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Performance Measurement in Hotel Industry - An Analytical Study

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Abstract: An analytical study was undertaken with the objectives of studying the concept of financial performance analysis, reviewing the current status of hotel companies in India, identifying the parameters/indicators of financial performance of hotel companies, evaluating financial performance of select hotel chains and analyzing financial statements and assessing the financial performance of select chain of hotel companies. Financial statements of five large hotel companies from India were analyzed for a period of six years. Four of the key performance factors showed much lesser than expected growth to be called as a steady growth. For Operating Revenue, Total Revenue, Gross Margin and EBIDTA the actuals are significantly lower than the expected performance at a CAGR of 10%. However, in case of performance factors like PBT, NP, EPS and Dividend the actual average performance is significantly better than the expected performance at a CAGR of 10%. Both the key parameters taken for financial health, namely, fixed assets and net-worth have shown significantly low actual values than the expected reasonable growth of 10% CAGR to lend some steadiness to the financial health of the Hotels. The industry on an overall basis has not shown a steady performance given the weak CAGRS on Revenue, Gross Margin and EBIDTA. After six years the operating revenue in FY 2018/19 stood at Rs.5004.17 crores from Rs.4560.60 crores in the year 2013/14. Even if we apply a CAGR of 5% the expected revenue by the end of 2018/19 was Rs.6111.64 crores. Market is a problem for the Hotel Industry. At the same time profitability has shown a better performance as compared to the top line. In fact, the year 2018/19 has recorded the highest NPs for all the six years. This is an encouraging sign and it can be expected that the industry will do better in the years to come. **This article presents the findings and conclusions from the study.**

Keywords: Hotel Management, Performance Measurement, Financial Statement Analyses

I. INTRODUCTION

An analytical study was undertaken with the idea of examining the idea of budgetary execution examination, looking into the present status of hotel organizations in india, distinguishing the parameters/markers of money related execution of hotel organizations, assessing monetary execution of select hotel networks and breaking down fiscal reports and surveying the money related execution of select chain of lodging organizations. Fiscal reports of five big hotel organizations from india were investigated for a time of six years. Four of the key performance parameters demonstrated a lot lesser than anticipated development to be called as a relentless development. For operating revenue, total revenue, gross margin and ebidta the actuals are essentially lower than the normal execution at a cagr of 10%. In any case, in the event of execution variables like pbt, np, eps and dividend the real normal exhibition is altogether superior to the normal execution at a cagr of 10%. Both the key parameters taken for money related wellbeing, to be specific, fixed resources and total assets have indicated altogether low genuine qualities than the normal sensible development of 10% cagr to loan some dauntlessness to the budgetary soundness of the hotels. The business on a general premise has not demonstrated an unfaltering presentation given the feeble cagrs on revenue, gross margin and ebidta. Following six years the working income in fy 2018/19 remained at rs.5004.17 crores from rs.4560.60 crores in the year 2013/14. Regardless of whether we apply a cagr of 5% the normal income before the finish of 2018/19 was rs.6111.64 crores. Market is an issue for the hotel industry. Simultaneously gainfulness has indicated a superior execution when contrasted with the top line. In fact the year 2018/19 has recorded the highest nps for all the six years. This is an encouraging sign and it can be expected that the industry will do better in the years to come. **This article presents the findings and conclusions from the study. Suggestions are also given.**

II. FINDINGS

A. Findings from Descriptive Analysis:

Summary of ratio analysis for last six years actual performance for the 5 hotels is as under – Ratio Analysis, Du Pont Analysis, Trend Analysis

i. Ratio Analysis –

Table 1: Summary of ratio analysis (actuals)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
Profitability Ratios										
Margin Ratios										
GPM	0.59	0.44	0.52	0.63	0.41	0.63	0.41	0.52	Leela	Taj GVK
EBIDTA	0.22	0.22	0.09	0.22	0.23	0.23	0.09	0.20	Taj GVK	ITDC
Cash Profit	0.20	0.16	0.09	0.00	0.13	0.20	0.00	0.12	EIH	Leela
PBT	0.12	0.10	0.07	-0.22	0.06	0.12	-0.22	0.03	EIH	Leela
NPM	0.09	0.05	0.05	-0.20	0.03	0.09	-0.20	0.01	EIH	Leela
Return Ratios										
RoA	0.03	0.02	0.03	-0.02	0.01	0.03	-0.02	0.02	EIH	Leela
RoI	0.04	0.02	0.06	-0.04	0.02	0.06	-0.04	0.02	ITDC	Leela
RoE	0.05	0.04	0.06	-0.31	0.03	0.06	-0.31	-0.03	ITDC	Leela
Liquidity Ratios										
Current Ratio	0.68	0.72	2.18	0.56	0.51	2.18	0.51	0.93	ITDC	Taj GVK
Quick Ratio	0.58	0.68	2.13	0.50	0.40	2.13	0.40	0.86	ITDC	Taj GVK
Efficiency Ratios										
Rev/FA	0.71	1.02	8.33	0.21	0.55	8.33	0.21	2.16	ITDC	Leela
Rev/WC	-15.93	30.98	1.49	-2.25	-6.69	30.98	-15.93	1.52	IH	EIH
Solvency Ratios										
SR	0.30	0.07	0.10	0.01	0.09	0.30	0.01	0.11	EIH	Leela
DE Ratio	0.12	0.81	0.16	12.41	0.75	12.41	0.12	2.85	Leela	EIH

- For Margin Ratios EIH has three best ratios in terms of Cash Profit, PBT & NPM. All these three ratios are the worst in case of Leela. This is very interesting despite the best GPM ratio of Leela. Taj GVK has the best EBIDTA ratio and also has the worst GPM.
- On an overall basis it is worthwhile noting the slide from a gross margin level of 52% to NPM of just 1%. From the GPM to EBIDTA the reduction is quite substantial – from 52% to 20%, that is, 32%. And this 20% is almost eaten-up by interest, depreciation and taxes.
- EIH has the best RoA ratio. ITDC has the best RoE & RoI ratios. All these 3 ratios are the worst in case of Leela.
- The overall Return ratios are quite poor ranging from 2% as the best and -3% as the worst.
- ITDC has the best current and quick ratios whereas Taj GVK has the worst current and quick ratios.
- The overall current ratio of 0.93 is well below the standard norm of 2.
- ITDC has the best Revenue to FA ratio whereas Leela has the same as worst. Indian Hotels has the best Revenue to WC ratio whereas EIH has the same as worst.
- Overall efficiency ratios are quite dismal.
- EIH has the best Solvency ratio whereas Leela has the same as worst. EIH has the best DE ration whereas Leela has the same as worst.
- Due to Leelas abnormally high DE ratio the overall DE ratio is as high as 2.85. The average of the other 4 hotels is only 0.46.

ii. Du Pont Analysis –

Table 2: Summary of Du Pont analysis (actuals)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
RoI	0.04	0.02	0.06	-0.04	0.02	0.06	-0.04	0.02	ITDC	Leela
Sales/Invst	0.46	0.39	1.10	0.18	0.43	1.10	0.18	0.51	ITDC	Leela
PBT/Sales	0.12	0.10	0.07	-0.22	0.06	0.12	-0.22	0.03	EIH	Leela
PAT/PBT	0.70	0.47	0.69	0.95	0.60	0.95	0.47	0.68	Leela	IH
RoI	0.04	0.02	0.06	-0.04	0.02	0.06	-0.04	0.02	ITDC	Leela

ITDC has the best RoI. Through Du Pont Analysis we can understand that this is possible because of the extremely high Sales to Turnover for ITDC. Leela on the other hand has the worst RoI. Through Du Pont Analysis we can understand that is clearly attributable to poor Sales to Turnover and Return on Sales. On an overall basis a RoI of 2% is quite poor. Du Pont Analysis shows that a major culprit in this is the poor PBT/Sales of 0.03.

iii. Trend Analysis –

Table 3: Summary of Trend analysis (actuals)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
Operating Revenue	0.04	0.05	-0.04	-0.23	0.04	0.05	-0.23	-0.03	IH	Leela
Total Revenue	0.04	0.06	-0.04	-0.23	0.05	0.06	-0.23	-0.03	IH	Leela
Gross Margin	0.05	0.05	-0.05	-0.26	0.03	0.05	-0.26	-0.03	IH	Leela
EBIDTA	0.06	0.08	0.17	-0.54	0.06	0.17	-0.54	-0.03	ITDC	Leela
PBT	0.09	0.08	0.21	-0.49	0.42	0.42	-0.49	0.06	Taj GVK	Leela
NP	0.13	0.05	0.14	-0.49	0.75	0.75	-0.49	0.12	Taj GVK	Leela
EPS	0.03	0.68	0.29	-0.24	0.30	0.68	-0.24	0.21	IH	Leela
Dividend	-0.03	0.31	0.27	-0.19	0.20	0.31	-0.19	0.11	IH	Leela
Assets	0.02	0.02	0.02	-0.17	0.01	0.02	-0.17	-0.02	IH	Leela
Networth	0.01	0.09	0.02	0.00	0.02	0.09	0.00	0.03	IH	Leela

Indian Hotels has the best CAGRs for number of parameters like Operating Revenue, Total Revenue, Gross Margin, EPS, Dividend, Assets and Networth. ITDC has best CAGRs for EBIDTA, PBT and NP. For all the parameters Leela has the worst CAGRs. Almost all of them are negative. On an overall basis the revenue CAGRs of -3% is quite poor and so is the Gross Margin and EBIDTA CAGRs of -3%. In comparison the PBT and NP CAGRs are better. The CAGRs in respect of EPS and Dividends are quite healthy. But those for assets and networth are at a negligible level of 2% and 3% respectively.

B. Findings from Inferential Analysis:

Four of the key performance factors showed much lesser than expected growth to be called as a steady growth. For Operating Revenue, Total Revenue, Gross Margin and EBIDTA the actuals are significantly lower than the expected performance at a CAGR of 10%.

However, in case of performance factors like PBT, NP, EPS and Dividend the actual average performance is significantly better than the expected performance at a CAGR of 10%.

Both the key parameters taken for financial health, namely, fixed assets and networth have shown significantly low actual values than the expected reasonable growth of 10% CAGR to lend some steadiness to the financial health of the Hotels.

C. Findings from Predictive Analysis:

Summary of ratio analysis for next five years projected performance for the 5 hotels is as under –

a) Ratio Analysis –

Table 4: Summary of ratio analysis (projected)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
Profitability Ratios										
Margin Ratios										
GPM	0.61	0.44	0.34	0.72	0.39	0.72	0.34	0.50	Leela	ITDC
EBIDTA	0.24	0.24	0.18	0.44	0.26	0.44	0.18	0.27	Leela	ITDC
Cash Profit	0.22	0.16	0.18	0.30	0.20	0.30	0.16	0.21	Leela	IH
PBT	0.15	0.10	0.15	0.21	0.17	0.21	0.10	0.16	Leela	IH
NPM	0.10	0.07	0.11	0.14	0.11	0.14	0.07	0.11	Leela	IH
Return Ratios										
RoA	0.04	0.03	0.04	0.05	0.05	0.05	0.03	0.04	Taj GVK	IH
RoI	0.05	0.03	0.06	0.03	0.06	0.06	0.03	0.05	ITDC	Leela
RoE	0.06	0.04	0.07	-0.37	0.10	0.10	-0.37	-0.02	Taj GVK	Leela
Liquidity Ratios										
Current Ratio	0.66	0.72	2.14	-1.61	0.50	2.14	-1.61	0.48	ITDC	Leela
Quick Ratio	0.57	0.68	2.09	-1.49	0.41	2.09	-1.49	0.45	ITDC	Leela

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Efficiency Ratios										
Rev/FA	0.82	1.13	5.17	0.55	0.67	5.17	0.55	1.67	ITDC	Leela
Rev/WC	-8.49	-7.39	0.82	0.47	-6.48	0.82	-8.49	-4.21	ITDC	EIH
Solvency Ratios										
SR	0.27	0.16	0.10	0.06	0.15	0.27	0.06	0.15	EIH	Leela
DE Ratio	0.17	0.20	0.20	-19.33	0.57	0.57	-19.33	-3.64	Taj GVK	Leela

- For Margin Ratios Leela is expected to do much better as the projections have been based on the 5 years from 2013/14 and 2017/18. 2018/19 being an abnormal year has not been factored in the projections.
- On an overall basis it is expected that the NPM will improve substantially to 11%.
- Taj GVK is projected to be the best on the RoA and RoE front while ITDC is expected to be the best on RoI.
- The overall Return ratios are not expected to improve drastically.
- ITDC is expected to continue its superior performance in both current and quick ratios whereas Leela is projected to have the worst current and quick ratios.
- The overall current ratio and quick ratios are expected to deteriorate further.
- ITDC is expected to continue to have the best Revenue to FA ratio and also the Revenue to WC ratio. Leela is expected to be the worst performer in case of Revenue to FA ratio and EIH is expected to do badly on the Revenue to WC ratio.
- Overall efficiency ratios are not expected to improve substantially.
- EIH will continue to have the best Solvency ratio whereas Leela is expected to continue to have it as the worst. Taj GVK is expected to have the best DE ratio whereas Leela is expected to have the same as worst.
- Due to Leelas abnormally DE ratio the overall DE ratio is also expected to be poor

b) Du Pont Analysis

Table 5: Summary of Du Pont analysis (projected)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
RoI	0.04	0.02	0.06	-0.03	0.02	0.06	-0.03	0.02	ITDC	Leela
Sales/Invst	0.46	0.39	1.08	0.18	0.43	1.08	0.18	0.51	ITDC	Leela
PBT/Sales	0.12	0.10	0.07	-0.20	0.06	0.12	-0.20	0.03	EIH	Leela
PAT/PBT	0.69	0.49	0.71	0.89	0.60	0.89	0.49	0.68	Leela	IH
RoI	0.04	0.02	0.06	-0.03	0.02	0.06	-0.03	0.02	ITDC	Leela

ITDC is expected to continue to do good on the Du Pont front whereas Leela is expected to continue to do bad. On an overall basis a RoI of 2% is quite poor. Du Pont Analysis show that a major culprit in this is the poor PBT/Sales of 0.03

c) Trend Analysis

Table 6: Summary of Trend analysis (projected)

	EIH	IH	ITDC	Leela	Taj GVK	Best	Worst	Avg.	Best H	Worst H
Operating Revenue	0.02	0.04	-0.08	-0.01	0.03	0.04	-0.08	0.00	IH	ITDC
Total Revenue	0.02	0.04	-0.08	-0.01	0.03	0.04	-0.08	0.00	IH	ITDC
Gross Margin	0.03	0.04	-0.21	0.00	0.03	0.04	-0.21	-0.02	IH	ITDC
EBIDTA	0.03	0.05	0.03	0.05	0.05	0.05	0.03	0.04	Leela	ITDC
PBT	0.05	0.03	0.04	0.28	0.11	0.28	0.03	0.10	Leela	IH
NP	0.05	0.03	0.04	0.28	0.11	0.28	0.03	0.10	Leela	IH
EPS	0.02	0.17	0.07	0.22	0.11	0.22	0.02	0.12	Leela	EIH
Dividend	-0.06	0.09	0.07	-0.03	0.10	0.10	-0.06	0.03	Taj GVK	EIH
Assets	0.02	0.01	0.02	0.49	0.01	0.49	0.01	0.11	Leela	Taj GVK
Networth	0.01	0.06	0.01	0.00	0.02	0.06	0.00	0.02	IH	Leela

Indian Hotels & Leela are slated for best CAGRs whereas ITDC & EIH is expected to have quite a few worst CAGRs.

III. CONCLUSION

The study was an exhaustive experiment to see the application of various financial performance evaluation techniques to the Hotel Industry. Based on the results of the different analysis, it can be concluded that the same can be meaningfully done even in case of a service industry like the Hotel and important deductions can be made. The study has shown that it is also possible to do a predictive analysis using MS Excel functions like =FORECAST. The industry on an overall basis has not shown a steady performance given the weak CAGRS on Revenue, Gross Margin and EBIDTA. After six years the operating revenue in FY 2018/19 stood at Rs.5004.17 crores from Rs.4560.60 crores in the year 2013/14. Even if we apply a CAGR of 5% the expected revenue by the end of 2018/19 was Rs.6111.64 crores. Market is a problem for the Hotel Industry. At the same time profitability has shown a better performance as compared to the top line. In fact, the year 2018/19 has recorded the highest NPs for all the six years. This is an encouraging sign and it can be expected that the industry will do better in the years to come. On an overall basis it is interesting to note the slide from a gross margin level of 52% to NPM of just 1%. From the GPM to EBIDTA the reduction is quite substantial – from 52% to 20%, that is, 32%. And this 20% is almost eaten-up by interest, depreciation and taxes. This in a way is a peculiar feature of a service industry like the Hotel industry where the gross margin level is more than 50%. The financial health of the hotel industry doesn't appear to be steady. Over a period of 6 years, fixed assets have shown a CAGR of -1.90%. A steady financial health on the other hand would have meant a steady and regular addition to fixed assets. Similarly networth CAGR of mere 3.40% over a period of six years doesn't really speak of a sound financial position.

IV. SUGGESTIONS

Marketing efforts need substantial improvement. Efforts to attract more domestic and foreign customers should be stepped in a big way. In this regard, serious thought should be given to improve the service quality levels. The steep fall of the overall GPM from 52% to straight 20% at the EBIDTA level needs to be arrested. Operating and employee costs need to be managed better. Reliefs and concessions should be sought from the Government to improve the profitability. Asset turnover into revenue needs drastic improvement. Low asset turnover clearly indicates low occupancy. Discounts should be given to the customers to improve the room occupancy. Short-term liquidity position needs serious attention given the fact that the current ratio and quick ratios are at a dismal level. Promoters should introduce more working capital. Techniques like Activity Based Costing (ABC) should be used for better cost ascertainment, control and reduction. While applying the Du Pont ratio, for Hotels same should be used as under – (Sales/Fixed Assets) x (Fixed Assets/Investment) x (PBT/Sales) x (PAT/PBT)

The additional decomposition of the ratio will reflect the sales or revenue turnover with reference to fixed assets instead of the entire investment. This segregation will give an indication of the occupancy of the Hotel. A higher sales/fixed assets will indicate a higher occupancy and vice versa.

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