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# Study to assess the financial sustainability of Seven CIHMs across India

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**FINAL REPORT**

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## Foreword

This project is the first leg of a study to assess the financial sustainability of all the Central Institutes of Hotel Management, and includes a detailed analysis of the various modes of revenue generation and the different heads of expenditure for seven Central Institutes of Hotel Management across India.

The objective of the study is to diagnose the financial problem areas and subsequently formulate strategies to avoid revenue deficit in the coming future. Through this study, the financial health of the institutes has been gauged, and means have been suggested to improve the health of the institutes in the coming future.

The objectives of the study have been fulfilled through a two pronged research approach. The first module was conducted as detailed one-on-one interactions with the management staff of selected three CIHMs, and the second module was to obtain all the detailed financial aspects of the seven CIHMs under the study, and analyze them on the basis of the annual reports.

During the course of the study, it was found that there is no standardization in the accounting practices of the various institutes of hotel management, thus making it difficult to compare the various expenditures and revenue streams directly. Moreover, the absence of any direct control of the institutes over forces such as fee structure, salary, etc. along with the lack of a definite long term business plan make it impossible to project the revenue surplus/ deficit of any institute to the coming years.

Among the seven institutes of hotel management, it was found that IHM Chandigarh and IHM Shimla were among the profitable institutes, while IHM Srinagar, IHM Guwahati and IHM Pusa were running into heavy losses.

This is a diagnostic study, which attempts to make basic observations about the financial health of the selected institutes of hotel management based on a detailed analysis of the income and expenditure statements of the institutes. The findings from this analysis are documented in the report, and directive steps have been recommended to pull the institutes towards healthy financial growth.

## About the Research

### Background for the Study

The Ministry of Tourism, Government of India, intends to understand the financial aspects of running the Central Institutes of Hotel Management (CIHM) across the Country in terms of revenues and liabilities, so as to arrive at strategies for strengthening their financial stability in the long run.

As part of the initial drive at achieving the aforementioned aim, the Ministry of Tourism to conduct a study on the financial sustainability for seven out of the 21 CIHMs in India. IMRB International has been commissioned by the Ministry to conduct the said study.

The seven CIHMs under the study include the following (in alphabetical order):

- IHM, Bangalore
- IHM, Chandigarh
- IHM, Guwahati
- IHM, Kufri (Shimla)
- IHM, Pusa (Delhi)
- IHM, Shillong
- IHM, Srinagar

### Objectives of the Study

The objectives of the study were the following:

- To study the current & past financial position of each of the seven CIHMs in terms of:
  - Revenue streams
  - Expenditure liabilities
- To arrive at the current revenue surplus/ revenue deficit for each of the seven CIHMs
- To measure the extent of uniformity among the various IHMs in terms of
  - Remunerations given to staff, other than their salary
  - Terminal & Retirement Benefits for employees
  - Income vis-à-vis Expenditure on the Training Food Component
- To make projections for revenue surplus / revenue deficit for each of the seven CIHMs in terms of:
  - Per student cost
  - Break-even cost
- To design strategies for revenue enhancement and deficit prevention which may include generation of additional sources of revenue based on best practices as well as savings.

## Research Methodology

In order to meet the objectives of the study, IMRB proposed a two-pronged research methodology that constitutes Primary Research and Desk Research. Primary Research was proposed due to the lack of any previous studies for assessment of financial sustainability in the past.

### Module I: Qualitative Primary Research

This module was exploratory in nature, and involved the use of the technique of Unstructured Business Interviews (UBIs) In order to get the detailed understanding of information areas and align it with the study deliverables, these interviews were conducted by the researcher in-charge, using a systematic discussion guide pre-approved by the Ministry of Tourism.

The module consisted of nine detailed interactions with key personnel at three institutes:

- IHM/ Dadar Catering College, Mumbai (initially hypothesized as the best-in-class institute)
- IHM, Pusa (Delhi)
- Dr. Ambedkar IHM, Chandigarh

**Target Respondents for the Module:** In order to obtain the desired information areas, the respondents for the UBIs were aware of the institute's financial position, revenue streams and expenses. Hence, the target respondents for this module were the following:

- Principal
- Accounts/ Administrative Officer
- UDC
- HODs / Senior faculty members

Inputs from this module were used to obtain a detailed understanding of each information area to be addressed. The profile of stakeholders to be contacted at various CIHMs was also identified to address the information areas.

The emphasis of this module was, thus, to arrive at a structure through which identified information areas would be addressed from all the seven CIHMs in the subsequent module.

### Module II: Comprehensive Desk Research

This module was more extensive in nature and consisted of a combination of secondary research and detailed analysis of available material from the institutes.

Secondary Research involved a detailed study of information available on public portals such as articles, institute features and websites. This helped in building a preliminary understanding and was instrumental in designing the discussion guide for the qualitative module of primary research.

Detailed analysis of the available material focused exclusively on the collection of financial data from the CIHMs in the form of their annual reports. Based on these annual reports, the current & past financial situation of each of the CIHMs was analyzed in detail for two years, i.e., 2010-11 (considered as current year) and 2009-10 (considered as past year).

## Limitations of the Study

All the analysis is done based on declarations made in the Income & Expenditure Statements with various Schedules, given in the Annual Reports of the CIHMs. Hence, the analysis is entirely dependent on these financial statements. As a result of this, the following limitations of the study arise:

### 1. Accounting followed by the institutes is on cash basis.

- This essentially means that any income/expenditure is reflected in the accounting sheets only when the payment is actually made.
- It also means that any pending or upcoming payments are not accounted for till the time that they are actually incurred.
- This often leads to sudden fluctuations in the expense heads from one accounting period to the next, for any pending payments made in the subsequent period.
- This also makes it difficult to draw any definite conclusions about the increase or decrease in expenditure or income for an organization, and to link the change to factors governing it.

### 2. Lack of Uniformity in the Accounting Practices followed by the various CIHMs

- The accounting practices followed by the CIHMs are not uniform, which leads to ambiguity in the representation of detailed revenue streams and expenditure heads
- The break-down of these revenue streams and expenditure heads, thus, does not have a common platform
- Hence, it becomes difficult to directly compare the inflow and outflow of funds for the various CIHMs

### 3. The present scenario and available data are insufficient to make future projections of revenue surplus / revenue deficit for the CIHMs

- In order to make projections for the future, there are two basic requirements:
  - Knowledge about all possible liabilities that may come up in the coming future

- Control over the factors governing the income and expenses
  - In regard to the various factors governing income and expenses, the CIHMs do not have direct control over the following:
    - Government policies, which control
      - Fees charged from the students
      - Remuneration for the Employees
    - Market Forces such as inflation
    - Fixed Costs incurred on infrastructure and running of the institute
  - Apart from this, there is no standardization or thumb rule for the grants-in-aid given to the institutes, which would greatly influence the revenue surplus/ deficit.
  - Some institutes have special sources of income such as Applied Training Center, Rental Income, etc., which are not feasible for other institutes, thereby putting them at a disadvantage.
  - There is no long-term business plan of the CIHMs to enable suitable assumptions for making future projections.
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## Findings from the Study

### SECTION I: Snapshot of the Institutes of Hotel Management (IHMs) under the Study

#### A. Institute of Hotel Management, Catering Technology, Applied Nutrition, Bangalore

IHM Bangalore was established in the year 1969, and is jointly sponsored by the Government of India and the Government of Karnataka.

**Special Sources of Income:** The institute boasts of an applied training center (or EDC), which functions as a full-fledged hotel and serves as a special source of income for the institute giving it a slight advantage over other institutes.

**Profitability in the past two years:** With the help of earnings from their special source of income, the institute has been able to remain profitable.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, and a two-year full-time course of M.Sc. in Hotel Administration.

**Student Intake and Strength:** The annual intake capacity for the IHM is 242 students and the total strength of students in both the B.Sc. as well as M.Sc. courses is more than 600 students. Hostel facilities are also available at the campus for limited number of students.

#### B. Dr. Ambedkar Institute of Hotel Management, Chandigarh

IHM Chandigarh was established in the year 1990, and is sponsored by the Government of India.

**Special Sources of Income:** The institute boasts supplying lunch to various schools across Chandigarh as part of the “Mid-day meal scheme” of the government, and this serves as a special source of income for the institute giving it a slight advantage over other institutes.

**Profitability in the past two years:** The institute has been profitable in the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, and a PG Diploma course in Food Production.

**Student Intake and Strength:** The annual intake capacity for the IHM is 242 students and the total strength of students in both the B.Sc. as well as PG Diploma courses is close to 500 students. Hostel facilities are also available at the campus for a limited number of students.

#### C. Institute of Hotel Management, Catering Technology, Applied Nutrition, Guwahati

IHM Guwahati was established in the year 1984, and is sponsored by the Government of India. It was upgraded to the status of IHM from the erstwhile Food Craft Institute in 1995.

**Special Sources of Income:** Apart from the revenue generated through the collection of student fees, the institute also generates some income through the sale of its publications, and by way of lease rent from its land holdings.

**Profitability in the past two years:** The institute has been in loss for the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, a PG Diploma in Accommodation Operation & Management, and craftsmanship courses in Food Production and F&B Service.

**Student Intake and Strength:** The annual intake capacity for the IHM is 129 students and the total strength of students in all the courses is close to 400 students. Hostel facilities are also available at the campus for a limited number of students.

#### **D. Institute of Hotel Management, Catering & Nutrition, Kufri (Shimla)**

IHM Shimla was established in the year 1984, and is sponsored by the Government of India. It was upgraded to the status of IHM from the erstwhile Food Craft Institute in 1996.

**Special Sources of Income:** Apart from the revenue generated through the collection of student fees, the institute also generates some income from their guesthouse.

**Profitability in the past two years:** The institute has been profitable in the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, a PG Diploma course in F& B Service, and a Craftsmanship course in Food Production.

**Student Intake and Strength:** The annual intake capacity for the IHM is 322 students and the total strength of students in all the courses is close to 700 students. Hostel facilities are also available at the campus for a limited number of students.

#### **E. Institute of Hotel Management, Catering & Nutrition, Pusa (New Delhi)**

IHM Pusa was established in the year 1962, and is sponsored by the Government of India. It is one of the oldest institutes of Hotel Management in India.

**Special Sources of Income:** Apart from the revenue generated through the collection of student fees, the institute also has income through the collection of rent for its buildings and commercial space.

**Profitability in the past two years:** The institute has been in heavy loss in the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, two-year full-time M.Sc. courses in Dietetics and Hospitality Administration, a PG Diploma in Accommodation Operation & Management, and craftsmanship courses in Food Production, F&B Service and Bakery & Confectionery.

**Student Intake and Strength:** The annual intake capacity for the IHM is 258 students and the total strength of students in all the courses is more than 700 students. Hostel facilities are also available at the campus for a limited number of students.

#### F. Institute of Hotel Management, Catering Technology, Applied Nutrition, Shillong

IHM Shillong was established in the year 2002, and is sponsored by the Government of India.

**Special Sources of Income:** Apart from the revenue generated through the collection of student fees, the institute also no other special source of income.

**Profitability in the past two years:** The institute has been slightly profitable in the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, and a craftsmanship course in Food Production.

**Student Intake and Strength:** The annual intake capacity for the IHM is 43 students and the total strength of students in both the B.Sc. as well as PG Diploma courses is close to 135 students. Hostel facilities are available at the campus, but only for a limited number of female students.

#### G. Institute of Hotel Management, Catering & Nutrition, Srinagar

IHM Srinagar was established in the year 1984, and is sponsored by the Government of India. It was the first institute of its kind in the state of Jammu & Kashmir.

**Special Sources of Income:** Apart from the revenue generated through the collection of student fees, the institute also has some income through the collection of house rent, and from their guesthouse.

**Profitability in the past two years:** The institute has been in heavy loss in the past two years.

**Courses Opted by Students:** Among the courses at the institute which currently have batches of students are a three-year full-time course of B.Sc. in Hospitality and Hotel Administration, and a Diploma course in Food Production.

**Student Intake and Strength:** The annual intake capacity for the IHM is 161 students and the total strength of students in both the B.Sc. as well as PG Diploma courses is close to 250 students. Hostel facilities are also available at the campus for a limited number of students.

## **SECTION II: Major Components of Income and Expenditure for the Institutes of Hotel Management**

### **A. Major Components of Income**

The overall income for the Institutes can be studied under four major heads:

#### **1. Operating Income**

Operating Income is the income derived from the core business operations of the institute. This is the biggest contributor to the overall income of the institute. It is further composed of the following two sub-components:

- a. ***Income from fees & subscriptions:*** These include receipts from the following –
  - i. Tuition Fees from Students
  - ii. Training food Fees
  - iii. Hostel Charges
  - iv. Others like consultancy services given to a third party
  
- b. ***Income from sales & services:*** These include receipts from the following –
  - i. Sale of Food in Bakery/ Cafeteria/ Restaurant
  - ii. Hostel Mess and other Meal Charges
  - iii. Sale of any other Services

#### **2. Grant/ Subsidy received from the government/ other bodies**

Grant/ subsidy received as income is largely controlled by the Ministry of Tourism, and is granted based on the requirement posted by the institutes.

Grant/ Subsidy is a variable component for each institute, as there is no thumb-rule governing the amount issued. The amount of the grant issued, therefore, varies from one institute to the other and also from one year to the next for the same institute.

#### **3. Special Sources of Income (if any)**

The special sources of income are unique to each institute depending on (i) the capacity of the institute, (ii) the available opportunity for the institute to generate any additional income, and (iii) the location of the institute in a metro/ non-metro, affecting the available opportunities for alternate revenue generation. Since these factors are not uniform for all institutes, some institutes may not have any opportunity or capability to develop any special sources of income.

Some of the indicative examples of special sources of income are as follows –

- a. Applied Training Center, as in the case of Bangalore
- b. Rent Income, as in the case of IHM Pusa (Delhi) and IHM Guwahati
- c. Supply of Mid-day Meal to School, as in the case of IHM Chandigarh
- d. Guest house facility, as in the case of IHM Kufri (Shimla) and IHM Srinagar
- e. Sale of publications, as in the case of IHM Guwahati

4. **Any other sources of Income**, such as interest earned from the bank, etc.

### *Contribution of the components of income to Total Income*

The table below highlights, in detail, the contribution of each of the above components of income to the total income of seven CIHMs under the study, during the year 2010-11:

**Table: Components of Total Income**

CIHM →	Pusa	Shillong	Shimla	Chandigarh	Bangalore	Guwahati	Srinagar
<b>Operating Income</b>	91%	59%	72%	60%	88%	81%	86%
<i>From Fees/ Subscription</i>	86%	98%	99%	96%	87%	100%	97%
<i>From Sales/ Services</i>	14%	2%	1%	4%	3%	–	3%
<b>Grant/subsidy</b>	1%	18%	1%	–	–	11%	10%
<b>Income from Special Sources</b>	1%	–	–	31%	10%	4%	–
<b>Other Income</b>	6%	23%	27%	9%	2%	4%	4%
<b>Total Income</b>	<b>536.5</b>	<b>159.5</b>	<b>722.98</b>	<b>622.6</b>	<b>371.3</b>	<b>320.97</b>	<b>186</b>

*Note: All Income and Expenditure Figures are in Lakhs of Rupees*

As can be seen from the table above, operating income, particularly income from fees and subscription, forms the biggest contributor to the total income for a CIHM. It is also the most consistent contributor to the total income, since the income from grant/ subsidy and that from special sources is highly variable and situation-specific. Hence, operating income is the only income component that has been used for the purpose of analysis.

## **B. Major Components of Expenditure**

The overall expenditure for the Institutes can be studied under three major heads:

### **1. Establishment Expenditure**

Establishment Expenditure is the expense incurred for maintaining the staff of the institute, including the faculty and other support staff. This is one of the major expenditure heads of the institute, and is largely fixed in nature. It is further composed of the following sub-components:

- a. **Salaries & Wages of Employees**
- b. **Employee Retirement and Terminal Benefits:** These include expenditure for the following –
  - i. Provident Fund
  - ii. Gratuity
  - iii. Pension Scheme
  - iv. Leave Encashment
- c. **Other Staff costs** such as LTC, Medical Reimbursement, etc.

## 2. Administrative Expenditure

Administrative expenditure includes all those expenditure heads which are incurred in the running of the institute. A majority of these costs are variable in nature, and are dependent on the number of students in the institute. It includes expenditure on the following heads –

- a. Training Food Cost, including purchase of consumables for training students
- b. Electricity and Power
- c. Water
- d. Fuel & Gas
- e. Repair & Maintenance, including annual maintenance contract (AMC) charges
- f. Expenses on the special source of income (described earlier)
- g. Other Administrative Costs

## 3. Depreciation of Assets

Depreciation of assets is a fixed cost which is incurred by the institute on an annual basis on all its assets including buildings, equipment, etc. Depreciation can be calculated by a Straight line method, or by Written-down method.

### *Contribution of the components of Expenditure to Total Expenditure*

The table below highlights, in detail, the contribution of each of the above components of expenditure to the total expenditure of seven CIHMs under the study, during the year 2010-11:

**Table: Components of Total Expenditure**

CIHM →	Pusa	Shillong	Shimla	Chandigarh	Bangalore	Guwahati	Srinagar
<b>Establishment Expenditure</b>	69%	35%	58%	37%	49%	49%	41%
<b>Administrative Expenditure</b>	27%	44%	25%	56%	50%	36%	27%
<b>Depreciation</b>	4%	21%	17%	7%	1%	14%	32%
<b>Total Expenditure</b>	<b>642.2</b>	<b>152.97</b>	<b>648.6</b>	<b>546.4</b>	<b>366.99</b>	<b>353</b>	<b>420.5</b>

*Note: All Income and Expenditure Figures are in Lakhs of Rupees*

As can be seen from the table above, establishment expenditure and other administrative expenditure form the biggest chunk of the total expenditure. No clear trend, however, is seen in the components of expenditure for the institutes.

For example, there is no clear dominance between establishment and administrative expenditure in the total expenditure. For institutes like Pusa and Shimla, establishment costs pose a greater burden than administrative costs; whereas, for institutes like Chandigarh and Shillong, administrative costs pose a greater burden. A possible reason for this could be: (i) Difference in burden of pensioners on the institutes, and (ii) Differential ratio of regular and contractual staff at the various institutes.

Similarly, Shillong, being a relatively new institute compared to others, is expected to have a high value of depreciation than older institutes like Srinagar. Yet, the depreciation cost incurred by

Srinagar is much higher at 32%. A possible reason for this could be the recent completion of a considerable amount of Infrastructure or Equipment enhancing activity by IHM Srinagar in 2010-11.

### Constituents of Establishment Cost

The table below highlights, in detail, the contribution of each sub-component of establishment cost to its total for the seven CIHMs under the study, during the year 2010-11:

**Table: Constituents of Establishment Cost**

CIHM →	Pusa	Shillong	Shimla	Chandigarh	Bangalore	Guwahati	Srinagar
Salaries and wages	85%	94%	37%	63%	90%	83%	90%
Retirement & Terminal Benefits	12%	-	62%	34%	5%	9%	7%
Other	3%	6%	1%	3%	5%	8%	3%
<b>Total Establishment Cost</b>	<b>442.6</b>	<b>53</b>	<b>374.1</b>	<b>204.5</b>	<b>181.2</b>	<b>174.2</b>	<b>170.5</b>

*Note: All Income and Expenditure Figures are in Lakhs of Rupees*

As can be seen from the table above, the largest chunk of establishment cost is formed by salaries and wages of the staff.

**The special case of Kufri (Shimla):** An exception to the above rule was seen in the case of Shimla, where retirement & terminal benefits constitute as much as 62% of the establishment cost in 2010-11. A possible explanation for this could be that this is a one-time expense resulting from a change in the accounting policies of the institute, post which a new provision was made as part of the retirement benefits.

The variation seen in the proportion of employee retirement & terminal benefits among the various institutes reinforces the earlier hypothesis that there is a difference in the burden of pensioners on the different institutes. IHM Shillong, having been established in 2002, has no burden of pensioners.

**The special case of Pusa (Delhi):** IHM Pusa has the largest base of pensioners among all the CIHMs. However, the head of “retirement & terminal benefits” reflects only 12% burden of this on the establishment cost. A reason for this is that the head of “Salaries and wages” for Pusa is also inclusive of pensions for the retired employees from the institute. Hence, the tabulated figures are not a true reflection of the constituents of establishment cost for IHM Pusa.

### Constituents of Administrative Cost

The table below highlights, in detail, the contribution of each sub-component of administrative cost to its total for the seven CIHMs under the study, during the year 2010-11:

**Table: Constituents of Administrative Cost**

CIHM →	Pusa	Shillong	Shimla	Chandigarh	Bangalore	Guwahati	Srinagar
Training Food Cost	34%	18%	28%	18%	32%	37%	33%
Electricity & Power	22%	6%	14%	4%	11%	11%	7%
Water Charges	9%	1%	1%	1%	2%	1%	
Consumption of fuel & gas	2%	2%	1%	1%	1%	1%	4%
Repair and Maintenance	11%	3%	7%	3%	43%	11%	9%
Expenses for special income source	3%	-	-	55%	-	-	-
Other	18%	70%	49%	19%	11%	39%	47%
<b>Total Admin. Cost</b>	<b>172.3</b>	<b>67.2</b>	<b>161.1</b>	<b>303.8</b>	<b>182.2</b>	<b>127.7</b>	<b>114.1</b>

Note: All Income and Expenditure Figures are in Lakhs of Rupees

As can be seen from the table above, the largest chunk of administrative cost is formed by training food cost for the students.

**Observations for Pusa (Delhi):** IHM Pusa’s expenditure of training food is among the highest of all institutes. Apart from this, this institute appears to be spending an exorbitant amount on electricity and power, as 22% of the total administrative cost is much higher than any other institutes.

**Observations for Shillong:** The biggest burden on IHM Shillong in terms of administrative costs is through miscellaneous expenditure such as security charges, traveling & conveyance claimed by employees, and other unspecified expenses.

**Observations for Bangalore:** The case of IHM Bangalore is somewhat peculiar, as the income from special source, i.e., applied training center (ATC) was declared separately in the books, whereas the expenses for running the ATC have been disbursed across common heads of expenditure. Hence, the expense head of “Expense incurred for maintaining special source of income” reflects no expenditure. This also makes it impossible to gauge the profitability of running the ATC.

It should also be noted that the expenditure of Bangalore on “Repairs and Maintenance” is much higher than all other institutes at 43%. A possible reason for this could be the high cost of maintaining the ATC (housekeeping, supplies, etc.), or maybe the undertaking of some major construction/ refurbishment activities during the year 2010-11.

**Observations for Guwahati:** IHM Guwahati has the highest training food cost among all institutes at 37% of total administrative expenditure. A possible reason for this could be the relatively higher cost of consumables in the North-east. However, Shillong, also located in the North-east, has an extremely low burden of training food cost at 18%. Hence, there has to be some other reason for the figures in Guwahati.

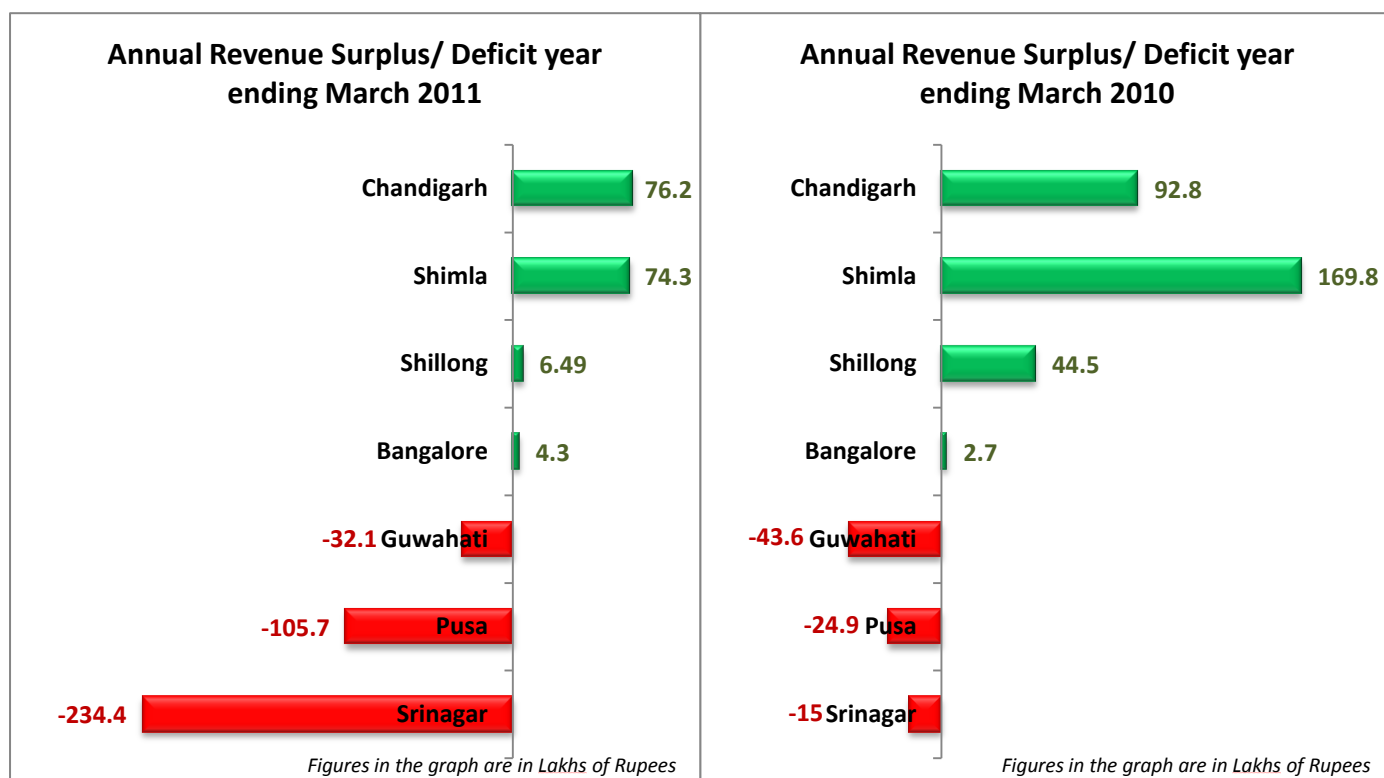
**Observations for Srinagar:** IHM Srinagar falls into the general trend of administrative expenditure for all institutes and does not exhibit any peculiarities.



## SECTION III: Financial Status of the Institutes of Hotel Management

### A. Annual Revenue Surplus / Deficit for the IHMs

The annual revenue surplus / deficit for an institute has been calculated as the difference between the overall total income of the institute and the overall total expenditure. The two charts below illustrate the financial condition of the seven IHMs during the years 2009-10 and 2010-11:



As can be seen from the charts, the overall performance of all the institutes has shown negative growth between the period 2009-10 and 2010-11. The gross profit margin for most of the institutes has gone down considerably.

Only two of the seven CIHMs report a substantial revenue surplus in 2010-11, two more are close to the break-even point with a small amount of surplus, whereas three are running in huge loss.

The only institute to show positive growth between 2009-10 and 2010-11 was IHM Bangalore, which showed an increase in annual revenue surplus by almost 60%. However, in absolute value, the surplus is still not substantial.

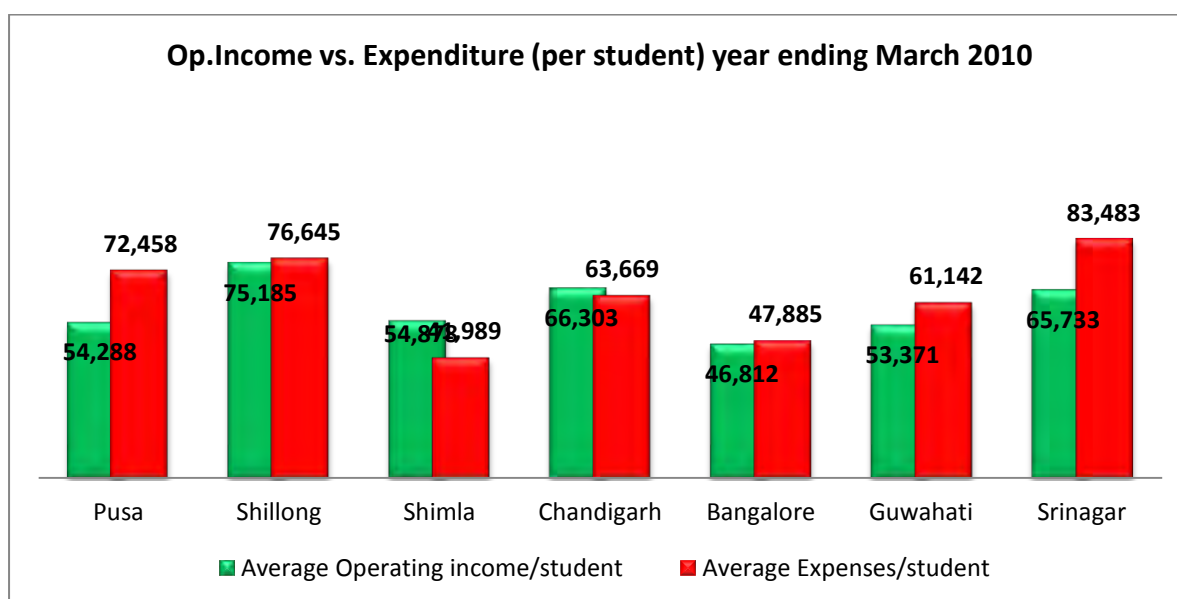
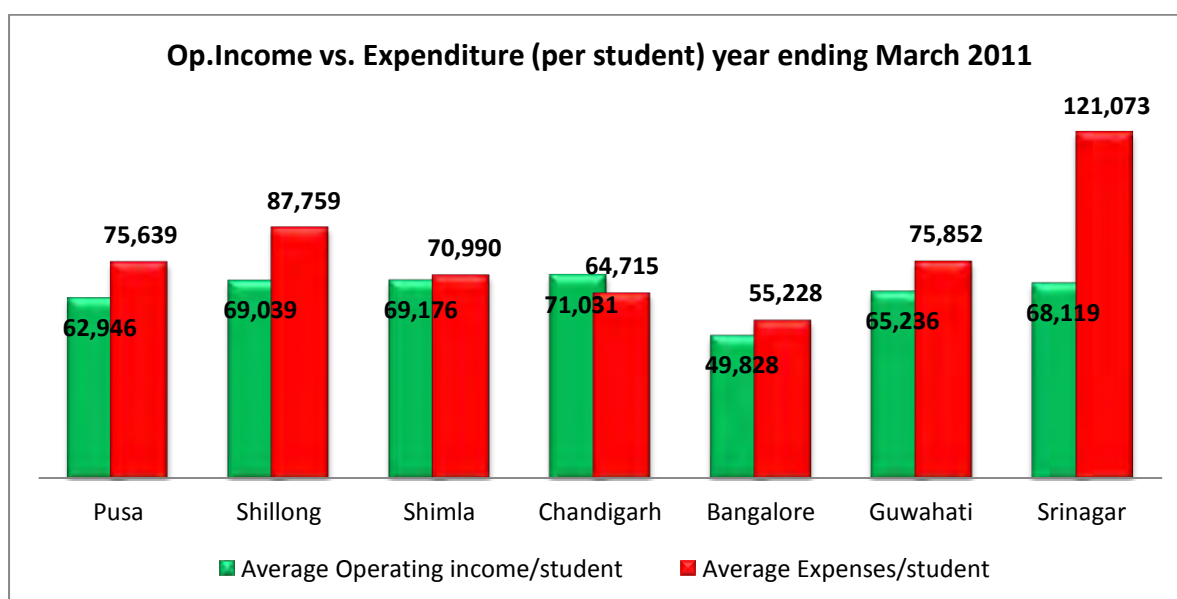
The institutes with the worst overall performance appear to be IHM Shimla, IHM Srinagar and IHM Pusa. The revenue surplus of IHM Shimla shrank by a massive 44% within a span of one year. On the other hand, IHM Srinagar and IHM Pusa were already running in loss during 2009-10, but their losses increased by more than 4 times for IHM Pusa, and by more than 16 times for IHM Srinagar.

***Hence, it can be concluded that all the seven institutes of hotel management are in a state of financial crisis.***

## B. Operating Income vs. Total Expenditure

The charts below highlight the comparison of average operating income per student with the corresponding expenditure per student for each CIHM during two years, 2010-11 (current) and 2009-10 (past). The basic assumption made in order to arrive at these figures is that the simple average has been calculated for all students in all the available courses put together.

It should be noted that operating income per student has been derived by dividing the total operating income of the institute by the total number of students in the institute. The expenditure per student, on the other hand, has been derived by dividing the total expenditure less expenditure on special sources of income less depreciation of assets, by the total number of students in the institute.



As can be seen from the charts above, the overall performance of the CIHMs has deteriorated in 2010-11 as compared to 2009-10. The negative difference between average operating income per

student and average expenditure per student is more pronounced in 2010-11, with the expenditure exceeding the income for all CIHMs with the exception of Chandigarh and Shimla. These are the only two institutes which have managed to maintain an average income more than the average expenditure since 2009-10. The performance of IHM Shillong in this aspect has fallen considerably.

### *Year-on-year comparison of operating income with expenditure (per student)*

The table below illustrates the relationship between the student strength, average operating income per student and average expenditure per student for each of the CIHMs. It compares how the change in one of the above factors affects the other two factors.

**Table: Operating Income vs. Total Expenditure [per Student]**

CIHM Location ↓	No. of students			Average Operating income/student			Average Expenditure/student		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Chandigarh	528	498	6%	71,031	66,303	7%	64,715	63,669	2%
Shimla	754	690	9%	69,176	54,878	26%	70,990	41,989	69%
Shillong	137	137	0%	69,039	75,185	-8%	87,759	76,645	15%
Srinagar	235	279	-16%	68,119	65,733	-4%	121,073	83,483	45%
Pusa	776	704	10%	62,946	54,288	16%	75,639	72,458	4%
Guwahati	398	410	-3%	65,236	53,371	22%	75,852	61,142	24%
Bangalore	658	618	6%	49,828	46,812	6%	55,228	47,885	15%

As can be seen from the table above, IHM Chandigarh is the best performing institute among all – Not only does it have the highest average operating income per students, it also shows the trend of 6% increase in number of students and 7% increase in average operating income per student translating into only 2% increase in average expenditure per student between the years 2010-11 and 2009-10. None of the other institutes could match up to the performance of IHM Chandigarh.

The institutes with the poorest performance, however, have been IHM Shillong and IHM Srinagar – Even though the total number of students in IHM Shillong between 2009-10 and 2010-11 remained constant, the average operating income fell by 8% simultaneously with a 15% increase in average expenditure per student. The case of IHM Srinagar is even more dismal, since the total number of students at the institute between 2009-10 and 2010-11 decreased by 16% post which the average expenditure per student rose by a massive 45%.

## SECTION IV: Financial Analysis of the Institutes of Hotel Management

This section analyzes in detail the various components of revenue and expenditure for each of the seven CIHMs.

### A. Analysis of Operating Income

As mentioned previously, operating income is a function of the income from fees & subscriptions, as well as that from other sales & services offered by the institute. Each of these sub-components has been analyzed separately.

#### i. Income from Fees & Subscriptions

Collection of Fees from Students, and Hostel Charges form a major part of income from fees and subscriptions. All the institutes have the same fee structure for their three-year B.Sc. course, which is also the most popular course for the CIHMs. Apart from the B.Sc. course, there are also other diploma and craftsmanship courses, for which the fees are variable. The total number of students considered is a summation of the students in all courses currently at each of the CIHMs.

Since the fees from B.Sc. students form the most substantial portion of the total income from fees, it logically follows that income from fees and subscriptions should be directly related to the number of students.

The table below highlights in detail the variation seen in these two sub-components across the CIHMs and also from the past year to current year. These have then been compared to the total number of students enrolled at the institutes:

**Table: Major Components of Income from Fees & Subscription**

Year Ending	Pusa			Shillong			Shimla			Chandigarh			Bangalore			Guwahati			Srinagar		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Fees from student	305.5	258.8	18%	53.43	68.90	-22%	340.4	243.9	40%	214.5	195.9	9%	200.5	180.6	11%	178.1	143.5	24%	142.5	141.4	1%
Hostel charges	135.3	125.6	8%	19.3	15.13	28%	58.6	43.2	36%	49	48	2%	12.1	10.8	12%	23.5	16.4	43%	12.2	39.4	-69%
No. of students	776	704	10%	137	137	-	754	690	9%	528	498	6%	658	618	6%	398	410	-3%	235	279	-16%

Note: All Income and Expenditure Figures are in Lakhs of Rupees

As can be seen from the table above, the highest collection from fees was from IHM Shimla, which was also among the institutes with maximum number of students. However, IHM Pusa exhibited the highest collection from hostel fees, indicating that it has the most extensive hostel facility, keeping in mind its high strength of students.

***Observations for IHM Pusa (Delhi):***

Fees from Students – The increase in total number of students for IHM Pusa from the year ending March 2010 to the year ending March 2011 was 10%, whereas the income from student fees increased by 18%.

The increase in the student fees is slightly higher than the increase in total number of students. A possible reason for this could be a change in the distribution of students across various courses, with more students in a course with higher fees than B.Sc. (E.g.: M.Sc.) in the current year than in the past year.

Hostel Charges – The change in collection of hostel fees from year 2009-10 to 2010-11 is more or less proportional to the change in the number of students.

***Observations for IHM Shillong:*** The income from fees and subscriptions for IHM Shillong is a peculiar case. There was no change in the total number of students between 2009-10 and 2010-11.

Fees from Students – The collection from student fees dipped by 22%, despite no change in number of students. Even if the distribution of students among the various courses shifted to a cheaper course, it still cannot account for a 22% dip. A possible reason for the decrease in income could be the admission of students under reserved quotas (SC/ ST/ OBC) who pay lower fees than general students. If this is the case, it should be noted that there is higher risk of additional burden on the institutes in future also from such reservations of seats.

Hostel Charges – Another peculiarity is observed in the collection of hostel fees from the students. Although the number of students in the institute remained same between 2009-10 and 2010-11, there was an increase of 28% in hostel fees collected between the two years. Possible reasons for this increase could be (i) Better occupancy in the hostel during 2010-11, and (ii) The inclusion of hostel mess charges within hostel charges by IHM Shillong, which would have been raised to account for cost inflation on consumables.

***Observations for IHM Shimla:*** The increase in number of students for IHM Shimla between 2009-10 and 2010-11 is 9%. However, the increase in the collection of fees as well as hostel charges is close to 40%. There has been no revision of fees since 2009. No other possible reason presents itself to explain this exponential increase in income from fees & subscriptions and hence, these figures need to be investigated further.

***Observations for IHM Chandigarh:*** The figures for IHM Chandigarh have increased in a more or less proportional fashion between the years 2009-10 and 2010-11, as the increase for all is in the proximity of 6-9%.

***Observations for IHM Bangalore:*** There is 6% increase in the total number of students between 2009-10 and 2010-11. However, the increase in collections from student fees and hostel charges is close to 12% each. This could possibly be explained by a re-distribution of students to the more expensive course of M.Sc., and better occupancy of the hostel during 2010-11.

**Observations for IHM Guwahati:** The case of IHM Guwahati is the most peculiar of all. The total number of students in the institute decreased by 4% between 2009-10 and 2010-11, but the fees collected from students increased by as much as 24%. Not only this, the collection from hostel charges went up by an exponential 43%.

There has been no revision of fees since 2009, and even if occupancy in the hostel was improved in 2010-11, it still couldn't explain such a big jump. One possibility could be that hostel capacity was increased in 2010-11 to accommodate more students. But no possible reason presents itself to explain the exponential increase in student fee collections. Hence, these figures need to be investigated further.

**Observations for IHM Srinagar:** IHM Srinagar presents a disheartening case, with a 16% dip in the total number of students between 2009-10 and 2010-11.

Fees from Students – The collection from student fees remained more or less constant despite the dip in number of students. A possible reason for this could be the fact that for Srinagar, training food fees are included as part of the fees collected from students. Any revision in this component to account for market forces such as inflation would thus, also reflect in overall fees. However, this would not be a true representation of the change in student fees as a result of reduced number of students.

Hostel Charges – Even though the number of students dipped by 16% between 2009-10 and 2010-11, the hostel collections went down by a massive 69%. The only possible explanation for this can be extremely poor capacity utilization of hostel facilities by the management of IHM Srinagar.

## *ii. Income from Sales & Services*

Sale of food from Bakery/ Cafeteria/ Restaurant, Hostel Mess and Other Meal Charges form a major part of income from sales and subscriptions. The declaration of income under these heads, however, is not very clear from the financial statements of the CIHMs. Many of the CIHMs have no/ insignificant sale of food from Bakery/ Cafeteria/ Restaurant, while for most of the institutes the hostel mess charges have either been merged with the hostel fee charges, or with the other meal charges. Hence, it becomes difficult to analyze the income of the institutes on the basis of these heads.

The table on the following page illustrates the variation seen in the components of income from sales and subscriptions across the CIHMs and also from the past year to current year.

The table below indicates that IHM Pusa has the most substantial earnings from sale of food through its bake shop to the tune of INR 1.5 cr., and this income has shown excellent growth over the previous period (2009-10). The only other institutes showing income from sale of food through bakery/ cafeteria / restaurant were IHMs Shimla, Chandigarh and Srinagar, but their income was only about INR 3 lac. No clear trend was observed for hostel mess/ other meal charges for the CIHMs.

**Table: Major Components of Income from Sales & services**

Year Ending	Pusa			Shillong			Shimla			Chandigarh			Bangalore			Srinagar		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Sale of Fast food/ Cafeteria	15.8	6.9	128%	0.07	-		3.1	1.8	72%	3.3	1.9	76%	-	-		3.2	2.0	57%
Hostel Mess Charges	28.8	27.7	4%	-	-											-	-	
Meal Charges from staff/ students	9.8	4.5	117%	0.33	0.35	-6%	0.57	0.49	18%	9.8	3.9	142%	0.81	1.1	-26%	0.25	0.61	-59%

Note 1: All Income and Expenditure Figures are in Lakhs of Rupees

Note 2: There is no income declared by IHM Guwahati under these heads of sales & services

### Bake Shop at IHM Pusa : Best Practice to be replicated

The bake shop at IHM Pusa appears to be a fairly profitable venture, particularly in the year 2010-11. The table below illustrates the details of expenditure and income from this venture between 2009-10 and 2010-11:

**Table: Profitability of Bake Shop at Pusa**

Year Ending	2011	2010	% Change
Sales from Bake Shop	1,582,393	693,702	128%
Expenditure on Bake Shop	589,625	334,731	76%
Surplus from Bake Shop	992,768	358,971	177%

As can be seen from the table above, the profitability of this venture went up by almost two times between 2009-10 and 2010-11, and IHM Pusa has been the only institute which has been able to make substantial income by the sale of food. The sales from the bake shop went up by 128% between the two years, indicating a massive up-scaling of business. With more streamlining and standardization of processes, the profitability of this venture can be improved further.

If such a business model could be replicated and honed across other CIHMs, it could serve as a good option to maximize revenues. Moreover, it would also provide direct exposure to students by giving them hand-on training on how to run a business efficiently. IHM Pusa could be given the responsibility of educating the other CIHMs about the business model for their bake shop, and the utilization of resources to prepare the goods to be sold.

## B. Analysis of Establishment Expenditure

As mentioned previously, establishment expenditure is a function of the expenses incurred from salaries & wages, as well as that from retirement & terminal benefits for employees. The table below highlights in detail the variation seen in these two sub-components across the seven CIHMs, and also from the past year to current year. Each of these sub-components has been analyzed separately.

**Table: Major Components of Establishment Cost**

Year Ending	Pusa			Shillong			Shimla			Chandigarh			Bangalore			Guwahati			Srinagar		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Salaries & Wages	377.2	347	9%	50	55	-9%	137.6	112.6	22%	129.8	124.8	4%	163.4	136.8	19%	144.6	116.5	24%	152.8	140.5	9%
Retirement & Terminal Benefits	52.6	19.3	173%	-	-	-	232.4	34.6	571%	69.3	51.7	34%	8.6	10.5	-18%	16.8	19.7	-18%	12.1	4.0	203%

Note: All Income and Expenditure Figures are in Lakhs of Rupees

It should be noted that establishment expenditure for an institute is largely fixed in nature, and the number of faculty / other staff in the institute does not show much variation in a span of one year. Hence, an increase in this expenditure within 2009-10 and 2010-11 would seldom be due to a change in the strength of the staff.

### i. Salaries & Wages

Salaries of regular staff have a standard annual increment of 3% on basic salary as per government of India regulations. Apart from this, between 2009-10 and 2010-11, the dearness allowance increased by 7% of basic every six months (semi-annually). It is expected that this increment would explain the increase in expenditure on salaries and wages.

**The special case of IHM Pusa (Delhi):** As can be seen from the table above, IHM Pusa has the highest spend on salaries & wages, indicating that it has the biggest staff on its payroll, and that a majority of it is composed of regular/ permanent employees. Apart from this, the expenditure on salaries & wages for IHM Pusa also includes the payment of pensions (otherwise a part of retirement & terminal benefits). This is also a reason for its high value of expenditure.



***The special case of IHM Chandigarh:*** IHM Chandigarh was the only institute to report minimal increase in expenditure on salaries & wages (less than 5%). A possible reason for this could be the large proportion of part-time/ contractual staff hired by the institute. The level of pay for such employees is in the control of the institute, as is their annual increment.

***The special case of IHM Guwahati:*** IHM Guwahati presents a peculiar case. The expenditure on salaries & wages for this institute went up by 24% between 2009-10 and 2010-11. This is much higher than the increase expected post increment of employees. Moreover, total number of students in the institute during this period decreased. Hence, there was no reason to add on new faculty either. A possible reason could, hence, be that other support staff was hired, and that too probably on a contractual basis, considering that the expenditure on retirement & terminal benefits decreased over the same period.

## ***ii. Employee Retirement & Terminal Benefits***

The expense on employee retirement & terminal benefits includes the components of provident fund, leave encashment, gratuity and contribution to pension fund. The burden on the CIHMs from this head is variable, as this component depends on the proportion of regular/ permanent staff from the total. Gratuity and contribution to pension fund are made for regular employees only, whereas percentage contribution to provident fund and leave encashment depend on the grade of the employee.

***The special case of IHM Pusa (Delhi):*** Findings from the qualitative module suggest that the heaviest burden of pension payouts is on IHM Pusa. However, no definitive conclusions can be drawn from an analysis of the financial statements, because the expenditure on pensions for IHM Pusa has been clubbed with the expenditure on salaries & wages.

***Unexpected Liability on IHM Kufri (Shimla) in the year 2010-11:*** The case of IHM Shimla is peculiar among all other institutes in that it showed an increase of more than six times in expenditure on employee retirement & terminal benefits between 2009-10 and 2010-11. This colossal jump suggests a change in the accounting policy of the institute, whereby a new provision was made for contribution to pension fund. The absence of this fund in the previous year also suggests that this provision was made for the current year, i.e., 2010-11, as well as the preceding periods.

### C. Analysis of Administrative Expenditure

As mentioned previously, administrative expenditure is a function of the expenses incurred from purchase of food for student training (training food cost), repairs & maintenance of the institute, various variable components of expenditure such as electricity & power, water, and fuel charges, as well as any additional expenditure on maintaining and developing the special source of income for the institute. Each of the sub-components of administrative expenditure has been analyzed separately for all the CIHMs.

The table below highlights, in detail, the variable components of administrative cost, viz., expenditure on electricity, water, fuel, and on repairs and maintenance of the institutes across the seven CIHMs, and also from the past year to current year for each individual CIHM:

**Table: Variable Components of Administrative Cost**

Year Ending	Pusa			Shillong			Shimla			Chandigarh			Bangalore			Guwahati			Srinagar		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Electricity & Power	38.3	34.4	11%	4.1	1.5	176%	22	22.3	-1%	10.9	10.9	-	19.8	14.5	37%	14.1	15.8	-11%	8.2	7	17%
Water	16.2	6	170%	0.64	-	-	2.2	2.3	-2%	2.3	2	14%	3.5	0.86	300%	0.85	1.4	-41%			
Fuel/ Coal/ Gas	3.7	3.2	15%	1.1	0.83	37%	2	1.8	11%	1.8	1.7	8%	1.7	1.1	52%	1.6	1.3	23%	4.6	2.9	58%
Repairs & Maintenance	18.4	21	-13%	2.3	1.3	80%	10.7	8.2	30%	8.8	5.7	56%	78.2	59.5	31%	13.7	10.7	28%	10	13.9	-28%
No. of students	776	704	10%	137	137	-	754	690	9%	528	498	6%	658	618	6%	398	410	-3%	235	279	-16%

Note: All Income and Expenditure Figures are in Lakhs of Rupees

It should be noted that although the variable costs depend on the total number of students in an institute, the dependency between the two is not direct in nature. Hence, an absolute increase in the number of students would be expected to translate into only a marginal increase in the variable costs.

*i. Cost of consuming Electricity & Power, Water and Fuel/ Coal/ Gas*

As can be seen from the table above, the greatest expenditure on electricity and water was at IHM Pusa, which also had the largest number of students. However, this expenditure was much higher than other institutes with student strength comparable to that of IHM Pusa, such as IHM Shimla and IHM Bangalore.

Similarly, for consumption of fuel, the biggest spender was IHM Srinagar, with more than INR 4.5 lac. being spent on fuel in the year 2010-11 despite its low strength of 235 students. A possible reason for this could be that IHM Srinagar uses traditional (non-electric) heating methods to fight the cold weather there. The expenditure of IHM Pusa on fuel was also quite high at more than INR 3.5 lac., when compared to other institutes with comparable student strength, i.e., IHM Shimla and IHM Bangalore.

**Observations for IHM Pusa (Delhi):**

Electricity & Power, and fuel & gas – The increase in total number of students for IHM Pusa between 2009-2010 and 2010-2011 was 10%, whereas the expenditure on electricity & power increased by 11%, and that on fuel increased by 15%.

The increase in the expenditures on electricity and fuel are slightly higher than the increase in total number of students. A possible reason for this could be a hike in the price of electricity and fuel over the past period.

Water – The increase in water charges from the year 2009-10 to 2010-11 is more than two and a half times, which is a very substantial jump. The only possible explanation for this colossal jump can be that unpaid dues during the previous were not reflected in the financial statements and the account of pending payments was cleared with the Jal Board during 2010-11.

**Observations for IHM Shillong:** The variation in the expenditure on the components of electricity, water and fuel for IHM Shillong is very peculiar.

Electricity & Power – Although the total number of students in the institute remained constant between 2009-10 and 2010-11, the expenditure on electricity went up by almost two times. The only possible explanation for this colossal jump can be that unpaid dues during the previous were not reflected in the financial statements and the account of pending payments was cleared with the Electricity Board during 2010-11.

Water – There was no expenditure on water for IHM Shillong during 2009-10 and that during 2010-11 was to the tune of INR 65,000 only. A possible reason for this could be that IHM Shillong has its own source of water. However, this does not explain why the institute had to incur an expense in the succeeding year (2010-11) unless they made payment to the Jal Board for the preceding two years.

Fuel & gas – Expenditure on fuel for IHM Shillong increased by close to 40% despite no change in the number of students between 2009-10 and 2010-11, which is an unexplained hike.

**Observations for IHM Shimla:** The increase in number of students for IHM Shimla between 2009-10 and 2010-11 is 9%. Despite this, the institute has managed to maintain the figures of its expenditure on electricity and water. Unless there are any pending payments that have not been reflected in the financial statements so far, the institute has exhibited efficient utilization of electricity and water. The expenditure on fuel, however, increased by 11% due to increased consumption.

**Observations for IHM Chandigarh:**

Electricity & Power – The increase in number of students for IHM Chandigarh between 2009-10 and 2010-11 is 6%. Despite this, the institute has managed to maintain its expenditure on electricity. Unless there are any pending payments that have not been reflected in the financial statements so far, the institute has exhibited efficient utilization of electricity.

Water – The expenditure on water for IHM Chandigarh during the period between 2009-10 and 2010-11 increase by 14%. Considering that the increase in number of students was only 6%, this hike is slightly on the higher side.

Fuel & gas – The increase in the expenditure on fuel for IHM Chandigarh (8%) is more or less proportional to the increase in number of students (6%).

**Observations for IHM Bangalore:**

Electricity & Power, and fuel & gas – The increase in total number of students for IHM Bangalore between 2009-2010 and 2010-2011 was 6%, whereas the expenditure on electricity & power increased by close to 40%, and that on fuel increased by more than 50%.

The increase in the expenditures on electricity and fuel are much higher than the increase in total number of students. This is possibly due to the fact that the expenditure on electricity and fuel consumption by the applied training center are also included in these figures.

Water – The increase in water charges from the year 2009-10 to 2010-11 is three times, which is a very substantial jump. Apart from the reason that water consumption by the applied training center is also included in this figure, another possible explanation for this colossal jump could be that unpaid dues during the previous were not reflected in the financial statements and the account of pending payments was cleared with the Jal Board during 2010-11.

**Observations for IHM Guwahati:** The case of IHM Guwahati is the most peculiar of all. The total number of students in the institute decreased by 3% between 2009-10 and 2010-11. However, the expenditure on electricity and water decreased by 11% and 41% respectively. These figures do not make sense unless the institute has some pending payments that have not been reflected in the financial statements so far. On the other hand, the expenditure on fuel increased by 23% which does not make sense considering that the number of students in the current year were less than those in the previous year. Hence, the expense figure of IHM Guwahati under these heads need to be investigated further.

**Observations for IHM Srinagar:** IHM Srinagar presents a disheartening case, with a 16% dip in the total number of students between 2009-10 and 2010-11, corresponded by a 17% collective increase in expenditure on electricity and water, as well as a 58% increase in expenditure on fuel consumption. Considering the dip in number of students, these expenses should have gone down instead of going up.

**ii. Cost of Repair & Maintenance of the IHMs**

Considering the expenditure on repairs and maintenance, IHM Bangalore is consistently spending a very high amount under this head, and the difference between the expenditure of IHM Bangalore and that of other institutes is very stark. A possible reason for this could be that this expense head also includes the expenditure on maintenance of the applied training center at Bangalore.

Apart from this, IHM Pusa and IHM Srinagar were the only two institutes where the expenditure on repairs and maintenance reduced over the previous period. However, for IHM Shillong, the expenditure on repairs and maintenance went up by as much as 80%, with no clarifications on reasons for the same.

### iii. Training Food Cost

The training food cost is the expenditure made by the institute for training of the students in cookery. The table given below illustrates this expenditure in detail for the seven CIHMs. The training food cost has been calculated as a percentage of the fees charged from the students for the training, and compared across the institutes, as well as over the past period to the current.

It should be noted that the analysis for training food cost of IHM Srinagar has not been shown because the financial statements of this institute do not give any bifurcation between tuition fees and cookery training fees. Hence, it would not be possible to analyze their utilization of the training food cost.

**Table: Analysis of Training Food Cost**

Year Ending	Pusa			Shillong			Shimla			Chandigarh			Bangalore			Guwahati		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Cookery Training Fees	100.3	61.5	63%	20.1	17.5	15%	118.9	89.2	33%	94.1	71.4	32%	72.8	79.9	-9%	57	57	-
Training Food Cost	58.3	54.7	6%	12	18.3	-34%	44.9	37.7	19%	55.3	55.3	-	59	49.1	20%	47.1	40.9	15%
Percent Expenditure of Training Fee	58%	89%	-31%	60%	104%	-44%	38%	42%	-5%	59%	77%	-19%	81%	61%	20%	83%	72%	11%
No. of students	776	704	10%	137	137	-	754	690	9%	528	498	6%	658	618	6%	398	410	-3%

Note: All Income and Expenditure Figures are in Lakhs of Rupees

As can be seen from the table above, the increase in the cookery training fees charged per student from 2009-10 to 2010-11 is to accommodate inflation and price rise of raw material between the two years. However, keeping in mind that an absolute increase in the number of students would cause only a marginal increase in the cost, the corresponding increase in the training food cost is expected to be of a lower degree than the increase in fees charged.

IHM Shimla has the lowest spend of the cookery training fees, as only 38% of it gets spent as training food cost. This percentage is considerably lower than all the other institutes, and provided that the institute is not cost-cutting/ compromising on quality of training products, this indicates very efficient use of the funds collected as cookery training fees.

IHM Bangalore and IHM Guwahati have the highest spend of the cookery training fees, as over 80% of it is spent as training food cost. All the other institutes maintain a training food cost close to 60% of the cookery training fees, suggesting that these two institutes are not making efficient use of the funds collected by them as cookery training fees.

**Observations for IHM Pusa (Delhi):** With a 10% increase in student strength and the year-on-year increase in the cookery training fees, IHM Pusa managed to increase its income from cookery training by 63% between 2009-10 and 2010-11. Moreover, the 10% increase in number of students only translated into a 6% in the training food cost for the institute. This enabled them to bring down their training food cost from 89% of the cookery training fees in 2009-10 to 58% in 2010-11, leading to more optimum utilization of the cookery training funds.

**Observations for IHM Shillong:** In 2009-10, IHM Shillong was in dire straits as they were spending more on the training food cost as they were collecting from their students in the form of cookery training fees. However in 2010-11, maintaining the same number of students in the institute, they were able to bring down their training food cost to 60% of the cookery training fees, indicating more efficient use of their funds.

**Observations for IHM Kufri (Shimla):** Despite a 9% increase in the number of students translating into a 19% increase in training food cost, IHM Shimla was still able to bring down its training food cost by 5% between 2009-10 and 2010-11. This suggests efficient price revision of their per student training food cost.

**Observations for IHM Chandigarh:** IHM Chandigarh managed to maintain its training food cost between the two years despite a 6% increase in the number of students. At the same time, they also increased the cookery training fees by 32% over the previous year, which led them to bring down their training food cost from 77% of cookery training fees in 2009-10 to 59% in 2010-11. Provided that the institute is not cost-cutting/ compromising on quality of training products, this indicates very efficient utilization of the funds collected as cookery training fees.

**Observations for IHM Bangalore:** The case of IHM Bangalore is interesting. The student strength for the institute went up by 6% between 2009-10 and 2010-11. However, the collection of cookery training fees went down by 9% indicating an attempt on the part of the institute to lower the students' fees. Moreover, considering the inflation and the increase in number of students they could not curtail the training food cost which went up by 20%. Where training food cost was 61% of cookery training fees in 2009-10, it became 81% in 2010-11. This indicates poor planning and low efficiency on the part of the management.

**Observations for IHM Guwahati:** The student strength in IHM Guwahati decreased marginally between 2009-10 and 2010-11. Moreover, the total cookery training fees remained unchanged, making it insufficient to cope with inflation. As a result, the training food cost went up by 15% despite the decrease in number of students. This indicates poor planning and low efficiency on the part of the management.

#### iv. Additional Burden of Special Expenditure

Special expenditure was a component that was incurred only by select institutes based on two special circumstances, (i) rent paid due to unavailability of owned space, and (ii) cost of developing and maintaining a special source of income such as building rents as in the case IHM Pusa and IHM Srinagar, or the mid-day meal scheme as in the case of IHM Chandigarh.

The table below illustrates the special components of administrative cost that are unique to selected CIHMs:

**Table: Special Components of Administrative Cost**

Year Ending	Pusa			Chandigarh			Srinagar		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
<b>Rent &amp; Taxes</b>	0.78	0.52	50%	0.49	0.43	13%	7.5	-	N/A
<b>Expenses on Special Source of Income</b>	-	-	-	166.6	133.7	25%	-	0.63	N/A

Note: All Income and Expenditure Figures are in Lakhs of Rupees

#### Payment of Rent : Burden only for some institutes

The payment of rent due to unavailability of adequate owned space by some of the CIHMs puts them at a disadvantage as against those institutes which completely own their premises. As can be seen from the table above, of the seven CIHMs under the study, only three of them have to pay rent for part of their premises. The year on year increase in this rent further increases the burden on these institutes, something for which other CIHMs with no rent liability need not budget.

The interesting case here is that of IHM Srinagar, which shows no expenditure on rent in 2009-10 and a rent of INR 7.5 lac in 2010-11. Possible reason for this could either be (i) expansion of the college campus in 2010-11, or (ii) temporary shifting of part of the campus to separate venue due to construction work in the owned campus. In either case, these figures need to be investigated further for IHM Srinagar.

#### Mid-day Meal Scheme at Chandigarh : Boon or Bane?

The mid-day meal scheme is a source of income unique only to IHM Chandigarh, whereby the institute supplies the mid-day meal to schools across Chandigarh as part of the government initiative. The financial details for this venture are illustrated in the table below:

**Table: Viability of Mid-day Meal Scheme at Chandigarh**

Year Ending	2011	2010	% Change
<b>Income from Mid-day Meal Supply</b>	19,347,153	16,748,598	16%
<b>Expenditure on Mid-day Meal Scheme</b>	16,658,871	13,374,068	25%
<b>Surplus from Mid-day Meals</b>	2,688,282	3,374,530	-20%

On the face of it, the figures from the table above indicate that this is a profitable venture for IHM Chandigarh. But it should be kept in mind that the primary objective of developing a special source of income for an institute is not generating a surplus over expenditure, but developing a sustainable, long-term source of stable income. Two issues of concern arise from the above figures:

- Between the years 2009-10 and 2010-11, the income generated from the mid-day meal scheme increased by 16%, but the expenditure on the same increased by 25%, exceeding the income by 9

percentage points, and reducing the revenue surplus by 20%. The question then arises if IHM Chandigarh would be able to generate any surplus at all in the coming years from this scheme.

b. The second issue of concern is more subtle in nature. The income figures in the table reflect the total money raised by this venture. However, it appears that the expenditure figures are only limited to the cost of procuring material for the food and the cost of delivering the food. What it does not reflect are the following costs –

- Cost of fuel used in cooking the food
- Cost of electricity, water, etc. consumed while the food is being cooked
- Cost of manpower for making the food
- Opportunity cost in the form of possible interest that could be generated had the money been invested elsewhere.

The above costs have been disbursed across the common heads of fuel, electricity and water charges. If all these are also taken into account while calculating the profitability of this venture, the profits would dip even further.

Hence, the institute should engage in an extensive exercise of examining all the costs (actual and realized) incurred from this venture, and then calculate the viability of continuing with this scheme or scrapping it.

#### **D. Break-even Point (BEP) for Eradicating Deficit**

Break-even point is defined as the point at which the revenue generated by a business is exactly equal to the total expenditure borne by it. At this point, there is no net profit or net loss made by the business.

The calculation of BEP is done using the following formula:

$$\text{Break-even Point} = \frac{\text{Total Fixed Cost}}{\text{Contribution}}$$

where,

**Contribution = Average Operating Income per Student – Average Variable Cost per Student**

In this case, the break-even point is governed by a minimum number of students that the institute would need to admit in order to reach a status of no profit/ no loss based solely on their operating income. The BEP has been calculated for each institute based on certain assumptions.

#### ***Assumptions made for calculating BEP***

- a. BEP calculations have been made solely on the basis of Operating Income
- b. BEP calculations have been made using income and expenditure figures for FY 2010-11



- c. These calculations are valid only if status of all the components of income (fee charges, consultancies, etc.) and expenditure (salaries, etc.) remain constant
- d. The assumed break-down of each cost component based on the nature of cost has been detailed in the table below:

**Table: Assumptions of Cost Components for BEP Calculation**

Cost components	Percentage of each type of cost	
	Fixed	Variable
Establishment Expenditure	75%	25%
Administrative Expenditure	40%	60%
Depreciation	100%	–

### Calculation of BEP

The table below illustrates the BEP (No. of Students) for each of the seven CIHMs, assuming that all factors remain constant:

**Table: Break Even Point for the CIHMs**

Components of BEP	Pusa	Shillong	Shimla	Chandigarh	Bangalore	Guwahati	Srinagar
Total Fixed Cost	42,814,628	9,939,552	45,842,171	31,295,662	21,238,418	23,288,328	30,941,443
Total Variable Cost	21,405,243	5,357,187	19,021,444	23,341,215	15,461,062	12,015,371	11,105,151
No of students	776	137	754	528	658	398	235
Average Variable Cost per Student	27,584	39,104	25,227	44,207	23,497	30,189	47,256
<b>BEP (No. of Students)</b>	<b>1,211</b>	<b>332</b>	<b>1,043</b>	<b>1,167</b>	<b>807</b>	<b>664</b>	<b>1,483</b>

As can be seen from the table above, in order to reach a stage of financial stability based on operating income alone, each of the institutes needs to expand its base of students to reach break-even point. The maximum increase in number students is for Srinagar, where the number of students must increase by up to six times to achieve break-even on the basis of operating income alone, keeping all other factors constant.

## CONCLUSION

Drawing inferences from the annual reports of the CIHMs, as well the qualitative module of the study, the following inferences can be made:

- The financial performance of the CIHMs is deteriorating year-on-year.
- Moreover, the current financial condition is also not very good.
  - The only two institutes performing profitably are IHM Chandigarh and IHM Shimla.
  - IHM Bangalore and IHM Shillong are barely able to exceed break-even.
  - IHM Pusa, IHM Srinagar and IHM Guwahati are running in considerable loss.
- Apart from the fees generated from the students, the institutes also strive for alternate forms of revenue generation such as offering consultancy services, sale of food, setting up an applied training center, offering space for rent, etc.
  - These special sources of income are unique to each institute, depending on the opportunity and the capacity of the institute to generate this additional income.
  - The income generated from these sources is also used to meet the expenses of running the institute.
    - ***Despite usage of this additional income, the institutes are not able to generate substantial revenue surplus after meeting all the expenditures.***
    - ***Thus, the income generated through collection of fees is not sufficient to meet the expenses of running the institute.***
- As regards the expenditures, the major expenses incurred are through the payment of salaries and maintenance of the staff. These costs are mostly fixed in nature.
- Another major area of expenditure is the administrative costs incurred. A large part of these costs are variable in nature, and depend on the number of students in the institute.
- In order for the institutes to attain financial sustainability in the long run, it is imperative that they are able to meet a majority of their expenses through the operating income (largely composed of fees collected from students).
  - ***However, the break-even point in terms of operating income to be generated from the students for all institutes is found to be much higher than their current strength.***
  - ***The most pragmatic way to achieve the stage of financial sustainability in the long run, therefore, is to launch a large-scale initiative for capacity building and student recruitment.***

## **RECOMMENDATIONS: Corrective Actions for the IHMs**

Before any specific directives can be finalized so as to ensure financial sustainability, it is necessary to do an exhaustive analysis of each and every component/ opportunity of revenue generation and the implicating costs thereof for each CIHM separately.

To facilitate such a comprehensive analysis, it is recommended that the following corrective actions be taken by the CIHMs:

### **A. Standardization of Accounting Policies**

To create uniformity in declaration of accounts, all the CIHMs should follow a standardized charter of accounts. This charter would give a lucid account of the following:

1. Each component of the income and expenditure statement possible would be declared under a specified format of heads, in the same fashion for all the CIHMs.
2. All schedules related to each of the heads in the Income and Expenditure Statement would also be in a prescribed format for all CIHMs.
3. The expenditure on “Employee Retirement and Terminal Benefits” would be clearly defined with all components constituting this head. It would not be permissible for any institute to club parts of this head under other heads like “Salaries & Wages”, or any provisions/funds.
4. The component of “Other Administrative Expenses” would be further sub-divided into the following heads:
  - i. Operating Expenses
  - ii. Academic Expenses
  - iii. Repairs and maintenance
  - iv. Special Expenses (including one-time expenses, as well as expenditure for generating special sources of income)
  - v. Others
5. Each of the above heads would also have further clarification on various sub-components constituting the head.

The charter of accounts would have to be developed by a professional chartered accountant firm in consultation with the management of each of the CIHMs, the Ministry as well as technical experts in the field of operating professional institutes of education. This template, once finalized, should become enforceable upon all institutes across the country.

Once the accounting and financials of each CIHM come on an equal footing, all ambiguity in the representation of revenues and expenditures would be removed and action areas will become easily identifiable.

## B. Separate Representation of Accounts for each source of income

Each specific source of income for an institute should be identified, and then accounting for the same should be represented independently. This essentially means that within the business of running the institute the cost associated with each specific source of income would be represented independently of other such sources of income.

An indicative list of the typical sources of income for an ideal CIHM would be:

- Fees from imparting Education (**Core Business**)
- Hostel facilities, including messing charges
- Consultancy Services
- Sale of food from cafeteria/ restaurant/ bakery
- Hotel/ guesthouse services
- Rental incomes (if any)
- Other special sources of income (such as mid-day meal/ EDC)

The separate representation of accounts would have the following implications:

1. Separate income and expenditure statements would be maintained for each source of income, along with the corresponding schedules.
2. All the common cost components (such as electricity, water, fuel, raw materials, staff salaries/wages, space, etc.) would be apportioned across each source of income either in the ratio of space occupied by the venture, or in the ratio of time cost invested in the activity.

If this system is implemented, all the income sources would have a transparent and exhaustive declaration of each and every facet of the business. Hence, it would become very easy to identify the key strengths and concerns of the income source, and give specific directives on the feasibility of continuing to invest in the concerned source of income in future.

## **RECOMMENDATIONS: Strategies for Revenue Enhancement & Deficit Prevention**

In order to sustain any business venture financially in the long run, it is expected that the income generated from the core business of the entity (i.e., imparting education in the case of CIHMs) compensates for all expenses incurred in the running of the institute. In other words, the operating income should completely offset the operating expenditure. This is extremely crucial for long term viability of all CIHMs.

Hence, in the event of any year –on-year increase in the operating expenditure the same should be offset by a simultaneous increase in operating income. In order to ensure this, it thus becomes necessary that every CIHM enjoys some operational flexibility in terms of deciding the fee structure, recruitments, employee remuneration, etc.

Additionally, any special/alternative sources of income should not be regarded as a means to dispense the establishment and administrative expenditures of the institute. These sources only serve to further enhance the profitability of an institute.

Based on the diagnostic analysis of the annual reports of the seven CIHMs under the study, besides the recommended corrective actions for the CIHMs, there are a few common areas where the institutes have to build focus for enhancing revenue and preventing deficit. These areas have been discussed subsequently.

### **A. Strategies for Capacity Utilization and Revenue Maximization**

#### ***1. Optimization of available space***

It is recommended that the institutes take stock of the space available at their premises which is currently not in use, or could be used more efficiently. All the extra space available should then be used commercially. Below is an indicative list of examples:

- Renting out auditorium/ conference hall when not in use.
- Building and capitalizing on a guesthouse. If promoted and maintained well enough, this would particularly work in tourists centers such as Srinagar, Shimla and Shillong.
- Leasing out extra rooms (if any) for small shops (kirana/ bakery/canteen).
- Closing down sections of unused hostel space to save on operating costs, or renting it out for other uses.

## 2. Modification of Fee Structure

In order to enhance the operating income, it is recommended that the ministry look into the modification of fee structure for the students. Three possible avenues are possible for the CIHMs:

- a. **Increase the Fees:** Build the brand of IHM so as to charge a premium and be in a position to demand higher fees from the students.  
Else, based on the placement records of the various CIHMs, create a differential between the fee structures of institutes with a better placement record over others.
- b. **Create a provision for Paid Seats:** To increase the intake, the ministry could consider adding a set number of open seats for students who could not appear for the joint entrance exam (JEE). These seats could have pre-decided eligibility criteria, and could have a higher admission fee than regular students.
- c. **Subsidize the Fees:** To reduce the burden on students, a subsidy in fees could be introduced to encourage them to take up the course. This would also reduce the burden of meeting the operating expenditure with operating income.

## 3. Shift Focus of the institute

Apart from imparting education, it is recommended that the CIHM build focus on alternate methods of revenue generation. Invest on additional manpower to develop these alternate sources without hampering the quality of education given to the students.

**For example,** a specialized cell could be created within the institute to build on **consultancy services** offered to third parties. It would also help if a standard profit-sharing model could be introduced for the faculty generating the lead for such an assignment, hence pushing them to build more contacts to rope in more assignments.

## B. Best-practices by IHMs

The best practices of any institute for any major income/ expense head should be identified and then replicated across other institutes.

Apart from implementing practices of process improvement to reduce wastage, it would also be helpful if any profitable ventures by the other institutes can be replicated across other institutes as well.

**For example,** if the success story of the bake shop at IHM Pusa could be replicated at other institutes, it would serve the dual purpose of generating additional revenue, as well as giving hands-on training to the students.

**Similarly,** if the knowhow of successful management of the applied training center at IHM Mumbai could also be imparted to other institutes as well, they too could have an added source of sustained income.

### C. Creation of the IHM Brand

Currently, the reputation of the CIHMs is differentiated by students based on the location of the institute. Hence, the practice of students joining only a particular CIHM at a particular location is quite common. For example, a student might join a CIHM only if he/she is selected for IHM Pusa and might reject CIHMs altogether if the selection happens for a different location.

The focus should be that students do not perceive any substantial difference in a CIHM campus based on its location. Hence, the IHMs should strive to create a brand similar to that of IITs or IHMs in India, and build uniformity in branding and infrastructure. If this is done, not only would it help expand student base, it would also enable the CIHMs to charge a premium over other private institutions.

To build a strong brand, the institutes would need to focus on creating awareness about the courses among the masses, and educating them about the potential employment opportunities from a course in hotel management. This would involve large-scale investment in marketing and branding of the institute. Few examples to do this could be:

1. **Consider centralizing placement for all CIHMs** – Eligible Students from all the CIHMs could be brought together at a centralized location for a job fair, where companies would select students. In order to remove any institute-based bias, the location of the students' IHM need not be disclosed.
2. Capitalize on the alumni to create contacts in the industry.
3. Build Relationships within the industry and maintain these relationships in order to improve campus placement opportunities for the students.
4. Arrange regular seminars and symposiums to create awareness about hotel management among potential students.
5. Expand the scope from just hotels to other potential employers such as aviation, large hospitals, BPOs, luxury cruises, etc.

## **RECOMMENDATIONS: Institute-specific strategies for improving Profitability**

Apart from the common areas where the institutes have to build focus for improving their profitability, there are also some areas specific to every CIHM. The same have been discussed in detail in the table below:

**Table: Specific Strategies for Revenue Enhancement and Deficit Prevention**

	<b>Recommendation # 1</b>	<b>Recommendation # 2</b>	<b>Recommendation # 3</b>
<b>IHM Pusa (New Delhi)</b>	<p><b>Strive to maintain a 1:1 proportion between operating expenditure and operating income.</b> Currently, the operating expenditure for IHM Pusa is 1.3 times the operating income. In order to make the institute profitable, it is imperative that all the operating costs be taken care of by the operating income (generated from the core business) of the entity.</p>	<p><b>Make provision for grant/ subsidy in order to offset the burden of pensions.</b> IHM Pusa has the largest base of pensioners among all other CIHMs. Total staff cost is more than total fees received from students. A special provision should be made by the Ministry to reduce the burden to a certain extent.</p>	<p><b>Capitalize on Special Source of Income.</b> The fast food bakery business has huge potential. The institute should explore this and expand the Bake Shop further.</p>
<b>IHM Shillong</b>	<p><b>Focus on Capacity Utilization.</b> The institute is running below capacity with just 137 students. This is resulting in a huge per student fixed cost. The intake of the institute must be maximized.</p>	<p><b>Strive to maintain a 1:1 proportion between operating expenditure and operating income.</b> Currently, the operating expenditure for IHM Shillong is 1.3 times the operating income. In order to make the institute profitable in the long run, it is imperative that all the operating costs be taken care of by the operating income (generated from the core business) of the entity.</p>	<p><b>Explore opportunities for generating income from special sources.</b> IHM Shillong does not have any special sources of income. Shillong being a tourist destination, the opportunity of building a guesthouse/ developing an EDC should be explored.</p>
<b>IHM Kufri (Shimla)</b>	<p><b>Link Staff costs with Fees received from Students.</b> The staff cost in 2011 increased by almost 150%. This should ideally be compensated for by a corresponding increase in fee collections.</p>	<p><b>Explore opportunities for generating income from special sources</b> Income generated from the guesthouse is very less. Shimla being a tourist destination, the opportunity of improving and focusing on the performance of the guesthouse should be explored. The Institute should also explore the possibility of fast food business and consultancy assignments on much larger scale.</p>	



<p><b>IHM Chandigarh</b></p>	<p><b>Strive to maintain a 1:1 proportion between operating expenditure and operating income.</b> Currently, the operating expenditure for IHM Chandigarh is 1.4 times the operating income. In order to sustain the profitability of the institute in the long run, it is imperative that all the operating costs be taken care of by the operating income (generated from the core business) of the entity, and not offset with the special income generated.</p>	<p><b>Analyze the feasibility of continuing with the Mid-day meal scheme.</b> Profits generated from the mid-day meal scheme dipped in 2011 over 2010. A detailed cost-benefit analysis needs to be done to understand the long-term profitability of the venture, keeping in mind all costs - direct and indirect. Direct costs would include the cost of procurement of raw material, cost of distribution, cost of fuel, etc. On the other hand, indirect costs would include time cost, opportunity cost (if the same money were invested elsewhere), etc.</p>	<p><b>Explore opportunities for generating income from other sources.</b> Explore the possibility of developing the fast food business on a much larger scale. Also focus on expanding scale of consultancy assignments.</p>
<p><b>IHM Bangalore</b></p>	<p><b>Increase the Number of Students.</b> The gap between the actual number of students at IHM Bangalore and the required number to break even is only 18%. If the number of students is increased closer to the break-even point, this would ensure profitability.</p>	<p><b>Analyze the feasibility of running the EDC.</b> Income generated from the executive development center increased in 2011 over 2010. However, the profitability would be better reflected if the costs of running the EDC were accounted for separately. This would involve accounting for all costs - direct and indirect. Direct costs would include the cost of maintaining the center, electricity, water, cost of fuel, raw materials, etc. On the other hand, indirect costs would include opportunity cost (if the same area were utilized in a different way), etc.</p>	
<p><b>IHM Guwahati</b></p>	<p><b>Curtail Expenditure on Training Food.</b> IHM Guwahati has the highest expenditure on training food cost for students, even higher than bigger institutes like IHM Pusa. More efficient ways of utilizing these funds need to be explored.</p>	<p><b>Explore opportunities for generating income from special sources.</b> Explore the possibility of developing a fast food business, or building on consultancy assignments.</p>	

<p><b>IHM Srinagar</b></p>	<p><b>Increase the Number of Students.</b> The gap between the actual number of students at IHM Srinagar and the required number to break even is as high as 84%. Hence, in order to reduce losses, IHM Srinagar must add on more students.</p>	<p><b>Explore opportunities for generating income from special sources.</b> Income generated from the guesthouse is insignificant. Srinagar being a tourist destination, the opportunity of improving and focusing on the performance of the guesthouse should be explored.</p>	<p><b>Strive to maintain a 1:1 proportion between operating expenditure and operating income.</b> Currently, the operating expenditure for IHM Srinagar is 1.8 times the operating income. In order to make the institute profitable, it is imperative that all the operating costs be taken care of by the operating income (generated from the core business) of the entity.</p>
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