



Article Title: A Study on Financial Performance Analysis with Reference to the Leela Palace, Chennai

A Study on Financial Performance Analysis with Reference to the Leela Palace, Chennai

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ABSTRACT

In this project we are looking at the Financial Performance Analysis in a core sector industry. Balance sheet review of the last five years along with the changes in the component wise analysis of Current Asset and Current Liabilities to identify the causes of changes, with trend analysis and comparative Balance sheet for a term of five years covering a case study on financial performance analysis with reference to The Leela Palace is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements.” The purpose of financial Performance analysis is to diagnose the information content in financial statements so as to judge the profitability and financial soundness of the firm. In this project we will perform the financial analysis of The Leela Palace we will go through the financial statements of the company to diagnose financial soundness.

Keywords: Financial Performance Analysis

1 Introduction

The basis for financial planning, analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is also required to aid in economic decision making-investment and financing decision making. The financial information of an enterprise is contained in the financial statements or accounting reports. Three basic financial statements of great significance to owners, management and investors are

- Balance Sheet
- Profit And Loss Account
- Cash Flow Statement.

Management, creditors, investors and others use the information contained in these statements to form judgment about the operating performance and financial position of the firm. Users of financial statements can get further insight about financial strengths and weaknesses of the firm if they properly analyse information reported in these statements. Management should be particularly interested in knowing financial strengths of the firm to make their best use and to be able to spot out financial weaknesses of the firm to take suitable corrective actions. The



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future plans of the firm should be laid down in view of the firm's financial strengths and weaknesses. Thus, financial analysis is the starting point for making plans, before using any sophisticated forecasting and planning procedures. Understanding the past is a prerequisite for anticipating the future.

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by the management of the firm, or by parties outside the firm, viz., owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.

Financial statement provides rich information about the operational results of a business unit and much can be learnt from the careful examination of these statements. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data. The profit and loss account and balance sheet are indicators of two significant factors: profitability and financial soundness. Analysis of financial statement means such a treatment of information contained in the two statements, so as to drive a full diagnosis of the profitability of the firm concerned.

Financial statement analysis is largely a study of the relationship among the various financial factors in a single set of statement and a study of the trend of these sectors as shown in a series of statements. The main function of financial statement analysis is the pointing out the strength and weakness of a business undertaking by re-grouping and analyzing of figures contained in the financial statement by making comparison of the various components and examining their content. The financial statements are the best media of documenting the result of managerial efforts to the owners of the business, its employees, customers and public at large and thus became an excellent tool of public relation.

2 Company Profile

The Leela Palace Chennai is a 326-room five star deluxe hotel in Chennai, India. It is located at MRC Nagar, Raja Annamalaipuram, in the Adyar Creek area in the southern end of the Marina Beach. The hotel is designed by Atlanta-based architects Smallwood, Reynolds, Stewart, Stewart and Associates, Inc. and is themed after the Chettinad architecture of Tamil Nadu. With the project cost exceeding ₹ 8,000 million, the hotel was expected to open in September 2012. However, delays in construction and operation preparation have pushed its inaugural date to January 2013. The land for the hotel was acquired from industrialist M. A. M. Ramaswamy for about ₹ 700 million. In September 2014, ESPA, a 16,000-square feet spa, was opened at the hotel. In September 2017, the hotel was purchased from the Leela Group by the American private equity fund Marigold Capital for ₹ 7,000 million. Located on 6.25 acres near Adyar Creek facing the Bay of Bengal, the 16-story hotel with a built-up area of 831,000 sq ft has 326 rooms, including 295 deluxe or premiere room and 31 suites. It features 2,601 sq



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m of banquet and meeting facilities, including a 1,390 sq m ballroom and a traditional landscaped courtyard, restaurants and bars, a 1,394 sq m health club/spa and a 1,060 sq m boutique retail plaza. There are a total of 6 meeting rooms in the hotel. The project will use LED lights for all its external lighting and all major internal areas and will also collect water on a major scale from rain water harvesting.

3 Need of the Study

The main purpose of the study is to know about the financial performance of the organization. It is very useful to investors, lenders, and corporate board. It is very helpful to the top management for taking decisions. It is very useful to understand about the strength and weakness in the business plan and strategy of the company. The study helps to know the current financial position of the organization also can understand that how the firm utilizing the financial resource.

3.1 Objectives of the Study

- To study the existing financial position of company
- To analysis the profitability position
- To analysis the liquidity position
- To apply the trend analysis for selected ratios
- To compare the financial position of Organization.

4 Tools for Analysis

To analyze the data the researcher is used the statistical tools such as

- Ratio analysis
- Trend analysis
- Comparative statement analysis

4.1 Ratio analysis

Ratio analysis is a method of analyzing data to determine the overall financial strength of a business. Financial analysis take the information of the balance sheet and income statement of the business and calculate ratio that can be used to make assessment of the operating ability and future prospects of that business. A ratio is a relationship between two financial data. In financial analysis, ratio is used as the basis for evaluating the financial position and the performance of a firm ratio. Ratio analysis is an important and widely used tool of financial statement.

A ratio can be defined as one number divided by another. We eliminate the problem of size and the bias that creeps in because of it. Two numbers when viewed as ratio provide a relationship of one with respect to another.

A financial ratios can be used in anyone or more of the following three ways – as an absolute



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number, as an historic sequence or time series or as a comparison with the industry or benchmark.

As an absolute number: Ratio provides a direct relationship and adequacy of one number with another. For example, a ratio of current asset with current liabilities would indicate whether the current asset is adequate to meet the current liability.

As an historic sequence or time series: When the same ratio is seen over financial statement of successive intervals. It provides an insight not only on the comparison progression of the ratio overtime. A qualitative judgment can be made on the rate at which the improvement or deterioration is taking place with respect to the parameter being studied.

As an comparison with the industry or benchmark: A comparison of the given ratio of a firm with that of the competitors, industry or a benchmark gives an understanding of relative strength or weakness of the firm with respect to its competitors and industry.

5 Types of Ratio

Financial statement containing vast set of numbers and therefore numerous combination of two numbers can be chosen for analysis. The caveat is that such a combination should reflect some rationale and meaningful relationship. Selection of two numbers has to be made depending upon the parameter to be examined for the convenience and ease of understanding. Ratios are divided in various groups aimed at analysing and performing in specific domains. These are liquidity ratio, profitability ratio, leverage ratio, working capital ratio.

5.1 Liquidity Ratio

It plays a key role in assessing the short term financial position of the business. Commercial banks and other short term creditors are generally interested in such an analysis. However, management can employ these ratios to ascertain how efficiently they utilize the working capital in the business.

Shareholders and debenture holders and other long-term creditors can use these ratios to assess the prospects of dividend and interest payments. This type of ratios normally indicates the ability of the business to meet the maturing or current debts, the efficiency of the management in utilizing the working capital, and the progress attained in the current financial position.

The various liquidity ratios are

- a) Current ratio
- b) Liquid ratio
- c) Absolute liquidity ratio

a) Current Ratio

Current ratio may be defined as the ratio of current assets to current liabilities. It is also known as Working Capital Ratio or 2:1 Ratio.



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b) Liquid Ratio/ Quick Ratio

Liquid Ratio may be defined as the ratio of liquid assets to liquid liabilities or current liabilities. It is concerned with the relationship between liquid assets and liquid or current liabilities. The other terms used for liquid ratio are 'Quick ratio' and 'Acid Test Ratio'.

$$\text{Quick Ratio} = \frac{\text{Current asset} - \text{Inventory}}{\text{Current Liabilities}}$$

c) Absolute Liquidity Ratio:

Absolute liquidity is represented by cash and cash items. Hence in the computation of the ratio, only absolute liquid assets are compared with liquid liabilities. These assets normally include cash, bank, and marketable securities. It is to be observed that receivables and excluded from the list of liquid assets.

$$\text{Absolute Liquidity Ratio} = \frac{\text{Absolute Liquid assets}}{\text{Current Liabilities}}$$

5.2 Profitability Ratio

Profitability is a measure of efficiency and control. It indicates the efficiency or effectiveness with which the operations of the business are carried on. Poor operational performance may result in poor sales and therefore, low profits, low profitability may be due to lack of control over expenses resulting in low profit. Profitability ratios are employed by management in order to assess how efficiently they carry on business operations. Profitability is the main base for liquidity as well as solvency. Creditor's banks and financial institution are interested in profitability ratio since they indicate liquidity or capacity of the business to meet interest obligations and regular and improved profits to enhance the long term solvency position of the business. Owners are interested in profitability for they indicate the growth of and also the rate of return on their investments. The amount and rate of profit earned depend on the quantum of investment committed. Here the profitability ratios are calculated relating the profit either to sales or to investment.

The various types of profitability ratio are:

- a) Gross profit ratio
- b) Net profit ratio
- c) Operating ratio



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a) Gross profit ratio:

Gross profit ratio is the ratio of gross profit to net sales expressed as a percentage. It expresses the relationship between gross profit margin and sales. The basic components are gross profit and sales. Net sales means total sales minus sales return. Gross profit would be the difference between net sales and cost of goods sold. Cost of goods sold in the case of a trading concern would be equal to

Opening stock plus purchases and all direct expenses relating to purchases minus closing stock.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net Sales}}$$

b) Net Profit Ratio

This is the ratio of net income or profit after taxes to net sales. Net Profit as used here, is the balance of Profit and Loss Account, which is arrived at after considering all non-operating income such as interest on investments, dividends received, etc., and all non-operating expenses like loss on sale of investments, provision for contingent liabilities.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit} \times 100}{\text{Net Sales}}$$

c) Operating Ratio

This is the ratio of operating cost to net sales. The term 'operating cost' refers to cost of goods sold plus operating expenses. This is closely related to the ratio of operating profit to net sales.

$$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Net Sales}} \times 100$$

6 Comparative Statement Analysis

Is a simple method of tracing periodic changes in the financial performance of a company. Comparative financial statements will contain items at least for two periods. The comparative financial statements are statements of the financial position of different periods of time. Normally it is the Balance Sheet and Profit and Loss account which alone are prepared in comparative form. It is these two statements, which are considered as important financial statements.

6.1 Comparative Balance Sheet

The Comparative Balance Sheet analysis is the study of trend of the same items group of items and computed items in two or more balance sheets of the same business enterprise on different dates.



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7 Trend Analysis

This method of analysis studies the percentage relationship that each item the financial statement bears to the each item of the base year. Through this analysis the analyst seeks to review changes that have taken place in individual together therein from year to year and over the years. Thus, trend analysis can be the form of year-to-year comparisons, index numbers, trend series and trend rate.

The following equation is being used to compute trend percentage.

$$Y = a + bx \quad a = \frac{\sum y}{N}$$

$$b = \frac{\sum xy}{\sum x^2}$$

7.1 Current Asset

Trend analysis of current asset

Year	Current Asset (Y)	X	XY	x ²	Y = a+bx (in Crs)
2018	488.57	-2	-977.14	4	1809.05
2019	3767.05	-1	-3767.05	1	1400.83
2020	258.60	0	0.00	0	992.61
2021	235.67	1	235.67	1	1400.83
2022	213.16	2	426.32	4	1809.05
	$\sum y = 4963.0$ 5	$\sum x = 0$	$\sum xy = -4082.2$	$\sum x^2 = 10$	
Trend Analysis for the year 2023, 2024 and 2025					
Year	2023		2024		2025
Trend	2217.27		2625.49		3033.71

7.1.1 Interpretation

The chart shows the trend in current asset is fluctuating tendency in the five year period. In 2020 the current asset is decreased by 992.61. Therefore the year 2021, 2020, 2022 the current asset is increasing tendency. The year of 2025 shows a higher of current asset of 3033.71.



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7.2 Current Liability

Trend analysis of current liability

Year	Current Liability (Y)	X	XY	x ²	Y = a+bx (in Crs)
2018	1066.22	-2	-2132.44	4	1932.224
2019	3196.32	-1	-3196.33	1	1431.617
2020	163.99	0	0.00	0	931.01
2021	134.34	1	134.34	1	1431.617
2022	94.18	2	188.36	4	1932.224
	$\Sigma y = 4655.05$	$\Sigma x = 0$	$\Sigma xy = -5006.07$	$\Sigma x^2 = 10$	
Trend Analysis for the year 2023,2024 and 2025					
Year	2023		2024		2025
Trend	2432.83		2933.44		3434.05

7.2.1 Interpretation

In 2020 the current liability is decreased by 931.01. Therefore the year 2021, 2022 the current liability is increasing tendency ie., 1431.62, 1932.22. The year of 2025 shows a higher of current liability of 3434.05. The growth of current liability is not satisfactory.

8 Conclusion

The efficient and smooth functioning of all the activities of the organization ends upon the business financial performance of the organization. The business financial Performance analysis thus is a forward- looking exercise as it is helpful in future business financial position. Through business financial statement analysis forecasting future business Financial position. Through business financial statement analysis, the present position and operating efficiency of the organization as a whole



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and its different departments can be identified. Further, the reasons for change in the profitability business financial position of the organization can be found and necessary measures can be taken.

Business financial performance can improve the business financial strength of organization. The organization's liquidity position has to increase and it will solve future problem. The organization is maintaining the reserves and surplus better so it can face business financial stress in the future. To proper maintain of business financial performance to achieve the organization goal.

By analysing the business financial performance of the organization, it is inferred that the organization's business financial position is found to be good. The ratio of the organization is satisfactory. The profitability of the organization is satisfactory but does not show a higher change in the profit when compared with the previous years. The organization has Increasing liabilities over years. The organization has also raised investments and reserves for future purpose. This clearly shows that the organization is in the developing nature and their position in the society is satisfactory.

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