

Research Paper



ANALYSING FINANCIAL PERFORMANCE OF STATE TOURISM CORPORATION – A CASE STUDY OF HIMACHAL PRADESH TOURISM DEVELOPMENT CORPORATION

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ABSTRACT

Tourism has become an important industry in world. Almost all the countries in the world are trying to attract tourists in their countries. In India tourism is considered as a growing and revenue generating industry. Centre and state governments are trying their best to attract foreign and domestic tourists. State like Himachal Pradesh is pioneer in this field. It established Himachal Pradesh Tourism Development Corporation in 1972. HPTDC has played a vital role in the development of tourism in state. However HPTDC was not able to continue the initial momentum and hence had run into losses. The present study is an attempt to analyze its financial performance. Secondary data was collected from annual reports of HPTDC. The findings of the study reveal poor financial performance and improper utilization of resources by Himachal Pradesh Tourism Development Corporation which is running into losses for past many years. The study also highlights the reason for such losses and thereby suggests measures so as to improve its financial position.

KEYWORDS: Tourism, HPTDC, Financial Performance, Tourists, Annual Reports

INTRODUCTION

Tourism has become an important industry in the contemporary world. There are many countries in the world in which major share of GDP come from tourism sector. Besides this there is hardly any nation in the world for which tourism is not among the major industries. Today every country is trying to increase their share in tourism sector. The number of tourists has increased rapidly due to advancement in means of transport and communication. The number of international tourist visits to India has increased from 25 million in 1950 to 1186 million by 2016 and number of domestic tourists is 5-6 billion. Tourism is a major contributor to world GDP thereby providing millions of jobs, attract investment worth billion of rupees and create good relations among countries. Travel and Tourism sectors contributed \$2.3 trillion directly to world GDP. The tourism sector is around 60% of the size of construction sector in the world. Travel and tourism sector provide 108.7 million jobs directly and 292.2 million indirect and induced jobs globally in 2016. For every single job created in tourism sector nearly two additional jobs were created on indirect or induced basis. WTTC projected that global travel and tourism GDP to grow by 4% per annum (compound annual growth) over next decade which is more than the growth of all other sector. Asia and Pacific

region shows highest growth in travel and tourism industry which is nearly 6% followed by America (2.4%), Europe (2%) and Africa and Middle East (1.8%). Travel and tourism sector contribute highest to USA economy in value terms which is around \$1509 billion followed by China \$1007.7 and Germany \$376.7.

HIMACHAL PRADESH TOURISM DEVELOPMENT CORPORATION

Himachal Pradesh is a northern state of India situated in Himalayas. This is one of the most peaceful state in country gifted with beauty of nature. This state has all qualities to offer various types of tourism to tourist. Due to presence of various religious places it is also known as Dev Bhoomi. Tourism is major contributor to state GDP. British government declared Shimla “The Summer Capital of India” in 1864 which make Himachal Pradesh famous and attract tourist all over the world. The state government understands the importance of tourism in state and hence established a State tourism development corporation in 1972. The Himachal Pradesh State Tourism Development Corporation was established in 1972 under the companies Act, 1956. It is state government undertaking where 99% stake is owned by state Government and state’s Chief Minister is its chairman. At present HPTDC have 59 hotels out of which 6 are premium



hotels, 36 deluxe hotels and 17 budget hotels with 1085 rooms and 2356 bed capacity. HPTDC also runs 60 restaurants and café serving a variety of cuisines including Himachali delicacies. HPTDC also own 4 heritage properties at Chail, Castle, Dharamshala and Kasauli. It also runs a lift in Shimla which connect Cart road to Mall road and vice versa and its very famous among tourists. It also owned a golf course located in Naldehra 22km from Shimla. It is one of the finest golf courses in the country and very famous among Indians and foreigners. Besides its chain of hotel and restaurants HPTDC also has its own transport wing. The transport wing of HPTDC started in 1974 with the aim to provide connectivity to all prominent tourist places and far flung areas in the state where transport facilities are not available easily.

REVIEW OF LITERATURE

Gupta (2011) in her study has evaluated the effect of terrorism on the financial performance of hotel industry. For the purpose of study financial reports of ITDC from 2006-07 to 2008-09 have been analysed. Mainly liquidity ratio, per share ratio, direct foreign exchange earnings were evaluated. Negative impact of terrorism on tourism has been highlighted by study. After terrorist attack in the country, the financial performance of ITDC was affected. **Kala & Bagri (2014)** examined the performance of hotel industry in Uttarakhand. The balanced scored card method was used for the study. They also attempted to find out the knowledge of balanced scored card method among the hotel managers to judge financial and non financial attributes. The study concluded that managers have no idea about scored card method and still use financial and non financial data to measure performance. **Stanovic et.al (2015)** in their study tried to analyse the reason for the slow growth of hospitality industry in Montenegro. For the purpose of study, data has been collected from various primary and secondary sources. Major area for the research was operating revenue, revenue per room, room occupancy, investments, rooms rates etc. During the study period, operating revenue increased just 4%, occupancy increased from 37% to 39.5% and investments were affected negatively. There is also regional imbalance in the area and earnings of hotel. **Santoro (2015)** conducted an empirical study on 112 hotels in Piedmont region to evaluate the financial performance of hotels. The data was collected from various secondary resources. Various attributes regarding financial performance of hotels have been studied. The study suggested that big hotels have advantage of economies at large scale belonging to reputed hotel chains helps to get more tourists and better star rating helps to provide better services to customers. **Abdulla & Rehman (2015)** conducted a comparative analysis of the financial performance of two major hotels in Pakistan namely Sarena and Marriott. For the purpose of study, secondary data was collected from hotel's financial reports and other sources. Various ratio and financial attributes have been compared in the study. It sums up that the financial performance of both the hotels is almost similar but up to an extent Sarena is slightly in better position compared to Marriott. **Sivakumar & Raja (2015)** attempted to analyse

the financial performance of 10 BSE/NSE listed hotels. For the purpose of study secondary data for past 10 years has been taken from the financial statements. The analysis of financial performance was carried out on the parameter of liquidity position, sales, profitability, assets utilization financial strength and financial health. The study figure out huge variation among the financial performance of hotels and gave suggestions to improve the financial condition of industry. **Fu et.al (2015)** attempted an empirical research on travel agencies from 30 provinces in China. Catastrophe progression method is used to accomplish the objectives of the study. Secondary data was collected from the period 2005 to 2012. Analysing Profitability, solvency, development and management capabilities were the primary focus of the study. **Pedro et.al.(2015)** analysed the financial structure and size profitability of hotels located in Spanish coastal area. A sample of 100 hotels were taken for the study on the basis of their size, financial structure and economic performance. The study concluded that bigger size helps to get the benefit of economy at large scale and help hotels to provide better services to tourists. **Narban et.al.(2016)** conducted an exploratory study to explore the performance measurement practices in the context of hospitality industry in New Delhi region. Data has been collected with the help of structured questionnaire from 21 different hotels across the Delhi. The Study highlighted the importance of performance appraisal in hospitality industry as compared to others. It also discussed needs, objectives and methods of performance appraisal in practice. **Arif et.al. (2016)** had analyzed the financial position of Bangladesh hospitality industry. For the purpose of the study, hotels of Cox Bazaars have been selected. The study was based on secondary data collected from hotels for past five years. Various accounting tools and techniques were used. It was found that financial condition of hotels has improved because of some affective capital budgeting techniques.

OBJECTIVES OF THE STUDY

The major objectives of the study are

- To study the financial performance of HPTDC.
- To point out the possible reasons for poor financial performance of HPTDC, if any.
- To suggest suitable measures to HPTDC so it can improve upon its financial performance

RESEARCH METHODOLOGY

The study is empirical in nature. It involved study of financial performance of HPTDC. The attempts of researchers were to analyze the financial performance by collecting data through annual reports. Secondary data in terms of profitability figures has been compiled for the period 2004-05 to 2013-14. The performance has been evaluated on the basis of ratio analysis.

SCOPE OF THE STUDY

The present study is related to Himachal Pradesh Tourism Development Corporation. The study has been conducted to get an insight into the financial performance of HPTDC for the period 2004-05 to 2013-14.

ANALYSIS AND INTERPRETATION OF DATA

Financial Highlights HPTDC For The Financial Year 2003-04 to 2013-14

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Authorized capital	1500.00	1500.00	1500.00	1500.00	1500.00	1500.00	1500.00	1500.00	1500.00	1500.00
Paid up capital	1229.86	1229.86	1229.86	1229.86	1229.86	1229.86	1229.86	1229.86	1229.86	1229.86
Reserve and Surplus	1010.61	1100.31	894.28	644.87	15.03	15.03	-1685.1	-1677.8	-1877.4	-2334.81
Net worth	1395.76	1522.97	695.58	388.22	-916.7	-608.2	-449.76	-447.91	-647.58	-1104.95
Gross Block	3195.73	3330.62	3562.01	3637.96	3795.71	4302.58	4483.61	4751.3	4793.17	4905.65
Current assets, loans, advance	1606.73	2067.7	2267.15	2122.32	2682.57	2745.42	3448.72	3658.8	3733.77	3964.94
Current liabilities and provisions	1329.95	1567.16	2750.69	3084.11	5082.59	5119.8	5584.04	4383.7	4221.28	4665.5
Turnover	3294.23	3742.7	4630.6	4801	5410	6261.56	6969.68	7012.9	7786.9	8014.23
Operational profit/loss	181.99	176.42	-476.4	91.3	-517.68	568.94	421.23	278.17	76.58	-221.56
Net Profit/Loss	5899623	3750602	-62135739	-5795727	-67507508	30849496	15844911	184736	-19967536	-45736566

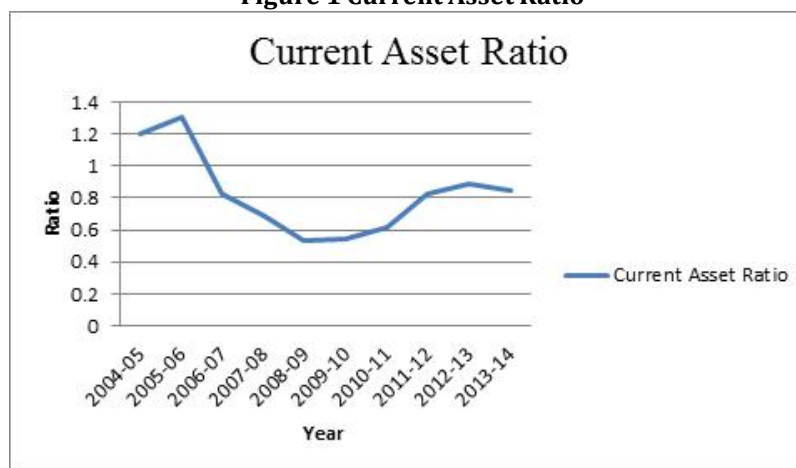
Source: Annual Reports of HPTDC

Table 1 CURRENT ASSET RATIO

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Current asset ratio	1.2:1	1.31:1	0.82:1	0.69:1	0.53:1	0.54:1	0.62:1	0.83:1	0.89:1	0.85:1
Trend Analysis	100	109.16	68.33	57.5	44.16	45	51.66	69.16	74.16	70.83

Source: Annual Reports of HPTDC

Figure 1 Current Asset Ratio



Current Asset Ratio of business indicates the ability of the current assets to pay off the current liability. 2:1 is standard ratio expected for current assets. As it is clear from the table 1 and figure 1 in case of HPTDC this ratio was quite acceptable in earlier years but due to high losses current liabilities are paid by organisation out of fixed sources due to which this ratio fall drastically. Current ratio fall from 1.2 in

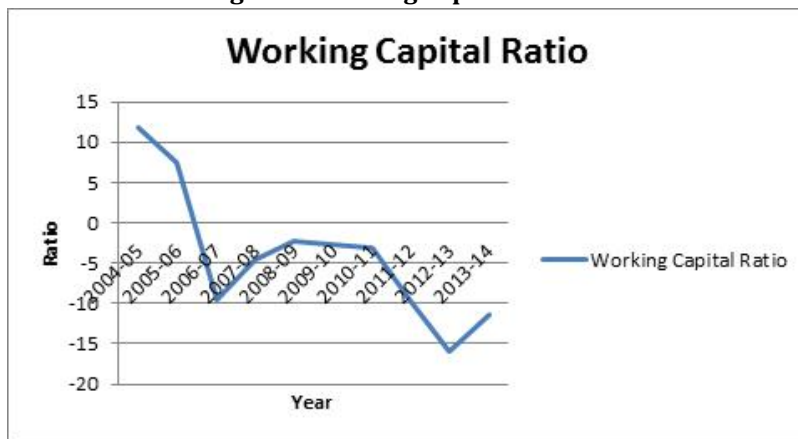
2004-05 to 0.85 2013-14 which is not satisfactory and indicate inefficiency of HPTDC to pay its debts. Figure 1 indicates how current assets ratio fall year on year and it is still below as compare to mark of 2004-05. Many initiatives have been taken by HPTDC to strengthen its financial position and to increase the availability of current assets to pay off its liabilities and thus positive results have started coming.

Table 2 Working Capital Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Working capital turnover ratio	11.9	7.5	-9.5	-4.5	-2.25	-2.6	-3.2	-9.7	-15.9	-11.4
Trend analysis	100	63.02	-79.83	-37.81	-18.90	-21.84	-26.89	-81.5	-141.2	-95.79

Source: Annual Reports of HPTDC

Figure 2 Working Capital Ratios



Working capital turnover ratio indicates how efficiently business utilizes its net working capital and generates sales. High ratio indicates the better utilization of resources. The ratio fall from 11.9 in 2004-05 to -11.4 in 2013-14 this indicates how poorly organization is utilizing its resources. Figure 2 shows the trends of working capital

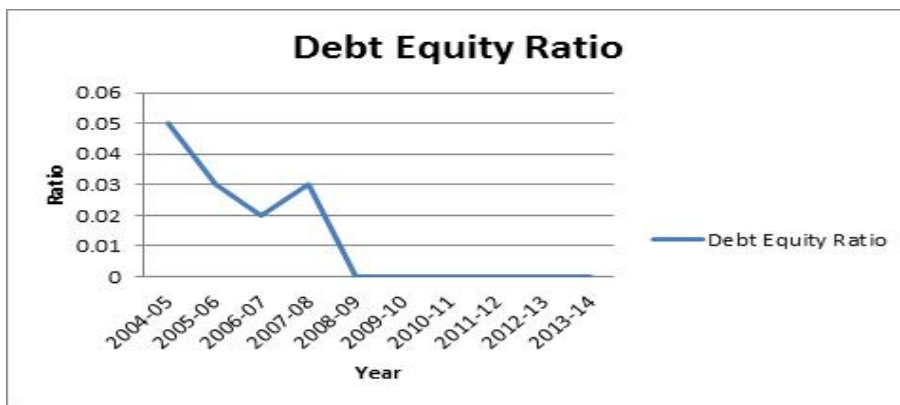
ratio which shows almost 100 percent fall in this ratio in previous ten financial years. There is also increase in current liabilities over current assets which is also deteriorating its financial position and negatively affecting the working capital ratio.

Table 3 Debt Equity Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Debt Equity ration	0.05:1	0.03:1	0.02:1	0.03:1	0.00:1	0.00:1	0.00:1	0.00:1	0.00:1	0.00:1
Trend Analysis	100	60	40	60	0	0	0	0	0	0

Source: Annual Reports of HPTDC

Fig 3 Debt Equity Ratio



Debt equity ratio in business indicates the ratio of debt over equity. In earlier years HPTDC had taken loans from various banks as reflected in its balance sheet but in 2008-09 all the debt have been paid back. It is shown in table 3 and figure 3 where it is clear that debt equity ratio is 0 in

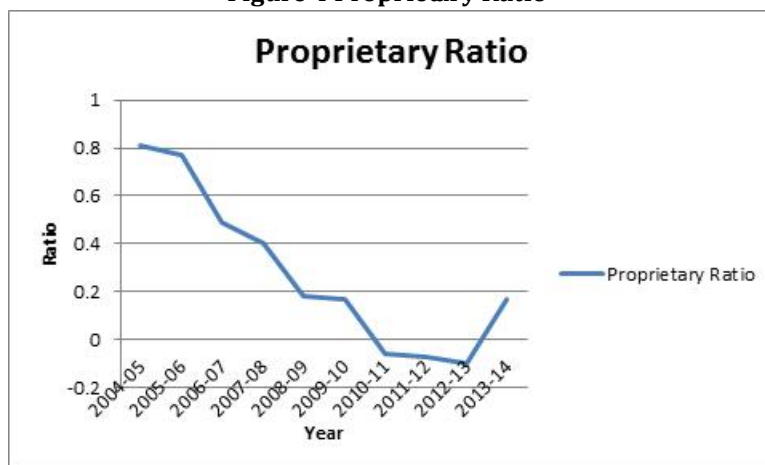
case of HPTDC. It's a good step taken by HPTDC to make it a Debt free organisation. It does not have any long term liability to pay off which will positively affect its performance.

Table 4 Proprietary Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Proprietary Ratio	0.81	0.77	0.49	0.40	0.18	0.17	-0.06	-0.07	-0.10	0.17
Trend Analysis	100	95.06	60.49	49.38	22.22	20.98	-7.40	-8.64	-12.34	20.98

Source: Annual Reports of HPTDC

Figure 4 Proprietary Ratio



Proprietary ratios establish a relationship between shareholder funds to total assets. It is an important ratio to determine soundness of a firm’s capital structure and conveys that most of the assets are owned by proprietor. It is clear from the table 4 and figure 4 that proprietary ratio fall from 0.81 2004-05 to 0.17 in 2013-14. But if analyze we see trend analysis it will be clear to us that there is a fall of more than 100% which somehow has been recovered but still the position

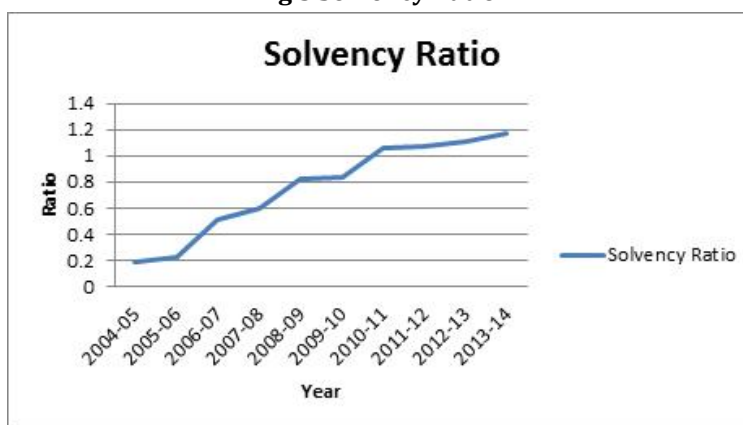
is not good. This ratio was satisfactory in earlier years as huge amount has been invested by government of Himachal Pradesh and HPTDC has retained earnings. But in past few years due to successive losses, this ratio has turned into negative. Just being a government organisation, HPTDC has been able to meet its expenses with help of government grants; otherwise it will not be possible for a company to survive with such a poor financial condition

Table 5 Solvency Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Solvency ratio	.19	0.23	0.51	0.60	0.82	0.83	1.06	1.07	1.11	1.17
Trend analysis	100	121.05	268	315.78	431.5	436.84	557.89	563.89	584.21	615.78

Source: Annual Reports of HPTDC

Fig 5 Solvency Ratio



Solvency ratio indicates the ability of firm to meet its long term liability with its assets. HPTDC was established in 1972 due to which it has large numbers of properties and assets all over the state at prime locations. Due to basic nature of accounting, assets are recorded on the historical cost but current market value of its assets is much higher than book

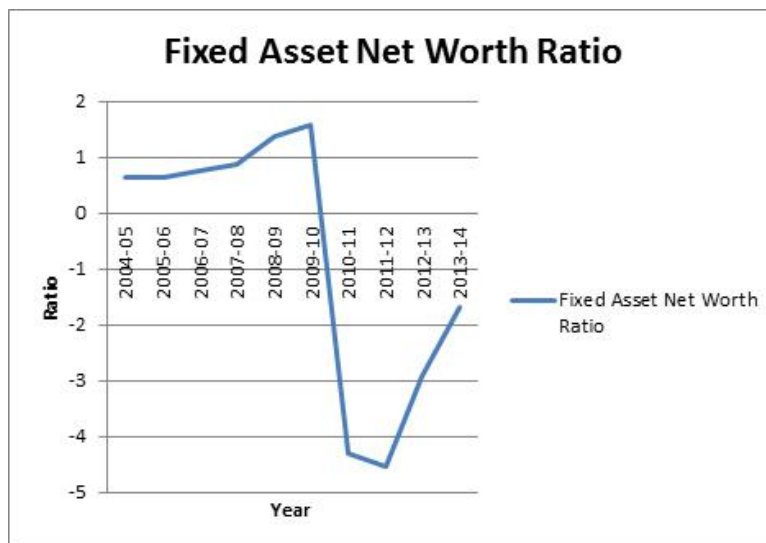
value. Also HPTDC don’t have any long term liability which is a positive thing for it. The solvency ratio is in increasing trend in case of HPTDC as shown in table 5. Figure 5 shows the increasing trend of solvency ratio which increase 6 times in 2013-14 from its base year.

Table 6 Fixed Asset Net Worth Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Fixed asset to net worth ratio	0.64	0.63	0.76	0.87	1.37	1.58	-4.30	-4.54	-2.93	-1.68
Trend analysis	100	98.43	118.75	135.93	214.06	246.87	-671.8	-709.3	-457.8	-262.5

Source: Annual Reports of HPTDC

Figure 6 Fixed Asset Net Worth Ratio



Fixed assets to net worth is a ratio measuring the solvency of a company. This ratio indicates the extent to which the owners' cash is frozen in the form of fixed assets, such as property, plant, and equipment, and the extent to which funds are available for the company's operations (i.e. for working capital). Fixed asset to net worth ratio more than

0.75 or higher is not desirable for any firm. In case of HPTDC, due to high accumulated losses this ratio is negative as it is shown in table and figure 1.6 which is not a good thing for any organization. Figure 6 shows that this ratio fell more than 700 percent in 2011-12 as compared to its base year; it got recovered quickly but still it is in an undesirable position.

Table 7 Operating Profit Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Operating profit ratio	0.5	0.5	-0.12	2.19	-11.07	9.84	6.57	3.72	1.02	.89
Trend Analysis	100	100	-24	438	-2214	1968	1314	744	210	178

Source: Annual Reports of HPTDC

Figure 7 Operating Profit Ratio



Operating profit ratio indicates how efficiently a firm runs its operations and earns profits. In case of HPTDC, except for a few odd financial years, mostly it has reported operating profits. The reason for losses was bad weather conditions and economic slowdown, due to which fewer tourists visited the states. The operating profits in case of HPTDC grew with slow pace and turned into negative due to some external

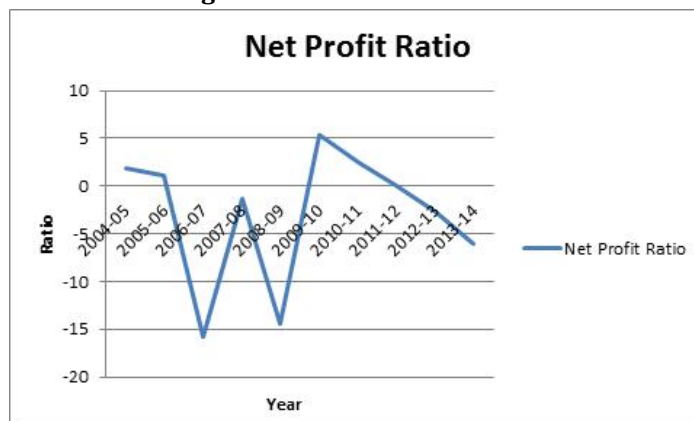
factors, but after that it grew favorably as shown in table and figure 7. For the past couple of years, HPTDC has been trying its best to attract tourists from all over the world, and various marketing initiatives have been taken by it. But due to a slowing economy and competition from other hilly states, tourist arrival has been affected. Further, HPTDC is facing tough competition from private hotel chains, which has put a lot of pressure on its operations.

Table 8 Net Profit Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Net profit ratio	1.94	1.16	-15.80	-1.39	-14.48	5.33	2.47	0.03	-2.67	-5.98
Trend Analysis	100	59.79	-814.4	-71.64	-746.39	274.74	127.31	1.54	-1.37	-308.2

Source: Annual Reports of HPTDC

Figure 8 Net Profit Ratio



Net profit ratio indicates overall profitability of the firm from operative and non operative activities. As it is clear by table 8 that HPTDC has operative profit for many years, but it reported net losses most of the year as shown in table and figure 8 and it has a huge pile of accumulated losses which may affect its profitability in the long run. The figure

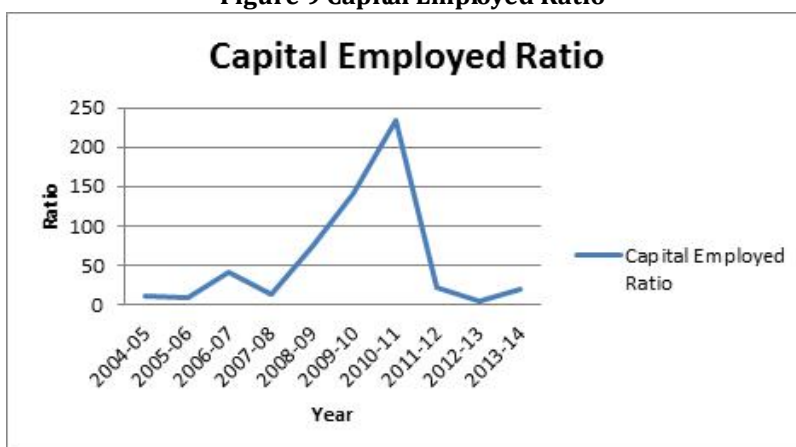
8 shows that the trend of net profit ratio is very unstable, negative and touched a new low every time. The main reason for such net losses is salary bill of the organisation which is almost half of total cost to the organisation. Besides its transport wing also added to its losses and thus affects overall profitability of firm.

Table 9 Capital Employment Ratio

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Capital employed ratio	10.67	8.98	41.87	13.29	74.65	141.84	233.69	21.24	5.43	19.24
Trend Analysis	100	84.16	392.41	124.55	699.6	1329.33	2190.15	199.66	50.89	180.3

Source: Annual Reports of HPTDC

Figure 9 Capital Employed Ratio



Capital employment ratio means total investment made in the form of assets. Most of the time investment in assets has increased due to government funds. In last three years from 2011-12 to 2013-14, subsidies from government have been reduced due to which capital employed ratio has declined. As it is shown in table 9 and figure 9 that the HPTDC reported high growth this ratio for few years. The reason for the high capital employed ratio is recording most of its assets at book value.

CONCLUSION

Despite of some hiccups, overall HPTDC has been able to earn operating profits except for few years where economic and weather conditions were not favorable. Main reason for the losses of HPTDC is high employee remuneration which is more than 50% of total expenses which is very high as compared to other organization in hotel industry. Another

reason contributing towards such losses is loss making units of HPTDC like transport wing which is currently running into losses, discount to customers, HPTDC shops etc. HPTDC also work as a tourism promotion institution under Department of Tourism of Himachal Pradesh and do various activities for it which affects its own working. HPTDC also conduct various activities of construction of behalf of Government of Himachal Pradesh. So due to all these reasons a institution which has a prominent place in the tourism sector. It has to offer properties at premium locations in the state and far flung areas, have fleet of vehicles and provide transportation services to all over state and nearby tourist place outside the state a name is very common among tourist is running into losses. Government needs to intervene and restructure its operations so as to turn it into a profit making organization. As millions of domestic and foreign tourists



visit the state every year, the potential for tourism appears bright. The state needs to pull up its socks so as to make HPTDC a profit generating venture.

SUGGESTIONS

- First of all there is need to examine salary bill of organisation. Government should provide a bailout package to provide voluntary retirement scheme of organisation and to write off losses which are arise due to wrong government policies.
- Management of HPTDC should managed in a professional way wherein managers having vast experience in hospitality industry given the charge of its affairs.
- Loss making units of HPTDC needs to be revamped or should be closed.
- Loss making transport wing of HPTDC may be transferred to state Transport Department for better utilization of resources and should be run by professionals.
- Government of Himachal Pradesh should free HPTDC from various development activities in state so it can concentrate on its core business.

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