



Lemon Tree's Red Fox Hotel in Mysore

But are they really shaking up the market?

Unless the new players are able to sort out issues on quality, the concept will not work, says Lemon Tree chairman and managing director Patu Keswani



Rahul Dhillon

WHILE SEVERAL new players—which have multiplied in the past few months and are offering accommodations at cheaper prices to guests in cities with a host of attractive products and services—have shown up in the market for creating the alternatives of mid-tier hotels in the space, not all venture funds, venture capitalists and private equity investors have the same view on their business being allowed.

"Who they are becoming competitors for the fragmented accommodation market, they have not been able to build a brand around quality. Customers who visit these places often have unpleasant experiences because these new players are not managing the quality of the guest-house—they are not upgrading them," says Patu Keswani, chairman and managing director of Lemon Tree Hotels, adding, "Lemon Tree's growth will be affected. The way they are operating is unorganized and has no business proposition before, but still will continue to get into the quality issues, the concept won't work."

Founded in 2005, Lemon Tree is considered to be the pioneer in the mid-scale and economy hotel segments. Starting with just one property in Mysore, Lemon Tree currently owns and operates over 1,000 rooms in 21 hotels in 16 cities across India and claims to be the third largest hotel chain in India by overall rooms.

The hotel chain currently runs the "Lemon Tree" under three brands—Lemon Tree Premier properties, Lemon Tree Hotels (mid-scale) and Red Fox Hotels (economy). While Lemon Tree Premier is currently present in Coimbatore, Bangalore, Hyderabad, Delhi, Jaipur and Ahmedabad, the mid-scale operates in mid-scale hotels across cities such as Bangalore, Ahmedabad, Bangalore, Chennai, Hyderabad, Delhi, Gurgaon, Hyderabad, Jaipur, Pune and Varanasi, among others.

Lemon Tree's journey in the hotel space started with Red Fox, a chain of limited service budget or economy hotels, which it launched in mid-2005 after having secured private equity from Warburg Pincus apart from around 500 crore in the company. Currently, Red Fox is present in four places—HITEC City, Hyderabad, Jaipur, and Delhi, and India's average occupancy.

The average room size (ARSR) of Red Fox is 13,000 depending upon the location. The corresponding figures for Lemon Tree Hotels and Lemon Tree Premier are 14,000-15,000 and 15,000-16,000, respectively.

As per Keswani, by the end of

2015, Lemon Tree plans to own and operate over 2,000 rooms in 40 hotels across 20 major cities, including both business and leisure destinations.

Commenting on the idea of entering subsidiaries of such start-ups within a short span of time and the background investor investments from new venture players, Keswani says it's nothing new's bubble of the moment. "They are only showing growth because their valuations are based on their own valuations. They are buying growth from private equity at, say, 11,500 and selling them for 11,000. It's a crazy market. But how do you make it a profitable investment if they price a room for, say, 11,000 after buying for 11,500. How can you be competing with a hotel that is larger than yours? It has to be a paradigm shift," he explains.

However, Lemon Tree is well aware of the changing market dynamics and the potential threats

LEMON TREE'S JOURNEY IN THE BUDGET SPACE STARTED WITH RED FOX IN MID-2005 AFTER AMERICAN PRIVATE EQUITY FIRM WARBURG PINCUS REPORTEDLY INVESTED ₹280 CRORE IN THE COMPANY. CURRENTLY, RED FOX OPERATES IN FOUR PLACES—HITEC CITY, HYDERABAD, JAIPUR, EAST DELHI, AND DELHI AEROCITY COMPLEX.

associated market players. "We are already working towards a competitive strategy to stand out and differentiate ourselves from our competitors," says Rakesh Kumar, deputy managing director, The Lemon Tree Hotel Group and chairman, Operations India.

Lemon Tree has upgraded its website, introduced a mobile app and is now introducing a new city egg. "We are aligned with technology and the changing times. We have introduced a platform to provide a seamless and quick booking experience to our customers," he adds to Rakesh Kumar.

Besides Lemon Tree, other Indian players currently active in the hotel space include Otago Hotels from the Taj group, Parkside in ownership of ITC's hotel group and Fortune Hotels. Most of these hotel groups are available for a starting price of ₹1,000-12,000.