

Business

Troubling questions swirl at hotel start-up

NEW DELHI

Deceptive practices alleged at Oyo, an Indian budget chain backed by SoftBank

BY VINDU GOEL
AND KARAN DEEP SINGH

Oyo, a start-up that offers budget hotel rooms, has grown into one of India's most valuable private companies and aims to be the world's largest hotel chain by 2023.

But at least part of Oyo's rise in India was built on practices that raise questions about the health of its business, according to financial filings, court documents and interviews with 20 current and former employees, as well as others familiar with the start-up's operations. Many spoke on the condition of anonymity for fear of retaliation from the company.

Some rooms Oyo offers are in hotels that have left its service, according to the company's chief executive and nine of the current and former employees. That has the effect of inflating the number of rooms listed on Oyo's site.

Thousands of the rooms are in unlicensed hotels and guesthouses, its executives have acknowledged. To head off trouble from the authorities over the illegal rooms, Oyo sometimes gives free lodging to the police and other officials, according to nine of the current and former employees, and internal WhatsApp messages viewed by The New York Times.

Oyo has also imposed extra fees on hotels and declined to pay the hotels the full amounts they claimed they were owed, according to interviews with hotel owners and employees, emails, legal complaints and other documents viewed by The Times. Some hotel operators have sought to file criminal complaints against Oyo, which said it withheld payments primarily over the hotels' customer service issues.

"It's a bubble that will burst," said Saurabh Mukhopadhyay, a former Oyo operations manager in northern India who left the company in September.

Oyo is part of a group of prominent start-ups that have sprinted to get as big as possible, fed by money from large investors such as the Japanese conglomerate SoftBank. Now some of those young companies, like the office rental company WeWork in New York and the delivery service Instacart in San Francisco, have started showing cracks in their businesses.

Any fall by Oyo could blight India's start-up landscape, which has received billions in foreign capital in recent years, spawning other multibillion-dollar companies such as the ride-hailing firm Ola



The Amaira Hotel and Banquet in Ghaziabad, India, is run under Oyo's brand. The chain offers 1.2 million rooms in 80 countries and employs more than 20,000 people.

and the digital payment provider Paytm.

It would also be another black eye for SoftBank, which is Oyo's biggest investor and owns half the start-up's stock. Masayoshi Son, SoftBank's chief executive, has hailed Oyo as a jewel of his company's \$100 billion Vision Fund, even as he recently wrote off billions of dollars on other investments like WeWork.

"This is the only company which went global at this scale from India," Satish Meena, a senior forecaster for the research firm Forrester in New Delhi, said of Oyo. "But as of now, there are serious doubts about the business model."

SoftBank declined to comment.

Ritesh Agarwal, Oyo's chief executive, acknowledged in a recent interview that some of his company's room

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listings included hotels that it no longer worked with. He said Oyo left those listings up and marked them as "sold out" as it tried to woo the hotels back.

Aditya Ghosh, Oyo's former head of India operations, also said in an interview that many hotels lacked required licenses, leaving them vulnerable to the occasional government raid. He denied that Oyo gave free rooms to officials.

Mr. Ghosh dismissed what he called "noise" from hotels about extra fees and nonpayment of bills. "The disagreement

is about the penalties we charge on customer service failure," he said.

He added that nearly 80 percent of Oyo's employees had been at the company for less than a year, so training has been a challenge. "We have just grown very, very fast," he said.

Founded in 2013 by Mr. Agarwal, then a 19-year-old student, Oyo set out to organize India's budget hotels, which have traditionally been small, family-run enterprises. The company coaxes the hotels to become Oyo-branded destinations that list exclusively through its website; it then markets those rooms online to travelers and takes a cut of each stay. The start-up also runs some hotels itself.

Oyo is trying to expand globally and now offers more than 1.2 million rooms

in 80 countries, including the United States. It employs more than 20,000 people and has raised more than \$2.5 billion in funding. Mr. Agarwal has become a business star, hobnobbing with India's prime minister, Narendra Modi.

But as Oyo has grown, its losses have mushroomed. The company expects to lose money through at least 2021, according to recent government filings. Some efforts to expand in countries like Japan have flopped.

In December, SoftBank and Mr. Agarwal put another \$1.5 billion into Oyo to accelerate its expansion. The funding, negotiated over the summer, valued the company at \$8 billion.

At the same time, two other big investors, Sequoia Capital and Lightspeed Venture Partners, reduced their hold-

ings. The venture capital firms, which hold board seats at Oyo, sold \$1.5 billion of their stock — about half their stakes — to Mr. Agarwal. He borrowed to buy the shares and paid the venture firms a price that valued Oyo at \$10 billion.

Lightspeed and Sequoia declined to comment.

The current and former workers said that Oyo was never an easy place to work but that pressure increased over the last year.

Mohammad Jahanzeb Gul, who joined the start-up in January 2019 and supervised 23 Oyo properties, said that during the nine months he was there, he sometimes spent all day and night in front of a computer to meet deadlines.

"The culture is really very toxic," he said.

Mr. Mukhopadhyay, who began working at Oyo in August 2018, said employees were under so much pressure to add new rooms that they brought hotels online that lacked air-conditioning, water heaters or electricity. He and eight others said their managers had asked them to engage in a monthly shell game of briefly inserting these unavailable properties into Oyo's listings — complete with fake photographs — to help impress investors.

Mr. Ghosh, who left the India job this week and joined Oyo's board, said that some hotels open in stages and that "there is no padding."

Saurabh Sharma, who worked for Oyo from 2014 to 2018 as an operations manager, said the company sometimes deliberately withheld payments from hotel owners — a practice that half a dozen other current and former employees also described.

In some cases, they said, the start-up wanted to squeeze the hotel owners into renegotiating contracts that it deemed unprofitable. In others, Oyo wanted to save money and figured that most owners would not press for full payment.

"If 1,000 people shout, we will pay 200," Mr. Sharma said Oyo managers had told him.

In a police complaint filed in November, Betz Fernandez, owner of the Roxel Inn in Bangalore, said Oyo owed him \$49,000 and acted with "intention to cheat and cause wrongful loss" by charging him for nonexistent guests and refusing to pay the contracted minimum monthly payment. Oyo said the dispute was in arbitration.

Oyo's oversight of its workers was also sometimes so lax that employees brazenly stole from it, said four people who were involved in the start-up's fraud-fighting efforts.

Because Oyo hotels are popular with unmarried couples looking for places for their trysts, one scheme involved workers at properties run directly by the start-up colluding to make it appear that guests who had left were still checked in. OYO, PAGE 9

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OYO, FROM PAGE 8

The workers then cleaned and rented the rooms for cash to other guests and pocketed the money, the people said.

Oyo has conducted surprise raids at some properties, seizing employees' cellphones and checking rooms and records for evidence, they said.

An Oyo spokeswoman said it investigates all fraud accusations and had in some instances fired employees.

Executives have also asked employees to paper over troubling incidents, some workers said.

Mr. Mukhopadhyay said that one night last June, a long-term guest at an Oyo-run property in Noida, near New Delhi, called him. She said three men had raped her in her room.

The next morning, Mr. Mukhopadhyay and another Oyo employee were summoned to the police station, where they pleaded with the guest not to register a formal complaint. Oyo's legal team also instructed them not to tell anyone



SAUMYA KHANDELWAL FOR THE NEW YORK TIMES

Saurabh Sharma, a former Oyo operations manager, at his home in New Delhi. He and others said the company sometimes deliberately withheld payments from hotel owners.

about the incident because it could hurt the company's image, he said. The guest withdrew the complaint and moved out.

In a telephone interview, the guest confirmed Mr. Mukhopadhyay's account. Oyo disputed some details and said any decision to file a complaint was up to the guest. The Noida police said they had no record of a complaint.

To placate the authorities over unlicensed properties, Oyo managers also gave the police and other government officials free rooms on request, current and former employees said. They said the details were recorded in dedicated WhatsApp groups, one of which The Times reviewed.

Mr. Ghosh said, "We do not encourage or involve ourselves in any kind of bribery or graft."

Mr. Mukhopadhyay said Oyo's growth practices contributed to his decision to leave.

"There's something called integrity," he said. "I can't compromise on that."