

BMIH 5007

Financial Management for Hotel Industry

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Table of Contents

Introduction	3
Ratios of the Hilton Holdings Worldwide Inc.:	4
The Importance of Ratio Analysis in Decision Making:	6
Drawbacks of the Ratio Analysis	9
Conclusion	10
References	11

Introduction

When considering any sort of company organization, finance is the most important issue to consider. No firm could function without the notion and responsibilities of funding. The management of any firm aim to balance their capital as well as perform their commercial activities through financing. Companies also invest in initiatives, but the terms that make a firm sounder and insufficient, as well as different from others, are the most important financing decisions. Correct judgments are critical in the corporate environment to ensure survival. The author of this paper has described the financial operations of Hilton worldwide hotel Inc, its function in the firm, the tasks that are being examined, and the company's ratio analysis.

Ratios of the Hilton Holdings Worldwide Inc.:

	2019	2020
Net profit ratio	0.361806982	-0.166008823
Gross profit ratio	0.257617435	0.13536104
Operating ratio	0.090880237	0.162990481
Current ratio	0.729014281	1.728506787
Debt equity ratio	-32.01037344	-12.24228188
Profit earnings ratio	-160.6666667	-496.6666667

After doing the ratio analysis of the Hilton Hotel, it can be seen that the net profit ratio in 2019 was 36% but in 2020, it decreased, and the company had a net loss, of about 16%. It can happen for the administrative, and operational costs to increase. In 2020, the gross profit also reduced from 25% to 13%. Here, the audience can see a reduction in sales revenue as well. and also as the operational costs and other costs got increased, the net loss happened as well (Ameliawati and Setiyani, 2018). here we can see, that maybe the Hilton hotel company should be careful about their promotional strategies and their other strategical decisions as well, as their sales got reduced in a noticeable manner. The operating cost was lower got increased in 2020, from 9% to 16%. So as the cost increased by 7% within a year, the company's net profit margin got reduced and the company faced a net loss (Breuer and de Vargas, 2021). The Hilton hotel should be very careful about their operating costs reduction, they should be more into cost-effective strategies, and focus on cost minimization as well. About the current ratio, the current ratio got increased in 2020, to 1.72:1. In 2019, the company kept fewer current assets against the liability but in 2020, the company got its strategy on keeping more current assets against its current liabilities. The debt-

equity ratio got decreased in 2020 (Bulturbayevich et al., 2020). This is good news for the company as well. It indicates that the company has paid off mostly its long-term debt, and the leverage in the company structure has got reduced (Zorn et al., 2018). So the company now has fewer creditors, and the contribution of the shareholders got increased in the equity of the company (Sklyarova, et al., 2019). The profit gearing ratio of the company got reduced in 2020, as the company faced net loss in 2020, the company got a major reduction in its profit earnings ratio. It indicates that the company has less efficiency and earnings in profit so the company should be more careful about it and make an appropriate decision.

The Importance of Ratio Analysis in Decision Making:

Ratio analysis indicates the crucial analysis of an organisation. Through ratio analysis, a company tends to see the changes the company is making over time. In the case of ratio analysis, the company tends to follow all of the changes that the company has made through particular years and convert that into ratios (Breuer and de Vargas, 2021). After converting the ratios, it gets easier for the companies like Hilton worldwide holdings Inc. there are some different types of ratios that the companies try to figure out at first, and each of the types of ratios serves different types of purposes.

- **Profitability ratios:** profitability ratios are the ratios, where the company tries to find out each of the attributes that are related to the profitability of the company if they are making a good change for the company or not, and if the company, is gaining noticeable profits changing upward from the yearly operational activities or not (Ameliawati and Setiyani, 2018). It is the formula or business metrics that help the company to assess the businesses, or the companies capable of generating profit-related attributes like revenue generation, operating costs, earning related ratios, etc. In the case of a company, the profitability ratios are very important, and these are the type of ratio, that gives the information about the company, that is it being able to make noticeable profit or not ((Bulturbayevich et al., 2020). By using these ratios, the company tends to see changes in the capability of profit or revenue generation. Ratios like gross margin, net profit margin, operating ratios, return on equity, etc. are get assessed. And through the assessment the investors/ managers tend to see, the company's efficiency in managing risks, generating revenues, and down awarding costs as well. Profitability ratios indicate the company's efficiency in managing assets and equity and bringing out gains from them (Hosaka, 2019).
- **Liquidity ratios:** liquidity indicates the concept of the assets or investments, which will be able to get converted into cash in a jiffy. Liquidity asset refers to the assets that are easily converted to cash, maintaining proper proportionate liquidate assets and liquidity in a company, especially like the Hilton worldwide holding Inc. is crucial (Hasanaj and Kuqi, 2019). As in companies, there are lots of opportunities of making investments, need of funds, projects, any time money/ cash n required for any type of crucial activities I the company. So the companies also nowadays put their efforts into making sure perfect

balanced liquidity maintenance in the company (Breuer and de Vargas, 2021). Through liquidity ratios, then companies' ability to meet up with short-term obligations gets checked. If the company is eligible to go through any type of short-term cash emergency. Ratios like current ratio, quick ratio, acid test ratios, etc. are the liquidity measurement ratios (Hasanaj and Kuqi, 2019). current ratios are the ratio, where the company tests its current asset proportion against its current liability. And in case of quick test ratio, the inventory gets ignored; as inventory might take some time to get converted into cash Or equivalent (Hosaka, 2019). Through these ratios, the company's efficiency of converting assets to cash or equivalent basically gets assessed.

- Gearing ratios: gearing ratios are the type of ratio, that indicates the firm's liability and equity portion. Companies that have debt in their structure or have leverage are called levered firms of companies, and gearing ratios are very crucial to find out in the case of those companies (Hasanaj and Kuqi, 2019). Companies have levered in structure, it is very crucial for them to assess their financial risk capacity and their risk managing efficiency as well. Through the gearing ratio, the financial ratios of the company get assessed. In this, the case with long-term liabilities gets assessed against the capital or equity of the company. Here the managers tend to see, the company's efficiency in risk management, and if the leverage is higher than the equity or not (Myšková and Hájek, 2017). Through the gearing ratio, companies' insolvency and bankruptcy risks also get a measure. Through to debt capital ratio, the degree of firm activities that have been shared by the company's shareholders and creditors get known (Pochitaev and Akhmetov, 2017). The more the ratio, the more the creditor's contribution to the company's activities, and the more the risk of insolvency or getting bankrupted for the company.
- Efficiency ratios: efficiency ratios are the ratios that help a company to assess its efficiency to manage investments in the company. About the efficient ratio, efficiency ratios are the ratios that help the managers to find out how much return they are generating on making investments (Hosaka, 2019). If their decisions were right or not. In the case of efficiency ratios, ratios like return on equity, earning per share, and investment ratios get evaluated (Sacarin, 2017). Through the efficiency ratios, the investors in the market also judge the

company and see, if the company is making good use of the investment or not. The company is generating value from the investments that have been made in the company.

Ratios are very crucial in terms of a company's decision-making. Through ratio analysis, a company gets to know what are their shortcomings, where are their drawbacks, which ratios are not in an appropriate manner, which ratios needed to be increased and which are decreased, and what types of the activities and strategies the company has to make for getting the proper an ideal ratios of the company (Myšková and Hájek, 2017). Through the ratios analysis, the company tends to make financial and operational decisions. Like if the current ratio gets lower, then the company will decide to keep more current liability against current assets for liquidity reasons. Even these ratios, affect the investments and investors of the company as well (Lessambo, 2018). if the efficiency ratios are not well enough, that might discourage the investors in the market to invest in the company, as they will not be sure about the company's competency in managing financial risks, and also bringing out the return from the investments made to the company (Pochitaev and Akhmetov, 2017). Through the ratio analysis, a company tends to get evaluated by the investors in the market. Basically, one of the investors, the main duty is to do the ratio analysis of any company before investing in them to see the competency and efficiency of the company.

Drawbacks of the Ratio Analysis

Ratio analysis is one of the important measurements to measure a confirmed competency and efficiency but it is not everything that a firm should get judged on the basis of (Pochitaev and Akhmetov, 2017). Ratio analysis is just a comparison metric, that the firms do, companies compare their performances and the generations of their profits, revenues, etc. with their particular year proceedings to see, the improvement of themselves, and make decisions about themselves (Lessambo, 2018). But the ratio analysis can only give this benefit, it doesn't define how a company is doing in the market. As it is a comparison based metric, the investors has to compare it to other companies in the industry or market, but there is a problem with it, as there are no companies that are compared with other companies' peer to peer, but without peer, to peer similarity, the comparison will be not worthy enough to all of the hassle (Myšková and Hájek, 2017). Accuse, it will never show how the company is doing in terms so the other companies in the market (Prihartono and Akhmetov, 2018). Through ratio analysis, only other companies' sizes and types get compared but not the other things and ratios, as there might be a constraint of information sharing as well. There is a limitation in comparison making as well (Lessambo, 2018). only two companies get compared in I case of ration analysis with each other, so it is going to be very lengthy and time consuming to compare any company with other particular companies as well (Myšková and Hájek, 2017). there is also a lack of adequate strands in this regard as well, some of the standard do not even consider the ratio analysis as detailed research, they think it's just a cursory view of any company (Prihartono and Akhmetov, 2018). There is no complete and specific technique and interpretation of the ratio analysis. The ratio analysis is also time-consuming and lengthy; many managers think the metrics is not that time investment worthy.

Conclusion

Making efficient and effective judgments is critical in the business sector, which is the most competitive environment. Finance managers are the most important decision-makers. The firm's management tends to make significant financial decisions concerning the capital structure of the company through financing, such as whether or not there will be any leverage in the capital structure. Also, dividend decisions are crucial since they are linked to the company's market reputation, which has a significant impact on future investments. The finance applications in the instance of Hilton hotel inc will assist the firm's management in making proper judgments for the company through ratio analysis, net profit margin evaluation, and equity evaluation.

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