Volume : 2 | Issue : 7 | July 2013 • ISSN No 2277 - 8160

Research Paper | Management

A Comparative Study of Profitability Analysis of Selected Hotel Industries

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ABSTRACT

The hotel industry is a mature industry marked by intense competition. Market share increases typically comes at a competitor's expense. Industry-wide, most growth occurs in the international, rather than the domestic area. Hotels are a major employment generator in Hospitality industry. Work in the area of Hotel Management involves ensuring that all operations, including accommodation, food and drink and other hotel services run smoothly. It includes instructions in hospitality administration, hotel/motel management, restaurant and food services management, facilities planning, leisure studies, recreation administration, marketing, recreation equipment and grounds operations and maintenance, business finance, insurance and taxation, event management and guest services, personnel management, travel and logistics management, safety and health services, professional standards and ethics, and applications to specific vacation types and locations.

KEYWORDS: Profitability Analysis; Hotel Industries

Introductuion

Presently there are 1593 classified hotels with a capacity of 95,087 rooms in the country. The hotels sector comprises various forms of accommodation, namely star category hotels, heritage category hotels, timeshare resorts, apartment hotels, guest houses, and bed and breakfast establishments.

According to Economic Survey of 2010-11 the average annual growth rate of hotel and restaurant sector has been 8.8 per cent for the period during 2005-06 and 2009–10. However, last two years have not been quite pleasant for the sector as growth faltered badly.

Table:1 Annual Growth rate of Hotel & restaurant Sectors

Year	2005-06	2006-07	2007-08	2008-09	2009-10
Hotels & Restaurants %	17.5	14.4	13.1	-3.1	2.2

Research Methodology

The study is mainly based on secondary data. The relevant information in this regard is collected from various sources like annual reports of Hotels , speeches of chairman & websites. The reference books have been referred from libraries. Thus, various sources have used to collect the relevant data. The data has been collected from the annual report of selected sample unit for this reasearch are ***The Grand Bhagvati Hotels [TGB]; The Royal Orchid Hotel; The Jindal Hotel ; The Lord Ishwar Hotels and The Leela Hotels for the research year 2007-08 to 2011-12 to find out the better profitability of Hotel industry.***

Hypothesis of the Study

(a) Gross Profit to sales is uniform of the research unit for the research period
(b) Net Profit to sales is uniform for the research unit of the research period
(c) Operating Profit to sales is uniform for the research unit of the research period

Technique of the Analysis

For the purpose of profitability Analysis of the Selected Hotel Industries; Ratios are selected and calculated through various Statistical Techniques and Tools like, Mean and ANOVA Test, For that SS = Sum of Square D.F = Degree of Freedom, MSS = Mean Sum of Square F cal = Calculated value of F;

F crit = Critical Value of F ; Ratio at 5% Significant Level This Tools can be analyzed the profitability trend of Selected players of Hotel industries.

Profitability Analysis

Profitability reflects the final result of the business operations. Profit earning is considered essential for the survival of the business. There are two types of profitability ratios- profit margin ratio and the rate of return ratios. Profit margin ratio shows the relationship between profit and sales. Useful information about the trend of profitability is available from profitability ratios . The Gross Profit Ratio; Net Profit Ratio and Ratio on Return on Investment shows the good idea of a profitability of business on the basis of these ratios investors get an idea about the overall efficiency of business the management gets an idea about the efficiency of manager.

GROSS PROFIT RATIO

The gross profit margin looks at cost of goods sold as a percentage of sales. This ratio looks at how well a company controls the cost of its inventory and the manufacturing of its products and subsequently pass on the costs to its customers. The larger the gross profit margin, the better for the company. Both terms of the equation comes from the company's income statement. The calculation is:

Gross profit ratio = x 100

Table:2 Gross profit to sales Ratio in percentage

Year→ Hotels	2008	2009	2010	2011	2012	Average
TGB	26.89	21.50	19.92	19.64	12.66	20.122
Royal Orchid	46.67	34.58	26.54	24.74	4.71	27.45
Jindal Hotel	20.19	21.44	21.53	21.20	21.50	21.17
Lords Ishwar	27.58	21.05	22.96	16.29	17.04	20.98
Leela Hotel	37.32	23.58	15.36	19.12	-14.64	16.15
Average	31.73	24.43	21.26	20.20	8.25	105.87

Chart:1 Gross profit to sales Ratio in percentage

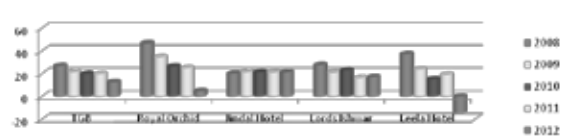


Table :3 Two Way ANOVA of Selected Sample Unit of Gross Profit Ratio

Sources of variance	Degree of freedom	Sum of square	Mean sum of square [MSS]	Fc	Ft
CSS	4	328.81	82.20	1.07	(4,16) [3.01]
RSS	4	1368.57	342.14	4.45	(4,16) [3.01]
ESS	16	1227.7	76.73		
TSS	24	2925.08			

INTERPRETATION

- Hotel Royal Orchid has The highest gross profit ratio is 46.67% in the year 2008
- Hotel Leena is making the Loss at 14.64% in the year of 2012
- Jindal hotel is maintaining average gross profit as 20 % to 21 % throughout research period
- TGB hotel is having highest profit in year 2008 and gradually decrease every year.
- Two way ANOVA table Shows, The calculated value 'F' is Higher to tabular value F which shows that there is significant diffference in the gross profit to sales in the units undertaken for the study for the period of the study

NET PROFIT RATIO:

Net Profit Ratio is the relation between net profit and total income. Net Profit Ratio is usually calculated for operations only. In other words, the profit is calculated does not include profit from non-trading assets. Similarly, expenses relating to non-trading assets are excluded. In calculating Net Profit Ratio, we consider net operating profit. Also taxes and preference dividends paid are not deducted from the profit. It is always better to have a higher Net Profit Ratio for a company. Normally it is expressed in terms of percentage.

Table:4 Net profit to sales Ratio in percentage

Year/Hotels	2008	2009	2010	2011	2012	Average
TGB	16.00	13.88	11.01	7.73	.20	9.76
Royal Orchid	34.06	20.03	10.48	10.16	1.26	15.20
Jindal Hotel	8.34	8.71	9.74	10.93	11.34	9.81
Lords Ishwar	18.38	13.50	13.58	8.81	4.84	11.82
Leela Hotel	25.65	25.28	8.87	7.03	3.17	14
Average	20.49	16.28	10.74	8.93	4.16	60.59

Chart:2 Net profit to sales Ratio in percentage

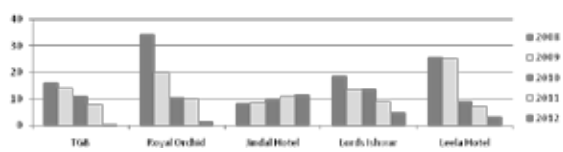


Table :5 Two Way ANOVA of Selected Sample Unit of Net Profit Ratio

Sources of variance	Degree of freedom	Sum of square	Mean sum of square [MSS]	Fc	Ft
CSS	4	120.33	30.08	.91	(4,16) [3.01]
RSS	4	813.63	203.40	6.15	(4,16) [3.01]
ESS	16	529.19	33.07		
TSS	24	1463.15			

INTERPREATATION

- Hotel Royal Orchid is making highest Net Profit Ratio 34.06% in the year 2008 and thereafter it decreases throughout the research period
- Net Profit Ratio of the Research unit shows decrease through out research period except Jindal hotel who is making increase in profit throughout research period
- Hotel Leela hotel is having high profit during first two years of research period and thereafter it reduces through out the research period.
- Two way ANOVA table Shows, The calculated value 'F' is Higher to tabular value F which shows that there is significant diffference in the net profit to sales in the units undertaken for the study for the period of the study

Operating profit ratio

Operating profit is also known as EBIT and is found on the company's income statement. EBIT is earnings before interest and taxes. The operating profit margin looks at EBIT as a percentage of sales. The operating profit margin ratio is a measure of overall operating efficiency, incorporating all of the expenses of ordinary, daily business activity. The calculation is:

Operating profit ratio = x 100

Table:6 Operating profit to sales Ratio in percentage

Year→ Hotels	2008	2009	2010	2011	2012	Average
TGB	31.14	25.99	22.30	23.36	21.04	24.57
Royal Orchid	50.41	40.62	33.74	30.78	10.46	33.20
Jindal Hotel	27.83	28.70	28.75	27.48	27.50	28.05
Lords Ishwar	35.06	28.29	31.49	25.16	26.14	29.23
Leela Hotel	40.13	35.73	31.25	31.12	3.25	17.68
Average	38.11	31.87	29.51	27.78	17.68	144.94

Chart:3 Operating profit to sales Ratio in percentage

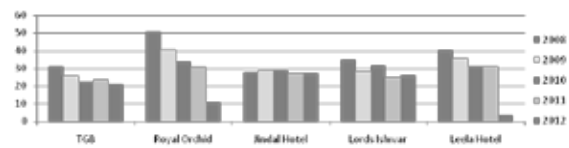


Table :7 Two Way ANOVA of Selected Sample Unit of Operating Profit Ratio

Sources of variance	Degree of freedom	Sum of square	Mean sum of square [MSS]	Fc	Ft
CSS	4	186.85	46.71	.81	(4,16) [3.01]
RSS	4	1106.03	276.50	4.84	(4,16) [3.01]
ESS	16	912.71	57.04		
TSS	24	2205.59			

INTERPREATATION

- Royal Orchid hotel is having highest operating profit ratio during the year 2009 @ 50.41% and it reduces through out the research period and reaches 10.46% during the last year of research period.
- All the research unit of hotel industries shows fluctuation of operating profit ratio throughout research period except Jindal hotel who is maintaining average operating profit ratio throughout the research period.
- Hotel Leela hotel is having high operating profit during first two years of research period and thereafter it reduces through out the research period and reaches to 3.25% in the last year of research period.
- Two way ANOVA table Shows, The calculated value 'F' is Higher to tabular value F which shows that there is significant diffference in the operating profit to sales in the units undertaken for the study for the period of the study

Limitation

There are various kinds of hotels enganged in industry but researcher of this research has not cconsider all the types of hotels and period of the study is limited to 2007-08 to 2011-12

All the data avaialble is from secondary source of information which has its own limitations which also apply for this research work.

Accounting tools and Statitstical techniques used for this research has their own limitation which also apply for this research work.

Suggestion

The hotel industry in India is heavily staffed. This can be gauged from the facts that while Indian hotel companies have a staff to room ratio of 3:1, this ratio is 1:1 for international hotel companies.

Demand between the national and the inbound tourists can be easily managed due to difference in the period of holidays. For international tourists the peak season for arrival is between Septembers to March when the climatic conditions are suitable where as the national tourist waits for school holidays, generally the summer months.

Conclusion

Here we can say that profitability analysis of this hotel suggests that the royal orchid hotel is in the good position than jindal hotel. The lord ishwar and TGB are on an average and leela hotel is in the last position as compare to this five hotels.

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