

“AN ANALYTICAL STUDY ON PROFITABILITY OF SELECTED INDIAN HOTELS”

KANABAR DHRUVIKA BHARATKUMAR

(M. COM., M. Phil., NET, G-SLET)

Lecturer, A. K. Doshi Mahila Commerce College, Jamnagar

ABSTRACT

Studies on Hospitality and hotel industry have been conducted in other countries like Bangladesh, Pakistan, Greece but very few in India. Moreover when it comes to hotel industry, researchers have mainly focused on Customers' satisfaction, problems and prospects, financial challenges, foreign exchange earnings etc aspects and only a few researchers have focused on performance measurement. Studies have been conducted on lodging industry, travel agencies too. The Indian tourism and hospitality industry has emerged as one of the key drivers of growth amid the services sector in India. Growing affluence, potential for economic growth, increases in disposable incomes and the burgeoning middle class are expected to drive both leisure and business travel in the coming years. Here in this study, to check the financial performance of selected hotels, profitability ratios of five hotels listed on BSE/NSE i.e., IHCL, EIH, MHR, HLV, ITDC are taken for the study of ten years commencing on 2008-09 and ending on 2017-18. By using statistical tool ANOVA, hypotheses are tested. Based on analysis and interpretation of profitability data, remedial measures are suggested.

Keywords: Profitability, Profit, Hotel, IHCL, EIH, MHR, HLV, ITDC.

1.0 INTRODUCTION

The word hotel is derived from the French word 'hotel' (coming from the same origin as hospital), which referred to a French translation of a building seeing frequent visitors, and providing care, rather than a place offering accommodation. In modern French usage, hotel now has the same meaning as the English term.

The prime idea of hotels is to provide travelers with shelter, food, refreshment, and similar services and goods, offering on a commercial basis things that are customarily furnished within households but unavailable to people on a journey away from home. Historically hotels have also taken on many other functions, serving as business exchanges, centers of sociability, places of public assembly and deliberation, decorative showcases, political headquarters, vacation spots, and permanent residences.

What is a Hotel?

“Hotels are establishments of various types, classifications and themes providing hospitality services (both paid and unpaid) to travellers and tourists, that include but are not limited to accommodation and meals.”

“A commercial establishment offering lodging to travellers and sometimes to permanent resident and often having restaurants, meeting rooms, stores, etc. that are available to the general public.”

Leading Indian Players

In the large/ luxury hotels fragment there are about 11 long-standing players such as ITC Hotels, Asian Hotels, the Oberoi Group of Hotels, Hotel Leela Ventures, ITDC, Indian Hotels, the Park Hotels, Taj Group, Inter Continental, Welcome Heritage Group of Hotels, etc.

In addition there are about 90 listed hotels and resorts in the small/mid-sized fragment as well as Country Club, EIH Associate Hotels, Kamat Hotels and Mahindra Holidays and Resorts.

Leading International Players in India

Major International Players are, Hilton Hotels, Marriot International, Le Meridien Group of Hotels and Resorts, Radisson Hotels and Resorts, Hyatt Hotels Corporation, Starwood Hotels, Accor Group, Best Western Group, etc.

The Indian Hotels Company Limited (IHCL) was founded in 1899 by Jamsetji Tata and is headquartered in Mumbai, Maharashtra. It has more than 160 hotels in 80 locations and 12 countries, with over 20,000 rooms and 25,000 employees.

The East India Hotels Limited (EIH), under the sponsorship of The Oberoi Group, manages hotels and cruisers in five nations under the luxury 'Oberoi' and five-star 'Trident' brands. The Group is also engaged in flight catering, airport restaurants, travel and tour services, car rentals, project management and corporate air charters.

Mahindra Holidays & Resorts India Ltd., (MHRIL) is a part of the Leisure and Hospitality sector of the Mahindra Group started in 1996, the company's flagship brand "Club Mahindra Holidays", at present has a fast growing customer base of over 235,000 members and 50+ resorts at some of the most exotic spots in India and overseas.

The Leela Palaces, Hotels and Resorts is owned and run by **Hotel Leela venture Limited (HLV)**. The company was established in Mumbai, India in 1983 and was started by Late Capt. C. P. Krishnan Nair, Chairman Emeritus and Founder Chairman. At present, The Leela Palaces, Hotels and Resorts own and operate five properties and the others are managed. These properties are located in key urban cities of Bangalore, Chennai, Delhi, Gurgaon, Mumbai and New Delhi as well as India's miraculous holiday destinations of Goa, Kovalam and Udaipur.

The India Tourism Development Corporation (ITDC) was established in October 1966 and has been the top mover in the progressive expansion, promotion and growth of tourism in the country. ITDC is Hospitality, Retail and Education Company in the ownership of Government of India under Ministry of Tourism. It owns over 17 properties under the Ashok Group of Hotels brand in all over India.

2.0 REVIEW OF LITERATURE

2.1 Tanvir Mohammad Hayder Arif, Kazi Noor-E-Jannat, S.M.Rakibul Anwar (2016) in their research article on '**Financial statement and competitiveness analysis: a study on tourism & hospitality industry in Bangladesh**', financial information of five popular local hotels have been taken. Information was collected through primary source, i.e., interview method. Accounting tools – ratio analysis and trend analysis were used. Working capital cycle and major sources of finance available to hotel business is described in this. This paper concludes that the tourism and hospitality sector of Bangladesh especially in Cox's Bazaar has very booming future that attracts many investors day by day. Therefore, Bangladesh has a very shining future in tourism and hospitality industry.

2.2 Muhammad Ashar Asdulla, Zohaib-ur-Rehman (2015) in their research on '**A comparative study on financial performance of hotel industry in Pakistan**', Ratio analysis of financial statements of two huge units of hotel industry of Pakistan (Sarena and Marriott hotel) was calculated for the study purpose. It was found out that both hotels have performed better in 2012 than 2011. Both the hotels failed to maintain sufficient assets with respect to liabilities. Liquidity and profitability conditions of Serena were better than Marriott hotel. Return on assets of Marriott was higher than Serena hotel. Both the hotels' condition was satisfactory when it comes to leverage coverage ratio.

2.3 B.Kayathiri Bai, V Buvaneshvaran (2015) in their research on '**A comparative study of profitability analysis of selected hotel industries**', researchers have selected samples of five hotels named The Grand

Bhagvati Hotel, The Royal Orchid Hotel, and The Jindal Hotel, The Lord Ishwar Hotels and The Leela Hotels for the study of 5 years ending on 2015-2016. Accounting tool like profitability ratios and statistical tool ANOVA was used for study purpose. The conclusion was that The Royal Orchid Hotel was in good position than The Jindal Hotel, others were on an average and The Leela Hotel was at the last of all.

2.4 N.Sivakumar, C.Raja (2015) in their study on ‘Financial performance of selected BSE/NSE listed hotel industries in India’, 10 hotels listed on BSE/NSE were selected and data of 10 years were studied. Various statistical techniques like mean, standard deviation, compound annual growth rate (CAGR) are used for the study purpose. The researchers have found that performance of EIH, HOTL, SPER, EIHA, and MAHH was better than other hotels taken for study. With the proper attention by government, improvement in financial performance of industry is possible which will ultimately strengthen GDP of our nation.

2.5 RASA SUBACIENE, KASTYTIS SENKUS (2013) in their study on ‘Net profitability analysis of travel organizers and travel agencies’, evaluation of financial position and operating efficiency of company is conducted. The objective of the article was to present the system of a pyramidal analysis of the net profitability ratio and to evaluate the net profitability of travel organizers and travel agencies of Lithuanian industry. Financial statements of travel organizers and travel agencies for the period 2009-2011 were analyzed.

3.0 RESEARCH METHODOLOGY

3.1 objectives of the study

1. To evaluate the profitability of the selected hotel units in India during the study period.
2. To check the performance and suggest the remedial measures for overall development of the hotel industry.

3.2 Period of the study

The period of the study covers data of ten years commencing on 2008-09 and ending on 2017-18.

3.3 Nature of the study

This is descriptive and analytical study, as it describes the current status of a phenomena and it carries out analysis on a phenomena.

3.4 Universe of the study

Universe of the study includes total number of population for the study, which is 1802 units of hotels on December, 2017.

3.5 Sampling

Five hotels listed on BSE/NSE are taken for the study based on their net sales. Out of which one is public sector undertaking and others are from private sector, listed below:

1. The Indian Hotels Company Limited (IHCL)
2. The East India Hotels Limited (EIH)
3. Mahindra Holidays & Resorts India Ltd. (MHR)
4. Hotel Leela venture Limited (HLV)
5. The India Tourism Development Corporation (ITDC)

3.6 Sources of data

The study is mainly based on secondary data acquired from the annual reports of the selected companies, various books, reports, official websites of the companies and other internet source.

3.7 Framework of analysis

For the purpose of profitability analysis of the selected hotels, various accounting ratios for measuring profitability and statistical techniques like ANOVA have been applied.

3.8 Significance of the study

1. The study is significant for the fact that it is conducted to analyze profitability of the selected hotels in India.
2. Since the hotel industry is crucial for the growth of the Indian economy, it is important to investigate profitability of selected Indian hotels.
3. Existing and emerging investors can take benefit by having clear picture of industry and particular hotel.
4. Potential entrepreneurs can scan the opportunities and threats prevailing in the industry.
5. The study is useful for hoteliers, travelers, government and the society at large.

3.9 Limitation of the study

1. There are various types of hotels engaged in industry but due to time and cost restraint researcher has not taken all kinds of hotels for the study.
2. All the data is collected from the secondary sources, hence, limitations associated with secondary source of data applies to this research work also.
3. The research study covers only five years, which is way too limited period of the study for generalization and further decision making process.
4. Limitations linked with accounting tools and statistical techniques apply for this research work.

3.10 Future scope of the study

1. As per the data on December, 2017, there were 1802 units operating in hotel industry of India. But, the present study is limited to five hotel companies only which can be expanded for future study.
2. Other aspects of financial performance such as liquidity, solvency and leverage can also be studied for further research.

4.00 DATA ANALYSIS AND INTERPRETATION

4.1 OPERATING PROFIT MARGIN RATIO (%)

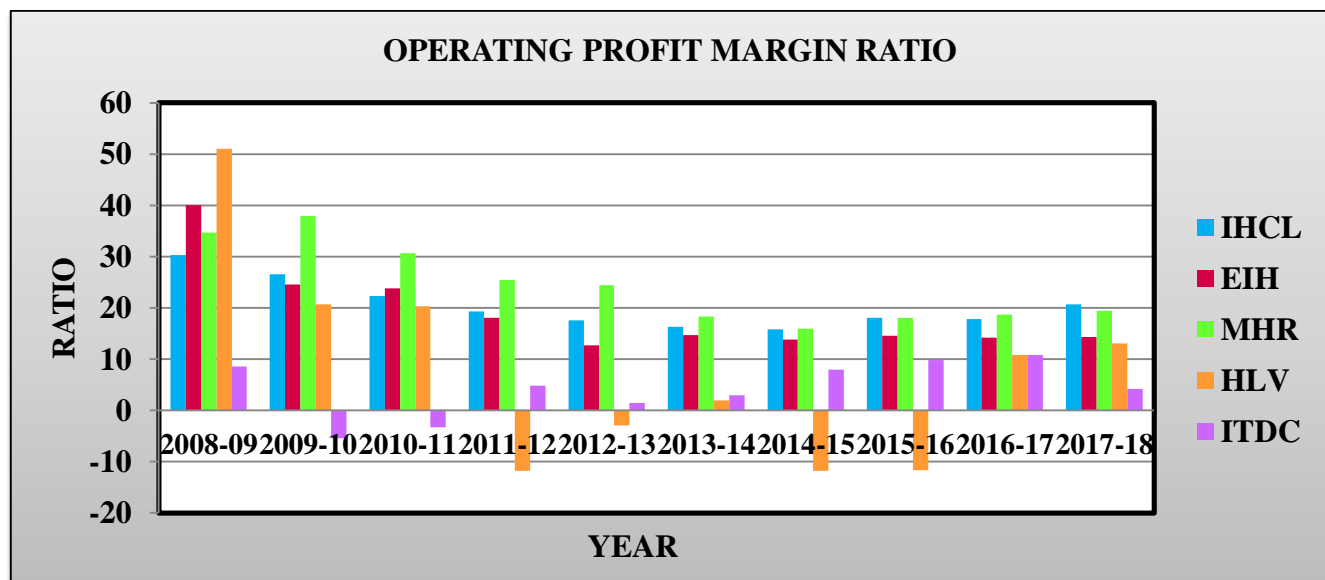
Operating profit margin is profitability or performance ratio, which is used to calculate the percentage of profit a company, produces from its operations, prior to subtracting taxes and interest charges.

Operating Profit Margin Ratio of Selected Indian Hotels during 2008-09 to 2017-18

YEAR	IHCL	EIH	MHR	HLV	ITDC
2008-09	30.29	40.03	34.64	51	8.52
2009-10	26.59	24.52	37.94	20.71	-5.44
2010-11	22.33	23.85	30.67	20.23	-3.37
2011-12	19.24	17.99	25.41	-11.74	4.84
2012-13	17.5	12.66	24.36	-2.95	1.46
2013-14	16.32	14.63	18.31	1.98	2.89
2014-15	15.8	13.74	15.98	-11.83	7.9
2015-16	18.03	14.52	18.09	-11.69	9.74

2016-17	17.75	14.15	18.72	10.74	10.77
2017-18	20.62	14.32	19.47	12.99	4.22
AVERAGE	20.447	19.041	24.359	7.944	4.153
S.D.	4.714997	8.496486	7.69469	19.7744	5.4371

(Source: www.moneycontrol.com)



Operating Profit Margin Ratio of Selected Indian Hotels during to 2017-18

The operating profit margin ratio of IHCL was showing fluctuating trend in downward direction during the period of study. It indicates that IHCL has a stable operating profit margin in accordance with sales. EIH was showing fluctuating trend in downward direction during the period of study. It implies that EIH has a volatile operating profit margin in accordance with sales. MHR was showing fluctuating trend in downward direction during the period of study. It confirms that MHR has an unstable operating profit margin in accordance with sales. HLV was showing fluctuating trend during the period of study. It proves that performance of HLV is not at satisfactory level. ITDC was showing fluctuating trend during the period of study.

Hypothesis testing

Null hypothesis: H_0 :

There is no significant difference in operating profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

Alternative hypothesis: H_1 :

There is significant difference in operating profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

ANOVA for difference in Operating Profit Margin Ratio of Selected Indian Hotels during 2008-09 to 2017-18

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>F crit</i>
Between Groups	3008.57	4	752.142	6.54928	2.5787
Within Groups	5167.95	45	114.843		
Total	8176.52	49			

ANOVA Table indicates that the calculated value of 'F' is 6.54928 and table value of 'F' is 2.5787. Here, calculated value of 'F' is higher than the table value of the same. Resultantly, null hypothesis cannot be accepted and alternative hypothesis will be accepted at 5% significance level and 95% confidence level. Thus, it can be inferred that there is significant difference in operating profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

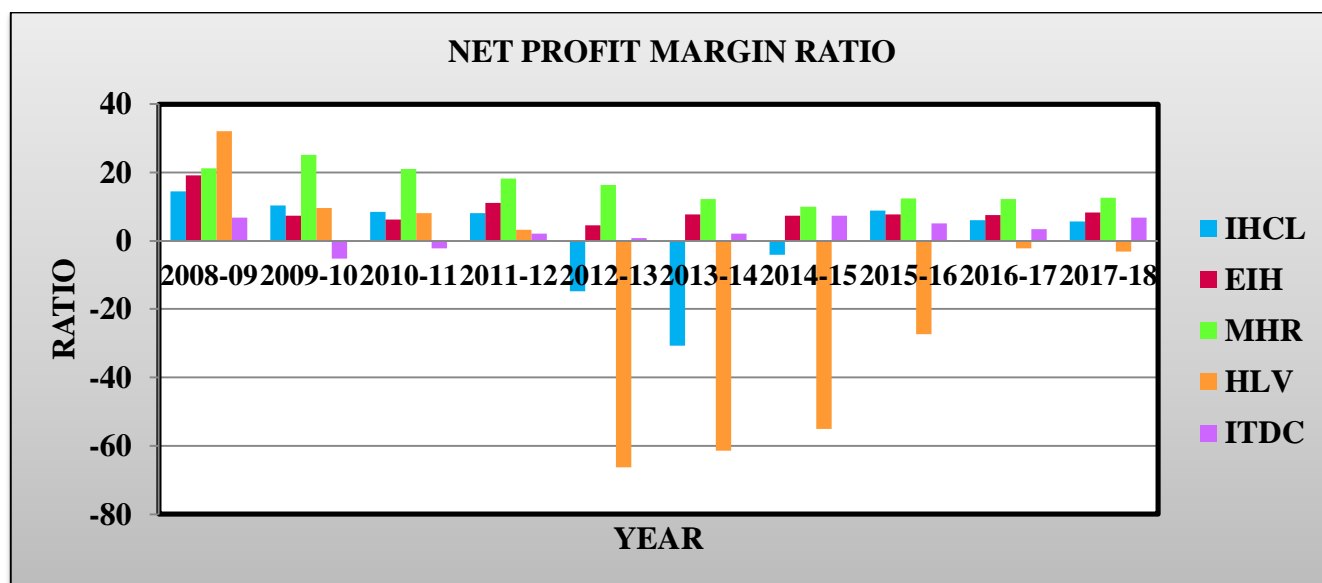
4.2 NET PROFIT MARGIN RATIO (%)

This ratio measures the relationship between net profit and net sales. Net profit is calculated after deducting amount of operating expenses, interest and taxes from the gross profit amount.

Net Profit Margin Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

YEAR	IHCL	EIH	MHR	HLV	ITDC
2008-09	14.45	19.17	21.22	32.05	6.85
2009-10	10.39	7.39	25.13	9.53	-5.26
2010-11	8.44	6.28	21.09	8.15	-2.31
2011-12	8.03	11.11	18.23	3.26	2.14
2012-13	-14.74	4.49	16.24	-66.29	0.73
2013-14	-30.6	7.72	12.15	-61.44	2.14
2014-15	-4.05	7.3	9.94	-55.08	7.27
2015-16	8.84	7.69	12.33	-27.25	5.15
2016-17	5.96	7.56	12.17	-2.21	3.45
2017-18	5.71	8.31	12.62	-3.23	6.86
AVERAE	1.243	8.702	16.112	-16.251	2.702
S.D.	13.95755	4.029306	5.08294	34.181	4.1493

(Source: www.moneycontrol.com)



Net Profit Margin Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

The net profit margin ratio of IHCL was showing fluctuating trend during the period of study. It indicates that IHCL has an unstable net profit margin in accordance with sales. EIH was showing fluctuating trend during the period of study. It implies that the performance of EIH is not at satisfactory level. MHR was showing fluctuating trend during the period of study. It confirms that MHR has an unstable net profit margin in accordance with sales. HLV was showing fluctuating trend during the period of study. It proves that the performance of HLV is not at satisfactory level. ITDC was showing fluctuating trend during the period of study. It shows that the performance of ITDC is not at satisfactory level.

Hypothesis testing

Null hypothesis: H₀:

There is no significant difference in net profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

Alternative hypothesis: H₁:

There is significant difference in net profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

ANOVA for difference in Net Profit Margin Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

Source of Variation	SS	df	MS	F	F crit
Between Groups	5769.72	4	1442.43	5.07027	2.5787
Within Groups	12802	45	284.488		
Total	18571.7	49			

ANOVA Table indicates that the calculated value of 'F' is 5.07027 and table value of 'F' is 2.5787. Here, calculated value of 'F' is higher than the table value of the same. Resultantly, null hypothesis cannot be

accepted and alternative hypothesis will be accepted at 5% significance level and 95% confidence level. Thus, it can be inferred that there is significant difference in net profit margin ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

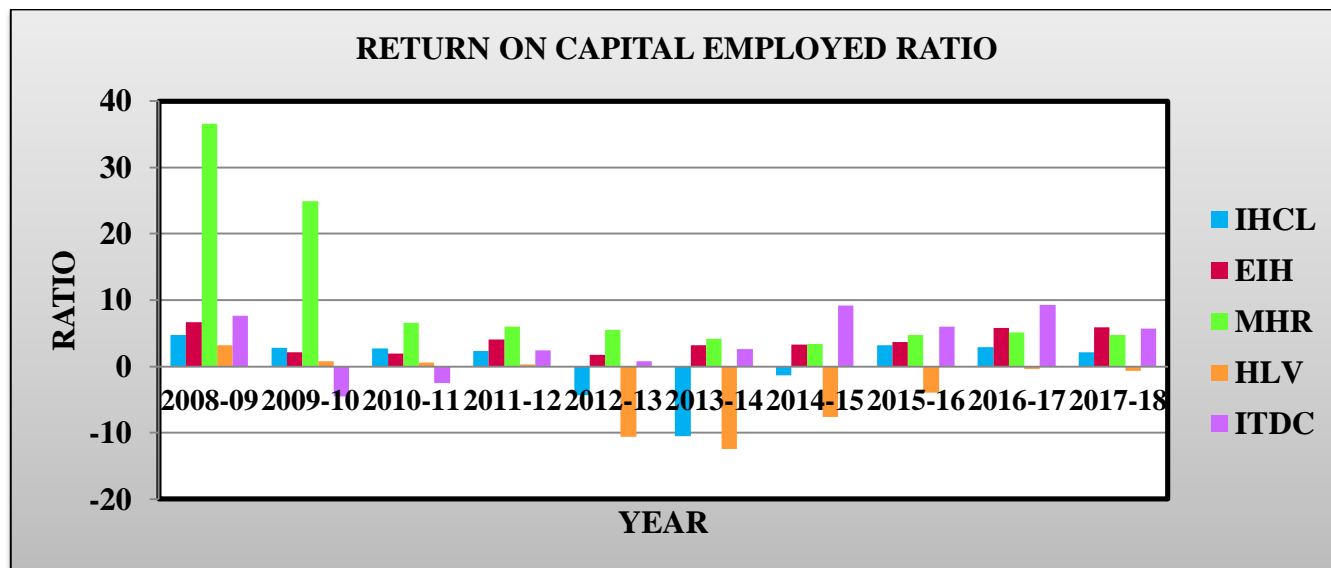
4.3 RETURN ON CAPITAL EMPLOYED RATIO (%)

This ratio is useful for comparing profitability of a business. It is ascertained by comparing profit earned and capital employed in the business to earn it. It indicates proper utilization of net capital employed towards achieving desirable amount of profits.

Return on Capital Employed Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

YEAR	IHCL	EIH	MHR	HLV	ITDC
2008-09	4.72	6.63	36.56	3.25	7.6
2009-10	2.78	2.13	24.88	0.82	-4.47
2010-11	2.76	1.95	6.54	0.64	-2.49
2011-12	2.35	4.11	6.04	0.35	2.39
2012-13	-4.3	1.72	5.51	-10.57	0.81
2013-14	-10.52	3.21	4.19	-12.39	2.58
2014-15	-1.29	3.29	3.42	-7.62	9.2
2015-16	3.2	3.72	4.78	-3.97	5.98
2016-17	2.94	5.79	5.09	-0.37	9.28
2017-18	2.17	5.91	4.76	-0.66	5.71
AVERAGE	0.481	3.846	10.177	-3.052	3.659
S.D.	4.657733	1.752726	11.20622	5.356769	4.739968

(Source: www.moneycontrol.com)



Return on Capital Employed Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

The return on capital employed ratio of IHCL was showing fluctuating trend during the period of study. It indicates that IHCL has an unstable return on capital employed. EIH was showing fluctuating trend during the period of study. It implies that the performance of EIH is not at satisfactory level. MHR was showing fluctuating trend during the period of study. It confirms that MHR has an unstable return on capital employed. HLV was showing fluctuating trend during the period of study. It proves that the performance of HLV is not at satisfactory level. ITDC was showing fluctuating trend during the period of study. It shows that the performance of ITDC is not at satisfactory level.

Hypothesis testing

Null hypothesis: H₀:

There is no significant difference in return on capital employed ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

Alternative hypothesis: H₁:

There is significant difference in return on capital employed ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

ANOVA for difference in Return on Capital Employed Ratio (%) Of Selected Indian Hotels during 2008-09 to 2017-18

Source of Variation	SS	df	MS	F	F crit
Between Groups	956.289	4	239.072	5.93207	2.5787
Within Groups	1813.57	45	40.3016		
Total	2769.86	49			

ANOVA Table indicates that the calculated value of ‘F’ is 5.9307 and table value of ‘F’ is 2.5787. Here, calculated value of ‘F’ is higher than the table value of the same. Resultantly, null hypothesis cannot be

accepted and alternative hypothesis will be accepted at 5% significance level and 95% confidence level. Thus, it can be inferred that there is significant difference in return on capital employed ratio of the selected Indian hotels during the period of study, i.e., 2008-09 to 2017-18.

5.00 CONCLUSION

Over the years each company selected for study has witnessed ups and downs when it comes to profitability. Some companies have recovered it while some have failed to do so. EIH & MHR need to increase earnings from its ongoing operations to meet fixed and variable costs of business and make sufficient amount of profit as well. Moreover, they should work on efficient management of controlling cost and pricing strategies. MHR must to check on rate and amount of borrowings. It should be in such a way that returns on capital employed remains higher than the rate at which the company borrows.

Apart from these, following steps can be taken by **hotel industry** to increase the profitability and financial performance at large:

1. Enhancing the guest experience with humanization
2. Maintaining the immediacy of social media
3. Adapting to hotel storytelling and marketing changes
4. Expanding guest convenience with hotel technology
5. Keeping health and wellbeing top-of-mind

Suggestions to government:

1. Strengthening infrastructure will lead to the growth and development of the hospitality sector. Therefore, single window clearance for real estate and hospitality projects and providing infrastructure status to the hospitality industry are much-needed steps for the growth of industry.
2. Taxes on real estate development for the hospitality sector must be lowered to boost investments as there is an acute shortage of good quality accommodation in the country. The government must also look at incentivizing investment in the development of luxury and ultra-luxury projects which will provide impetus to the hospitality and travel sector in India.

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