

Right Place, Right Time

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If you are 20 and not a communist, you have no heart. And if you are 40 and not a capitalist, you have no brains." It is Patu Keswani's favourite quote. He seems an easy combination of both. "To an extent, I still think I have no brains," he laughs. You could call that modesty. Many of his 1,000-odd employees have already become millionaires, having sold their equity to private investors.

In 2002, well into his early forties, the long-haired Patu Keswani chucked a hugely paying job of over a crore at AT Kearney, risked his savings, took loans and borrowed from friends and well-wishers to set up his first 50-room hotel in Gurgaon at a cost of Rs 9 crore. "I was tired of being an employee, I wanted to be an employer," says Mr Keswani over his favourite all-time snack, bhel puri, at the Sunset Lounge in Taj.

A government employee all his life, Keswani's father reacted just like any middle class salaried family. "My father was horrified, totally. He didn't tell me so as not to stress me. But he cribbed like crazy to my mom and sisters.

Today, of course, he's blown with my success," says Mr Keswani. Incidentally, Mr Keswani's sisters are well-known actors and theatre personalities, Lillette Dubey and Lushin. Back then, Mr Keswani had no clue that he would be able to scale up the business. "I just wanted to have a blast," he says. It wasn't an easy move when entrepreneurs weren't exactly welcome, unlike the scenario today. "Today I sit down with wannabe entrepreneurs and ask them them to just go for it. Financiers are literally chasing entrepreneurs these days," he says.

Keswani, an MBA in engineering, worked with the Tata group for 15 years and in the hospitality sector space for 9 years . He quit to join AT Kearney, where he spent two years in 2000 and then started Lemon Tree in 2002. "Probably the entrepreneurial culture at A T Kearney sparked similar aspirations," he says.

Keswani started Lemon Tree with Rs 3 crore. "I was lucky. I had bought land for Rs 1.5 crore in Gurgaon. Back then, I had designed a unique hotel in the mid-market segment. Today, people say, 'Brilliant timing. You must have thought it through.' But frankly, there was no strategy.

All I wanted to do was build a hotel and give 60% of what a 5-star hotel gives at 30% of the costs. My gut feel was then that as a market, Indians were getting more discerning. They want quality and value at a particular price. So I just wondered if it was possible to make profits with

this model. And it proved to be a smashing hit," he says.

Lemon Tree was up and running with the hotel generating cash from day one of operations. A name chosen out of a list of 1,800 options after a one-day workshop with MNC friends who did a brain-storming session, and the brand was clearly defined. "We were clear that the name should suggest something refreshingly different and not focus on an individual," he says. This was followed up with yet another hotel in Gurgaon itself.

"Mr Keswani's wife Sharanita was then a senior executive with Yum! Foods. "I requested her not to quit her job until I had scaled up the business to earn a decent salary." Today, she is a board member and marketing advisor to the company. Sharanita has worked extensively on startegising for brands and is the sole provider for consultation & marketing-related activities for Lemon Tree Hotels.

These two hotels generated revenues of Rs 12 crore in 2005-06 with an operating profit of Rs 7.15 crore. PAT in the hotel industry is generally in the region of 65% of operating profits contingent upon debt servicing costs and depreciation. With practical experience, Lemon Tree had also finetuned their pricing 50% of whatever the 5-star hotel in the location was offering. Buoyed by the successes in Gurgaon, Lemon Tree decided to venture out of the NCR Region and set up a 125-room hotel in Pune followed by a 60-room and suite beach resort in Candolim, Goa, thus entering the leisure segment.

While Lemon Tree has grown rapidly over the past four-and-a-half years, its success has been to some extent due to the investors that Keswani has been able to attract to his venture. For his first hotel, he lined up 40 investors who today own less than 25% in the venture. Having tasted success in Gurgaon, he was able to get funding from Warburg who invested Rs 280 crore, while another Rs 32 crore was infused by the Kotak realty fund. Together they own 29% of the venture.

What has been Lemon Tree's classic differentiation from other 5-star hotels? Having identified a huge gap between 5-star hotels and low-priced hotels, he was convinced that his offer of moderately priced premium accommodation (Rs 3,000-5,000) would be well accepted by the business and leisure travellers looking for the same. "I never say, treat your customers like kings. Treat your employees like kings and they will treat your customers the same way.

Incidentally, our company has the lowest attrition levels in the industry." Also, there are no bosses in Lemon Tree. Unlike most traditional hotels which tend to be hierarchical, Lemon Tree has a flat organisational structure. "My funda is align your self-interest to that of the company. If the company does well, you do well," he says.

After Lemon Tree, what? "Maybe I'll devote a couple of years to Red Fox hotels. That's one offering in the value segment which I am sure will kick off in a major way. The rooms are priced at Rs 800-2,000 per day. Warburg has already invested Rs 70 crore in this venture as well, branded Red Fox. This will be a clean no-frills hotel for the business traveller and will be in direct competition with Taj's Ginger brand of budget hotels. "Look, as a nation, at all income levels we are used to service. Now that's one area where at any level, Indians expect no

compromise. There it will not be a do-it-yourself kind of hotel," he says.

The economy segment also has a huge latent demand which the group is looking to exploit. The future looks bright as the Indian hotel industry struggles to keep up with demand and properties come up all across the country. Keswani won't have time to breathe till 2010 as he races to a Rs 200-crore revenue mark through his 11 hotels that should be under operation by then. He looks forward to a public listing in the near future and says that to maintain his growth trajectory, all methods of expansion will be considered, organic or inorganic.

When he is not working , he is reading over 10 books at a time. "History is my favourite subject, especially war. I am also into a lot of science fiction and fantasy," he says.

Patu and Sharanita have two children, Aditya, 16 and Nayana, 13 who Mr Keswani is sure will not be offered the business as a natural inheritance. "I do not want them to feel entitled. I do not buy the 'children of entitlement theory'. Of course, I'll take care of their future. I believe a good education and a sound value system will put you on the right track always. They have to find their way about life," he says. That rule, of course, does not hold true for yet another special family member, Sparky Keswani, the company mascot and food critic who represents Lemon Tree's brand values of freshness, fun and spirited energy and shares office space with Mr Keswani

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