to be in those cities where outbound Indians travel to most," he says.

A huge cornerstone at LTHL has been diversity and gender inclusion and there are few parallels to this direction and effort. On this, the Lemon Tree Chairman says, "We have a definition in Lemon Tree called Opportunity Deprived Indians (ODI) where EWDs, or employees with disability, who could be differently abled physically and/or mentally and EcoSocs, who could be economically, educationally, socially or geographically challenged individuals are offered opportunities. We were moving towards having 20 per cent of them in our team but then Covid19 came and there was some attrition. We will soon get back there. We intend to make such people, irrespective of background, disability or lack of formal education and training functionally literate. The ODI initiative has helped us access a completely untapped and ignored talent pool."

Lemon Tree Hotel, Jhansi

Lemon Tree Premier, Vijayawada

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	53
Circulation:	50,000		



Lemon Tree Premier, City Center, Pune

Aurika Coorg

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Lemon Tree Premier, Mumbai International Airport

> THE REALITY IS THAT WE CAN BE OUR BIGGEST ENABLERS AND OUR BIGGEST DISABLERS. IT IS ALL ABOUT ATTITUDE

Sharing his views on corporate governance and structure at LTHL as well as the leadership team, Keswani says, "I have always believed in training and promoting from within. Let us presume an internal candidate fits 80 per cent for a position we want to fill in. But then a smart guy walks in and seems to be 100 per cent there. In this case, I will prefer the former as he has been with us and deserves a shot. Over the last five years, we have worked on this thought process. For me, the dilemma has occasionally been loyalty vs competence. Of the 100 top leaders in our organisation, 70 have been with us since our beginning. We want longevity in our senior leadership and a lot of people have grown from entry level jobs to become GMs."

However, shares Keswani, if Lemon Tree is to grow on a hyper-scale, the need of the hour is digitally transforming the company, followed by network and talent. "As we grow exponentially, we need to be more open to welcoming external candidates into our system. Leadership development is work in progress. Fundamentally, the company needs to move into a direction where younger leaders have to run the system. I don't want to be in an operating role in a couple of years. For me to dissociate, I need to step back. My perspective is Been There. Done That. Now on to the next thing," he says.

Keswani has a message for everyone in the hospitality fraternity: Always have the desire to learn. Be curious, stay hungry and be resilient. "The reality is that we can be our biggest enablers and our biggest disablers. It is all about attitude. Consciously develop a 'can do' attitude. I still can't accept people telling me that this can't be done. I want to know how it can be done, no matter what. You need to be passionate," he concludes. ■

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	54
Circulation:	50,000		

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MANAGEMENT MANTRAS

MAHESH AIYER, CEO, CARNATION HOTELS

WHEN THE company took off in 2002, the concept was to look at the demand of the business. In the early 2000s, 80 per cent of the branded hotel supply in India was in the upscale/ luxury segment. There was clearly an enormous latent demand in the midscale and economy segments which were then unmet needs. Lemon Tree Hotels was founded as the category creator for the branded mid-market hotel space in India.

We put up our first hotel in 2004. Three years later, we launched our fifth hotel. In 2009, we opened our 10th hotel and introduced Red Fox by Lemon Tree Hotels brand. A year later, we launched the Lemon Tree Premier brand. We signed a deal with the APG Asset Management in 2012 and the formation of Carnation management wing happened the same year. That's how we got growth, on the asset side and the management side too. By 2014, we had 25 hotels. In 2018, we touched the 50 mark. This was when we went public. In 2019, we acquired Keys Hotels to expand our portfolio and the Aurika brand took off. We went international and our hotels touched the 75 number. As of the end of March 2022, we stand at 86 hotels, around 8,500 rooms and 54 destinations. Of these, 41 hotels and 5,200 rooms are on the owned side and 46 hotels on the managed side with 3,300 rooms.

On owned side, we are building a large and a small hotel of which one is in Mumbai, a 738 room all inventory put together. On managed side, we have signed 20 odd hotels with 1,500-odd rooms. By 2024, we should be 110-odd hotels at about 10,600 rooms and this doesn't include what we sign in the near future. We are optimistic of touching the 100 operational hotels mark by 2023.

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	55
Circulation:	50,000		

ASSET-LIGHT VS OWNER-DRIVEN MODEL

Going forward, our predominant growth will definitely come from management and franchise. We have a current ratio of close to 50:50 when it comes to managed hotels vis-à-vis owned hotels. Over the next five years, it will be at 70:30. We started managing hotels in 2012 and for a decade-old company to reach 46 hotels is a decent number and effort. But there is a huge scope to grow further, especially since we now have seven brands across different
1 segments to work with.

We aim to be present in over 100 destinations over the next five years, especially in Tier II, Tier III and many cities that are doing well. Our objective is to ensure we grow in the business. We started managing hotels as a number of owners communicated that if we could manage our hotels, why not others? This was a great sign as people realised we delivered better margins. As owners, we know how people think and feel about assets. We have been signing more hotels with the same owners while also partnering with a lot of new owners. This is a critical measure of our success.

In future, we want to disrupt the model in some way because currently all management hotel companies are doing a similar structure of fees, revenue and incentives. We want to do something different and interesting.

LTHL TODAY AND TOMORROW

During our earlier years, we tried to maximise every single square foot for a room. Around 70 per cent of revenue used to be for rooms and 30 per cent from F&B and others. Over the last five years, when we touched the Tier II and Tier III markets, banqueting and F&B became a larger portion of business in certain hotels. In Tier II and III cities, we have changed the model in terms of what the city demands in terms of banqueting and rooms, and we have planned out how we can supplement other conferences and events. We analyse what drives business in the market, what can drive profitability and that's the way we are going. ■

“

WE AIM TO BE PRESENT IN OVER 100 DESTINATIONS OVER THE NEXT FIVE YEARS

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Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	56
Circulation:	50,000		

LTHL STRATEGY AND THOUGHT PROCESS

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VIKRAMJIT SINGH, PRESIDENT, LEMON TREE HOTELS

WITH THE market recovering in March 2022, with just domestic demand (no inbound), we have been able to manage ~60 per cent occupancy across the group, so our strategy is completely focussed to drive higher ARRs with inbound demand being incremental. We kick-started the season with a revenue meet where it was decided that it's time we relook at pricing across the portfolio and aim for ARR recovery in Q1 of FY23 itself. We see corporate pent up demand playing out in Q1 along with a plethora of auspicious wedding dates resulting in what we feel will be a start of a great recovery for the industry in general. Our internal KPIs are defined on increasing ARRs and we are clear that we would like to take this route going forward. An interesting trend that has emerged is the exponential growth in our retail demand resulting in our average rates hardening. This segment has compensated for the loss in business from large corporates where recoveries have been the slowest.

EMERGENCE OF NEW SEGMENTS

With Covid19 and international flight restrictions, demand surpassed pre-Covid19 levels in the leisure portfolio. With restrictions being eased out after the third wave, we witnessed the fastest recovery in occupancy and ARR in our leisure portfolios of Srinagar, Udaipur, Goa, Gangtok, Corbett, Chandigarh, Bandhavgarh, Manesar, Jaipur, Katra and Amritsar. Along with transient demand, weddings and MICE have done well in most leisure destinations. The demand may now shift from domestic to international leisure destinations with international flights operating. Along with the surge in leisure travel, we have also seen the impact of staycations playing out in our city hotels, which have augmented the occupancies there.

> "THE SALES AND REVENUE STRATEGY IS INCOMPLETE WITHOUT A DELIGHTFUL GUEST EXPERIENCE"

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	57
Circulation:	50,000		

PANDEMIC TIMES: THEN AND NOW

LTHL strategy and thought process has always been positive even in worst of times. When hospitality did not have our traditional segments available, we made our hotels available for quarantine, Covid19 patients (tie up with hospitals), doctors and BCP (in first lockdown). We did an extensive exercise on our cost structure by relooking at all cost levers and knocking off the waste which had crept into the system over time. We saw the re-emergence of SMEs/ MSMEs segments during the pandemic along with smaller weddings and movie production business. In March, we witnessed a robust recovery and we expect occupancy and ARR recovery in the early part of FY23 provided we don't have a fourth wave, which is being witnessed in some parts of Europe, China and USA. What's very certain is that the latter part of the financial year will surely see revenue levels which should surpass previous highs of the pre-Covid19 era.

UPPING THE F&B ACT

With a variety of standalone restaurants mushrooming all over the country, they are surely taking away the food and beverage business away from the hotels. The Aerocity market being a classic case in point. Hotels, with their Covid19 safety norms, are still being preferred by resident diners. At LTHL, our major F&B revenue comes from residential guests. With respect to banquet revenue, we have taken aggressive targets for this year as we are seeing a share shift happening from the standalones to the branded chains. A separate focus group to cater group/ MICE/ wedding requirements has also been constituted in our company.

GUEST EXPERIENCE MODEL

LTHL is very focussed on guest experience. Our sales and revenue strategy is incomplete without a delightful guest experience. We go through each review and all negative ones are worked upon by the senior leadership. The L&D intervention is followed up with an action plan where team members are trained in the SOPs to avoid repetition in the future. Our high repeat percentage itself validates our focussed approach towards guests' satisfaction. ■

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MANAGING FISCAL DISCIPLINES

KAPIL SHARMA, CFO, LEMON TREE HOTELS

IN THE In the last 18 years, LTHL has grown from 49 rooms to nearly 8,500 rooms including owned, leased and managed properties. In a growing organisation, there are two aspects: growth capital, and managing operations and fiscal discipline relating to operating hotels. On the growth front, our ability to raise capital at different points of time for growth helped us, including times not conducive to raising capital. We got the first private equity in 2006 with Warburg Pincus investing with us before we even had 100 operational rooms. We subsequently raised capital in 2008. Post-global financial crisis, we formed a JV with APG with a total investment of Rs 650 crore in 2012. We have been clear on not increasing risks and maintaining discipline by low leverage and cost of debt.

We have the right capital structure on the leveraging front. We began with 1:1 debt equity ratio and, in some cases, even lower, but increased it where we were sure of it being a deep demand market and could perform and service high levels. But overall, it has been 1:1.

Another important factor is debt timing. We have always borrowed when the line of site of the opening of the hotel has been clearly visible and that it had moratorium by the time the project stabilised. This moratorium allowed us to service the interest when the hotel was in the initial stabilisation phase. It serviced the interest and the moment it stabilised, principal

Display: 12/13

Published Date:	30 Apr 2022	Publication:	BW Hotelier [National]
Journalist:	Bureau	Page No:	58
Circulation:	50,000		

OPERATIONAL PORTFOLIO	OWNED (INCL. ON LEASED LAND)		LEASED		MANAGED/ FRANCHISED		TOTAL	
	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS
Aurika Hotels & Resorts	**1**	139	**0**	0	**1**	55	**2**	194
Lemon Tree Premier	**7**	1442	**2**	161	**9**	911	**18**	2514
Lemon Tree Hotels	**13**	1241	**4**	321	**22**	1305	**39**	2867
Red Fox by Lemon Tree Hotels	**5**	759	**2**	193	**6**	551	**13**	1503
Keys Prima by Lemon Tree Hotels	**0**	0	**0**	0	**1**	40	**1**	40
Keys Select by Lemon Tree Hotels	**7**	936	**0**	0	**4**	263	**11**	1199
Keys Lite by Lemon Tree Hotels	**0**	0	**0**	0	**2**	47	**2**	47
Total	**33**	**4517**	**8**	**675**	**45**	**3172**	**86**	**8364**

PIPELINE PORTFOLIO	OWNED (INCL. ON LEASED LAND)		LEASED		MANAGED/ FRANCHISED		TOTAL	
	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS
Aurika Hotels & Resorts	**1**	669	**0**	0	**1**	132	**2**	801
Lemon Tree Premier	**0**	0	**0**	0	**1**	80	**1**	80
Lemon Tree Hotels	**1**	69	**0**	0	**16**	1138	**17**	1207
Red Fox by Lemon Tree Hotels	**0**	0	**0**	0	**0**	0	**0**	0
Keys Prima by Lemon Tree Hotels	**0**	0	**0**	0	**0**	0	**0**	0
Keys Select by Lemon Tree Hotels	**0**	0	**0**	0	**1**	52	**1**	52
Keys Lite by Lemon Tree Hotels	**0**	0	**0**	0	**2**	86	**2**	86
Total	**2**	**738**	**0**	**0**	**21**	**1488**	**23**	**2226**

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repayment started. We ensured every hotel services its own liability on debt servicing front.

On the supply side, we shifted our credit exposure to different organisation, different lenders, different banks and FIs based on the parameter on how we can reduce costs. This was done to maintain fiscal discipline with respect to the project's growth capital requirement. On consumption side, we have been vigilant on our project cost by capping control on project cost per key. For operating hotels, we ensured each hotel met its own liabilities and own debt servicing.

LTHL PERFORMANCE: TODAY AND TOMORROW

In February-March 2020, we started studying the impact of the pandemic on other economies and found there has been drastic reduction in hotel revenues due to low occupancies. We soon realised that if the pandemic struck India, we too will be in a similar position and that we needed to prepare ourselves for very low incomes. So, we went back to the drawing board and redefined each operating cost to get to a cost level that was sufficient to handle a situation where even if the revenue went down by 80 per cent, we would be able to keep afloat. We defined and implemented it from April 1, 2020. As a result, we achieved net positive EBITDA and positive numbers during the last seven quarters of the pandemic. We defined certain principles including not to let go of anybody. In order to do this, we relooked at every cost control measure possible. Be it power, fuel, lease rent, AMC, maintenance charges or food cost, we re-evaluated and redefined everything.

Hotels operationalised between 2008 and 2015 had never seen an up-cycle situation but we are now reaching there. Moving forward, the hospitality industry would be in an up-cycle situation when the demand returns. The inventory operationalised earlier and the inventory operationalised in FY 2020 will face an up-cycle situation for the first time and there will be a huge jump in topline, bottomline and the net EBITDA levels. We expect to see this over the next three to four years.

FINANCIAL OBJECTIVES

We have clearly defined SOPs and have centralised certain activities to achieve fiscal discipline. The major activity has been project development which requires huge capital. Any mistake can prove costly so all capital has been centralised. Our centralised SOPs are implemented and monitored regularly, and tweaked if a situation demands so. ■

Display: 13/13