



CHECK-IN READY A Lemon Tree hotel in Hyderabad

where the size of a hotel shrinks. Bigger companies operate in a model where one hotel has around 300 rooms, but that is not the requirement in smaller towns," Bakaya says.

Expansion plans

However, analysts flag some concerns going ahead. In the long term, it "needs to sharpen its focus in terms of brands and let go of some of its brands and hotels to have a clear positioning," they say.

This will be important as the market is getting crowded. Although the mid-market segment of the hotel business is still small, the capacity is growing fast. The supply of branded rooms in the country is expected to see an addition of over 95,000 rooms in the next two years, according to a study by HVS Consulting. Of these, 35 per cent are expected to be in the mid-market segment and 18 per cent in the budget segment. The room rates for these hotels range from ₹1,700 to ₹4,500 depending upon the category.

S. P. Jain-promoted Pride group built its first hotel in 1988 in Pune. Today, it has 12 hotels with a mix of ownership and management contracts under its brands Pride Hotel, Pride Bizotel and Pride Resorts.

Both Pride and Lemon Tree are planning to go for an initial public offer to fuel further expansion. Lemon Tree plans to raise ₹1,000 crore in the next couple of years to expand its operations in a joint venture with pension fund APG. The money will fund 55 hotels in the next 15 years. APG would have 47 per cent stake in the venture.

In the last few years, global hospitality companies such as Starwood, Marriott, Accor, Intercontinental Hotels group have expanded their footprint in the country with hotels across categories. Mostly they have gone for a pure management play with only a few like IHG

and Accor deciding to make investments. In comparison to the foreign players, the home-grown brands have the advantage of playing on a familiar turf, but they have their own set of challenges. A senior executive of an international hotel chain says, "These companies should not be opportunistic in expansion. In order to succeed, they must have a strategy in place. Because when the demand falls, survival will become difficult unless there is a proper plan."

Some companies are already taking steps in that direction. For instance, Lemon Tree has started a rewards programme for its guests to ensure a steady flow of customers. Companies are also focusing on ramping up their sales presence.

Having worked with hotels like the Taj and Oberoi, both Keswani and Bakaya are aware of the challenges and the pitfalls of the business. "I have seen value in action at the Taj group and that has been integral to Lemon Tree as well," Keswani says. He wants to build a close-knit business where everyone knows everyone else. Says he, "For a business as huge as the Tatas it is

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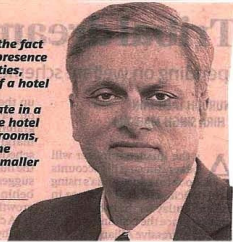
For Bakaya, too, the biggest take-away from the Oberoi experience is to never cut corners and compromise on the service standards. One thing he would do differently from the Oberois? "We will be more owner-friendly. We won't tell an owner after signing a contract that 'okay, from now on we will take care.' Most owners are not unreasonable and we involve them in all the decisions," Bakaya says.

Bakaya says.

Still, the road ahead is not going to be smooth. Policy hurdles and corruption are sure to come in the way of their dreams at some point or another. Over a decade ago, when Keswani was approached by a police officer who was trying to extract a bribe for putting a swimming pool at the Lemon Tree in Gurgaon, he decided to cover it up with mud and convert it into a garden instead, much to the chagrin of the officer.

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AJAY BAKAYA Executive Director, Sarovar Hotels



# New hoteliers bet big on the budget traveller

These entrepreneurs are changing the game by providing all the trappings of comfort at an affordable price

RUCHIKA CHITRAVANSHI New Delhi 21 February

They worked at some of the grandest hotels in the country, but decided to create a niche for themselves in a less opulent area. In recent years, the Indian hospitality industry has unfolded new names like Lemon Tree, Sarovar Hotels and Pride Hotels. All of these companies have upended the concept of luxury by expanding their reach to a new segment altogether—the budget traveller.

Patu Keswani, a former chief operating officer at Taj Hotels and founder of Lemon Tree, started building his first hotel in Gurgaon thinking it would serve as a source of income after

his retirement. But, encouraged by the success of this 50-room property he built using his savings, Keswani promptly added another 19 hotels in less than 10 years. The hotels fall under three brands — the four-star Lemon Tree Premier, the mid-market Lemon Tree and the budget brand Red Fox. His company is worth ₹1,200 crore today and is among the few hotel companies which own all their properties.

On the right note

In the 1990s, Keswani, an IIT Delhi alumnus, was looking after the Taj business hotels, which includes over 20 properties, many of which were not making money, Keswani says, as an engineer, he looked at hotels as a ratio-driven business, and soon realised if a property is designed right and staffed with the right people, it can make profit. Ownership, therefore, became of paramount importance to him when he decided to strike out on his own as it gave him complete control over the design and implementation of his ideas.

However, there is no one-point formula to success. It was a complete departure from this strategy for the founders of the Sarovar group. When Anil

Madhok, who was later joined by Ajay Bakaya, started the hotel chain in 1994, he decided to go the management way.

Both Madhok and Bakaya were old Oberoi hands. Their first project was Bogmallo Beach Resort, a 126-room hotel in Goa. Two years later, the company got the contract for the Marine Plaza in Mumbai; there has been no looking back since. Besides creating its own 'bouquet' of brands — Sarovar Premier for up-market, Sarovar Portico in the three-star segment and its economy brand Homotel—the company has brought in brands like Park Plaza and Park Inn to India.

Today, it is the third largest hotel company by inventory with close to 5,000 rooms. "From the start we just wanted to focus on managing hotels, although we do own three hotels. We build trust with our owners and work closely with them," says Ajay Bakaya, executive director, Sarovar Hotels.

The company operates 60 hotels in 40 cities in India and overseas. It plans to add another 20 in the next four years. "Our edge lies in the fact that we have a presence in the smaller cities,

Lemon Tree plans to raise ₹1,000 crore in the next couple of years to expand its US operations

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