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# Fund-short hotels find it hard to come up

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In December last year, realtor DLF bought out Hilton in their joint venture (JV) DLF Hotels & Hospitality for Rs120 crore. The JV was to set up 75 hotels across the country. A DLF spokesperson had then said the deal was a step towards monetising the JV's assets, including incomplete hotel sites.

Similarly, earlier last year, Premier Inn bought out realtor Emaar MGF's stake in their 50:50 JV, which was to develop and operate 80 limited service hotels under the brand Premier Inn over the next 10 years, with an investment of $600 million. However, with Emaar MGF running into financial problems, Premier Inn was left to pursue expansion plan on its own —- it will now have 650 rooms in the next three years including the 200-plus already operational rooms in Delhi and Bangalore.

These two instances alone have knocked around 150 hotels, or 15,000 guest rooms (assuming each hotel had 100 keys), off the Indian hospitality development pipeline.

Blame it on scarcity of funds.

A white paper released by global hospitality consulting and services firm HVS in collaboration with World Travel & Tourism Council recently said India will need overall investment of $25.5 billion for constructing 180,000 additional hotel rooms over the next 10 years.

However, sourcing capital for these developments will be a challenge, said Kaushik Vardharajan, managing director, HVS Hospitality Services India. "We are of the opinion that only 60% of these guest rooms will actually get constructed within the stipulated timeframe."

Luis Miranda, former CEO of IDFC Private Equity, couldn't agree more. There just aren't enough funds available to the Indian hospitality sector though demand remains strong, he said at the recently concluded Hotel Investment Conference South Asia.

Other participants at the conference echoed Miranda's concerns, including Navneet Bali, chief investment officer, Duet India Hotels, Peter Meyer, managing director, Pacifica Partners, Sandeep Kotak, executive vice-president, Kotak Mahindra Bank and Vijay Jayaraman, senior vice-president, Equity International.

"A majority of the hotel companies operating in the country are in agreement that there isn't enough capital to build all the hotel rooms being talked about," said Akshay Kulkarni, executive director - SA, Cushman and Wakefield Hospitality.

The severity of the problem can be gauged from the fact that companies that raised money in the past and over-leveraged their balance sheets have little option left now but to sell some of their existing assets.

Like Leela Palaces Hotels & Resorts sold its Kovalam hotel for Rs500 crore while retaining management contract. The BSE-listed company is, in fact, considering similar options for its yet-to-open luxury hotel in Chennai, mainly to be able to retire debt and since the management now wants to pursue an asset-light strategy (management contract).

Ditto for Bangalore-based Royal Orchid Hotels, which is looking to divest a few of its hotels to retire debt and fund developments in key metros like Mumbai.

In fact, Royal Orchid has already inked a deal to sell its Royal Orchid Central Ahmedabad hotel.

"The deal is in final stages of conclusion and the hotel has been bought by SAMHI Hotels Pvt Ltd," said a source familiar with the development.

But why are financial institutions shying away from this sector?

Long gestations and low returns on investment, say industry experts.

A case in point is Sarovar Hotels & Resorts, which had in 2005 raised Rs38 crore from global private equity funds Bessemer Venture Partners Trust and New Vernon Private Equity to part-finance its new budget hotel brand, Hometel. Now, 5-6 years later, given the market conditions and the overall health of the sector, exiting may be easier said than done for these PE firms.

But all’s not lost yet. A few companies DNA Money talked to expect to pump in as much as $535 million over the next eight years.

Among these, Duet India Hotels, which has a partnership with InterContinental Hotels Group, is looking at an investment of around $125 million in addition to the $200 million or so it has already earmarked.

On its part, Premier Inn will invest $35 million or so through internal accruals for upcoming properties in Pune (113 keys), Goa (131 keys) and Chennai (108 keys), said Aly Shariff, managing director, Premier Inn India.

Urbanedge Hotels, a JV between Citigroup Property Investors and Auromatrix Hotels, has partnered with Starwood Hotels to develop ‘aloft’ hotels across India. “We will be investing around $300 million in the said timeframe,” said Kumar Sitaraman, chairman and CEO, Auromatrix Hotels.

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