Chapter - III

Financial Management in Tourism Industry

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FINANCIAL MANAGEMENT & TOURISM INDUSTRY

FINANCIAL MANAGEMENT :

Finance Management is concerned mainly with procuring funds in the most economical and prudent manner, deploying these funds in most profitable way in a given risk situation, planning future operation and controlling current and future performance and development through different tools. It is an approach by which depending on importance, resources can be allocated to various projects.

For efficient operation of a business, there is necessity for obtaining and effectively utilizing funds. These jobs are done by financial management. Basically, therefore, Finance Management centers around funds raising for business in the most economical way and investing these funds in optimum way so that maximum return can be obtained for the shareholders. Since all business decisions have financial implications, financial management is interlinked with all other functions of the business.

OBJECTIVES :

The key objective of Financial Management is to maximize the value of a company. This is the result of good Investment Decision, Prudent Financial Decision and well thought out Financial Planning and control.

The finance manager has to take careful decision in respect of following areas :

1. Financing
2. Investment
3. Dividend
4. Current Assets :

1. Financing Decision : The finance managers are to decide the sources of fund for business. It is to decide whether entire capital should be raised from Equity Capital or a part is to be raised from loan.
2. Investment Decision : It relates to the acquisition of assets. Assets may be classified as real assets such land, building, plant, equipment etc. and financial assets like shares and debentures etc. such decision is concerned with how much the company should invest and in which project.
3. Dividend Decision : It is basically a financing decision. This is to because profit is a source of fund. By not paying dividend the retained earnings or reserve can be increased which could be otherwise available for investment. This ultimately lead to maximization of wealth of the organisation provided decision on investment are correct. Thus, dividend decision is a compromise between paying reasonable dividend and retaining balance profit in Reserve.
4. Current Assets Management : This is necessary for maintaining a balance between current assets and current liability. If the liquidity of

the business is interpreted because of holding too much fund in current assets for a long period, the production will be disrupted leading to fall in profitability.

Techniques of Financial Management which are useful :

The following weapons of financial management can be used in tourism industry.

1. FUNDS FLOW STATEMENT/SOURCES OF FUND :

USES OF FUND FLOW STATEMENT :

Fund flow statement helps the financial analyst in having a more detailed and understanding of charges in the distribution of resources between two balance sheet dates. In case such study is required regarding the future working capital position of the company a projected fund flow statement can be prepared. The uses of fund flow statement be put as follows :

A. It explains the financial, consequences of business operations :

Fund flow statement provides a ready answer to so many conflicting situations. such as :

Where have the profit gone?

B. It answers intricate queries :

The financial anlyst can find out answer to a number of intricate questions :

a. What is the overall creditworthiness of the enterprise?

b. What are the sources of repayment of the loan taken?

2. RATIO ANALYSIS :

RATIO ANALYSIS :

Ratio analysis is the method or process by which the relationship of items of groups of items in the financial statement are computed, determined and presented.

Ratio analysis is an attempt to drive quantitative measures or guides concerning the financial health and profitability of a business enterprise. Ratio Analysis can be used both in trend and static analysis. There are several ratios at the disposal of an analyst but the group of ratios he would prefer depends on the purpose and the objectives of analysis.

The various groups of the ratios are :

Balancesheet Ratio	*Revenue standard ratio*	*Composite Ratio*
1. Current ratio	1. Gross profit ratio	1. Return on total resources ratio
2. Liquid ratio	2. Operting ratio	2. Return on proprietor fund ratio
3. Proprietary ratio	3. Expenses ratio	3. Return on equity capital ratio
4. Stock –working capital	4. Net profit ratio	4. Earning per share ratio
5. Capital gearing ratio	5. Stock turnover ratio	5. Debtors turnover ratio

1. Balance Sheet Ratio or Financial Ratio

They deal with the relationship between two items, or groups of items, which are together found in the balance sheet. Ratio of current assets and current liabilities, ratio of stock to working capital etc.

2. Revenue statement Ratios or Income statement Ratios

These ratios deal with the relationship between two items or group of items, which are both found in the income statements there ratio are also known as ' operating ratios' as they deal with the operating results of an organisation.

3. Inter-statement ratio or combined ratios:

These ratios indicates the relationship between two items or two groups of items, of which one is found in the Balance sheet and the other in the income statement (profit and loss account).

The following are source important ratios of GTDC for 5 years

CURRENT RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Current ratio	1.66	1.16	1.23	1.17	0.98

Generally, the ratio 2:1 is considered satisfactory. But this does not mean that if the ratio is lower, the business is in financial difficulty.

From the above 5 years current ratio of GTDC it is clear that year 98-99 has the highest working capital (Rs.10706717) compared that of year 96-97, 97-98 and 99-2000 their current ratio is 1.66:1, 1.16:1 and 1.17:1. Whereas in the year 2000-01 current ratio is 0.98:1. It may find difficult to meet its obligation as and when they become due.

PROPRIETORY RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Proprietary ratio	87.40	99.27	92.31	82.36	76.56

Proprietory Ratio is a test of the financial and credit strength of the business. It relates shareholders fund to total assets. This ratio determines the long-term or ultimate solvency of the company.

From the above 5 year table of proprietory ratio of GTDC it is clear that the corporation is financially sound. The long-term solvency position of the business is good. In the year 97-98, proprietory ratio stands 99.27% followed by 91.31% in the year 98-99, 87.40% , 82% and 76.50% in the 96-97, 99-2000 and 2000-01.

OPERATING RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Operating ratio	83.0	88.60	89.89	94.70	99.44

The purpose of the ratio is to test the operating efficiency of the company and also to find out what portion of sales is absorbed by operating cost. Operating Ratio is the relationship between cost of activity and net sales.

Operating Ratio shows at what percentage the operating expenses are comprised in the net sales.

The operating ratio in the year 1996-97 is 8360% which is lower than the ratio of any other years ratio. Lower the operating rates, the better is the operational efficiency of the business. If the operating ratio is higher, it would lead to lower profits and therefore will be less favourable because what would be meager when more capital is needed, the operating ratio should be low.

EXPENSES RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Expense ratio a. O.E. ratio	76.95	83.13	83.15	88.34	90.02
b. G.E. rato	6.65	4.92	6.73	6.35	9.41

The ratio of each item of expenses on each group of expenses to net sales is known as expenses ratio. These ratio brings out the relationship between various elements of operating costs and net sales.

NET PROFIT RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Net Profit ratio	4.47	1.94	1.52	1.71	7.19

Net profit ratio shows that in first three years of the study Net profit declined from 4.47% to 1.52%. Then after it increased losses upto 7.19% into the year 2000-01 due to pressure of increase in operating and other general expenses.

RETURN ON TOTAL RESOURCE RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Return on total resource ratio	28.44	53.23	35.05	82.29	5.24

This ratio shows income generating capacity of the corporation. The ratio was 28.44% in the year 96-97 which increased 53.33 in the year 97-98 but thereafter it declined .

RETURN ON PROPRIETORS FUND RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Return on proprietor fund ratio	12.77	13.85	15.06	17.77	15.59

This ratio show the net earning and the funds invested by proprietor in the organisation. In the year 96-97 the proprietor ratio was 12.77% which is increased up to 15.06 in the year 98-99 but though it shows minus trend due to loans taken by the corporation.

RETURN ON EQUITY CAPITAL RATIO

Ratio	96-97	97-98	98-99	99-2000	2000-01
Return on equity capital ratio	37.51	17.78	19.01	20.74	16.7

This ratio shows the net earning by the equity shareholders on their investment in organisation. In the year 96-97 the ratio was 37.51% highest in the study period which declined upto 19.01% in 98-99 and thereafter it become minus due to the bank interest by the organisation.

FINANCIAL MANAGEMENT AND TOURISM :

Financial Management in the development of Tourism is imperative. Tourism is an industry which has taken deep root in the fabric of the state. It has made vast strides. The sources of project lies in the Management of finances. A predetermined Blue print will add to the credibility of any project as the future uncertainties are usualised. Judicious use of finance will reduce the non plan expenditure and in turn reduces the burden of the exchequer. Fiscal deficit can be reduced by a premeditated economic policy which will augur well for the betterment and development of the state. Goa Tourism Development Corporation GTDC is the nodal agency which is working to create infrastructure so very much needed to canalize the resources in the right direction. Financial corporations should function so as autonomous body having a free hand to realize their objectives without any red tapism or Bureaucratic interferences. Industries concerned should form a consortium of idea to chanalise the future course of action.