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AN **Accidental** HOTELIER

PATANJALI KESWANI, WHO REVOLUTIONISED
THE MID-SCALE SEGMENT, IS NOW ENTERING
THE UPSCALE CATEGORY WITH AURIKA
HOTELS & RESORTS



PHOTOGRAPH: SOUMIK KAR

PATU KESWANI'S UNCONVENTIONAL APPROACH TO HOTELIERING

After revolutionising the mid-scale segment, he enters the upscale category with his new brand, Aurika Hotels & Resorts. Along the way, Keswani has pushed the boundaries as a hotelier. And to think that he embarked on his journey as an entrepreneur with the intention of setting up just one hotel, as his retirement plan

BY GURMEET SACHDEV

Lemon Tree Hotels is considered a pioneer in the mid-scale hospitality market in India. Patanjali Keswani, popularly known as Patu Keswani, was looking to set up one hotel to fund his retirement plan. He quit as senior vice president and chief operating officer of the Taj Group of Hotels to create this dream for his sunset years. Seventeen years later, Lemon Tree Hotels is one of the biggest players in the mid-scale segment and is soon entering the

upscale market with Aurika Hotels & Resorts debuting in Udaipur this year. The Mumbai property is scheduled to launch in 2021, making it the biggest upscale hotel in India. Keswani talks about his entrepreneurial journey, the turning points, how the industry can approach the question of skilled manpower, and why hospitality majors should be focusing more on debt and acquiring land at better terms, rather than hankering after industry status.

How has the IPO helped Lemon Tree grow?

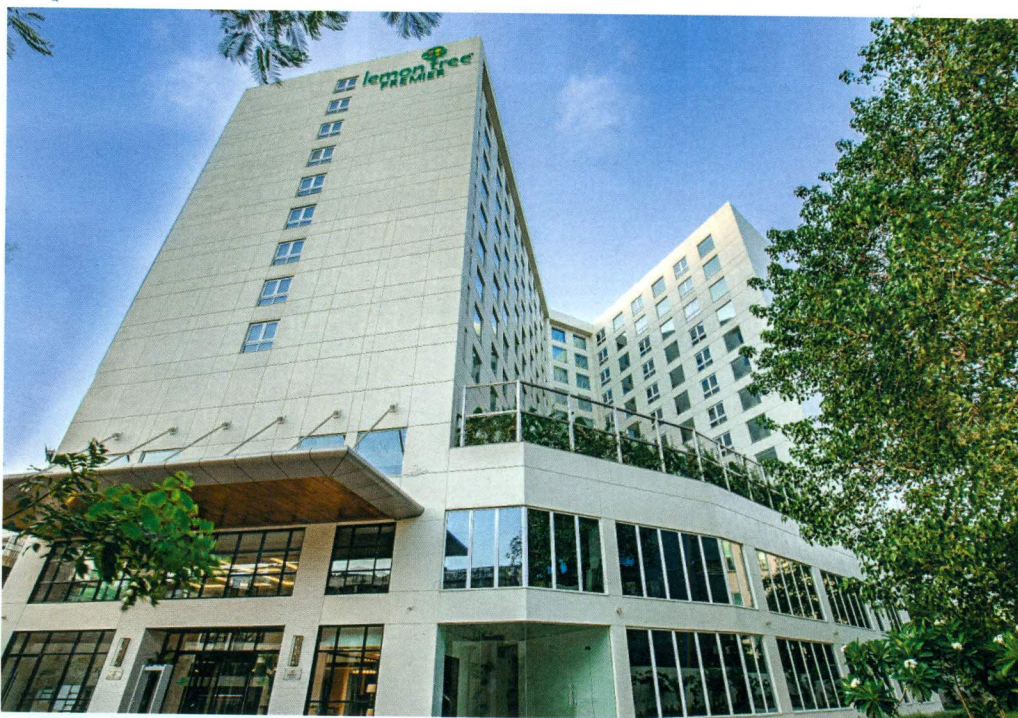
You come of age when you launch an IPO. It exposes you to a lot of scrutiny. You are expected to have a lot of clarity. The entire point of an IPO is for people to know that the company has great corporate governors, the results have been declared, there is no forging, and you have a great set of auditors and a board that is involved. An IPO imposes additional disclosure requirements and therefore, the company is easy to analyse.

Once you become part of the listed universe, you become a public company, which means you are owned by the public of India. So we have approximately tens of thousands of shareholders. It enforces discipline and clarity in disclosures. It makes the brand much more visible, as now you have so many people buying your stocks. It exposes you to global investors, who invest in listed companies. The upside, besides visibility, is that when you talk, people know what you are all about. Otherwise, you are some private limited company nobody knows about. Because of this exposure, it makes you more visible even to your customers. There are multiple benefits that help with brand building and valuation. An IPO means that a company has capital. Tomorrow, if a company needs money, you can raise capital by issuing shares.

Has the IPO helped you raise finance for your expansion into the luxury segment?

No, that is an absolutely unrelated strategic move which we would have taken, sooner or later. We do not want to be in luxury, just as the way we do not want to enter the one-star segment. In the former, we do not offer competitive advantages. A lot of luxury consumers are members of global loyalty programs and there are quite a few foreign hospitality brands in that space. At the other extreme are one star hotels. If you want to offer a quality product, unfortunately the current pricing that a one-star brand attracts doesn't make it economical. The opportunities lie in mid-market and now, as we recognise, in the upscale space.

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The more hotel companies list, the more analysts will cover them. The more analysts cover them, the more the investors will get info, and more will be the financial interest in the sector.”



➔ Lemon Tree Premier Mumbai is the first Lemon Tree in the city.

Why did Lemon Tree zero in on Udaipur to open its first upscale hotel?

Traditionally in India, the best resort destination has been Goa. Unfortunately, it has got 'over built' and has lost a lot of its charm. Over the last 10 years, Udaipur has emerged as a popular resort destination. It retains its charm and beauty, and offers better connectivity. I cannot build anything around Lake Pichola because there are restrictive zoning regulations. When I saw the current site of our hotel, up on a hill, close to the Monsoon Palace, I decided that this would be the location. In the night, Lake Pichola was lit up like a necklace. It looked beautiful with all that green expanse in front and the mountains behind. I did not realise, however, that it would cost so much to build up a hill. I figured that if we spend 20% more, we could get a much better product. Aurika was already on my mind. The decision to build the first Aurika in Udaipur was semi-strategic and semi-opportunistic. We decided to build a fort-like hotel. The cost increased because of the construction up a hill and the larger size of the rooms required in an upscale hotel.

Do you have any expansion plans for your other brands, such as Red Fox?

It depends on the opportunities. We can either buy or build a hotel, lease or manage. We try to find the most appropriate brands to manage. Red Fox is a very large brand; I believe it has around 1400 to 1500 rooms and accounts for one percent of India's branded inventory. We are very open to work on Red Fox but we haven't found a hotel that is appropriate to be included in our portfolio.

In the mid-market segment, who do you consider competition?

We are the largest in the mid-market segment. The next big player is Accor, and then there are some managed companies such as Sarovar Hotels. But if we speak about the size of the balance sheet, we are obviously the largest. I don't see any-one emerging as a threat.



◉ Lemon Tree Premier Mumbai is a refreshed version of the Lemon Tree Premier brand, designed to cater to millennials.

What about brands such as Vivanta and Ginger?

Ginger is in the economy segment. They will have to upgrade it significantly. It will take a lot of money and it's a big leap. If they put in the capital, they have to take the average room rates up. Ginger probably suffers from the same issue we faced initially, with customers saying, 'it is a pure economy product and that is only how much I will pay for it'. It is very difficult to convince them that you have upped the game. Vivanta, on the other hand, is upscale. So, technically, the way we are evolving, we would be competing with Vivanta. You have to keep in mind that I am not worried about competition. The market is so large; the more we add, the more it will consolidate. More than the branded hotel supply in India, it is the unbranded stand-alone hotels that we need to standardise and bring into the branded space.

Do you have a vision on how this can be done?

Either the owner of an unbranded hotel reaches out to us or we find innovative ways to reach out to groups of owners. That will happen over time. The owner has to be willing to make the leap. For instance, he is running a hotel that earns 100 rupees. If Lemon Tree takes it over, the expectation is that it will earn 150 rupees, which is one-and-a-half times your profit. So the owner asks, 'For this incremental increase, how much do I have to pay you in the form of a fee? Of the rest, how much do I need to reinvest in the property to see that kind of return?' Simply put, you have a 100 rupee hotel which makes ten bucks. I tell you, put twenty bucks more; I will get you ten more. The way he sees it, by putting in twenty, he is getting ten extra.

The industry has been through such a lousy cycle that many owners do not have the spare capital. In my view, however, in the next five to seven years, a lot of stand-alone hotels will be forced to become chain members. Their ability to attract customers will be compromised as they are not part of any chain. OTAs will charge them higher commissions, they will not be able to attract the right talent or enjoy other benefits of being part of a chain.

Would you consider brands such as OYO and AirBnB as competition in the mid-scale segment?

Not right now, but they do have the potential to move into our



I see other hoteliers as collaborators in the end game of creating branded supply in India by educating customers and driving demand. The more branded supply you have, the more demand you create."

space. I can see only two types of competition — those who already are in our space, the current hotel brands, and those who intend to move into our space. The latter is still a question mark. Those who are in my space are competition. But the opportunity is large and the market is so fragmented that I don't see them as competition. I see other hoteliers as collaborators in the end game of creating branded supply in India by educating customers and driving demand. The more branded supply you have, the more demand you create. I know this sounds counter intuitive but it is true.

For instance, close to our newly opened hotel Lemon Tree Premier in Mumbai, there are two hotels, Holiday Inn and Courtyard by Marriott. Would my addition of inventory bring the room occupancy rate down? Look at it this way: a market has 500 rooms and the room occupancy is 400 rooms. If I come in with a 200 room inventory, will these 400 rooms get re-distributed and bring the room occupancy rate down? Or are the 200 rooms creating another demand for another 15 rooms? I find, interestingly, that the creation of supply also creates demand.

In your opinion, what are the benchmarks that Lemon Tree has set since you truly are a disruptor?

No, we are not disruptors. We are creators of a category. I think we set our own internal benchmarks. We did not have any access to external pulls of capital so we were very clear that we had to be financially viable. The bottom of the cycle, I have always believed, had more equity and less debt. So, in that sense, we were a very under-leveraged company; we were over equitised. Then there is the way we drive ratios. Just a simple example: for every room, we would not give more than 7 sq.ft to a lobby. In a 300 room hotel, our lobby must be less than 2,100sq.ft. This led to two things — operational excellence and efficiency, and economy viability. Also, we do not go after the traditional talent pool. It is true that we hire people from other hotel companies, but a whole bunch of people we hire are unemployable. I don't think anyone else does that

frankly, and we have around 1000 such employees right now; we have sent out 12,000 through the system.

That is an amazing thought. Do you think we can also inculcate this thinking in other hotel groups?

Look, hotels by and large do contribute to the local communities. It's true that some hotel companies have tried to include people with different abilities and incorporate them in the workforce. I do not think it has been very successful in any other hotel than Lemon Tree. It needs a lot of effort. The beauty is, once you implement it, then it's a flywheel. I don't think it is due to a lack of desire on part of other companies. I think everybody has their own stuff. I am nobody to tell someone else, 'if I am able to do it, why not you?' But I hope to lead by example.

Do you think the industry lacks access to skilled manpower?

I have a different perspective on manpower. We think horizontally rather than vertically. Let me explain this to you. For example, I hire

you as a restaurant steward. Your job would be to meet the guests on arrival, escort them to their table, and give them the menu. The guest may ask, 'What do I eat?' You recommend, you upsell. The guest places the order and you give the order to the kitchen. The kitchen gives you the food and you serve it to the guest. Then you give him the bill and the guest leaves. Right? So, where is the skill involved? Upselling or explaining the order requires some sort of skill or customer relationship management and knowledge. Actually, I am hiring you for your ability to communicate with the customer. What if I take a person with disabilities, like a hearing disability or say, Down syndrome. They don't mind doing the repetitive jobs, which other people aren't too happy doing.

So now I have two people on the job. All guests will be escorted by the person with disability to the table; the table set-up will be done by them. But you will take the order and recommend. Later, the person will again execute the order. Which means, I am taking the job role of the steward, which is the vertical thing I was talking about. And then I am taking the unskilled side or the repetitive side, and giving three people's role to her. What is the result? Better productivity because I am playing to your strengths.

Sometimes, we hire people and they have, say 10 attributes. Maybe two are highly skilled, four are semi-skilled and four are unskilled. But we pay them for all 10 at a highly skilled level.

Has the perception of customers about what mid-markets hotel represent changed over the years?

When we started Lemon Tree, India largely had 5-star hotels. When we opened a mid-market or a budget hotel, the customer expected all the services of a five star, though he was paying a very low price. This was a big challenge; the customer was expecting the earth and the moon and maybe one or two stars. We had to educate them. Today, there are a lot of mid-market hotels with over 50,000 rooms.

Broadly, my view is that we have not been able to scale like the way

PATANJALI KESWANI'S LIFE BEYOND HOTELS

What keeps you going?

There is a lot of stuff. I enjoy my work; if I didn't enjoy it, I would not work. I go at my own time and finish at my own time. I love reading. Some stuff, I can't really talk about. But there are many things that keep me going. Work takes up a very large part of my time and I love it. I am lucky that I do what I enjoy.

How do you unwind?

I play with my dog, I read and I travel.

What is that one thing you cannot stand?

I cannot tolerate the lack of hygiene and lies.

Which is your favorite holiday destination?

In India, I like Ananda, as well as Rajvilas or Udaivilas. And, of course, Goa. Internationally, I like Santorini islands. I love historical sites. I like travelling to Istanbul, Rome, Athens and Madrid. I love London and absolutely love New York. I also like Thailand; I won't pick Phuket, but there is a destination known as Hua Hin. I find Singapore too sterile and Hong Kong is too far. I also like Sri Lanka.

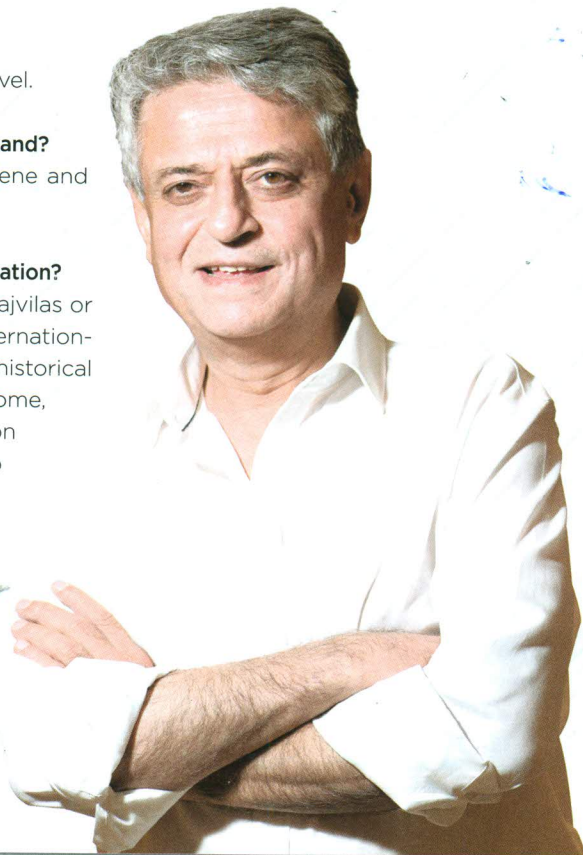
Do you like to experiment with food?

I am not fussy about food; for me, what I like to eat is very mood driven. Otherwise, I eat whatever

is cooked at home. I love English cheese. When I go to New York, I always stop a day in London to buy cheese.

Which is the hotel chain or brand that you like in India?

I like the Oberoi Group of Hotels. The service is very unobtrusive.



low-cost carriers have done. They had the planes and just added the routes. We have had to build hotels. This may take another five years but ultimately, customers will understand the difference between a 5 star, a mid-market and an economy hotel. And they will understand that if they are paying a different price, they will get a different product and service.

When it comes to giving the industry status to hotels, what do you think is stopping it and what should the government do?

I don't understand what industry status means. Typically, it gives you certain benefits. I am really not too bothered about it today. What I really care about is that we get debt at the right terms. And that the government provides us land with the right thought process. Today, when the government auctions land, they function in a predatory way. They want to maximise the price of that land. They don't say, 'Let me make sure that if there are 10 hotel chains in India in the mid-market space who qualify as per RFP, we will provide this land cheap and implement processes by which we can let them get it'. If the government makes land available at the right price, it would technically enable a company to build hotels and also sell them at the right price.

The other thing is the cost of debt. Earlier debt was very short term. Hotels were considered a part of real estate; fortunately, they were re-classified. I find that Lemon Tree gets debt at a fairly reasonable rate, on a three year moratorium. This means, we just have to pay interest and make no repayment towards the principal in the initial years. It is back-ended so I have to pay the debt maybe 10 years later. The later I pay, the more inflation is working for me. So we get better debt terms and that's one advantage of going public. The banks are more comfortable because they know you have the ability to raise capital through dilution.

But the government can build infrastructure around tourism and offer connectivity. It could create infrastructure around monuments. I think it can reduce the power bill; that is a very high cost. They treat hotels like a commercial account. They should mandate

that in the next few years, no hotel has less than 50% of their energy meets met by renewable sources.

Do you think that the hotel industry is sustainable in the way water and energy is used?

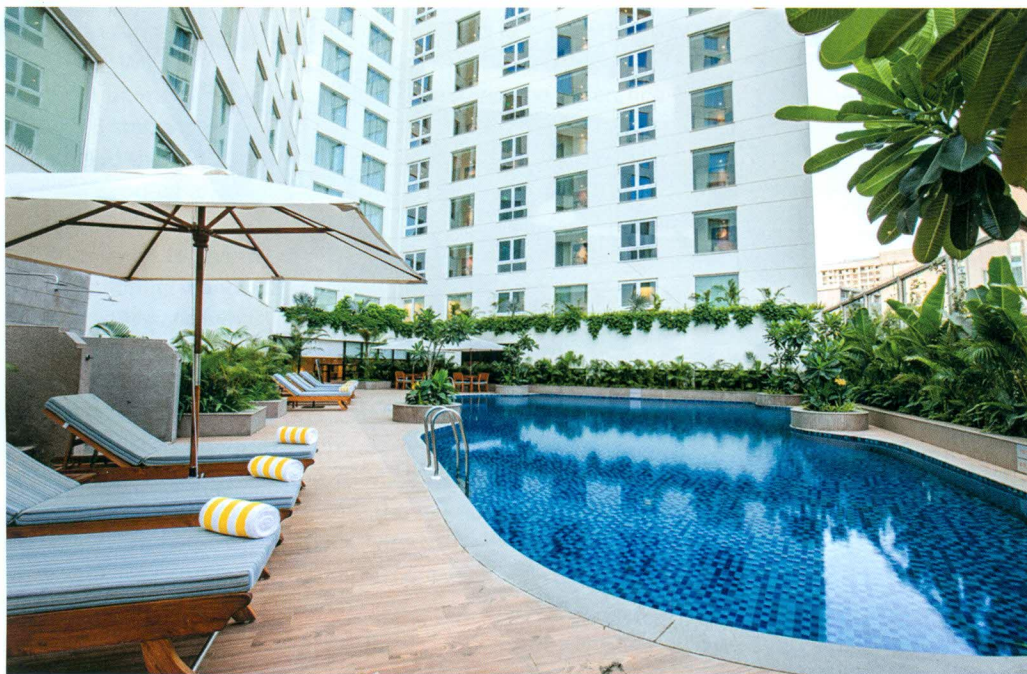
I am pretty sure most hotels are conserving both. We get fresh water from the municipal line and sometimes, from tankers. This water gets used as fresh water, and is either used to drink after treating it, or to cook and bathe with. The water is then treated and recycled into the WC. And then it is used for sewage. When that is over, you treat it in a sewage treatment plant. What's left you use for gardening and in air handling units. Effectively, instead of using three different types of water, we use the same water for three different purposes.

What is your vision for your businesses?

Speaking very optimistically, I would like Lemon Tree to be the default choice for mid-market hotels in India. People use the word 'xeroxes' as a generic term. Twenty years ago if you ever went to a village, you would hear the guys ask for a Cadbury, when they wanted a chocolate. When a brand becomes



➔ The Slounge at Lemon Tree Premier Mumbai boasts photographs of several jazz legends.



➔ Lemon Tree Premier Mumbai has been upended to appeal to a more global traveller.

a generic name for a product, you have achieved success. I would love for people to say, 'Book me a Lemon Tree'. They may not want to stay in a Lemon Tree hotel; they may mean, 'Book me a mid-market hotel'.

Do you have any plans of going international?

It is interesting that while 11 million foreigners come to India, 26 million Indians travel out of India. We plan to incorporate them into our loyalty program. Out of the 26 million Indians, I think 18 million travel to eight cities. Why should I not go to owners of assets in these eight cities and say, 'Give it to me and I'll increase your revenue by this much and I will take a fee for it. Lemon Tree will attract Indian travellers, who are high spenders. They are often intimidated while travelling internationally because of the cultural disconnect and look for familiarity in distant lands.

As long as I can be confident that the owner can deliver the quality we are looking for, I don't mind a franchise. If I am not sure, I don't mind training a manager, who reports to the owner but is actually my manager (that is 'manchise'). Or I will just take over the operations. We have received opportunities from Dubai, Kathmandu and Thimphu. The bigger we get in India, the more will be our ability to get contracts outside India. But in the next three years, I want to saturate India in order to become a default choice.

What made you take the entrepreneurial leap?

I wanted to retire. I had a certain model in my mind and I felt if I built a hotel based on that model, it will be financially profitable. I wanted to build just one hotel and some friends said they will join me in this venture. The profit that we would make, since the majority would come to me, was enough in my opinion to retire. But the hotel did very well, so a bunch of guys joined me from Taj and we built the second hotel, which was also very successful. My colleagues became more ambitious than I was, we put up another three hotels and raised capital. The rest was a rollercoaster ride.

What were the turning points in your career as an entrepreneur?

There were a few turning points. One was when Warburg Pincus invested with us in 2006. And suddenly I had a few hundred crores of rupees which I did not know what to do with. The other was when we started hiring people who were opportunity deprived; this was in 2010. Then APG invested a thousand crores.

For me, it was never about money; it was only about earning enough money so that I can retire. I think one big turning point was when I felt I had the responsibility to meet the career aspirations of so people who are joining Lemon Tree and I could not let it *not* grow. The trade-off is how much do I grow v/s how much risk and debt do I take.



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What matters to you most as an hotelier - offering value for money, great service or the combination of two?

What matters to me is that my employees should be happy. If that happens, all this will flow.

So, how do you take care of your employees?

With the first hundred I knew everyone's name, their children's names. In fact, even their dog and cat's names. Then the next 200, I knew them and the name of their spouse. The next 200, I knew by name. After sometime you don't know what is happening as the company grows. The one thing I really regret is that we grew so much that I don't know many of my employees. I think our employees like the fact that we hire people with deprivation. The problem in our business is that it's a very tiring job; go and stand for nine hours and you will know what I mean. Blood flows to your feet and you feel exhausted. And because it is not high skilled, it's not a high paying job. So it is highly tiring, it is transactional, and does not pay well. Each flows into the other. To motivate people to smile and serve the customer is a big challenge. A hotel is just bricks and motor. How an em-

ployee behaves with customers — and remember there are multiple employees interacting with multiple customers at any given time — creates an impression. One bad interaction and that customer will tell 50 other people.

I guess, it is culture that drives an organisation. It helps if the top leadership of a company, especially the CEO demonstrates that he or she personally cares for them and they are not just numbers. To know them and interact with them, ask about their welfare, and help them if they are in trouble, will keep them motivated.

In terms of diversity, there are such few women running hotels. Why is that so?

In India — and I blame men for this — the culture and society is such that if both the husband and wife are working, the husband still expects the wife to run the house. So women have this inherent disadvantage and fall out of the race when kids are young. It is often the mother who provides the emotional support.

Very few companies are sensible enough or advanced enough to say, "Either I will provide a crèche so that you can bring your child here, or I understand you want to work flexi hours." Of course, it must make sense for the company. For example in Lemon Tree, I can't tell a receptionist to work remotely because you can't. I think we have failed to not induct enough women to begin with. We have a number of senior women, we have three vice presidents who are ladies in Lemon Tree, and we have quite a few ladies who are assistant vice presidents and general managers. But above that, we have no one right now in positions such as senior vice presidents or executive vice presidents. I would love to see a woman as a CEO of Lemon Tree, and who knows it may happen

What do you think the industry should do to retain talent.

I think we should not compete. For example, I would not like Lemon Tree to compete with Oberoi or some retail company, who is ready to pay twice my salary. You go outside of that talent pool, to an untapped talent pool. Go to people who do not get jobs or to people who will get lower paid jobs than what you are offering and train them — that is your cost. Expect them to stay for the next two years. Most employees in Lemon Tree love working here — there is a very strong sense of camaraderie, pride, ownership,

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which is wonderful to see.

Do you see overall improvement in the industry anytime sooner?

There has been a temporary slow-down for a number of reasons. But there is no question in my mind that in the next two or three years, this will be top of the cycle. And there will be a shortage of rooms and such high pricing of rooms that everybody will forget the misery of the last 10 years


Our problem is that we don't accept things. Suppose there are five hotels in a micro-market; four are doing 80% occupancy and the fifth is doing 50%. That guy will not let you increase your prices because he is doing badly anyway. So if four of us want to take our price up, an option is that we work in cartels, which is not nice. Or, I have to accept that some of my customers, who stay with me at a certain price point, will shift to him.

Where do you see the growth in India?

I would have earlier mentioned the metros. But they tend to become over-supplied because everyone is looking to put up a hotel here. There are niches in markets; the problem is, once someone goes there, everyone else will. India suffers from a herd mentality. My view is, the demand in India will keep picking up as more young people choose to stay in branded hotels. Caveat: value for money is important.

What will be your advice to young hoteliers or entrepreneurs?

Twenty years ago, if people asked me about joining hotels, I would have advised not to. I think there are a lot more opportunities today. They are not specific to educational qualification but to potential skill sets and your competencies. Unfortunately, the hotel industry is still a low paying industry; it is a lot of hard work and very often, not intellectually satisfying.

If you're okay with this because you love the industry, then go for it. Otherwise, I would say that there are other options. I personally would not recommend the hotel industry. 



 Goa was among the first resort destinations explored by Lemon Tree in India.