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A comparative study on preformance of ITC hotels and Taj hotels ltd from 2013- 2017 using cash flow statement

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Abstract

In Financial accounting, a Cash Flow Statement, also known as statement of cash flows, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. International Accounting Standard 7 (IAS7), is the International Accounting Standard that deals with cash flow statements.

Keywords: Flow of cash in and out, IAS7, Short-term viability

Introduction

One of the fastest growing sectors of the economy of our time is the hotel industry. The hotel industry alone is a multi-billion dollar and growing enterprise More and more IT professionals are moving into the Metro cities as the USD 23 billion software service sector pushing into the Indian economy. Indian hotel industry is set up to grow by 15% a year. In 2010 as the Delhi capital city of India hosted the commonwealth Games there were more than 50 international budget hotel chains moving into India. The Indian Hotel Industry Revenues grew by 5% -8% in 2014-2015. The growth was around 9%-11% in 2015-2016 driven by a modest increase in occupancy and small expects the revenue per Available Room to improve by 7%-8% driven by up to 5% pickup in occupancies and 2%-3% growth in average Room Rates (ARR).

Cash Flow Statement

In financial accounting, a cash flow statement, also known as statement of cash flows, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS7), is the International Accounting Standard that deals with cash flow statements.

Profile of the company

The Taj Mahal Palace Hotel is a "Heritage Grand" class five star hotel in the Colaba region of Mumbai, next to the gateway of India. Historically it was known as the "Taj Mahal Hotel" or the "The Taj Palace Hotel". The Former Chairman of Tata Groups- Ratan Naval Tata. The Indian Hotels Company Limited (IHCL), branded as Taj Hotels palaces Resorts Safaris is an international chain of hotels and resorts headquartered at Express Towers, Nariman Point in Mumbai. Incorporated by the founder of the Tata Group, Jamsetji Tata, in 1903 the company is a part of the Tata Group, one of the India's largest business conglomerates.

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Limited. As the Company's ownership, progressively Indianised the name of the Company was changed from Imperial Tobacco Company of India Limited to India Tobacco Company Limited in 1970 and then to I.T.C. Limited in 1974. In recognition of the Company's multi-business portfolio encompassing a wide range of businesses - Fast Moving Consumer Goods comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks and Safety Matches, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology - the full stops in the Company's name were removed effective September 18, 2001. The Company now stands rechristened 'ITC Limited,' where 'ITC' is today no longer an acronym or an initialised form.

Research Methodology

A research design is purely and simply the basic frame work or plan for study that guides the collection and analysis of the data. In financial Analysis, the researcher adopted the Comparative research design in the collection and analysis of the data. Methodology is a way to systematically solve the research problem. It explains various steps that are generally adopted by a researcher in studying the research problem.

Objectives

To Find inflows and outflows of cash of TAJ hotel and ITC

Source of Data

The study is based on secondary data. It has been collected from various websites and journals and books.

Period of the study

A period of five years from 2012 to 2017 have been taken for the study.

Tools used for the study

The following tools have been applied in the study

- Cash flow statement

Limitations

The Data available for the study are subject to a few limitations which are as follows:

- The study is only for the periods from 2012-2017, the changes that took place before and after this period were not taken into consideration.
- The reliability and correctness of the study depends on the information provided in the annual report of the company. This project is based on secondary data therefore it may not be reliable.

Review of Literature

Cash flow is the difference between the amount of cash flowing in and out a company. Make sure to consistently include the different types of cash flows - Keck, T., E. Levensgood, and A. Longfield, 1998,

The value of the equity can be calculated by subtracting any outstanding debts from the total of all discounted cash flows - **Aswath Damodaran 2001 Investment Valuation.**

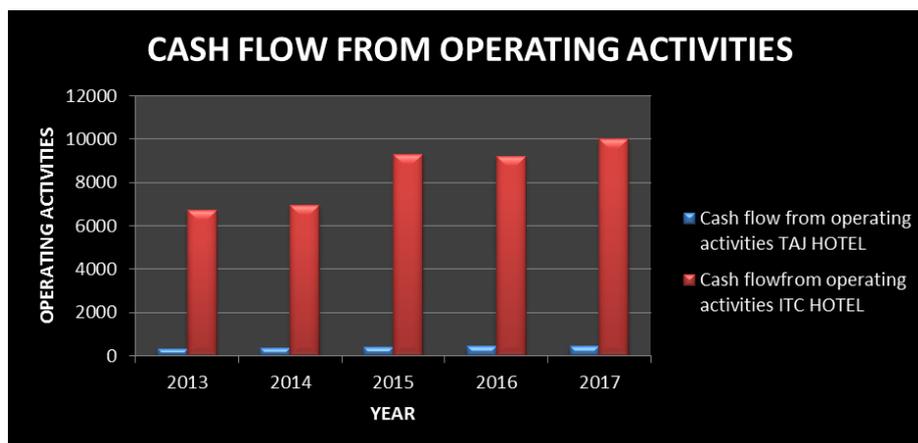
Calculating cash flows after the forecast period is much more difficult as uncertainty, and therefore the risk factor, rises with each additional year into the future. The continuing value, or terminal value, is a solution that represents the cash flows after the forecast period.

- Kubr, Marchesi, Ilar, Kienhuis. 1998. Starting Up. McKinley& Company

Analysis and interpretation cash flow of taj hotels ltd & itc hotels ltd.

Table 1: Cash flow from operating activities

Year	Cash flow from operating activities TAJ Hotel	Cash flow from operating activities ITC Hotel
2013	332.02	6709.89
2014	367.86	6962.3
2015	400.55	9308.87
2016	469.35	9211.92
2017	457.15	10002.02



Source: Secondary data www.ndtv.com_www.moneycontrol.com

Fig 1: Cash flow from operating activities

From the above figure it is clearly shown that cash flows from operating activity is positive. Cash flows from operating activity of ITC ltd is higher due to inflows of finance cost, shares based payments to employees, bad and doubtful debts, doubtful debts and loans, impairment of

investments in subsidiary company during 2016-2017. Operating expenses of The TAJ ltd increased by 7% when compared with previous year due to increase in depreciation and amortisation, provision for loyalty program

and employee benefits, short term loans and advances, direct tax has also been refunded during the year.

Table 2: Cash flow from financial activities

Year	Cash flow from financial activities Taj Hotel	Cash flow from financial activities ITC Hotel
2013	-86.27	-3,232.55
2014	-183.79	-4,173.85
2015	261.96	-4,573.61
2016	-1042.97	-5,464.10
2017	-367.12	-7,137.62

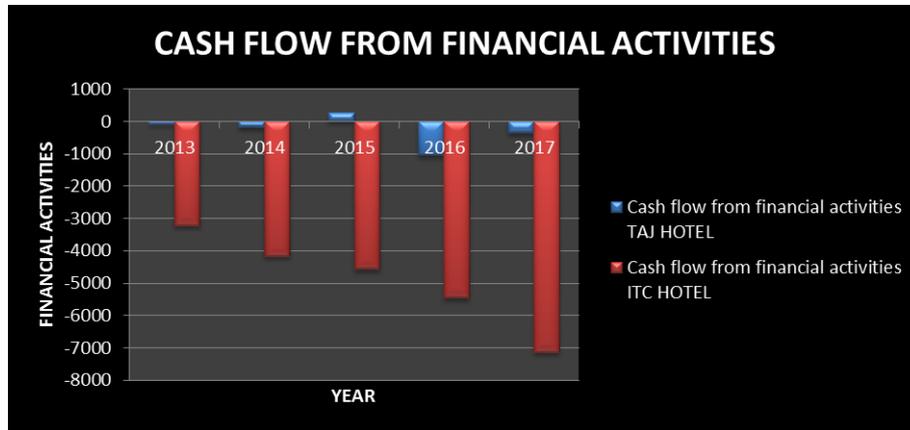
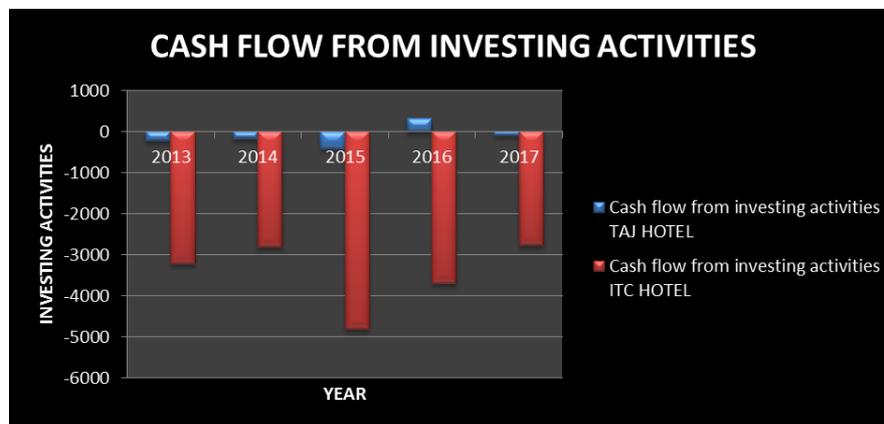


Fig 2: Cash flow from financial activities

Table 3: Cash flow from investing activities

Year	Cash flow from investing activities Taj Hotel	Cash flow from investing activities ITC Hotel
2013	-233.81	-3,232.55
2014	-180.62	-2,823.29
2015	-418.96	-4,822.57
2016	311.3	-3,710.9
2017	-97.08	-2,780.33



Source: Secondary data (www.ndtv.com_www.moneycontrol.com)

Fig 3: Cash flow from investing activities

During the 2013-2014 the TAJ Group of companies incurred Capital Expenditure, most parts of Company’s projects were undergoing renovations and expansions of Hotels under ginger Brand results in negative cash flows during 2014-2015, it has deployed net surplus funds in mutual funds, other liquid investments, surplus funds arising out of rights issue.

In ITC ltd, Cash flows from investing activity shows negative figure since cash outflows from purchase of plant, property, current investments, non-current investments, investments in Bank deposits, housing finance company is

greater than return of capital by subsidiary, dividend income, interest received and loans realised.

Findings

1. Cash flows from operating activity of ITC ltd is higher due to inflows of finance cost, shares based payments to employees, doubtful debts and loans, impairment of investments in subsidiary company during 2016-2017. Operating expenses of The TAJ ltd increased by 7% when compared with previous year due to increase in depreciation and amortisation and advances, direct tax has also been refunded during the year.

2. Net Cash of The TAJ ltd raised during 2013-2014 was used for repayment of long term and short term borrowings. In ITC ltd, cash outflows from repayment of non-current borrowings, interest paid, dividend paid, income tax paid is greater than cash inflows from proceeds of share capital showing negative cash flows.
3. During the 2013-2014 the TAJ Group of companies incurred Capital Expenditure, most parts of Company's projects were undergoing renovations and expansions of Hotels under ginger Brand results in negative cash flows during 2014-2015, it has deployed net surplus funds in mutual funds, other liquid investments, surplus funds arising out of rights issue. In ITC ltd, Cash flows from investing activity shows negative figure since cash outflows from purchase of plant, property, current investments, non-current investments.

Conclusion

From the above figure it is understood that cash flows from operating activities, investing activities and financing activities of ITC ltd is better than Taj hotels ltd. Though both have the same brand value and market occupancy, On the investment and financial frontier ITC ltd has stronger side since during 2016 there are fluctuations in investing activities from negative to positive it indicates major sale of asset than purchasing power of investments. In cash flows from operating activities both the companies have shown a steady cash flow on their respective scale of business. During 2015 financial activities have positive cash flow of 261.96 crore shows cash has come into the business and boosts its asset level, but during 2016 heavy negative cash flows from financial activities of TAJ hotel 1042.97 crore paying dividends to shareholders and since its debt -oriented funding it indicates payment of interest to debentures more than dividends. Thus, ITC ltd negative cash flows from financing activities which indicates payment of dividend to shareholders since it's equity-oriented fund. Therefore, ITC ltd has as stronger financial statement and healthy venturing of business area.

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