

# Taj hotels, palaces and resorts: the road ahead

Anuj Sharma and Parul Kochher

## Introduction

In the fall of 2015, the Indian Hotels Corporation Limited (IHCL), popularly known as the Taj Group of Hotels with its head office located in Mumbai, India found itself in a rough spot. Rakesh Sarna, the newly appointed managing director (MD) and the chief executive officer (CEO) of the group was a worried man. International rivals Marriott and Starwood merger had dethroned the group and emerged as the country's largest company in the hotel industry, beating the Taj in terms of the number of rooms, it had been over four years that the group had reported a positive figure for net profit, this was accompanied by high debt-equity issues and erosion of shareholders wealth and impact on their dividends (Table I). The negative profitability had become a constant trend now. The US-based operations of the company were the biggest leaking point for the company and the net loss for the company had peaked at INR5, 94.9m in 2013. IHCL owed a huge amount to its creditors as on March 31, 2015 (Sanjai, 2015).

The Indian Hotels Company Limited had burned its fingers with high-value property acquisitions in the past. In the past few years, it had to take massive write-downs in its balance sheet which amounted to its entire net worth. Sarna's priorities were to bring back the company from red, getting its financials in order. There was a growing need to increase the revenue by increasing number of rooms in key locations, cutting down on operational costs and increasing the profitability margins. He clearly had a task cut out for him; the past policies of reckless expansions needed a revamping now. In the growing list of troubles of the Taj Group was the problem in borrowing and financing from the market at reasonable terms. To strengthen the balance sheet for future expansions both globally and domestically needed concentrated efforts by Sarna.

Sarna had over three decades of experience in the hospitality industry; here was a legend who was given the arduous task to turn around the fortunes of the legacy brand.

## Travel and tourism industry in India

The hotel industry in India is spread out in the metropolitan cities and the tourist states. The hotel and restaurant approval classification committee has the onus of giving the star rating to the hotel which in turn depends on the class of service provided by them. Hotels in India are typically classified into "Heritage Hotels," "Luxury Hotels" and "Budget Hotels and Resorts." This is done on the basis of the hotel sizes, room types, sizes and number, number of workers, features and facilities, ancillaries, amenities, length and breadth of food varieties and locations.

As per the latest report, Travel and Tourism sector's total contribution to India's gross domestic product (GDP) was US\$147.7bn in 2015 (IBEF Report, 2016). This will register a

Anuj Sharma and Parul Kochher are Associate Professors, both at the Birla Institute of Management Technology, Greater Noida, India.

Disclaimer: This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The authors may have disguised names; financial and other recognizable information to protect confidentiality.