

# In the middle of the action

A new category of budget hotels is transforming the Indian hospitality sector, especially business travel, writes **N.B. Rao.**



**SMART BASICS:** Addressing the mass-market economy traveller



**WORKING LUNCH:** For the busy executive

International and domestic hotel chains and entrepreneurs are rushing in to fill a major gap in the Indian hospitality sector. They are setting up modest properties in both metros and smaller cities, and offering moderately-priced rooms to cater to the mid-market segment.

One of the deficiencies in the hospitality industry has been the absence of quality properties, offering efficient and modern facilities to businessmen and tourists at affordable rates. At the upper-end, there are 5-star properties and luxury resorts in and around major Indian cities. But there's not much choice a notch below, though there are plenty of properties of indifferent quality further down the line.

Sensing tremendous opportunities in the frill-free, mid-market segment, dozens of players have unveiled ambitious plans and have started promoting modestly-priced hotels across the country. They include India's leading hospitality compa-

nies, the Indian Hotels Co Ltd (part of the Tata group), which has set up a separate subsidiary (Roots Corporation, with the Ginger brand) to cater to this buoyant segment, and Fortune Park Hotels, which is part of the tobacco-to-hospitality major ITC.

International majors eyeing this segment include Accor, the European leader which has nearly 4,000 hotels worldwide, and Country Inn & Suites, a brand of the Carlson group. Smaller chains that have unveiled major projects include Lemon Tree Hotels, led by Patu Keswani who has had more than 15 years of experience with the Taj group, and the Sarovar group, founded by Anil Madhok, another veteran hotelier with 25 years experience in the Oberoi group.

Industry analysts see tremendous opportunities in this segment, and it is estimated there is a demand-supply gap of about 50,000 rooms. Over the next two-

three years, about 5,000 rooms are expected to come up in the 'no-frills, self-service' budget category of hotels.

Most of these 'economy' class hotels will come up in tier-II cities, or on the outskirts of metros. In fact, according to

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## NO COMPROMISE ON QUALITY



**AFFORDABLE ACCOMMODATION:** The emphasis is on self-service

One of India's leading hotel chains, the Indian Hotels Company Ltd (IHCL) - which manages the Taj group of properties - has entered the mid-segment (the company prefers the term 'Smart Basics') category in a big way, through its subsidiary, Roots Corporation Ltd (which operates the Ginger brand). Prabhat Pani, CEO, Roots Corporation, explains why the premier hotel chain diversified into this segment. Excerpts from an interview:

**What prompted the Taj group to launch the budget chain of hotels under the Ginger brand?**

We wanted to address various segments of travellers who look for different offerings, which remain untapped. With the Ginger brand, IHCL now offers a wide range of offerings by having multiple ranges of hotels and hence will be able to cater to a larger market and draw synergies from the same.

**What are your expansion plans, in terms of number of cities to be covered over the next two to three years?**

We aim to have a national footprint across all major cities and

towns in the country. We are already present in Bangalore, Haridwar and Bhubaneswar. We will be opening shortly in Pune, Mysore and Thiruvananthapuram. Work is also in progress in Goa, Durgapur, Nasik and Agartala and will commence shortly in many more destinations.

**Do you see good potential in this category? Are you targeting primarily Indian travellers or foreigners?**

With the newfound economic upsurge in the middle class and the ability/keenness to travel, a new market of more-travelled and knowledgeable customers has emerged.

This travel boom, linked to increased opportunities for business and commerce, and for leisure travel, will see more action by 2010. Our hotels cater to all segments of customers who are looking for affordable accommodation without a compromise on quality.

**How do you view the competition in this segment?**

We are the only branded product in the country addressing this segment. We have a wonderful 'Smart Basics' offering addressing the mass-market economy traveller. We do not have significant competition today but expect national/regional/international competition to emerge. However, we intend to present to the customer product and service offerings that will remain ahead of competition.

**What are the major disadvantages in setting up budget hotels in India? Is it the high cost of land and construction in cities that prevents more budget hotels coming up in the metros?**

With the real estate boom, high land costs do impact in setting up budget hotels.

**Are you planning an overseas expansion of your budget chain?**

We would like to consolidate our position in the domestic market. However, if the right opportunity comes up we will look at it.

industry sources, the high cost of land in cities like Mumbai, Delhi and Bangalore will act as a deterrent, preventing the setting up of budget hotels in these major metros.

But some hotel chains are planning to tie up with real estate developers, many of who have built millions of sq ft of shopping malls on the outskirts of these cities. The mall space is currently overcrowded and builders seem amenable to finding alternative uses for their properties. Some budget hotels could be located within these complexes, providing a steady flow of visitors for the retail outlets as well.

The large chains, however, are planning to start scores of hotels in the rapidly

growing mini-metros in India. Prabhat Pani, chief executive officer, Roots Corporation, points out that fast-growing sectors like information technology have opened up new geographies in India, with a need for such properties (see interview). These include places like Mohali (on the outskirts of Chandigarh), Bhubaneswar, Jaipur, and Pune.

Budget hotels provide everything that is essential for a business traveller, with no compromise on quality. But the hotels do not offer facilities that are not essential - a swimming pool, for instance, or specialty restaurants - for the busy traveller.

The rooms do not use inferior or cheap

products, have the latest facilities, including plasma TV, mini-fridges, and are Wi-Fi enabled. Besides, there is a multi-cuisine restaurant, where a buffet meal costs just around \$3. There is no room service, or even a bell desk, with the emphasis being on self-service. Naturally, tariffs are fixed at an affordable \$20 (plus taxes) a night.

In contrast, a 5-star property in Mumbai or Delhi would cost over \$350 a night, and in Bangalore a whopping \$500-plus.

Budget hotels are also attracting non-business travellers, especially the growing number of middle-class Indians who are taking their families on vacation, even flying to different destinations. The presence

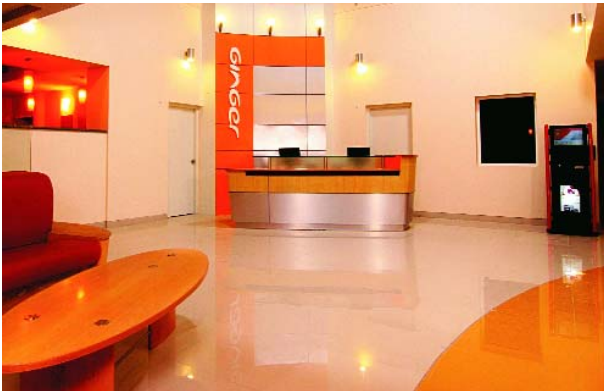
of low-cost airlines has transformed the domestic travel scenario.

Lemon Tree Hotels is also in an expansion mode. The company has launched a new subsidiary, Red Fox Hotels, to target the budget traveller. Rooms will be in the range of \$20 to \$40.

One of the fastest-growing chains in the 'full service, moderate price' category, Lemon Tree has even attracted funding from international firms. International private equity firm Warburg Pincus recently invested about \$45 million in the company.

"We believe that the budget and moderately-priced hotel segments in India presents a large and untapped opportunity and we are excited about partnering with Patu Keswani to target this segment," says Julie Johnson Staples of Warburg Pincus.

The Kotak Realty Fund, part of the Kotak Mahindra group




(which raised \$100 million from domestic investors earlier this year, and has also got a commitment for a further \$60 million from international investors), has invested over \$7 million in Lemon Tree and Red Fox hotels.

Red Fox, which will offer no-frills, but clean and comfortable rooms, plans to open properties in Mumbai, Jaipur and Hyderabad in about two years. "We decided to set up Red Fox because we saw enormous opportunity in the economy segment," says Keswani.

International chain, and a world leader in the economy and mid-price segment, Accor, has established a joint venture with the InterGlobe group (which operates the new low-cost, IndiGo airline), to "redefine the economy hotel sector in India." InterGlobe Hotels, the new venture, is promoting the 'Ibis' brand of economy hotels across the country. The company plans to have at least 25 Ibis units over the next decade. Some of the new properties will be in Bangalore, Gurgaon, Mumbai, Chennai, Hyderabad, Pune, and Jaipur.

Most of the no-frills, economy hotels are being tailored for contemporary, tech-savvy and independent Indian professionals, who are expected to lug their baggage up to their rooms without the help of bell-boys, or can rustle up a quick cup of tea in their rooms, and not feel helpless in the absence of room service.

The new category of hotels will bring about a sea change in the very ethos of the Indian hospitality sector. 

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- Mansa Devi (10 kms) • Kurukshetra (90 kms)
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