PROFITABILITY ANALYSIS: A RELATIVE STUDY OF IHCL (HOTEL TAJ) AND ITDCL (HOTEL ASHOKA)

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Abstract: Profitability is regarded as the competence to earn profit and is considered not only a vital factor contributing towards its survival but also the major factor swaying its reputation on which firms perpetual existence depends. It is an instrument to analyse overall efficiency of a business enterprise. The operating efficiency of a firm depends on how effectively it provides return to its investors which further relies on the profits earned by it. Profitability shows empathy between profit and investment approaches. This paper is aspired to gauge the profitability of both the five star hotels selected during the period of five years.

KEYWORDS: Profit, Profitability, Operating Profit, Profit Margin, ROI.

I. INTRODUCTION

The "Profit" is like a golden egg, the axis of enticement for those who are of interest in corporate units. By and large businesses are instituted with an intention to earn profit. Profit is unchangeable and everlasting, and by itself is the primary plus end objective of an enterprise. If an endeavour undersized of profit, capital invested is windswept and if situation continues, the endeavour may eventually come to an end. Profits are the essence of business without which it is lifeless. The necessity of profit is not only to compensate capital but also financial growth and expansion.

The term 'Profitability' is comprised of 'Profit' plus 'Ability'. The bottom line of the financial statements is 'profit' and the meaning of profit is derived in accordance with the purpose and manipulation of figures. Although the term 'ability' indicates the organization's power to breed profit. The word capacity is likewise indicated as 'procuring limit' or 'working execution' of the related venture.

Profit is a flat out term though Profitability is a relative term. The general goal of a business is to procure no less than an acceptable profit for stores contributed by them, predictable with keeping up a sound monetary position. The notion of profit refers to the utter quantum of profit. It does not enlighten the reason of profit, in which way it is dispersed, and what is the liaison of figures with one-another. Every one of these queries are replied by the idea of profitability.

II. REVIEW OF LITERATURE

M.S. Kumar Mohan et. al. (2015), In the wake of investigating the benefit of various bond organizations amid the examination time frame from an alternate point it is discovered that Ambuja concretes the productivity position as show satisfactory when compare to other companies. The compound yearly development rate as indicated acceptable in India bonds while contrast with different organizations subsequently all the concrete organizations should focus on current methods of generation and distinctive advertising systems to expand the positive development rate and gainfulness.

Gabriele Santoro (2014) In the recent times, the parameter of the measurement of the performance has changed significantly of the hotel industry. It is necessary to connect the financial indicators as well as non-financial indicators by developing integrated methods of evolutions. To stay on the top in the competition, hotels have to understand non-financial as well as operational aspects, such as flexibility, quality and the adaptation of new technologies. The drawback of utilizing only financial indicators of performance are actually lagged indicators that are the output of not only management action but also organizational performance as well as not the reason of it.

Madhavi K. (2014) makes an observational investigation of the co-connection between liquidity position and benefit of the paper processes in Andhra Pradesh. It has been watched that wasteful working capital administration has a negative effect on productivity and liquidity position of the paper plants.

Sittichai Nuansate et. al. (2013) The performance of hotel business measures can be categorized into two major categories that are performance of financial as well as performance of non-financial. The performance of financial measures mentions to profitability that is return on asset, return on investment as well as growth of sales. Performance of non-financial measures includes customer retention, hotel commitment, customer satisfaction, productivity, employment Levels, new product success, merchandised superiority and market segment. However, the business environment which is highly competitive as well as the requirement to merge the strategy of hotel with achievement has led several hotels into accepting the several aspects of business achievement, comprising indicators of performance of financial as well as non-financial. In addition, budgetary and in addition nonfinancial execution ascertained additionally can be characterized into two noteworthy classifications measures of subjective and also measures of goal. Measures of subjective are greater probably to better agreement with this kind of phenomenon. Performance of subjective an assessment allows an unchallenging comparability between various businesses as well as circumstances agreement while are by specific factors of hotel industry influences objective calculations of performance.

III. METHODOLOGY

The main role of present examination has been to get a profound knowledge and full commonality with the profitability of the organizations of lodging industry in India. The present investigation depends on the auxiliary information i.e. annual reports and records of the organizations chose for the examination. A five yearly period commencing from 2012-13 to 2016-17 has been taken. Indian Tourism Development Corporation Ltd (Public Sector unit) and Indian Hotel Company Ltd (Private Sector) has been selected for the purpose of the study. Profitability of the organizations chosen for analysis has been examined with the assistance of ratio examination and different ratios have been ascertained. Statistical tools such as average, standard deviation, coefficient of variation and t-test has been used to interpret the data. Hypothesis has been tested by using f test.

IV. HYPOTHESIS

H_0: The difference between the profitability of selected hotel companies is not significant.
H_1: The difference between the profitability of selected hotel companies is significant.

V. OBJECTIVE OF STUDY

The main objective of Analysis of Profitability of Hotel Industry in India is to assist management in decision making; it will help to examine financial soundness and profitability of the units, to unveil the short comings and defects in those units and to suggest the ways to the management to strengthen its monetary position. The specific objectives are as follows:-

1. To examine the profitability of hotels, as profit is considered as an indispensible part of every business unit.
2. To make comparative study of selected hotel companies.
3. To study the financial performance of selected luxury hotels of India.
4. To make suggestions for the betterment of the hotel companies in general and selected hotel companies in particular.

VI. ANALYSIS OF PROFITABILITY

i. Operating Profit Ratio

Operating profit ratio is used to assess management's triumph as it examines only operating expenditure of the firm. This ratio indicates how well a company's operation contributes to its profitability. The non-operating expenses do not come under direct control of management and hence these are not considered for computation of operating profit of the concern. This ratio is reckoned by dividing operating profit (which is calculated by deducting all direct and indirect expenses related to business from net sales) by revenue from operation. Formula is shown below:

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from operation}} * 100$$

The elevated the operating ratio, the operational competence of the enterprise will be enhanced.

TABLE (1)
Operating Profit Ratio of Companies analyzed from 2012-13 to 2016-17

(Percentage)

Year	**IHCL**	**ITDCL**
2012-13	21.56	(4.56)
2013-14	20.18	(2.93)
2014-15	17.72	3.32
2015-16	18.85	5.04
2016-17	21.77	3.28
Mean	20.02	0.83
S.D.	1.42	3.49
C.V.	0.07	4.20
t-value	5.11*	(8.91)

Source: Annual Reports of Companies analyzed
*Significant at 1% level.

From the table above it can be induced that operating profit of both the companies has been fluctuating over study period. Yet the gross profit of IHCL the private hotel analyzed has been more than that of ITDCL. The average operating profit ratio of both the hotels are regarded satisfactory however the fluctuating pattern of the ratio ought to be controlled by the administration , for this it is suggested to control and reduce the operating cost and increase the sales.

From the view point of operating profit ratio IHCL has performed better than ITDCL and further the coefficient of variation of ITDCL was higher representing unevenness in the ratios. And t-test represents that IHCL is significant at 1% level of significance.

Test of Significance (F-Test)

⇒ **F-test (ANOVA):**
Testing hypothesis by one way classification

H_0: There is no significant difference between operating profit ratio of selected hotel companies
H_1: There is significant difference between operating profit ratio of selected hotel companies

TABLE (2)
Analysis of operating profit ratio of selected hotel companies for one way ANOVA

Sources of variation	Sum of Square (SS)	Degrees of Freedom (DOF)	Mean Square (MS)	F –Ratio	5% Limit (from the table)
Between Groups	920.26	1	920.26	86.37	2.18
Within Groups	85.24	8	10.65		
Total	1005.49	9			

The above ANOVA table shows that the calculated value of F is 86.37 which is more than the table value of 2.18 at 5% level of significance. Hence, the null hypothesis stands rejected. Therefore, it means that there is significant difference between operating profit ratio of selected hotel companies.

ii. Profit Margin Ratio

This ratio measures opulence of enterprise. It is generally used to appraise the internal competence akin to production, administration, selling, finance, pricing and tax management. Profit margin ratio is a gauge for companies' pricing schemes and how well it manages the cost. For calculating this ratio, the term "Profit" includes functional as well as non functional income. This ratio quantifies the rapport between *net income* and *total revenue* of a firm. It can be reckoned by dividing earnings after tax by total revenue earned as shown in the subsequent formula:

$$\text{Profit margin ratio} = \frac{\text{Net Income}}{\text{Total Revenue}} * 100$$

Higher profit margin signifies ample returns to the owners' and vice a versa.

TABLE (3)
Profit Margin Ratio of Companies analyzed from 2012-13 to 2016-17

(Percentage)

Year	IHCL	ITDCL
2012-13	(14.37)	0.68
2013-14	(29.86)	2.01
2014-15	(3.90)	6.82
2015-16	8.44	4.84
2016-17	5.80	2.43
Mean	(6.78)	3.36
S.D.	12.84	2.00
C.V.	(1.89)	0.60
t-value	(0.31)	3.36

Source: Annual Reports of Companies analyzed
*Significant at 1% level.

The above table depicts that the profit margin ratio of IHCL has been fluctuating during the study period ranging from (14.37%) to 8.44 % during 2012-13 to 2016-17. These continuous vacillations in the ratio have led to negative overall average during the period. Whereas, ITDCL has shown a progressive trend in its ratios from 2012-13 to 2014-15 but after that it kept on decreasing.

From the view point of profit margin ratio ITDCL has performed better than IHCL and further the coefficient of variation of ITDCL was higher representing unevenness in the ratios. And t-test represents that both companies are not significant at 1% level of significance.

Test of Significance (F-Test)

⇒ **F-test (ANOVA):**

Testing hypothesis by one way classification
H_0: The difference between profit margin ratios of selected hotel companies is not significant.
H_1: The difference between profit margin ratios of selected hotel companies is significant.
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TABLE (4)
Analysis of profit margin ratio of selected hotel companies for one way ANOVA

Sources of variation	Sum of Square (SS)	Degrees of Freedom (DOF)	Mean Square (MS)	F –Ratio	5% Limit (from the table)
Between Groups	256.75	1	256.75	2.03	2.18
Within Groups	1012.52	8	126.57		
Total	1269.27	9			

The above ANOVA table shows that the calculated value of F is 2.03, which is less than the table value of 2.18 at 5% significance level. Results in the acceptance of null hypothesis. Thus, it means that there is no noteworthy difference between profit margin ratios of selected hotel companies.

iii. Return on Investment (ROI)

Return on Investment or we can say ROI is a modus operandi for effective utilization of capital employed. As regards capital employed it may be gross or net capital employed but considering the nature of industry on which the study is being conducted gross capital employed is used. The prime intention behind computation to return on investment is to access how effectively capital employed is utilized. Any concern makes investments to attain adequate return on capital invested. To measure overall profitability of the firm, it is essential to compute return on investment. This ratio is reckoned by dividing earnings before interest & tax by capital employed. Gross capital employed is asserted by net fixed assets plus current assets or net worth plus total debts minus outside investments, capital work in progress. Both are non operating assets hence they should be excluded. Furthermore, non operating incomes and amortized fictitious assets have also been barred from calculation of operating profit.
The ratio may be expressed as follows:

$$\text{Return on Investment} = \frac{\text{Earnings before Interest \& tax}}{\text{Capital Employed}} * 100$$

The correlation of this ratio with that of comparative firm or with industry over some undefined time frame would uncover in the matter of how successfully the long haul stores gave by proprietors' and banks have been employed.

TABLE (5)
Return on Investment of Companies analyzed from 2012-13 to 2016-17

(Percentage)

Year	**IHCL**	**ITDCL**
2012-13	15.68	1.13
2013-14	15.65	2.34
2014-15	10.43	6.66
2015-16	12.48	7.64
2016-17	15.72	10.57
Mean	13.99	5.67
S.D.	1.98	3.18
C.V.	0.14	0.56
t-value	1.59	3.57*

Source: Annual Reports of Companies analyzed
*Significant at 1% level.

The above table depicts that the return on investment of IHCL has been fluctuating during the period of study ranging from 15.72% to 10.43 % during 2012-13 to 2016-17. The ratio kept on decreasing during the initial years of study period yet by the end it paced an increase in its ratios. These continuous ebb and flow in the ratios represents the inefficiency of management. Whereas, the ITDCL have shown progressive trend in its ratios during the period of study ranging from 1.13% to 10.57%.

From the view point of return on investment ratio ITDCL has performed better than IHCL. And t-test represents that ITDCL is significant at 1% level of significance.

Test of Significance (F-Test)

⇒ **F-test (ANOVA):**

Testing hypothesis by one way classification

H_0: There is no significant difference between return on investment of selected hotel companies

H_1: There is significant difference between return on investment of selected hotel companies

TABLE (6)
Analysis of Return on Investment of selected hotel companies for one way ANOVA

Sources of variation	Sum of Square (SS)	Degrees of Freedom (DOF)	Mean Square (MS)	F –Ratio	5% Limit (from the table)
Between Groups	173.22	1	173.22	5.38	2.18
Within Groups	84.13	8	32.17		
Total	257.35	9			

The above ANOVA table shows that the calculated value of F is 5.38, which is more than the table value of 2.18 at 5% level of significance. Resulting in null hypothesis rejection. Therefore, it means that there is significant difference between return on investments of selected hotel companies.

VII. CONCLUSION

From the above observation it can be concluded that both the hotel companies underwent oscillation during the period of study. Except for profit margin ratio, both the hotel companies have significant differences in other ratios. Due to all this the management of both the firms are suggested to control the fluctuations in the ratios, try to reduce the cost and increase the profit.

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