

News monitored for: Lemon Tree Hotels

Lemon Tree Looks to Diversify to Cushion Cyclical Hotel Biz

To Invest ₹300 Crore to Buy Luxury Resorts, Eyes Affordable Housing

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Mumbai: Lemon Tree Hotels is looking at diversifying into vacation ownership and affordable housing to broaden revenue streams and cushion its hospitality business. The company plans to invest about ₹300 crore to acquire resorts in leisure destinations to aid its domestic business and the vacation ownership venture.

The Delhi-based company backed by Dutch pension fund APG and global private equity fund Warburg Pincus is looking at rolling out its two new offerings in the next three years.

"The hotel business is a cyclical business and it has very high volatility. The last five years have seen the extended bottom-of-cycle condition in India. The only way we have grown is through supply addition by adding new hotels, while the price of each room has not grown the same way. This has hurt the industry as a whole," Patu Keswani, chairman of Lemon Tree Hotels, told ET.

Keswani said the company is evaluating the potential of vacation ownership business with RCI, a vacation exchange group.

Lemon Tree Hotels is increasing its presence in the leisure markets to aid both its foray into vacation ownership as well as its domestic hotel business. "The demand in leisure markets has grown faster than the demand in business markets," Keswani said. The company is evaluating leisure market opportunities in the tiger reserves of Jim Corbett National Park in Uttarakhand, Bandhavgarh in Madhya Pradesh and Ranthambore in Rajasthan. It is also looking at Coorg in Karnataka and Coonoor in Tamil Nadu and has started building resorts in Udupi and Shimla.

Keswani said the company will leverage its 100-member in-house project management team to enter the affordable housing segment. "Affordable housing is a function of how quickly the interest rates stabilise and demand for housing picks up. The segment has shown green shoots and is recovering," he said.

However, Keswani said the company's focus currently is its initial public offering, which is expected in the next eight to 14 months. APG owns 15% in the company and has so far invested Rs 1,100 crore. In 2006, Warburg Pincus invested Rs 210 crore in the company for an undisclosed stake.

Keswani said the company's current growth plans are funded and it's not looking to raise funds from private equity before the IPO. He added that the company can raise funds by further monetising its real estate assets and through debt.

The company operates hotels in the four-star (Lemon Tree Premier), midscale (Lemon Tree Hotel) and economy (Redfox) segments. It owns and operates 27 hotels with over 3,000 rooms and is building an additional 1,500 rooms with an investment of Rs 1,500 crore that will be operational by FY20.