Case Study -1

The hospitality industry is a dynamic and multifaceted sector that plays a pivotal role in the global economy, encompassing a wide range of services including lodging, food and beverage, tourism, and event management. Known for its emphasis on customer service and experience, the industry thrives on creating memorable and personalized experiences for guests, whether through luxurious accommodations, exceptional dining, or unique recreational offerings. Despite challenges like high job mobility and evolving consumer preferences, the hospitality industry continues to innovate through advancements in technology, sustainability practices, and the adoption of ESG (Environmental, Social, and Governance) principles.

SarTaj Hotels Limited, the country's largest listed hospitality company, continues to demonstrate industry-leading growth with consistency and conviction. This is reflected in its exceptional financial and non-financial performance, including portfolio expansion and the scaling of new businesses. The company achieved this while aligning with its sustainability commitment and ESG initiative. These attributes accentuate its remarkable journey and the ways it creates value for all stakeholders. SarTaj's consistency stems from its conviction in values and commitment to excellence.

With over 120 years of leadership in the industry, SarTaj Hotels is renowned for its exclusive properties, flawless service, and distinctive brands. These, all embodying the cherished notion of 'SarTajness,' create unforgettable experiences for guests. The company's deeply rooted values and rich legacy provide the confidence to re-imagine the future, enabling SarTaj to grow its ecosystem with greater speed, synergy, and success, bringing delight to its customers and driving enhanced value for all stakeholders. The company has evolved from a branded house into a House of Brands, offering a portfolio that includes luxury, upscale, lean luxe segments, and budget stays. This hospitality ecosystem is further strengthened by innovation and service excellence.

Hotel food service has historically been an integral part of the hotel business. Food service provide guests with food for consumption, business related functions, entertainment and celebrating events, and for some hotels food acts as an attraction in its own right.

Food service production

Food service production in hotels is primarily based on fresh produce. The perishable nature of this produce poses a challenge for hotels, further complicated by the presence of multiple food outlets and supply chain activities within each hotel. Additionally, hotel food is not designed to be stored for extended periods. Once prepared, it is expected to be consumed immediately or soon thereafter. The production of fresh food varies depending on the type of food services offered by individual hotels.

In terms of food sourcing, two main groups of food production are prevalent: 'push production' and 'pull production.'Push production refers to services that have not been paid for in advance. These food services are available in restaurants, bars, guest rooms, or any other outlets where food can be ordered on demand. The number of these outlets varies depending on the hotel's designated food outlets and other areas where food may be served. Pull production caters to services such as functions, conferences, and other events that have been reserved in advance, with specific details provided (e.g., number of attendees, types of food required, and the venue). Payments for pull production services are typically made in advance, either partially or in full.

When it comes to food sourcing, push and pull productions have different conditions. Push production presents a greater challenge due to demand uncertainties. The data indicates that push production often involves a 'guessing game.' Accurately forecasting demand is considered difficult, and incorrect forecasts can result in either insufficient food to sell or excessive food wastage. In contrast, pull production is a more straightforward task in terms of planning for both the type and quantity of food to source.

Head chef as creator, memory and processer

The head chef plays a crucial role in hotel food service supply chains, being involved from the initial stage of product development through to the production stage. The extent to which the head chef influences supply chain activities depends on the configuration of the hotel's food service supply chain, which is shaped by the hotel's organizational characteristics. Head chefs are valuable resources of expertise and knowledge necessary for the smooth operation of the "production plant"—the kitchen—and all related activities. They function as creators, memory keepers, and processors who oversee production. Additionally, head chefs are responsible for key management areas beyond production, such as purchasing and inventory management.

The role of the head chef as a creator, stems from their responsibility for writing the menu. Menu writing is a form of product development, and in hotel food service, this development often appears to be intuitive. Several concepts emerged from the data that characterize the product development process. Menus not only serve as product offerings but also function as a tool to achieve target gross profit. Chefs view menu writing as more than just a job requirement; they think about it even outside working hours and see it as a creative task. Menus were frequently changed, with some chefs updating their menus daily. These changes were not only based on inventory availability or the chef's imagination but were also adjusted according to the price of raw materials. The frequency of menu changes is based on the chef's judgment rather than following a fixed schedule, as is common in many hotel companies.

Another critical management area, inventory management, is often referred to as a "guessing game." The head chef's knowledge and experience are crucial for managing the hotel's food supply. The head chef is the person who holds the information regarding inventory management. Common practices in hotels include maintaining a minimum stock level, also known as "reserve" or safety stock, and using a "run out and replace" strategy, which involves replenishing stock when it runs low. Hotels that offer food service around the clock, such as restaurants, bars, and room service, must always have food in stock. If raw materials are unavailable in the market or deliveries are delayed, the hotels need to maintain a certain amount of food to ensure production continuity. Once the inventory drops below the level "guessed" by the head chef, an order is placed to restock to the minimum level. While some hotels can afford to use a "lean" strategy, which involves running out of stock and then ordering more, this approach is found in only a few hotels; most maintain a minimum stock level at all times.

Collaboration with suppliers

Suppliers not only play a crucial role in providing raw materials, but some SarTaj hotels also use their suppliers in menus and brochures to add value and differentiate their product offerings from competitors. It's interesting to note that SarTaj hotels maintain both traditional arm's-length relationships and long-term cooperative relationships with their suppliers.

SarTaj's foodservice outlets leveraged fresh produce and their supplier partnerships as key selling points. The company highlighted collaborations with local suppliers and producers, as well as those offering specialty, high-quality ingredients, to showcase the uniqueness of its offerings. The strong relationships between chefs and suppliers were communicated effectively to customers, reinforcing SarTaj's commitment to sourcing excellence and supporting local communities.

While lower raw material costs were constantly pursued, mainly for dry goods, prices were compared across various suppliers, with the cheapest options often being selected. SarTaj used a spreadsheet to track prices and select the best deals from different suppliers, which was seen as an advantage as the hotel was able to buy products at the lowest price.

In addition to making suppliers compete on price, SarTaj employed a "two-supplier strategy" to ensure the quality and price of certain products remained consistent. For instance, SarTaj had two suppliers for certain goods and alternated between them, as suppliers often raised prices or failed to maintain quality.

Use of technology

The exploitation of information technology in SarTaj group hotels is minimal, with a high degree of manual-based supply chain activities. Pen and paper are the primary tools used for product planning. Although some SarTaj hotels use electronic data interchange with their suppliers, it is limited to basic operational tasks, such as placing orders. The hotels rarely retain their point-of-sale data, and sharing such information with suppliers is almost non-existent. Demand forecasting for business volume may be supported by computer programs, but forecasting demand variants remains a "guessing game".

Additionally, stock checking for raw materials is manually performed by physically counting inventory items. While some larger hotels utilize online ordering channels, most rely on telephone communication for placing orders. The widespread use of telephone ordering in the hotel sector is attributed to the shorter ordering time, suppliers' lead times, and the fact that telephoning offers two-way communication, allowing for discussion of product availability.

Even though some hotels employ computer-generated demand forecasting, it only helps estimate the overall volume of food required by hotel guests and other markets related to push production. However, uncertainty remains regarding demand for restaurant food, which is further complicated by variations in food requirements.

In house activities

While in-house production facilities offer many benefits, they also require significant investment in infrastructure, equipment, and skilled labour. Having a captive model makes it easier to implement design changes and customize products according to specific customer requirements. As a result, the company is less reliant on external suppliers and manufacturers, reducing risks associated with supply chain disruptions. Additionally, the company uses in-house teams of highly trained hotel staff for food preparation, which is a time- and labour-intensive process. However, rising staff costs and the increasing cost of high-volume food items are putting pressure on margins.

Several years ago, SarTaj appointed Mr. Ramakrishnan as the company secretary, recognizing his extensive experience in the hotel industry and expertise in handling regulatory compliance. At the time of his appointment, the company promised him an annual salary hike ranging between 15% and 25% of his total compensation package (CTC). Over the past few years, Mr. Ramakrishnan's performance has been exceptional, consistently exceeding expectations and contributing significantly to the company's operational success, particularly in navigating complex compliance matters. His expertise has been instrumental in managing regulatory challenges and addressing cost pressures associated with labour.

During the audit planning meeting, the auditor was informed that the entity generates a substantial portion of its revenue through cash sales, with annual revenue amounting to ₹ 1,000 crores. Key managerial personnel and senior management often face intense pressure to meet or exceed financial targets set by investors or analysts, and their remuneration is based on achieving these performance targets. The internal auditor assessed the internal control system and did not observe any deficiencies in the revenue recognition process. Based on this assessment, the auditor concluded that revenue is not susceptible to fraud risk and, accordingly, did not associate any fraud risk with revenue in the audit strategy.

SarTaj has a policy of providing loans to employees at a 5% annual interest rate, with the loan amount to be repaid in five equal annual installments. The market rate of interest (not a Level 1 input) for comparable loans is 10% p.a. On April 1, 2024, an employee took out a loan of ₹ 10 lakhs from SarTaj, with an annual EMI of `2.31 lakhs. SarTaj recognized the financial asset at ₹ 10 lakhs on April 1, 2024, accrued interest at 5% for the year, and received the EMI payment. The auditor raised concerns about the accounting treatment adopted by the entity for recognizing the financial assets.

The auditor also plans to communicate with the Audit Committee for several important reasons. Regular and open communication fosters a culture of transparency and builds trust between auditors and those charged with governance. This trust is crucial for the auditor to perform their duties without obstruction and for governance to have confidence in the audit process.

SarTaj has an overseas subsidiary, Black Pearl LLC. Under the FEMA (Overseas Investment) Regulations, 2022, SarTaj is required to file an Annual Performance Report (APR) with the Reserve Bank of India (RBI). The APR is part of the compliance framework to ensure that investments made by Indian entities abroad are monitored and reported accurately.

By adhering to these regulations and maintaining open communication with the Audit Committee, SarTaj Hotels fosters a culture of transparency, building trust between auditors and those charged with governance. This trust is essential for the smooth functioning of the audit process and ensures confidence in the financial oversight of the company.

ANNEXURE

Brand Portfolio of SarTaj

Kings Korner	**Hocus Pokus**	**Stories**	**Silverline**
India's strongest across sector, spacious suites with premium furnishings and state-of-the-art technology	Exclusive, agile upscale hotels	Simply better! Simple and functional design, focusing on practicality	Exclusive wellness experiences such as organic spa treatments or nature immersion activities
₹936 crores of revenue	*₹195 crores of revenue*	*₹48 crores of revenue*	*₹90 crores of revenue*
110 hotels	*96 hotels*	*91 hotels*	*8 hotels*
17,000 keys	*11,200 keys*	*9,000 keys*	*3,000 keys*

PARTICULARS OF EMPLOYEES

Information under Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

a. The ratio of the Remuneration of each Director to the median Remuneration of the employees of the Company for the financial year and percentage increase in Remuneration of each Director, Chief Executive Officer, Chief Financial Officer, or Manager, if any, in the financial year:

Name	% Increase of Remuneration in 2024 as compared to 2023	Ratio to median Remuneration
Non-Executive Directors		
Mr. Chandrasekaran T.@	-	-
Mr. Krishna Gupta	17%	21.95
Mr. Srinath Mehta	16%	18.96
Ms. Angel Gupta	15%	20.33
Mr. Sharad Aggarwal *	***	***
Mr. Ravi Gupta	32%	18.59
Executive Director		
Mr. Puneet Jaiswal – MD & CEO	28%	570.0
Chief Financial Officer		
Mr. Giridhar Krishnan – EVP & CFO	6%	-

*@As a policy, Mr. Chandrasekaran T., Chairman, has abstained from receiving commission from the Company. *Retired as Director w.e.f. May 22, 2023. ***Since the remuneration is only for part of the year (either in CY or PY), percentage increase in remuneration and the ratio of their remuneration to median remuneration is not comparable and hence not stated.*

b. The percentage increase in the median remuneration of employees in the past 6 months was 5.5%.

c. The number of employees as on March 31, 2024 was 5,756.

d. Average Percentile increase already made in the salaries of employees other than the Managerial Personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:

- During FY 2023-24, the average percentage increase / (decrease) in salary of the Company's employees, excluding Key Managerial Personnel ('KMP') was 8.8%.
- During FY 2023-24, the average percentage increase / (decrease) in salary of the KMP was 42%.

e. It is affirmed that the Remuneration is as per the Remuneration policy for Directors, Key Managerial Personnel, and other employees adopted by the Company.