ELEGANT HOTELS LIMITED

A BUSINESS CASE STUDY

Company Overview

Elegant Hotels Limited (EHL)

- Operates a chain of luxury hotels in Rajasthan
- Known for premium hospitality and heritage-inspired experiences
- "Elegant Luxury"

Leadership

CEO & Managing Director: Mr. Rakesh Rajput

Leads strategic direction and operations

Instrumental in shaping the company’s growth over 15 years

15 Years of Excellence

- Established 15 years ago
- Strong presence in Rajasthan's luxury hospitality sector
- Focus on elegance, customer experience, and regional culture

Hotel Locations

- Jaisalmer – Desert heritage retreat
- Chittorgarh – Royal fortress getaway
- Bikaner – Cultural luxury escape
- All hotels rated four-star and above

“Elegant Luxury” –Brand

- Represents sophistication, comfort, and local richness
- Tailored experiences for domestic and international guests
- Blend of modern amenities and Rajasthani tradition

Headquarters

- Located in Jaipur, Rajasthan
- Hub for strategic planning, administration, and coordination
- Supports all operational hotels from a central location

Positive Trends Driving Growth

- Improved connectivity across Rajasthan cities
- Rising economic prosperity
- Significant growth in tourism sector
- Rajasthan emerging as a top tourist destination

Financial Position of EHL

All existing hotels are profitable

Company has generated surplus funds

Strong financials enabling strategic expansion

Expansion Vision by Mr. Rakesh Rajput

Mr. Rajput proposes expansion within Rajasthan

Proposals to be discussed in the **Board Meeting on June 30, 2023**

Business Expansion Agenda – Email Summary

- From: CEO Rakesh Rajput
- To: Board Members
- Date: 5th June 2023
- Subject: Outline of Business Expansion Proposals within Rajasthan
- Board Meeting Proposed on: 30th June 2023

Why Expansion?

Rajasthan is witnessing surge in tourism and economic activity

Strong performance of existing hotels (Jaisalmer, Chittorgarh, Bikaner)

Availability of ₹8 crores surplus funds

Opportunity to target new market segments

Proposal 1 – “Elegant Luxury”, Udaipur

New 4-star hotel in Udaipur under Elegant Luxury brand

Estimated investment: ₹40 crores (land + building + equipment)Target market: Vacationing premium tourists

Emphasis on:

- High-quality cleanliness and food service
- Maintaining customer satisfaction to prevent online reputation risks

Scenic location – guests willing to pay premium

Proposal 2 – "Elegant Business" Hotels

Proposed locations: Jaipur and Jodhpur

Brand: Elegant Business

Target audience: Business travelers/ Cost-conscious tourists

Offerings: Compact rooms/ Conference facilities/ High-speed internet, airport shuttle/ Limited menu & functional design

Proposal 3 – Investment of Surplus Funds

- Current surplus: ₹8 crores
- Proposal: Invest in shares of reputed hospitality company
- Objective: Earn higher returns than traditional bank deposits
- Aligns with long-term investment goals

Strategic Benefits of Expansion

Enhances EHL's geographical footprint in Rajasthan

Diversifies portfolio across luxury and business segments

Utilizes surplus funds strategically

Strengthens EHL's brand positioning in multiple price segments

Board Meeting Decisions – June 30, 2023

New luxury hotel in Udaipur – Approved

Budget hotel segment – Under discussion

Investment of surplus funds – Approved

5 out of 6 directors present voted in favor

Total directors on Board: **7**

Way Forward

01

Begin execution of Udaipur hotel project

02

Continue deliberations on budget segment entry

03

Implement approved investment strategy for surplus funds

04

Align growth with market demand and brand positioning

Launch of “Elegant Luxury” – Udaipur

- Operations commenced on April 1, 2024
- Fourth hotel under the “Elegant Luxury” brand
- Strategic location in a major tourist hub
- Focus on high-end hospitality and cultural immersion

Project Investment Details

₹25 crores capital expenditure incurred during **July 2023 to March 2024**

Entire amount **capitalized on April 1, 2024**

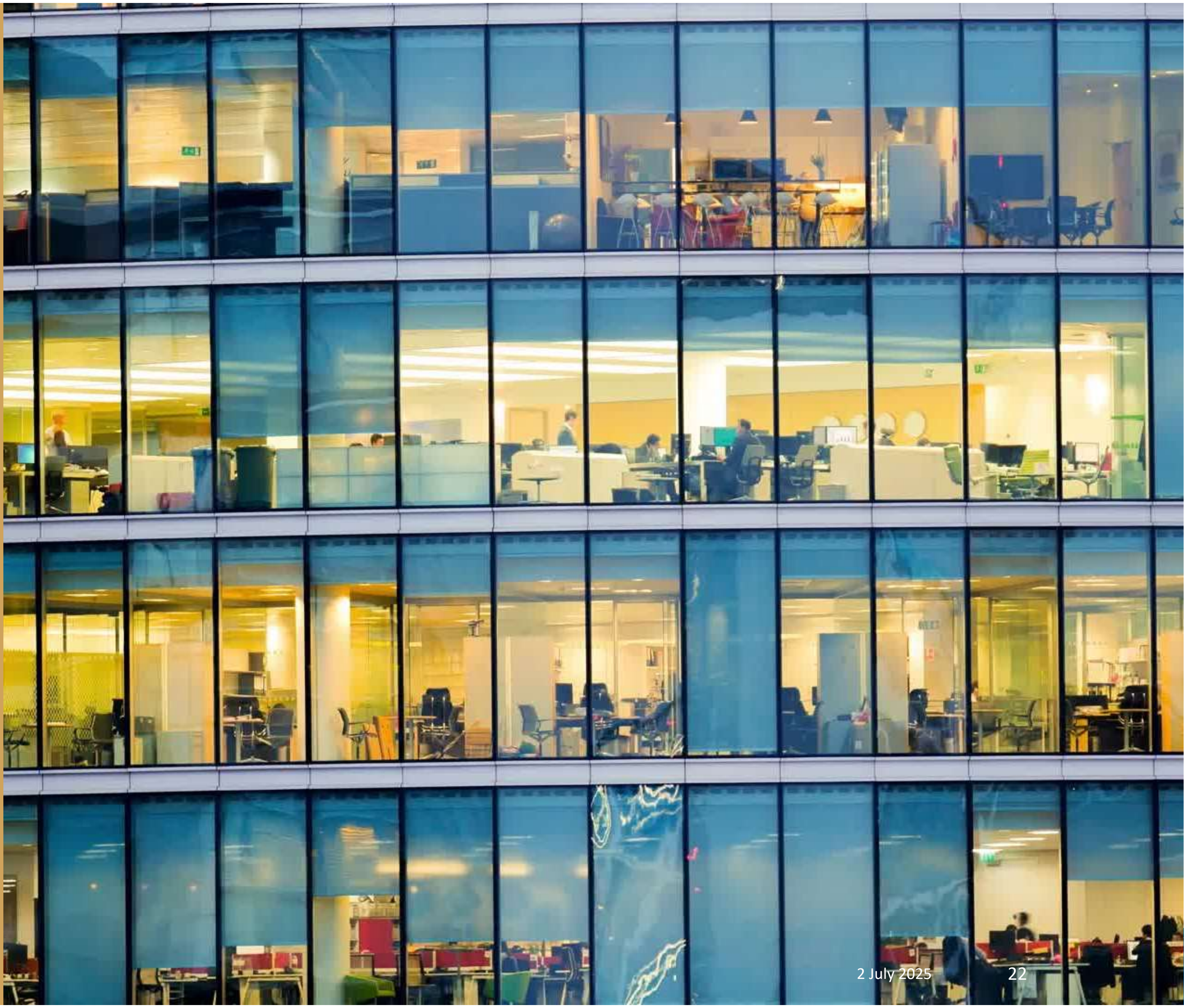
₹15 crores incurred during **F.Y. 2024-25**, including:

- ₹10 crores – Land acquisition
- ₹5 crores – Further development

All payments made via **account payee cheque / ECS**

Profitability for A.Y. 2025–26

- Profit from **Udaipur hotel**: ₹15 crores
- Profit from **other EHL hotels**: ₹35 crores
- Total profit (before deductions): ₹50 crores
- No deductions claimed under Chapter VI-A (Heading C)
- EHL **not opting** for concessional tax regime u/s **115BAA**



Investment-Linked Tax Incentive – Udaipur

EHL plans to claim investment-linked deduction for the Udaipur hotel

Application for four-star classification made on April 1, 2024

Classification approved in F.Y. 2025–26

Delay due to pending inspection by HRACC

Deduction Claim – Compliance Status

- All conditions for deduction fulfilled under applicable section
- Capital expenditure incurred via banking channels
- Classification eventually granted – supports deduction eligibility
- Operations commenced within prescribed timelines

Key Tax Implications

EHL may be eligible to claim 100% of capital expenditure (excluding land)

₹30 crores potentially eligible (₹25 cr + ₹5 cr)

Profit from Udaipur hotel: ₹15 crores → deduction can be claimed

Entry into Budget Hotel Segment – FY 2025–26

- EHL expanded into budget business hotels under the brand “Elegant Business”
- Operations commenced in: Jaipur – 100 rooms; Jodhpur – 200 rooms
- Locations: Prime urban areas with high real estate costs

Business-Focused Facilities & Services

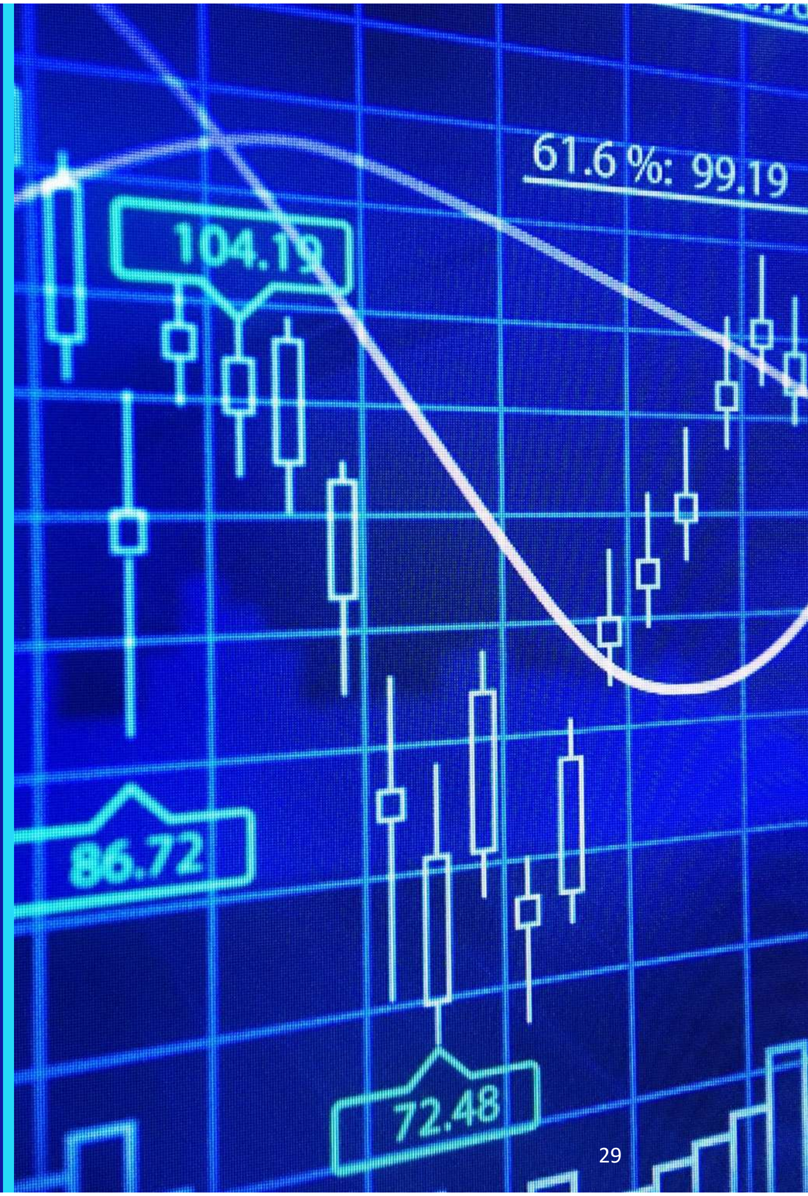
- Hotels positioned to serve business travellers & corporate events
- Convention services include:
  - Accommodation with meals
  - Conference room access
  - Business centre usage
  - Fitness room
  - Tea/Coffee during events
  - Notable client: Royals Private Limited (100 delegates)

Jaipur Hotel – Financial Snapshot

- Net Operating Profit (before interest & tax): ₹2 crores
- Depreciation: ₹8 crores
- Increase in Working Capital: ₹5 crores
- Capital Expenditure: ₹10 crores
- Invested Capital (Year-End): ₹20 crores
- WACC: 8% | Corporate Tax Rate: 30%

Economic Value Added (EVA)

- Step 1: NOPAT (Net Operating Profit After Tax)
  - EBIT = ₹2 croresTax @30% = ₹0.60 crores
  - NOPAT = ₹1.40 crores
- Step 2: Capital Charge
  - Invested Capital = ₹20 crores
  - WACC = 8% → Capital Charge = ₹1.60 crores
- EVA = NOPAT – Capital Charge = ₹1.40 – ₹1.60 = ₹(0.20) crores
- 🔻 EVA is negative – indicating value erosion in FY 2026–27



Outsourcing Non-Core Services

- Services considered for outsourcing:
  - Cleaning
  - Food services
- Benefits expected:
  - Reduced capital investment (e.g., no full kitchen)
  - Space optimization

Outsourcing Non-Core Services

- Challenges:
  - Lack of reliable service providers in Jaipur & Jodhpur
  - Risk of compromising cleanliness & food quality
  - High customer expectations even in budget segment

Recommendation on Outsourcing Strategy

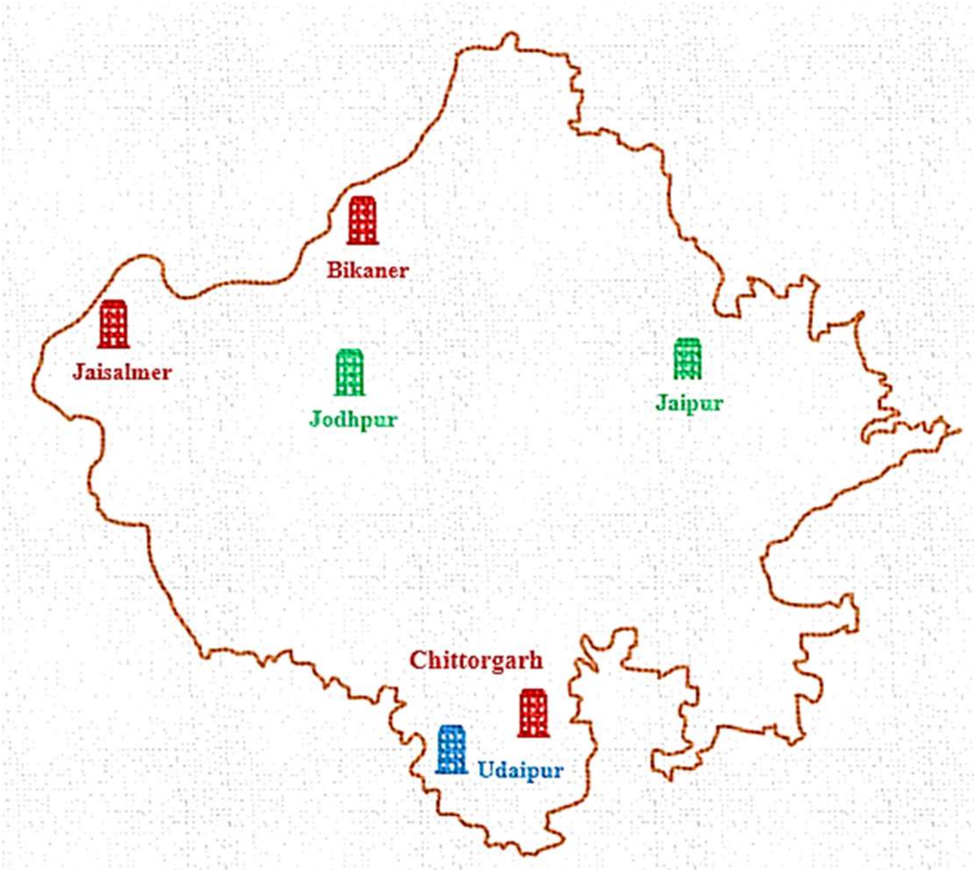
Short Term:

- Maintain in-house operations to control quality
- Initiate vendor development and pilot outsourcing selectively

Medium to Long Term:

- Gradually outsource non-core services where feasible
- Establish SLA-based contracts to ensure minimum quality standards

Preserve brand reputation by meeting hygiene & food quality expectations



Geographical Footprints