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PROFITABILITY ANALYSIS - A STUDY OF SELECTED HOTEL COMPANIES IN INDIA

Basavarajeshwari Diddimani*	Assistant Professor, Government First Grade College Uppinangady & Scholar in Department of Commerce, Mangalore University, Mangala gangothri-Mangalore. *Corresponding Author
Dr. Ishwara P	Professor, Department of Commerce, Mangalore University, Mangala gangothri-Mangalore.

ABSTRACT Business profitability is the main objective and assurance of the long-term survival of the firm. So companies need to measure current and past profitability and to projects future profitability The present study aims to analyses the profitability of listed hotel companies in India. To achieve the objectives of the study, financial data were collected from secondary sources mainly from financial reports of the selected companies, which were published by the Bombay Stock Exchange in India and also, the relevant secondary data have been collected from CAPITALINE plus database, CMIE database. The results of the study opine that the profitability of hotel companies is satisfactory. Based on result and analysis, selected hotel companies have a different ranking based on each profitability indicators such as Operating Profit Ratio, Net Profit Ratio, return on Assets, return on Net worth, and Earning Per Share. Regression analysis is done to see the association between Return on asset and eight financial variables. Regression analysis shows that out of eight financial variables only quick ratio and Interest coverage ratio determines the Return on Assets.

KEYWORDS : Profitability, Hotel industry, Return on Assets

INTRODUCTION:

The first and foremost objective of every business firm is to increase the wealth of the shareholders i.e. to maximize the market value of its equity shares in the long run. This objective can be achieved by identifying and maintaining the most desirable combination of assets and identifying and maintaining the most desirable combination of sources of financing assets. A business must earn sufficient profit continuously for its survival and future development and growth. Profit, in fact, is the difference between revenues and expenses over a period. The source of revenues of a five star hotels include room tariff, food and beverage sales and other service charges while expenses include cost of raw material, salaries and wages, depreciation and interest etc. Revenues are matched with the expenses of the corresponding period to know the profit or loss of a business. Here it is necessary to distinguish between profit and profitability. Profit indicates the excess of revenues over expenses, whereas profitability reflects the profit earning ability of the firm. Profitability of the firm can be measured through profitability ratios. Profitability ratios are calculated to measure the overall efficiency of the business. The analysis of profitability ratios is important for the Shareholders, creditors, prospective investors, bankers and government alike.

Literature Review:

The profitability ratio is an important factor for investors to assess a business because it is measuring of firm's ability to generate profits, in which the overall efficiency and performance of the company are showed by this ratio. So, the company must aware that profitability is the first thing to attract investors (Dao, 2016). Singh & Schmidgall (2002) investigated the importance of liquidity, solvency, activity, profitability, and operating ratios as perceived by 500 lodging financial executives. The importance and frequency of usage of these ratios were measured by a questionnaire employing a six-point semantic differential measurement scale. The final analysis indicated that operating and profitability ratios are the most important ratios for lodging managers. However, no calculations of these ratios concerning the lodging companies were carried out, and no other segments of the hospitality industry than the hotel segment were included in their study.

Amit Sharma, Arun Upneja, (2005) studied the factors influencing the financial performance of small hotels, particularly in developing countries like Tanzania. Findings of this investigation suggest that operating factors in small hotels such as inefficiencies due to lack of employee training, low investments in fixed assets and technology may be equally responsible for low profitability as are government policies that ignore the appropriate emphasis on ensuring safety and security, and quick processing of licenses and permits. Profitability describes the achievement of the economic success of the company. The amount of net income is determinant of this economic success to its investment. Profit is business income generated after paying all costs directly related to income. Business profitability is the main objective and assurance of the long-term survival of the firm. So companies need to measure current and past profitability and to projects future profitability (Khan & Safiuddin, 2016). ROA is a measuring that shows the return on the number of assets used. ROA measures the performance of the investment that has been invested, i.e. returns as expected and the investment is the same as the company's assets invested or placed (Rahman & Sunarti, 2017). ROA is a measure of net profit derived from how much assets were used by the company. ROA shows asset management performance.

Need For The Study:

The hotel industry is becoming increasingly competitive for survival, growth, and profitability in a world economy. However, the hotel industry has accelerated under the pressures of dynamic issues such as advances in technology, communication and transportation, deregulation, elimination of political barriers, socio-cultural changes, and global economic development. The big challenge to the hotel industry is whether or not it can quickly adapt to changes in these and other related issues. The growth of the hotel industry has been blunted by financial difficulties such as availing of government tax concessions and obtaining loans from financial institutions, short repayment period, pricing, profitability.

This study will be of good help to the society by enabling the prospective investors and other stakeholders of the hotel industry in India to take economic and profitable decisions and also will limelight the financial strengths of selected hotels which will help to frame the policies relating finance.

Scope Of The Study

The present study is confined to Hotel companies who are listed in BSE/NSE consisting of one central public sector (India Tourism Development Corporation Limited (ITDC)) and 9 private sectors (Indian Hotels Company Ltd (IHCL), East India Hotels Ltd. (EIHL), Mahindra Holidays & Resorts India Ltd. (MHRIL), Oriental Hotels Ltd. (OHL), Taj GVK Hotels (TajGVKHL), Asian Hotels Ltd. (AHL), EIH Assoc Hotel (EIHAL), Country Club (CC) and Hotel Leela Venture (HLV)) only.

Sources Of Data

The study is based on secondary data only. Financial data were collected from the financial statement of selected hotels companies for a period of 10 years i.e. form 2009-10 to 2018-19. The relevant secondary data have also been collected from CAPITALINE plus data base, CMIE database.

Statistical Tools

Statistical techniques including mean, SD, CV, compound annual growth rate, Kruskal Wallis Test, Karl Pearson coefficient correlation and Regression analysis have used for the analysis.

Objectives:
1. To analyze the profitability of selected hotel companies in India
2. To ascertain the relationship between return on assets and selected variables.

Hypothesis:
1. There is a significant difference in mean ratio of profitability of selected hotel companies.
2. There is a significant association between Return on Assets and Financial variables of selected hotel companies.

Profitability Analysis of Selected Hotels in India
To analyze the profitability, some important ratios such as Operating Profit Ratio (OPR), Net Profit Ratio (NPR), Return on Net Worth (RONW), Return on Assets (ROA) and Earning Per Share (EPS) are used.

Operating Profit Margin
Operating Profit Margin is a profitability or performance ratio that reflects the percentage of profit a company produces from its operations, prior to subtracting taxes and interest charges. It is calculated by dividing the operating profit by total revenue and expressing as a percentage.

Table 1: Operating Profit Margin of selected hotels in India

Companies	Min.Val	Max.Val	Mean	SD	C.V(%)
IHCL	15.82	23.26	19.46	2.80	14.39
EIHL	21.33	25.37	23.81	1.46	6.15
MHRIL	11.46	38.67	22.66	7.75	34.22
ITDC	-7.56	10.98	3.57	6.22	174.53
OHL	3.98	24.08	12.17	6.64	54.54
Taj GVKHL	10.46	29.74	19.19	6.59	34.31
AHL	10.12	44.86	30.99	10.72	34.60
EIHAL	21.33	25.37	23.81	1.46	6.15
CC	12.08	26.67	17.54	4.60	26.22
HLV	-57.85	67.58	7.33	31.63	431.33

Above table reveals that, the mean values varied from company to company, the highest mean was 30.99% of Asian Hotels Ltd. whereas it is least in India Tourism Development Corporation (3.57) during the study. By observing average values of operating profit of all selected hotels, we can say that most of the hotels are holding desirable position except ITDC and HLV. Among the selected Hotels companies EIH & EIH Associate Ltd have the lowest variation (1.46%) in operating profit margin which indicates the consistent performance of this ratio while Hotel Leela Venture has suffered from the largest variation (431.33) in operating profit margin compared to other hotels companies during the study period. The HLV & ITDC needs to take necessary steps to improve operating profit and improve operating efficiency of the management.

Net Profit Margin Ratio:
Net profit margin is one of the most widely used profitability ratio. Net profit margin is also known as profit margin/net margin/return on revenue etc. It is a profitability ratio calculated as profit after tax (net profits) divided by sales (revenue).

Table 2: Net Profit Margin Ratio of selected hotels in India

Companies	Min.Val	Max.Val	Mean	SD	C.V(%)
IHCL	1.07	10.49	5.95	2.84	47.77
EIHL	3.89	16.23	11.01	4.19	38.01
MHRIL	6.95	25.14	14.76	5.32	36.03
ITDC	-5.27	7.74	2.42	4.23	175.01
OHL	-3.67	12.01	2.65	5.03	189.41
Taj GVKHL	-0.79	16.72	7.02	6.00	85.40
AHL	-30.62	21.97	-2.03	16.79	825.42
EIHAL	3.89	16.23	11.01	4.19	38.01
CC	-10.29	8.45	-0.70	6.49	933.53
HLV	-67.23	10.57	-18.58	33.21	178.70

The mean values of net profit margin varied from company to company, the highest mean was 14.76 of Mahindra Holidays & Resorts India Ltd. whereas it is least in Hotel Leela Venture during the study. Mahindra Holidays & Resorts India Ltd. is having higher average net profit margin in comparing with other companies and also standard deviation of 5.32% indicate extremely attractive position. And also it has the lowest variation (36.03%) in net profit margin which indicates the consistent performance of this ratio while Country Club has suffered from the largest variation (933.53) in net profit margin % compared to other hotels companies during the study period. However, other companies have to improve their performance in future.

Return On Net Worth (RONW)
This ratio measures the relationship between net profits and proprietor's funds and thus, reveals how well the firm has used the resources of owners. So, this ratio is of great interest to the present as well as prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare. Further, RONW is also capable to reveal the relative performance and strength of the company in attracting future investments.

Table 3: Return on Net worth (RONW) of selected hotels in India

Companies	Min.Val	Max.Val	Mean	SD	C.V(%)
IHCL	2.34	6.57	4.40	1.24	28.07
EIHL	5.47	16.99	12.25	3.15	25.70
MHRIL	12.57	39.46	21.79	9.15	41.99
ITDC	-4.46	10.72	3.19	4.90	153.41
OHL	-2.50	8.19	2.82	3.71	131.34
Taj GVKHL	-0.57	14.11	5.60	4.97	88.87
AHL	-12.19	10.25	-0.86	6.81	788.64
EIHAL	5.47	16.99	12.25	3.15	25.70
CC	-3.49	2.67	-0.29	2.32	809.44
HLV	4.41	6.84	5.43	1.26	23.19

The average ratio of RONW are ranged from -0.86 % to 21.79 % among the companies, hence there is significant difference between mean vale of RONW among selected companies during the study. And it is higher in Mahindra holidays & resorts India ltd. whereas it is least in Asian hotels ltd. during the period of study. The average value of RONW of all selected hotels not satisfactory except MHRIL, EIHL & EIHAL. The co-efficient of variation of RONW is least 23.19% in Hotel Leela Venture, which indicates consistent performance of this ratio. From the above table, we can observe that, the Mahindra holidays and Resorts India Ltd. is performing better in comparing with other companies. Other companies need to concentrate on improving RONW and take necessary action.

Return On Assets (ROA):
Return on assets (ROA) is a financial ratio which is an indication of the percentage of profit which a company earns in relation to total assets of the company. Return on assets (ROA) is an important, and most frequently used profitability ratio in order to measures the amount of profit earned by a company for every rupee invested in its assets. Return on assets shows the ability of a company to generate profits before leverage, rather than by using leverage.

Table 4: Return on Assets (ROA) of Selected hotels in India

Company	Minimum	Maximum	Mean	Std. Deviation	CV %
IHL	-8.72	3.34	0.29	3.83	14.64
EIH	1.48	3.67	2.62	0.71	0.51
MHRIL	1.05	8	4.4	1.83	3.36
ITDC	-2.3	6.28	1.99	2.75	7.55
ORH	-2.79	13.63	2.26	4.54	20.59
TAJGVK	-0.27	8.08	3.06	2.83	8.01
AHL	-2.53	2.82	0.26	1.94	3.76
EIHAHL	1.25	12.38	6.97	3.83	14.66
CC	-1.99	1.72	-0.16	1.37	1.87
HLV	-7.13	0.76	-2.66	3.31	10.94

The average values of ROA are varied from company to company, the highest average was 6.97 of EIHAHL which indicates where as it is least in Hotel Leela Venture (-2.66 %) during the study. Average Among the selected Hotels companies EIH has the lowest variation (0.51%) in ROA% which indicates the consistent performance of this ratio while Oriental hotels has suffered from the largest variation (20.59) in ROA % compared to other hotels companies during the study period. The above table reveals that all selected hotel companies' performance regarding Return on Assets is not satisfactory, needs to take necessary steps to increase the ROA.

Earnings Per Share (EPS)
EPS is an absolute measure of profitability that identifies how much each share has earned for the shareholders. Investors, in general, look upon earnings per share as the best yardstick to analyze their investment decisions.

Table 5: Earnings Per Share (EPS) of selected hotels in India

Companies	Min.Val	Max.Val	Mean	SD	C.V(%)
IHCL	0.80	2.22	1.53	0.45	29.62
EIHL	0.77	1.98	1.52	0.43	28.26
MHRIL	4.81	10.12	7.82	1.75	22.36

ITDC	0.35	4.92	2.23	1.58	70.95
OHL	0.00	5.01	0.91	1.51	166.48
Taj GVKHL	0.00	6.59	2.88	2.19	76.18
AHL	0.00	18.06	4.89	7.57	154.89
EIHAL	2.14	14.04	8.44	3.93	46.49
CC	0.05	2.10	1.34	0.80	59.30
HLV	0.48	1.05	0.83	0.30	36.76

The above table implies that analysis of EPS of selected BSE/NSE listed hotel companies during the study period. The mean values of EPS varied from company to company, the highest mean was 8.44 of EIH Associates Hotels where as it is least in Hotel Leela Venture (0.83) during the study. Only EIHAL & MHRIL good return to shareholders and others are satisfied the shareholders as their EPS is very low. Among the selected Hotels companies Mahindra Holidays & Resorts India Ltd. has the lowest variation (22.36 %) in EPS which indicates the consistent performance of this ratio while Oriental hotels has suffered from the largest variation (166.48) in EPS compared to other hotels companies during the study period.

Regression Analysis:

In order to test the significance of association in the return on assets, with financial variables multiple regression analysis is performed.

The following independent financial variables are employed to conduct the regression analysis.

1. Debt equity ratio
2. Long term debt equity ratio
3. Interest coverage ratio
4. Current ratio
5. Quick ratio
6. Fixed assets turnover ratio
7. Inventory turnover ratio
8. Debtors turnover ratios

Table 6. Regression Model for Y- Return on Assets (ROA)

	B	Std. Error	t-value	Sig.	R^2	VIF
(Constant)	1.382	1.17	1.181	0.241	0.271	
Debt-Equity Ratio	-0.147	0.604	-0.243	0.808		18.552
Long Term Debt-Equity Ratio	-0.368	0.815	-0.452	0.652		17.633
Current Ratio	0.426	1.103	0.386	0.7		6.31
Quick Ratio	1.615	0.807	2.001	0.048		4.416
Fixed Assets Turnover Ratio	-0.717	0.577	-1.243	0.217		2.703
Inventory Turnover Ratio	-0.017	0.014	-1.196	0.235		3.276
Debtors Turnover Ratio	0.017	0.044	0.379	0.705		2.902
Interest Coverage Ratio	0.022	0.009	2.336	0.022		1.411
ANOVA						
	Sum of Squares	Df	Mean Square	F	Sig.	
Regression	383.967	8	47.996	4.234	.000b	
Residual	1031.462	91	11.335			

Source: Computed from Financial reports

Multiple regression analysis is conducted by taking all 8 individual variables as predictor variables, and profitability (ROA) of the company as dependent variables. Out of 8 variables only two variables (Quick ratio and Interest coverage ratio) construct the model of regression and are able to explain 27.1 % variation in ROA as the R^2 value shows 0.271. The robustness of the model is proved by the ANNOVA with F value 4.234 and low p value 0.000. Both the variables contain t value of 2.001 and 2.336 respectively, with corresponding p value of 0.048 and 0.022 respectively. The variance inflation factor (VIF) of both the variables is 4.416 and 1.411 which is less than the traditional thumb rule value of 10 (Cohen et al. 2003, p. 425). Hence, it can be said that the model is free of multi-collinearity problem. The other variables are excluded on the basis of low t value (\±2) and high p value ([±0.05). Interest coverage ratio provides the positive impact on ROA that means the companies are using balanced amount of debt in their capital structure for interest payment on borrowed capital is less than earned profit which directly higher the profitability of the company. So it can be said that the company is efficiently managing the return-risk trade off. On the other hand, Quick ratio provides the positive impact which means companies are able to meet the current liabilities without needing to sell its inventory or get additional financing and have enough liquid assets that can be converted quickly to cash.

Findings And Suggestions:

On an average, Asian Hotels Ltd, EIH & EIH Associate Hotels Ltd, Mahindra Holidays & Resorts India Ltd., AND Indian Hotels Co Ltd has earned satisfactory profit from their operating activities as compared to other selected hotels under study. The management will have to use its all kinds of skill to do the trick. RONW ratio indicates effective utilization of Fixed Assets and Liabilities. RONW showed highest Co-efficient of variation indicating the inconsistent performance in Asian Hotels and Country Club during the study period. It reveals underutilization of available resources like Plant and Machinery, equipment and idle use of other fixed assets. The companies should adopt a suitable strategy to increase the usage of fixed assets through effective utilization of resources. In nutshell, it can be concluded that some of the selected hotels has been operating up to expectation on any front. The management of all the selected hotels should make serious efforts to increase their efficiency on all fronts by providing quality services at competitive rates to their customers. Further, these hotels should try to reduce their operating cost by ensuring optimal use their available resources.

CONCLUSION:

The hotel industry is becoming increasingly competitive for survival, growth, and profitability in a world economy. However, the hotel industry has accelerated under the pressures of dynamic issues such as advances in technology, communication and transportation, deregulation, elimination of political barriers, socio cultural changes, and global economic development. The industry is also a great source of revenue earning through foreign exchange. So the Government and private firms must give proper attention to the industry for attracting more number of tourists from across the globe to visit our nation.

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