

RAISING FUNDS

Lemon Tree Hotels plans to go public in the next 18 months

Firm's MD says banks to be hired in 3 months for IPO, which will also provide a partial exit to its existing PE investor

BY POOJA SARKAR
pooja.s1@livemint.com

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Lemon Tree Hotels Ltd, a Delhi-based hotel chain plans to sell shares to the public in the next 18 months. The company, backed by Dutch pension fund APG and global private equity fund Warburg Pincus is yet to finalise the amount it plans to raise from the primary market.

"We will hire investment bankers in the next three months to prepare for our initial public offering (IPO) and it will also provide a partial exit to our existing private equity investor," said Patu Keswani, chairman and managing director, Lemon Tree.

If the listing works out as planned, Lemon Tree will be the first hotel company to list on the stock exchanges in the last eight years—the last was Holidays & Resorts India Ltd on 16 July, 2009.

Currently, APG owns 15% in the company and has so far invested ₹1,100 crore. The Dutch pension fund picked up a 5.6% stake for ₹650 crore in 2012. In April 2014, it raised its stake to 13% by investing another ₹300 crore. And in 2015, the fund invested another ₹150 crore to take its stake to 15%. In July 2006, Warburg Pincus also invested ₹210 crore in the company for an undisclosed stake.

Lemon Tree was valued at almost ₹4,000 crore after APG's investment in 2014. Keswani said the firm is not looking to raise more capital from private equity funds before the IPO to fund its acquisition plans and that the Dutch pension fund will stay invested in the company.

At present, Lemon Tree operates hotels in three segments: the upscale Lemon Tree Pre-



Room for growth: A file photo of Patu Keswani, chairman and managing director, Lemon Tree. The firm runs 24 hotels with 3,000 rooms and is building 9 more that will be operational by 2018.

mier, the midmarket Lemon Tree Hotels and the economy Redfox. It has also started developing resorts and is looking to acquire resorts during the year.

"We are looking to acquire 5-7 resorts during the year in hill stations as there is more traction towards that space," Keswani added.

Lemon Tree owns 24 hotels with 3,000 rooms and is building 9 more hotels with a capacity of 1,400 rooms that will be operational by 2018. Apart from its own hotels, it currently manages 300-400 rooms across five hotels.

"We have signed on another nine hotels to manage nearly 1,000 rooms, which will take our total capacity to 5,800 rooms in the next two years. With a healthy pickup in occupancy, we have revised our agreement contracts and increased our prices by 8% since January this year," Keswani said.

"The Lemon Tree IPO is definitely a calendar year 2017 event. Warburg has been invested in the company for over 9 years and is keen to exit the investment," said an investment banker, requesting anonymity.

He added that the company reported a loss in 2014-15 and

will likely wait to improve its financials before coming to the primary market.

According to the company's filings with the Registrar of Companies (RoC), its consolidated loss widened to ₹60.24 crore in 2014-15, as compared to ₹46 crore the previous year.

The firm's consolidated revenue for 2014-15 was not available. It reported consolidated revenue of ₹244.65 crore the previous year.

Last week, Goldman Sachs Group Inc invested ₹440 crore in Samhi Hotels to acquire a significant minority stake, giving a fillip to the hotel sector. During the past year, shares of several hotel companies have moved up significantly. Among the listed hotel companies, shares of Royal Orchid Hotels Ltd witnessed the highest jump of 146.48%, to close at ₹106.85 apiece on Monday, followed by Mahindra Holidays & Resorts India Ltd, whose stock has gained almost 65% in the last 12 months.

According to an EY Global Hospitality Insights report released in 2015, "Capital flows into India climbed, with noticeable volume gains recorded in the first two quarters as tourism

continues to drive economic growth."

The report said India's half-year total of \$1.8 billion represents a 37% increase year-on-year, which is largely a result of a number of institutional players re-entering the market. With the recent pickup in occupancies, hotel chains are now focusing on revising their prices.

"There is no denying that there has been a demand pickup but it is very location-specific and not spread across the country. With overall economic sentiment improving and growth expected at 7-8%, there are more people travelling and hotels have been able to increase prices after a long span during peak seasons," said Pranay Vakil, chairman at Praron Consultancy (India) Pvt. Ltd and ex-founder and chairman of property consultancy Knight Frank India.

According to hospitality consulting firm HVS's 2015 Hotels in India Trends and Opportunities report, nationwide occupancy moved up by almost two percentage points to 60.3% in 2014-15, as compared to 58.4% in 2013-14. The last time occupancy level breached the 60% mark was in 2010-11.

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