# Case Study 1

Elegant Hotels Limited (EHL) runs a chain of luxury hotels in the state of Rajasthan. Mr. Rakesh Rajput is the CEO and managing director of this company. The company has been in this for the past 15 years. Currently, the company owns 3 luxury hotels, one each in Jaisalmer, Chittorgarh and Bikaner. These hotels operate under the brand "Elegant Luxury". All the hotels that are operated by EHL are four star and above. The corporate office of the company is in Jaipur.

In recent years, connectivity to various places within the city has improved. With increasing economic prosperity, the tourism sector has seen immense growth in recent years. Rajasthan has become a popular tourist destination. All the hotels of EHL are profitable, resulting in the company having surplus funds. Therefore, Mr. Rajput proposes to expand the company's operations within the region. He wishes to discuss his proposals in the board meeting that has been called on June 30, 2023. Refer to Annexure 1 for outlines of the proposals to be discussed in the meeting. The proposal for opening a new luxury hotel at Udaipur was accepted, while discussions are still ongoing regarding the proposal to venture into budget hotels segment. The proposal for investment of surplus funds was approved by five out of the six directors present at the meeting. The total number of directors on the Board is seven.

***Commencement of operations of "Elegant Luxury" hotel in Udaipur***

EHL commenced operations of its "Elegant Luxury" hotel in Udaipur on April 1, 2024. Between July 2023 to March 2024, the company incurred capital expenditure of ₹25 crores exclusively for this project and capitalized the same in the books on April 1, 2024. Further during F.Y. 2024-25, it incurred capital expenditure of ₹15 crores (out of which ₹10 crores was for acquisition of land) for the above business. All expenses incurred were paid by account payee cheque or through use of ECS through bank account.

The profit from running this hotel in Udaipur (before claiming any incentive-linked deduction) for A.Y. 2025-26 is ₹15 crores, assuming that EHL has fulfilled all the conditions specified for claim of deduction under any investment linked incentives that it can avail. The profit from the other hotels of EHL for A.Y. 2025-26 is ₹35 crores.

For A.Y. 2025-26, EHL has not claimed any deduction under Chapter VI-A under the heading "C" – deductions in respect of certain incomes. It is also not opting for the concessional tax regime under section 115BAA.

"Elegant Luxury", Udaipur commenced operations on April 1, 2024. EHL decided to avail the investment-based tax incentive for A.Y. 2025-26 based on this investment. EHL had made an application for four-star category classification on April 1, 2024. The Hotel Restaurant Approval and Classification Committee is the authority concerned in this case. The approval was granted on F.Y. 2025-26. This is on account of the delay in inspection of the hotel by the authority which could not be completed before the end of F.Y. 2024-25.

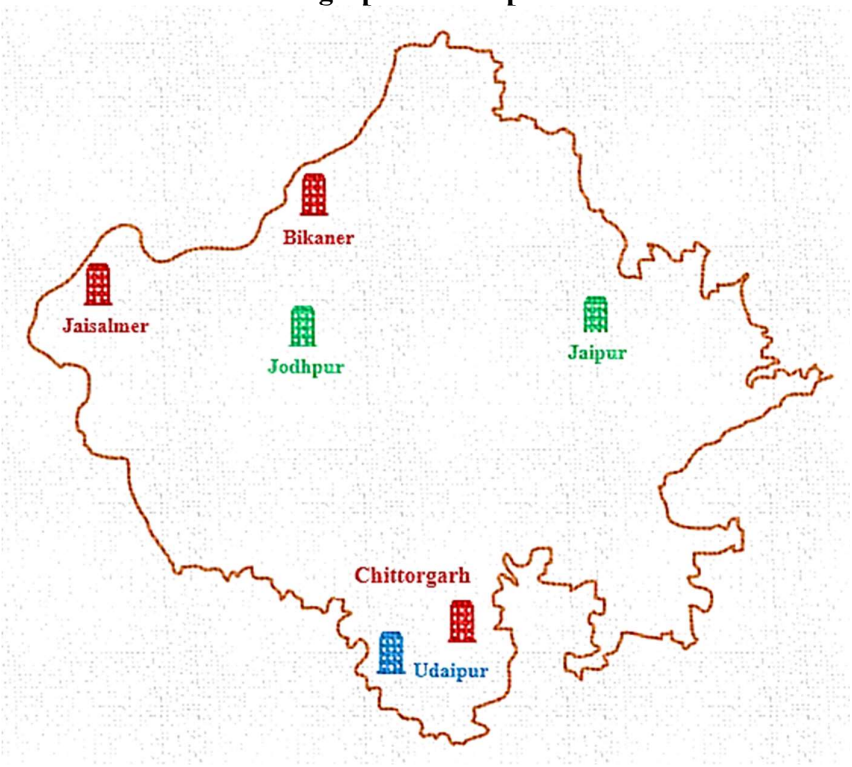
***Operations of "Elegant Business" hotels in Jaipur and Jodhpur***

In the financial year 2025–26, EHL forayed into the budget hotel segment. During the year, operations of "Elegant Business" hotels commenced in both Jaipur and Jodhpur. The "Elegant Business" hotel in Jaipur consists of 100 rooms, whereas the Jodhpur property is larger, with 200 rooms. Both locations are situated in prime urban areas where real estate costs—whether for ownership or lease—are significantly high.

Positioned as business hotels, these properties offer packages for hosting conferences, commonly referred to as convention services. Among the first conventions it hosted was for Royals Private Limited, which brought in 100 delegates. The hotel provided facilities that included accommodation, breakfast, tea and coffee during the conference, access to the fitness room, availability of the conference room, and use of the business centre.

Following its first year of launch, the financial performance of the Jaipur hotel for the full year of operations in F.Y. 2026–27 has been compiled. The Net Operating Profit Before Interest and Tax was reported at ₹2 crores, while depreciation expense amounted to ₹8 crores. During the year, there was an increase of ₹5 crores in working capital and ₹10 crores were incurred as capital expenditure. The invested capital at the end of the year stood at ₹20 crores. The applicable WACC was 8%, and the corporate tax rate was 30%. Rakesh Rajput reviewed the financial performance for the Jaipur property and suggested that cleaning and food services at both "Elegant Business" hotels be outsourced. His rationale is that outsourcing these non-core services would reduce the space and capital investment required to maintain such facilities in-house—for instance, by eliminating the need for a fully equipped kitchen. However, the practicality of this recommendation is currently limited, as reliable third-party service providers for cleaning and food services are not readily available in either Jaipur or Jodhpur. Moreover, although these services are considered non-core in the context of budget hotels, customer expectations regarding basic cleanliness and food quality still persist. Therefore, any outsourcing initiative must ensure that a minimum threshold standard is consistently met to preserve the guest experience and brand reputation.

**Geographical Footprints**




**Annexure 1**

**Chief Executive Officer/ Elegant Hotels Limited/ Jaipur**

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|---|---|
| From: | "CEO Rakesh Rajput"; <Rrajput@ehl.com> |
| Sent: | 5th June 2023 19:00 |
| To: | "Chirag Pandit" <cpandit@ehl.com>; "Anu Kher"<akher@ehl.com>; "Rajat Mathur"<rmathur@ehl.com>; "Rakesh Sharma"<rsharma@ehl.com>; "Ela Bhat"<ebhat@ehl.com>; Sathish Dhawan<sdhawan@ehl.com>; Sandy Lee<slee@ehl.com>; |
| Cc: | "CEO Office"; <ceo.office@ehl.com> |
| Subject: | Outline of Business Expansion Proposals within Rajasthan |
| Attachments: | Geographical Footprints-1.jpeg |

Dear Board Members,

As you are all aware, Rajasthan has become a popular tourist destination in recent years. I think it would be a good business opportunity to expand our operations in the region. I propose holding a board meeting on June 30th, 2023, to discuss the same. Here is a brief on the agenda items for discussion at that meeting.

Proposal 1: Opening a new 4-star hotel in Udaipur

We opened our hotels in Jaisalmer, Chittorgarh and Bikaner almost 15 years back. With the recent increase in tourism, our internal market suggests that it would be a good opportunity to open another luxury hotel in Udaipur. As a four-star hotel under the brand "Elegant Luxury", we can attract customers who are willing to pay a premium for comfort. The estimate cost of opening this hotel would be around ₹40 crores, inclusive of land, property, plant and equipment, furniture and fittings etc.

The target guest segment for the above hotels would be vacationing tourists interested in enjoying a laid-back time in scenic places. These guests would not mind paying a premium for availing of good quality service. Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Unlike cities, the location of these hotels is in more sparsely populated areas.

Customer satisfaction is paramount to sustaining and growing business in the luxury hotels segment. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily many potential guests. This can negatively impact future business. Therefore, we should maintain high quality cleanliness and food service to satisfy customers properly.

Proposal 2: Venturing into budget hotels segment

All our current properties are 4-star luxury hotels. They cater to travelers who are willing to pay a premium for a comfortable stay and good ambiance. They operate under the brand "Elegant Luxury". As you may also know, economic activity within the state has been picking up in the last few years. The number of business travelers has increased manifold. They are looking for a functional place to stay for a few days. There are also many tourists who are cost conscious, willing to compromise on comfort. The proposal is to have smaller sized rooms and offer conference room facilities. High speed internet and airport shuttle service would be other attractions. The menu offering will be limited unlike our luxury hotels. I propose that we venture into budget hotel segment in cities like Jaipur and Jodhpur. We can operate these under the brand "Elegant Business".

Proposal 3: Investment of surplus funds

Our hotels in Jaisalmer, Chittorgarh and Bikaner are profitable, with full occupancy throughout the year. After catering to all our expenses and other commitments we have surplus funds of ₹8 crores available with us at present. I suggest that we invest these funds in shares of the reputed Hospitality and Hotel Management Company as part of the company's investment plan. This can yield higher returns as against parking them only in deposits with our bankers.

A detailed agenda, along with a comprehensive feasibility analysis, will be shared shortly.

Thanks, and regards,

*Rakesh Rajput*

**Elegant Hotels Limited**