Financial Performance of Rajasthan Tourism Development Corporation (RTDC): An Analysis

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ABSTRACT

Financial statements communicate its users how business has prospered under the leadership of the management. Financial ratios are widely used technique to evaluate the financial performance of organizations in terms of its liquidity, solvency, efficiency and profitability. Rajasthan Tourism Development Corporation Ltd (RTDC) as established by state Government of Rajasthan with largest infrastructure network could not commercialize its touristic product to the maximum extent in the state. Despite of large network of hotels, motels and midways, it could not generate substantial return on investment. Many RTDC owned properties are either given on lease or some are even on the verge of sale. This study attempts to analyze the financial statements of RTDC using ratio analysis techniques for the period of 13 years (1995 to 2007).

KEYWORDS : Rajasthan Tourism Development Corporation Ltd. (RTDC), Financial Analysis, Ratio analysis, Financial Performance.

INTRODUCTION

Financial statements provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. On the basis of the information provided in the financial statements, management makes a review of the progress and company decides future course of action (Kishore, 2005). Financial statements reveal how a business has prospered under the leadership to its management personnel. In short it may be said that financial statements are the medium of communication of Management performance. The analysis of financial statements is done to examine the financial position. Ratio analysis is a widely used technique for financial analysis. Ratio analysis employs financial data taken from the firm’s balance sheet, statement of retained earnings and income statement, these reports and their inter relations must be mastered to fully understand the significance of the various financial ratios (Betzker, 1995). Financial Ratio Analysis has been used to assess profitability and risk, current and future, from the viewpoint of lenders, investors, and other transactions with the firm. Ratios vary depending on the trading conditions. The Economic conditions during the periods covered by the accounts being analyzed is an important consideration. The Rajasthan Tourism Development Corporation Ltd. (RTDC) was incorporated as a wholly owned state government enterprise. It has enjoyed financial backup and facilities provided by state government. The presence of sever competition with private sector has created survival challenge in front of RTDC. It has made innovative attempts to augment source of income and financial figures by introducing popular Rajasthan Royal on Wheels (A train with Rajasthani Rajsahi Facilities). The financial analysis is a powerful technique to analyze a firm’s performance and financial strength. Therefore the present study attempts to examine the financial performance of RTDC by using popularly used tool of analysis –Ratio Analysis.
The Rajasthan Tourism Development Corporation Ltd. (RTDC) was incorporated as a wholly owned government company in November, 1978 under the Indian Companies Act-1956. The corporate's main objective is to establish, develop and execute projects and schemes that facilitate and accelerate tourism to the state and to attract tourists both Indian and foreign. Pursuant to its objective, the activities of the company are as under (Batra, 1989):

1. Acquisition, construction, running, maintenance of hotels, tourist bungalows, restaurants, cafeterias, motels and bars to make facilities available to the tourists.
2. To enhance tourist experience, organizing package tours, fairs and festivals and rendering facilities for transportation, entertainment, shopping etc.
3. Developing places of tourist interest.
4. Giving important tourist information by way of literature and web portal.
5. Providing accommodation, sightseeing and catering on palace. On wheels (POW), heritage on wheels (HOW) and newly launched Royal Rajasthan on wheels (RROW) - tourist trains run in joint venture with Indian Railways.

The RTDC was established to run as a fully fledged state government commercial enterprise. In a mixed economy like ours where no monopoly has been enjoyed by the government companies in this field, there is no doubt as to the existence of severe challenges from private sector. At the same time, the government is providing all facilities to public sector, which is evident in the case of RTDC.

ANALYSIS OF FINANCIAL STATEMENTS: USE OF RATIO ANALYSIS

A Financial Statement is a compilation of data, which is logically and consistently organised according to accounting principles. Its purpose is to convey an understanding of some financial aspects of a business firm (ICFAI, 2004). The financial statements in their conventional forms have two parts (Paul, 1999) i.e. Revenue statements and balance sheet. Financial statement analysis means study of relationship among various factors in a business as disclosed by financial statements of a firm. The analysis of financial statements is done to obtain a better insight into a firm's position and performance. The basic objectives of financial statements are as follows (Kishore, 2005):

- To judge the financial health of the firm.
- To evaluate the profitability of the enterprise.
- To gauge the debt servicing capacity of the firm.
- To understand the long term and short term solvency of the firm.
- To know the return on capital employed or invested.

In the words of Finney and Miller: “Financial analysis consists in separating facts according to some definite plan, arranging them in groups according to certain circumstances and then presenting them in a convenient and easily read and understandable form.” (Goel & Goel, 2002). According to John N. Myres: "Financial statement analysis is largely a study of relationships among the various financial factors in a business, as disclosed by a single set of statements and a study of the trends of these factors as show in a series of statements" (Goel & Goel, 2002). The most powerful technique of financial statement analysis is ratio analysis. It involves establishing a relevant financial relationship between components of financial statements. Ratio analysis helps in identifying significant relationships between financial statement items for further investigation. If it is used with understanding of industry factors and general economic conditions, it can be a powerful tool for recognizing a company's strengths as well as its probable trouble spots. A ratio is a mathematical relationship between two related items expressed in quantitative form. Ratio is a fraction whose numerator is the antecedent and denominator the consequent (Paul, 1999). An analysis of financial statements with the help of 'ratio' may be termed as 'Ratio Analysis'. It involves the comparison and interpretation of these ratios and the use of them for future projections (Gupta, 1995). Ratio analysis is a powerful analytical tool for
measuring performance of an organization providing valuable insight into a company’s financial picture. It is now being used as a device to diagnose the financial health of a business concern (Beaver, 1967). It signifies whether the financial health of the concern is vital, strong, good or poor and weak. Thus, ratio analysis is a very powerful tool for analysis.

Financial ratios are used to evaluate profitability, liquidity, solvency and capital market strength. Ratios may be classified into the four categories as follows (Goel & Goel, 2002):

(a) Liquidity Ratios: Liquidity implies a firm’s ability to pay its debts in the short run. This ability can be measured by the use of liquidity ratios. It is also known as short term solvency ratios (ICFAI, 2004).

(b) Solvency Ratios/Leverage Ratios: The Long-term solvency of a company is affected by the extent of debt used to finance the assets of the company. These are also known as leverage ratios.

(c) Activity Ratios/Turnover Ratios: Activity ratios measure how effectively the firm’s resources are used by making comparison of sales level with assets like- inventories, debtors fixed assets etc. These Ratios are also called as ‘Turnover Ratios’. Turnover indicates the speed or number of times, the capital employed has been rotated in the process of doing business. Higher turnover ratios indicate the better use of capital or resources and in turn lead to higher profitability.

(d) Profitability or Income Ratios: Profitability Ratios measure how effectively a firm’s management generates profits on sales, assets, stockholder investments. The efficiency and the success of a business can be measured with the help of profitability ratios.

METHODOLOGY

The main objective of the study is to evaluate the financial performance of Rajasthan Tourism Development Corporation Ltd. (RTDC). The study is based on secondary data. The data for the analysis was collected from the published annual reports of RTDC. A study period 13 years from 1995 to 2007 was chosen. The most widely used ratio analysis has been used to examine the financial strength as to work out a cause and effect relationship between two figures, ratio analysis is more effective. All the ratios have been objectively interpreted and valid conclusions have been drawn.

RESEARCH ANALYSIS AND RESULTS

The Financial Performance and financial position are shown by financial statement. An Analysis of these financial statements reflects that how efficiently an organization is operating and utilizing its assets. As it has already been discussed that there are number of tools available to analyse the financial statement. Ratio analysis is one prominent technique which is used to analyze the financial performance. An organisation’s financial performance may be seen from four angles which are liquidity, solvency, activity and profitability. In this section of study the financial statements of RTDC Ltd. are analyzed using ratios analysis technique.

LIQUIDITY POSITION

For analyzing the liquidity position of RTDC, current ratio has been calculated and analysis of this ratio shows that RTDC maintaining approximately 1 current ratio which seems to be less than the usual practice of maintaining 2:1 ratio in manufacturing firms. However in a service organization, the requirement of current ratio (liquid funds) may be less than the manufacturing firm as investment in inventories is less in service organizations. Even the fluctuations in current ratio are also too much which is not a healthy sign.
An analysis of Acid Test Ratio from the year 2002-03 to 2006-07 shows that the RTDC is maintaining heavy cash and bank balances. In most of the years' the acid test ratio was above benchmark of 0.5 and approximately 01 which is an indication of poor cash management.

Even in case of uncertainty of cash requirements, the RTDC may consider parking of these cash funds in marketable securities like treasury bills resulting at least nominal returns.

SOLVENCY POSITION

To measure the solvency of RTDC, two major ratios have been used. An analysis of debt equity of the firm shows that by time, the debt equity ratio has declined upto 2002-03, while in the year 2003-04, it increased by substantial amount i.e. approximately 2. However in the subsequent year, it again declined by substantial amount due to issue of fresh equity. Although in the present times of recession, less use of leverages (debt) minimises firm’s riskiness. But the advantages emerging out of leverages/debt capital are also foregone. The Fixed Assets Ratio which focuses of firm’s financing strategy shows that in initial years firm has approximately one fixed assets to long term funds ratio which reflects that the firm was following matching policy of financing. From the year 1998-99, this ratio started increasing and in 2001-02, it crossed the figure two which is an indication that the firm moved from matching to aggressive financing policy resulting in increased risk. However towards the end of study period, it again reached to one level. An analysis of debt service coverage ratio depicts that initially it was less than one but in the year 2006 and 2007 it increased to approximately 43. It may be due to the fact that the debt of the firm has substantially
declined resulting in less interest charges. A high DSCR is an indication that the firm has enough capacity to service the debt. Thus raising additional debts for institutional operations may be advantageous. Realizing this, the firm has also started increasing use of debt.

**OPERATIONAL EFFICIENCY**

To measure the operational efficiency of the RTDC, few productivity measurement ratios were used. An Analysis of working capital turnover ratio could not give a clear cut idea about use of net working capital as in most of the cases, the organization's networking capital was found to be negative and it was surprising to note that the firm had more short term funds as compare to the requirement of short term funds for current assets. Therefore few productivity ratios were used to measure the efficiency. The Capital Productivity was although positive in most of the years but was very less. That means approximately ranging near about 10%. Similarly labour productivity was also very low. Even in the year 2001-02, 2002-03, and 2004-05, those were negative. The fixed assets productivity could touch maximum percentage of approximately 07% in only 03 years and in rest of the years, it
ranged in between 01% to 05%. Even in total productivity curve, fluctuation in productivity is clearly visible. Therefore in conclusion, it may be said that the RTDC is not able to produce evidence of efficient operational productivity. The problem may be either less production of revenues or excessive assets. Therefore it is suggested that non-productive activities may be suspended and it should concentrate on its core competence.

PROFITABILITY POSITION

To examine the profitability with reference to its investments two measure ratios i.e. Return on Investments (ROI) and return on Capital Employed (ROCE) have been used. ROI is popularly used measure of firm’s profitability. The ROI of RTDC seems to be very less as it could hardly touch 04% in only two years of study period and even in the year 2001-02, 2002-03 and 2004-05, it was negative on the same lines, ROCE is also very less.

The Researcher made an attempt to find cost of capital of the firm but as it could not be ascertained due to lack of information. Therefore it is difficult to comment on financial health with complete accuracy but it can be said that RTDC financial advisors should immediately match ROI with its cost of capital or they should evaluate the firm’s performance using new performance measurement tool Economic Value Addes (E.V.A.) as
the researcher has doubt that no organization will have this less cost of capital (near about the RTDC's ROI).

CONCLUSION AND SUGGESTIONS

Finance is the life blood of the organization and it is treated as critical factor for organizational survival. An analysis of financial statements of RTDC reveals that the firm is not able to maintain enough liquidity and even in most of the years its working capital was found to be negative. Thus an urgent effort to improve liquidity is required. With reference to the long term solvency of the firm, it seems that the external funds providers have got enough support from internal funds. However the researcher feels unsafe to give suggestion about leverage utilization as the firm's debt service coverage ratio where very less or negative in most of the years. An improvement in the debt service coverage ratio recently in the year 2006 and 2007 may be taken as opportunity for leverage utilization by the firm. Profitability of RTDC has shown a zigzag behavior in profitability chart and after a steep decline in the year 2003 has now more or less stabilized as in the year 2006 and 2007. Positive Return on Investment (ROI) was observed. The Corporate trend of cost cutting may also be applied in RTDC by reducing the bonus amounts and top managements remuneration and expenses. As it was also observed that in the event of losses, a very high growth in the top management’s remuneration was given. The analysis of overall financial health of the organization shows that the organization is in financial distress situation; therefore improvement in liquidity, cost cutting and revenue enhancement policies and efforts must be immediately done.

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