Indian Hotels Limited operates the largest hotel chain in India under the brand “Taj Hotels, Palaces & Resorts”

Background

Indian Hotels Company (IHL), belonging to India’s prestigious Tata Group, operates one of the largest hotel chain in South Asia under the brand Taj Hotels Resorts and Palaces. Its history begins more than 100 years back when the Group’s founder, Jamsetji N Tata, opened the first hotel, the Taj Mahal Palace and Tower, in Mumbai in the year 1903.

Over the years IHL has increased its scale of operations from to 58 hotels in India and 17 hotels in international locations and has created a niche for itself in the hospitality sector. The Taj group has engineered its success story by leveraging on creative thinking. It pioneered the concept of authentic palace hotels in the country with the Rambagh Palace of Jaipur and idyllic beach resort at Fort Aguada, Goa. These properties have gone on to become popular tourist destinations.

IHL has also become a trendsetter in foods and beverages by introducing international cuisines through its speciality restaurants. Recognising the importance of people in the service industry IHL established the Indian Institute of Hotel Management, Aurangabad, in 1993. The Institute offers a four-year diploma in hotel management, designed with the help of international faculty, and has affiliations with several American and European programmes.

The hotel business of IHL has grown through ownership of hotels as well as by strategic partnerships. For example, IHL signed a strategic marketing alliance in 2004 with Raffles International, a renowned hotel group that markets its hotels and resorts under two brands - Raffles and Swissôtel. The marketing alliance will enable both the hotel groups to harness each other’s strengths in their respective stronghold markets, through cross promotion of 14 Taj Luxury hotels and 15 Raffles Hotels.

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<th>Company</th>
<th>Products</th>
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<th>Founder</th>
<th>Location of hotels</th>
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In March 2006, IHL also entered into a marketing alliance with Shilla Hotels & Resorts, Korea. Under the alliance, both Taj Hotels Resorts and Palaces and The Shilla Hotels & Resorts will develop reciprocal and joint marketing activities that include joint participation in trade shows, sales events, culinary promotions and niche marketing programmes. Furthermore, the companies will also assist each other in exchanging sales leads and conducting roadshows across India and Korea. To diversify its presence in the hospitality business, IHL has ventured beyond hotels and expanded its presence in airline catering, operating private jets and yachts, service apartments, spas and wildlife lodges.

The current IHL shareholding pattern as on 31st March 2006 has the Indian promoters, the Tata group with 29.28 per cent, followed by foreign institutional investors with 22.23 per cent stake. Others like domestic financial institutions, Indian public etc account for the remaining 48.49 per cent stake.

### Products and brands

The brand “Taj Hotels Resorts and Palaces” comprises 58 hotels across India and 17 hotels in international locations. The hotels are grouped into 3 categories - Luxury, Leisure and Business. The Taj Luxury Hotels offer lavish accommodation, gourmet specialty restaurants and bars, fitness centres and spas and well-equipped business and banquet facilities. Taj Leisure Hotels are targeted at family holidays and include beach resorts, garden retreats, palaces and historic and pilgrim centres with a wide variety of activities for all age groups ranging from sports, culture, environment, adventure, music, and entertainment. Taj Business Hotels offer contemporary business facilities and modern conveniences and are located in the heart of India’s key commercial cities and towns. IHL has also introduced spas at some of their hotels under the brand name Jiva and Jiva Grande that provide Ayurveda-based body therapies as well as yoga and meditation philosophies.
The year 2004 marked IHL’s foray into serviced luxury residences in India with the launch of Taj Wellington Mews in Mumbai. These service apartments deliver on the attributes of the Taj brand by combining the comfort and privacy of home with the facilities and security of a luxury hotel. This concept was later extended to two of its international hotels – Taj Palace Hotel, Dubai and 51, Buckingham Gate, London.

IHL is currently executing its plans to enter economy and mid-market segment in hotels through its wholly owned subsidiary, Roots Corporation which has launched Ginger hotels. These hotels cater to the value-for-money segment of clients that include corporate executives, traders, self-employed professionals, tourists, pilgrims and leisure travellers who are looking for a cleanliness, security and convenience without having to pay premium prices.

The year 2005 saw the launch of several speciality restaurants at IHL’s hotels. These include Wasabi (Japanese restaurant), Hip Asia (Pan Asian restaurant), Distil (bar), Blue Ginger (Vietnamese restaurant) and Vista (24-hour dining restaurant).

As a support to its hospitality business IHL runs a professionally managed travel agency providing total travel management solutions under the brand name Inditravel. Inditravel offers services like air and rail ticketing, hotel bookings, car rentals, visa and passport assistance, foreign exchange assistance, global telecards and medical insurance. IHL also operates Taj Air, a luxury private jet operation with two state-of-the-art Falcon 2000 aircrafts, and Taj Yachts, two 3-bedroom luxury yachts which can be used by guests in Mumbai and Kochi (Kerala). It also operates an airline catering service under the brand name TajSATS Air Catering as a joint venture with Singapore Airport Terminal Services, a subsidiary of Singapore Airlines. TajSATS caters to international and domestic flights plying in New Delhi, Mumbai, Kolkata and Chennai.

### Financial Analysis

The company’s turnover in the year 2005 crossed USD 205 million. The company which had been
IHL's issue of Foreign Currency Convertible Bonds in 2004 worth USD 150 million, which lowered the debt-equity ratio of the company substantially.

**IHL’s contribution in making ‘Made in India’ global**

IHL’s foray in the global arena was marked by the licensing agreement way back in 1982, with UK-based Bass Hotels & Resorts for the use of the name Crowne Plaza for its hotel in London. This was followed by a 10-year contract in 1990 to manage a government-owned hotel in Zambia. When the Zambian government decided to privatise the hotel in 1995, IHL picked up a 70 per cent stake in the hotel and renamed it as the Taj Pamodzi. Thereafter IHL’s international portfolio expanded to include luxury resorts in the island countries of Maldives, Mauritius, Seychelles and Sri Lanka; business and resort destinations in the Middle East; service apartments in the UK and luxury hotels in the USA and Malaysia. A network of international offices was created in New York, London, Frankfurt, France, Dubai, Singapore, Sydney and Tokyo to support the bookings for these hotels and resorts.

The company’s globalisation efforts in the past have been towards acquisition of properties in attractive markets. The latest acquisition is that of a 100-room hotel in Sydney in December 2005, currently operated by the Starwood Group, for Australian $36 million. This hotel is rated among the top 5 hotels in Sydney and is located in the central business district of the city. It marks IHL’s first entry into Australia.

IHL is also increasing its global presence through the route of management contracts. In July 2005 the company entered into a management contract with The Pierre, New York a luxury hotel in Manhattan that was established way back in 1930. The 44-storied hotel offers full-service apartments enjoying a healthy growth in revenues till 2001, faced a downturn in revenues and corresponding profits since 2002 due to unforeseen events of acts of terror and SARS epidemic which resulted in a fall in number of global tourists. This was the time when the entire hotel industry was facing a slowdown. However the situation has become favourable since 2003. As a result of the “Incredible India” campaign started by the Indian government, India as a destination is gaining popularity among leisure and business tourists resulting in an increase in foreign tourist arrival in India. Domestic tourism has also risen thus improving the occupancies of hotels. This, combined with IHL’s concerted marketing efforts, has resulted in a CAGR of 21.2 per cent in total income and a CAGR of 62 per cent in net profits between 2003 and 2005.

The year 2005 saw a marked improvement in operating margin and net margin, which stood at 23.2 per cent and 11.8 per cent respectively. A major factor responsible for the improvement in the net margin has been the lower interest burden of the company which has come about because of
operations to paying the management fee, rather than bearing the interest cost for the investment made in purchasing a property. In global markets, other management contracts that have been undertaken by IHL include Taj Denis Island, Seychelles and Taj Exotica Resort & Spa, Mauritius. In addition to these the company has undertaken management contracts for hotels at Palm Island Jumeirah in Dubai, and Thimphu in Bhutan, which are to be commissioned shortly. The hotel at the Palm Island named Taj Exotica Resort & Spa is the company’s fourth hotel in the Middle East and is expected to open in 2007.

Factors fuelling IHL’s global initiatives

In India, IHL is recognised as the premier hospitality provider with a strong brand image and ownership by the Tata Group, a highly respected group with varied business interests in several countries. Its brand Taj has become a symbol of luxury and service in India. The same image and experience of brand building have been leveraged in the international markets, not only in hotels but also in as well as guestrooms, including 52 suites. The management contract signed for The Pierre is significant for IHL’s overall market strategy given New York’s importance as a gateway to the US and one of the most competitive luxury markets across the globe. It is expected that with more and more Indians travelling abroad on business the presence of a familiar brand would make Pierre one of the top choices for the Indian business traveller. The same brand recognition and Pierre’s close association with the Taj would also work with the international traveller on a visit to India.

In the same year IHL made its first entry in South-east Asia by getting into a management contract with the Rebak Island Marina Berhad, to operate and manage the Rebak Marina Resort, a luxury resort on the island of Langkawi in Malaysia. Establishing a presence in Malaysia is a part of Taj’s global strategy to establish its presence in key gateway cities and leisure destinations.

The management contract route to expansion is important for IHL as it restricts its risk of
providing an experience in food and beverages. With wide range of restaurants at its hotels, food and beverages has become a focus area for IHL and provides stability to revenues and profits. The globalisation of IHL’s operations has been a success for several reasons:

- **Strong sales and marketing:** The company’s international operations have been supported by a strong sales and marketing network that also includes its international sales offices in various locations. IHL has an efficient reservation network that includes a National Call Centre with toll free number that provides unified access to information to potential guests and well as facility for making reservations. The company’s innovative website has been awarded the Best Travel Online Campaign world-wide in the Web Marketing Association’s 2005 Internet Advertising Competition, the premier event for web developers and marketers each year. The website is highly interactive and user-friendly, with an enhanced reservations section, a Taj Holidays search tool and a versatile hotel finder.

- **Innovative product ideas:** The company has sought to pursue innovative product ideas to derisk its business. These include luxury serviced apartments that were first launched and tested in Mumbai and then extended to its properties in Dubai and London and Jiva Spas that are now part of several international Taj hotels.

- **Marketing alliances:** IHL has entered into strategic tie-ups with other players in the business for the promotion of its properties. Currently IHL has marketing alliances with Raffles Hotels and Resorts, Shilla Hotels and Resorts and CC Africa. Such alliances not only allow for cross promotion of hotels with alliance partners, but also allow members of corresponding loyalty programmes to avail of special amenities and privileges at participating hotels. In addition, several partnerships have been entered into with international and domestic airlines for cross promotions with key customers and package tours.
experiences within India through an ecologically sustainable model. This venture will offer a mix of game sightings, nature walks and meditative experiences with tented, tree house or cottage accommodation on the borders of India’s world-renowned tiger reserves. The rollout of the venture is planned in a phased manner across key wildlife locations in the Indian subcontinent. It is expected that 5 lodges will be in operation by 2008.

To take its globalisation plans further IHL is also eyeing the hotel industry in China and South Africa by setting up properties in these countries.

**Maintaining high service standards:** IHL has launched a programme across its hotels called “Taj Brand Standards” that identifies standard operating procedures to ensure consistency in guest experience. In order to ensure that these standards are consistently implemented and sustained across the organisation, a robust third party audit system has also been initiated.

**Creating a talent pool of people:** High calibre senior executives have been introduced in the company at high levels from other countries, supplemented by one or two top Indian managers to enable mentoring and cultural integration with the company. In addition to the expatriate managers, young Indian managers are also made to work in international properties to gain overseas work experience.

**Future plans**

IHL is well poised for growth and to leverage the advantage of the rapidly growing tourism industry in India. Encouraged with its success of its Ginger hotels, IHL is in the process of rolling out such hotels to several new locations – Pune, Nashik, Mysore, Panjim, Varanasi, Trivandrum, Jamshedpur and Durgapur.

IHL has recently entered into a joint venture with Conservation Corporation Africa and Cigen Corporation to provide tourists with wildlife experiences in India through an ecologically sustainable model. This venture will offer a mix of game sightings, nature walks and meditative experiences with tented, tree house or cottage accommodation on the borders of India’s world-renowned tiger reserves. The rollout of the venture is planned in a phased manner across key wildlife locations in the Indian subcontinent. It is expected that 5 lodges will be in operation by 2008.

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**Globalisation at a glance**

- Hotels in 15 locations across the globe, including US, Middle East and Asia Pacific
- Has acquired properties in Australia and Zambia
- Nearly 16 per cent revenues are from international operations
- Route of management contract adopted to enter most international markets