Warburg-backed Lemon Tree Hotels begins listing process, shortlists i-banks

BY SWARAJ SINGH DHANJAL
swaraj@livemint.com

MUMBAI

Private equity firm Warburg Pincus-backed hotel chain Lemon Tree Hotels Ltd has shortlisted investment banks to lead its initial public offering (IPO) efforts, said two people aware of the development.

"Lemon Tree Hotels has shortlisted domestic investment bank Kotak Mahindra Capital Co Ltd as the lead for its initial share sale. It is expected to shortlist at least two more banks for the syndicate, both of which are expected to be foreign banks," said one of the persons cited above, requesting anonymity.

The development comes almost a year after Lemon Tree first initiated discussions with investment banks on a public listing. In March last year, Mint had reported the Warburg Pincus portfolio company had invited banks for discussions on its proposed IPO. With progress on the Lemon Tree IPO, Warburg will inch closer to creating much needed liquidity for its legacy India portfolio where the American PE fund has invested $460 million across six assets in the infra and energy sectors.

The PE fund has been invested in several of these investments. Private equity firms generally target an exit from investments within 5-7 years.

Warburg invested in Lemon Tree in 2006, when it acquired around 25% stake in the company. Other investments that it has been involved with over a decade include coal washing firm ACB (India) Ltd and Gangavaram Port, in which Warburg invested in 2006 and 2007, respectively.

Warburg’s other investments from its infra and energy portfolio include logistics firm Continental Warehousing Corp, Nalwa Seca Ltd and power producer Delligent Power Pvt Ltd, in which it invested in 2011 and IMC Ltd, in which it invested in 2010.

Last year, ET Now reported that Tata Power was in talks with Bhopal-headquartered media company DH Corp. for a potential buyout of the power generation arm DCL Energy Power. Those talks too did not materialize in an exit for Warburg.

Its logistics investment Continental Warehouse Corp. filed its draft IPO papers in September 2016 and received approval from the Securities and Exchange Board of India for the same in December. Warburg plans to part exit its stake in the company through the IPO.

“Out of the several offers we received, only Warburg’s offer has met our expectations in all respects and has accepted all terms,” said Vipul Mistry, chairman and managing director of the hotel chain’s parent company Lemon Tree Hospitality. That Warburg has decided to part exit its stake in the company, according to Mistry, gave the hotel chain a sort of an exit to its private equity investors.

“While it is not clear what other investors are planning, the Warburg exit looks like a good sign for the sector,” he added.

It has also appointed foreign i-banks, JP Morgan and CLSA, said one of the persons cited above, requesting anonymity.

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Questions sent on Wednesday to Warburg Pincus on its exit plans from ACB (India), Gangavaram Port, Delligent Power and IMC did not elicit any response. The fund did not comment on the Lemon Tree IPO too.

“We have no comments to offer at this stage,” said Kartan Reswani, deputy managing director at Lemon Tree Hotels in an email response. Emails sent to Kotak Mahindra Capital and CLSA were not answered. JP Morgan declined to comment. The proposed IPO will see Warburg sell part of its stake through an offer for sale, said the second person, also requesting anonymity.