

**A STUDY ON FINANCIAL PERFORMANCE OF SOALTEE
HOTEL LIMITED**

A Thesis

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Campus Roll No.: 2485/071

T.U. Regd. No.: 7-2-720-107-2011

Exam Symbol No.: 390186/073

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree of

Master of Business Studies (MBS)

Kathmandu, Nepal

June, 2024

RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A STUDY ON FINANCIAL PERFORMANCE OF SOALTEE HOTEL LIMITED**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of respected supervisor **Rabindra Bhattarai** of Shanker Dev Campus, T.U.

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Exam Symbol No.: 390186/073

ACKNOWLEDGMENT

I would like to forward my deepest gratitude to Rabindra Bhattarai of Shanker Dev Campus who support me with their invaluable scholarly supervision, constructive comments and suggestions that allow me to furnish this thesis report in this final format.

I would like to pay my sincere thanks to Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department; and Asso. Prof. Krishna Prasad Acharya, Campus chief of Shankar Dev campus. Besides, I would also like to thank to other respected teachers of Shanker Dev Campus and all the staff of this campus for their help in providing me various kinds of suggestions, information and comments.

Further, my deep regard to known and unknown individual who helped to collect the data at preliminary stage of this report writing.

It is the matter of my immense pleasure to express my deep sense of gratitude and heartfelt respect to my parents for their affection, inspiration and incredible support to precede my academic career.

Debaki Dhungana

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ABBREVIATIONS

A.D	:	Anno Domini
B.S	:	BikramSambat
Bn.	:	Billion
CR	:	Current Ratio
DTR	:	Debtors' Turnover Ratio
EPS	:	Earnings per Share
Etc.	:	Etcetera
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
IFC	:	International Finance Corporation
IHG	:	InterContinental Hotels Group
ITR	:	Inventory Turnover Ratio
NEPSE	:	Nepal Stock Exchange Limited
NIDC	:	Nepal Industrial Development Corporation
NPAT	:	Net Profit after Tax
NPM	:	Net Profit Margin
NRs.	:	Nepalese Rupees
p.a.	:	Per Annum
QR	:	Quick Ratio
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs.	:	Rupees
SHL	:	Soaltee Hotel Limited
SPSS	:	Statistical Package for the Social Sciences
TATR	:	Total Assets Turnover Ratio

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Finance is the lifeblood of an organization that helps the organization in running its operations smoothly. We can define the competitiveness and potential of an organization by its financial performance. Financial analysis is the process of reviewing and analyzing a company's financial statements to make better economic decision. In other words, it is the process of determining actual position of the entity by establishing the strategic relationship between the items of the balance sheet, profit and loss account, and other financial statements.

Financial performance is the important statement of an organization. It is a decision making process to experience strengths or weaknesses of the organization and knowledge of its revenue generation status. It is a mirror to look into development activities to be undertaken by the organization or companies. It should also measure or evaluate internal and external information of past activities, current position and future prospects of organization or venture. Financial performance evaluation looks into the management team of organization, its performance in future, efficiency of resource utilization and overall position of the organization.

The analysis of financial performance is crucial in evaluating the well-being and endurance of businesses in different sectors. Within the hospitality industry, financial metrics are essential for understanding the efficiency, profitability, and overall success of companies. Soaltee Hotel is a key player in the hospitality sector in Nepal. It is important to analyze the financial performance of Soaltee Hotel for its management, shareholders, investors, analysts, policymakers, and other stakeholders interested in the growth of the hospitality industry in Nepal. By examining important financial indicators, trends, and metrics, stakeholders can gain valuable insights into the revenue, cost structure, profitability drivers, and financial stability of the company.

Analyzing financial performance helps in evaluating the strategic position of the hotel within the market, identifying strengths, weaknesses, opportunities, and threats. By systematically reviewing financial statements, ratios, and performance indicators over time, stakeholders can assess the company's ability to generate consistent returns, manage risks, and take advantage of market trends and opportunities. Additionally, comparing financial performance with industry peers and best practices allows stakeholders to make well-informed decisions and plan strategically. By comparing metrics like revenue growth, profit margins, asset utilization, and liquidity ratios, stakeholders can assess the company's performance and find areas for improvement.

One of the fastest growing sectors of the economy of this time is the hotel industry. The hotel industry alone is a multi-billion dollars and growing enterprise. The hotel industry is diverse enough for people to work in different areas of interest. This principle-necessitated application of management principles in the hotel industry and the hotel professionals realized the instrumentality of marketing principles in managing the hotel industry. This naturally draws our attention on hotel management. Like other industries, the hotel industry also needs to explore avenues for innovation, so that a fair blending of core and peripheral services is made possible. It is not to be forgotten that the leading hotel companies of the world have been intensifying research to enrich their peripheral services with the motto of adding additional attractions to their service mix. The emerging positive trend in the tourism industry indicates that hotel industry is like a reservoir from where the foreign exchange flows and it is mandatory to analyze how they are managing their financial aspects in the dynamically changing global environment.

In Nepal, the concept of hotels was developed around 65 years ago with the opening of "Himalayan Inn" and "Paras Inn" on the new road in 1950 and 1951 AD. Thus, these hotels are considered the first hotels in Nepal. But the actual development of the hotel took place only after the establishment of a hotel called the "Royal Hotel" at Kantipath by a Russian chef, Booritch Lissanevitch. It was the first international standard hotel, which was established in 1954 AD. Mr. Ram Shankar opened a hotel called "Hotel Shankar" at Lazimpat, Kathmandu, at the old Rana Palace. This hotel was the first four-star rated hotel in Nepal. Similarly, in the year of 1965 AD, Hotel Del Annapurna came into operation, which was the first five-star hotel in Nepal.

To promote tourism activities, the "Nepal Tourism Committee" was constituted in 1970 AD. Of late, the hospitality industry has been immensely contributing to the national economy since 1977 AD. Nepal has greatly improved in infrastructure and structural support for the development of tourism. The advent of modern tourism activities has brought drastic changes in the hotel industry in Nepal as well. The modern concept of the fashionable generation has changed the overall system of hotels in Nepal. At present, hotels have emerged in almost all the areas of tourist attractions, such as clubs, resorts, golf resorts, safari hotels, wildlife camps, etc., to fulfil the desires of customers.

So far, according to a new ranking made public by the Department of Tourism, there are 18 five-star hotels in the country. The hotel business in Nepal is a competitive field that has been enhanced over a decade. Due to their excellent hospitality and exquisite architecture, many five-star hotels have come into the limelight.

1.2 Soaltee Hotel Limited

The hospitality industry is a vital part of the global economy. It constantly changes due to economic ups and downs, new technology, and how customers' preferences shift. In Nepal, the hospitality sector is crucial for the country's economic growth. It draws both local and foreign tourists who want to experience the unique culture and stunning landscapes. Soaltee Hotel Limited is a leading player in Nepal's hospitality sector and contributes significantly to the nation's tourism and economy.

Soaltee Hotel Limited is legendary landmark in Nepal established in 1968 under the Company Act 1964 as a private limited company. In 1975, it was converted into public limited company and admitted International Finance Corporation, Washington DC and Oberoi Hotel, India as shareholders. Situated in the heart of Kathmandu, the capital city, the hotel seamlessly blends traditional Nepali hospitality with modern amenities to cater to the needs of both leisure and business travelers. Despite facing numerous economic challenges over the years, Soaltee Hotel Limited has established itself as a key player in Nepal's hospitality sector, maintaining a strong reputation for outstanding service and guest satisfaction.

Hotel coincides with the development and the maturity of the tourism industry Nepal. It has worked together with different hotel group. Over the last three decades, Soaltee has distinguished itself by its distinctive and quality market access; a partnership in management was established with Hotel Oberon Int'l the hotel was deservedly made a member of the leading hotel in 1985. On 1 June 1994, the hotel decided to go in for a change in management with six continent hotels and resorts, the world's largest hotel management company. Then onwards the hotel is in operation under the name of Hotel Soaltee Holiday Inn Crown Plaza. The main objective of the company is to provide hotel facilities. Beginning with 104 rooms in 1966, today it offers 283 Superior, Deluxe and Crown plaza Clubrooms including 183 single bedrooms and 10 double bedrooms, Eight Executive Suites, Eight Meeting rooms, One Rollaway, Seven Regal Suites and five Gosainkund Suites.

1.3 Statement of the Problem

The analysis of financial performance is crucial in evaluating the well-being and endurance of businesses in different sectors. Within the hospitality industry, financial metrics are essential for understanding the efficiency, profitability, and overall success of companies. Soaltee Hotel is a key player in the hospitality sector in Nepal. It is important to analyze the financial performance of Soaltee Hotel for its management, shareholders, investors, analysts, policymakers, and other stakeholders interested in the growth of the hospitality industry in Nepal. By examining important financial indicators, trends, and metrics, stakeholders can gain valuable insights into the revenue, cost structure, profitability drivers, and financial stability of the company.

Analyzing financial performance helps in evaluating the strategic position of the hotel within the market, identifying strengths, weaknesses, opportunities, and threats. By systematically reviewing financial statements, ratios, and performance indicators over time, stakeholders can assess the company's ability to generate consistent returns, manage risks, and take advantage of market trends and opportunities. Additionally, comparing financial performance with industry peers and best practices allows stakeholders to make well-informed decisions and plan strategically. By comparing metrics like revenue growth, profit margins, asset utilization, and liquidity ratios, stakeholders can assess the company's performance and find areas for improvement.

This analysis focuses on the financial performance of Soaltee Hotel Limited, examining key metrics, trends, and factors affecting its financial outcomes. Studying financial statements, ratios, and performance indicators provide valuable insights provided for stakeholders interested in the financial landscape of the hospitality industry in Nepal and the implications for Soaltee Hotel's future growth and sustainability.

The thesis seeks to address the following key questions:

- What are the main factors influencing the financial performance of Soaltee Hotel Limited?
- What are the key financial metrics used to evaluate the performance of Soaltee Hotel Limited?
- Is there any impact the current ratio (CR) and Quick ratio (QR) on profitability of Soaltee Hotel?
- How the inventory turnover ratio (ITR), debtors' turnover ratio (DTR) and total assets turnover ratio (TATR) effects on profitability of Soaltee Hotel?
- What strategic recommendations can be proposed based on the analysis of Soaltee Hotel Limited's financial performance?

1.4 Objectives of the Study

The main objective of this thesis is to conduct a thorough examination of the financial performance of Soaltee Hotel Limited in Nepal. The study aims to achieve the following specific goals:

- To recognize and evaluate key financial indicators in order to determine the overall financial well-being and performance of Soaltee Hotel.
- To compare the financial performance over a specified period.
- To identify the key financial indicators affecting performance.
- To analyze the impact of inventory turnover ratio and debtor's turnover ratio on profitability of Soaltee Hotel.
- To access the impact of total assets turnover ratio on profitability of Soaltee Hotel.
- To examine between return on assets (ROA) and return on equity (ROE) of Soaltee Hotel.

1.5 Hypothesis

These hypotheses will guide the empirical analysis to determine how specific financial metrics influence the profitability of Soaltee Hotel Limited. By testing these relationships, the study aims to provide actionable insights for improving the financial performance and strategic decision-making of the hotel. Rooted in the research objective, the study formulated the following hypotheses:

Hypothesis (H1): Current Ratio

The current ratio has a substantial effect on the profitability of Soaltee Hotel.

- **Rationale:** The current ratio measures the company's ability to meet short-term obligations with its current assets. A healthy current ratio indicates good liquidity, which can positively influence profitability by ensuring smooth operations and the ability to take advantage of business opportunities.

Hypothesis (H2): Inventory Turnover Ratio

The ratio of inventory turnover has a considerable impact on the profitability of Soaltee Hotel.

- **Rationale:** The inventory turnover ratio indicates how efficiently the hotel manages its inventory. High turnover suggests effective inventory management and sales performance, which can enhance profitability by reducing holding costs and ensuring that capital is not tied up in unsold stock.

Hypothesis (H3): Debtors' Turnover Ratio

The debtor turnover ratio plays a major role in determining the profitability of Soaltee Hotel.

- **Rationale:** The debtors' turnover ratio measures how effectively the hotel collects receivables from customers. A higher ratio indicates efficient credit management and quicker conversion of receivables into cash, which can improve liquidity and profitability.

Hypothesis (H4): Total Assets Turnover Ratio

The total assets turnover ratio significantly affects the profitability of Soaltee Hotel.

- **Rationale:** The total assets turnover ratio assesses how efficiently the hotel uses its assets to generate revenue. Higher efficiency in asset utilization typically leads to better financial performance and increased profitability.

Justification for Hypotheses

- **Current Ratio and Profitability:** Liquidity is crucial for operational stability and avoiding financial distress, which directly impacts profitability.
- **Inventory Turnover and Profitability:** Effective inventory management ensures that the hotel can meet customer demand without overstocking, reducing waste and storage costs, thereby enhancing profitability.
- **Debtors' Turnover and Profitability:** Efficient receivables management ensures a steady cash flow, which is essential for maintaining liquidity and funding daily operations, thereby supporting profitability.
- **Total Assets Turnover and Profitability:** Optimal use of assets ensures that investments in property, plant, and equipment are generating sufficient revenue, thereby improving overall profitability.

1.6 Significance of the Study

The significance of this study lies in its potential to provide valuable insights and benefits to various stakeholders, including the management of Soaltee Hotel Limited, investors, industry analysts, policymakers, and academics. The specific significances are as follows:

- The study will help the management of Soaltee Hotel Limited understand the financial strengths and weaknesses of the hotel.
- Potential and existing investors can use the findings of this study to assess the financial health and performance of Soaltee Hotel Limited.
- Policymakers can use the findings to understand the financial dynamics of the hotel industry in Nepal.
- The study provides empirical data and insights that can be used for further research and academic purposes.

1.7 Limitations of the Study

Limitations of the research are important as it provides context to the findings. It helps to understand the constraints and potential biases in the research. Here are some typical limitations in the study on the financial performance of Soaltee Hotel Limited:

- **Data Availability:** Limited access to historical financial data can restrict the depth of the trend analysis of the study. Complete data for all desired years is may not be available, so the analysis might not fully capture long-term trends.
- **Reliability of Secondary Data:** The study relies heavily on secondary data such as annual reports, financial statements, and industry reports. Any inaccuracies or errors in these documents can affect the the analysis.
- **Analysis Period:** The period chosen for analysis might not be long enough to capture all cycles of business performance, especially in a cyclical industry like hospitality. Only ten years data from FY 2012/13 to FY 2021/22 is collected for the study.
- **Confidential Information:** Some financial details might be confidential and not disclosed in public reports, leading to affect the study.
- **Qualitative Factors:** The study primarily focuses on quantitative financial data and may not fully account for qualitative factors such as management decisions, company culture, and strategic initiatives that significantly impact financial performance.
- **Analytical Bias:** The interpretation of financial ratios and trends can be subjective. Different analysts might draw different conclusions from the same set of data.

1.8 Organization of the Study

Chapter I Introduction

First chapter essentially describes about the research itself. It outlines what the thesis is about and defines various aspects and profile of Soaltee Hotel. The first chapter includes general background of the study and statement of problem with research questions. Likewise, this chapter also shows the importance and objectives of the

study, limitation of study and last of all organization of study. The chapter helps to develop the conceptual framework about the research problem and subject matter.

Chapter II Literature Review

This chapter explains a comprehensive summary of previous studies on a topic about the study. Review of literature expresses the knowledge about the subject matter. The detailed review of existing literature has done in this section such as other researches, studies, scholarly articles, books, and other sources relevant to the issues on the financial performances of the companies. The review should specify, describe, summarize, objectively evaluate and clarify the previous works. Literature reviews are secondary sources and do not report new or original experimental work.

Chapter III Research Methodology

This chapter presents the research design which describes and justifies the methods that will be used to collect and present the data about the topic. The methodology section generally describes the basic research plan. Research methodology is the path through which researchers need to conduct their research, formulate their problem and objective and present their result from the data obtained during the study period.

This chapter focuses on how to answer the research questions raised in chapter one and it comes with the research approach or design, population, sample frames, sampling techniques, data collection, data analysis and presentation procedure plus limitations of the study. It is a framework to analyze and describe the research topic effectively. It is a well-developed process in order to obtain all the information required to answer the research questions and explain a situation relevant to the main objective of the research.

Chapter IV Data Presentation and Analysis

This section deals with evaluation and examination all the data collected in the topic of financial performances of the Soaltee Hotel. Nearly all research collects various kind of information. It is important to report the descriptive statistics of the sample. The chapter describes various kinds of facts with the use of appropriate tables and figures to outlines the results. Actually, it is assembling the findings to the research questions that are generated from the collected data.

Chapter V Summary, Conclusion and Recommendations

The last chapter by and large summaries and concludes this research. This chapter is all about discussion of the findings that gives recommendation for further improvement and effectiveness in the topic. Besides these chapters, References and Appendices will be presented at the closing stage of the study.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Introduction to Financial Statements

Financial statements are formal records of the financial activities and position of a business, person, or other entity. They provide a summary of an organization's financial performance and financial position over a specific period, typically prepared annually or quarterly. Financial statements are essential tools for various stakeholders, including management, investors, creditors, and regulatory agencies, to make informed decisions.

The Financial statements are the means of presentation of a firm's financial condition and basically consist of two types of statements: The balance sheet & income statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available. Mostly, there are three key components of Financial Statements.

- **Balance Sheet**

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company (Khan and Jain, 1993). Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of

funds acquired by the business concern to finance these assets and the different sources of capital and liabilities at that particular point of time.

- **Income Statements**

The income statement reports the entity's financial performance over a specific period. It shows how the revenues are transformed into net income. Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firm's operation are shown in the income statements.

It is the “Scoreboard” of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability (Khan and Jain, 1993).

- **Cash Flow Statement**

A cash flow statement is one of the key financial statements, providing a detailed overview of the cash inflows and outflows within a business over a specific period. It categorizes cash flows into operating, investing, and financing activities, helping stakeholders understand how cash is generated and used by a company. It helps to gain a clear understanding of the company's liquidity, financial health, and overall cash management effectiveness.

Purpose of the cash flow statement is to evaluate cash management. It provides insights into how effectively the company manages its cash. It helps in assessing the company's ability to generate cash and meet its short-term obligations. It complements the income statement and balance sheet by showing the actual cash generated and spent, offering a clearer picture of financial health. Investors and creditors use it to make informed decisions about investing in or lending to the company.

2.1.2 Financial Performance

Financial performance refers to the evaluation of a company's profitability, stability, and overall financial health over a specific period. It encompasses a range of financial metrics and ratios that provide insights into how well a company is utilizing its resources to generate revenue, manage expenses, and deliver profits to its shareholders. Understanding financial performance is crucial for stakeholders, including management, investors, creditors, and regulators, as it directly influences strategic decisions, investment considerations, and operational planning.

Key indicators of financial performance include profitability ratios such as net profit margin, return on assets (ROA), and return on equity (ROE). These ratios measure the efficiency with which a company converts sales into profits and utilizes its assets and equity to generate returns. High profitability ratios typically indicate effective management, strong revenue growth, and cost control, contributing to the company's financial strength and attractiveness to investors.

Liquidity ratios, such as the current ratio and quick ratio, are also critical in assessing financial performance. They provide a snapshot of a company's ability to meet its short-term obligations with its current assets. A healthy liquidity position ensures that a company can smoothly manage its day-to-day operations without facing financial distress. Conversely, poor liquidity ratios may signal potential cash flow problems, which could jeopardize the company's stability and operational efficiency.

2.1.3 Financial Performance Analysis

Financial analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time (Weston, 1996).

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being

or has been accomplished. It is the process of measuring the results of firm's policies and operations in monetary terms. It is used to measure firms over all financial health over a given period of time. The financial statements are prepared on the basis of recorded facts. The recorded facts are these that can be expressed in monetary terms. The accounting records and financial statements are from those records are based on historical costs. The financial statements are prepared periodically for the accounting period.

Financial statement analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses financial statement analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements, certain derivative statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne, 1996).

Financial performance analysis is a critical process that involves evaluating a company's financial statements to assess its profitability, liquidity, solvency, and operational efficiency. This analysis provides valuable insights into the financial health and performance of the company, enabling stakeholders to make informed decisions. The primary tools used in financial performance analysis include ratio analysis, trend analysis, and comparative analysis.

Financial analysis is that sort of calculation, which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis. It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the

views of the parties involved, the related importance of the issue and on the nature and reliability of the information available (Helfert, 1992).

Financial analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Hampton, 1998:99).

2.1.4 Types of Financial Performance Analysis

Financial performance analysis can be classified into different categories.

A. According to material used

- **External Analysis**

The external analysis is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and Governmental agencies regulating a business in a nominal way.

- **Internal Analysis**

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as Governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B. According to Modus Operandi Analysis

- **Vertical Analysis**

This type of financial analysis involves looking at various components of the income statement and dividing them by revenue to express them as a percentage. For this

exercise to be most effective, the results should be benchmarked against other companies in the same industry to see how well the company is performing.

- **Horizontal Analysis**

Horizontal analysis involves taking several years of financial data and comparing it to each other to determine a growth rate. This will help an analyst determine if a company is growing or declining and identify important trends. When building financial models, there will typically be at least three years of historical financial information and five years of forecasted information.

C. According to Objective

- **Long Term Analysis**

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

- **Short Term-Analysis**

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

2.1.5 Significance of Financial Performance Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. Different group associated with the concern perceive the facts discovered by the analysis differently. The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be enumerated as:

- Top management
- Creditors
- Shareholders
- Economist
- Labor union

- **Top management**

Based on past facts firms can anticipate their future. Hence, top management can measure the success or otherwise of a company's operations, determine the relative efficiency of various departments; process and products appraise the individual's performance and evaluate the system of internal audit.

- **Creditors**

The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time, the suppliers of long-term debt focus up on the firm's long-term solvency and survival.

- **Shareholders**

The shareholders, who have invested their money in the firm's shares, are most concerned about the firms earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company, the shareholders interest is to decide whether to buy, sell, or hold the shares.

- **Economist**

To diagnose the prevailing status of business and economy, economists analyze the financial statements of any firm. The government agencies analyze them for the purpose of price regulation; rate setting and similar other purpose.

- **Labor union**

Productivity is the synonym of well-motivated labor. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. To motivate the labors, they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition.

2.1.6 Technique of Financial Analysis

In this analysis, various methods are used by the financial analyst. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are started together.

- Funds-flow analysis
- Cash-flow analysis
- Trend analysis
- Ratio analysis

- **Funds-flow analysis**

This statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transaction during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial sources during the period. In other side, fund flow statement is one of the flow valuable techniques to evaluate financial pattern. Mostly, this statement is prepared to achieve following objectives:

- To provide information on all financing and investing activities of a business.
- To show the use or application of financial resources.
- To show the uses financial resources provided from operation and other sources.
- To disclose the amount and cause of all other changes in financial position.

- **Cash flow analysis**

The main objective of cash flow analysis is to show the cause of change in cash balances. It provides information about cash and availability of cash to management when it is interested to know. Cash flow analysis is not only concerned with the good or bad management of cash; it is deeply concerned with the liquidity position of the firm. Since cash flow statement is made to show the impact of financial policies and financial procedures on the cash position of the firm. In short, cash flow analysis is importance in short ranges planning and it always helps the management in short term financial decisions relating to liquidity.

- **Trend analysis**

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally, a period of

five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statement item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis. Moreover, in this method, a statement is used to analyze the base of another reference statement. Other method of analysis is the calculation of trend ratio and showing trend value on graph paper. On the other hand, trend analysis is not out of limitations. Price level changes may affect it and the selection of base year may create variation. Besides, it is important for its utilities which are:

- It is a simple technique. It does not involve tedious calculations and requires trained experts.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentages with absolute figure.
- A financial analyst is able to judge the present position of the company and to compare it with the overall trend in industry.

- **Ratio analysis**

Ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis. In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems. The limitations of ratio analysis basically are:

- Ratios do not indicate immediately the point where the mistakes or errors lies.
- The price level changes make the interpretation of ratios invalid.
- The ratios are means not needs of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.

- It is generally calculated from past financial statements and thus are no indicators of future.
- The number of various ratios is so large that it is very difficult task to select same appropriate ratios for the various business units.

2.2 Review of Related Studies

For the preparation of this thesis some books, report, publication, theses and articles will be reviewed. Various master level theses conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. are reviewed and findings of some relevant theses have been mentioned hereunder.

2.2.1 Review of Journal/Articles

Poudel (2010) has said that the users of the financial statements of bank need relevant, reliable comparable information, which assists them in evaluating the financial position, and performance of the bank and which is useful to them in making economic decisions. The bank regulators seek to analyze the financial statements from safety and stability point of view and thereby protecting the economic interest of depositors and public where as the bank analyses from shareholder's point of view.

Shrestha (2014) conducted study on "Commercial banks comparative performance evaluation" accomplishes that JVBs are different, operationally more proficient, having higher presentation in comparison to others banks. JVBs was operationally more proficient because of their urbane technology and contemporary banking system. Although having many insufficiencies, local banks have to suffer rising restrictions of socio economic political system.

Sivakumar and Raja did a study in 2015 with a view to find, suggest and conclude the financial performance of selected BSE listed hotel industries for the period of 10 years from years 2004-2005 to 2013-2014. Study titled "Financial performance of selected BSE/NSE listed hotel industries in India" suggests that to strengthen the financial efficiency, long-term funds have to be used to finance core current assets and a part of temporary current assets. The published financial statements of the

selected hotel industries were extensively used for analyzing and interpreting the financial performance. Research concluded that Cost accounting and cost audit should be made mandatory and cost sheet along with annual financing statement should be prepared. Likewise, To regularize and optimize the use of cash balance proper techniques may be adopted for planning and control of cash.

2.2.2 Review of Previous Works

In her study, Shakya (2009) investigated the cost volume and profit analysis of Soaltee Hotel Limited. Her research revealed that Soaltee Hotel exceeded its revenue targets in the fiscal years 2063/64 and 2063/64. The relationship between the planned and actual sales was positive, indicating that the company successfully achieved its objectives as outlined in the annual report. Furthermore, in terms of profitability analysis, study found the P/V ratio of the hotel decreased in the fiscal years 2061/62 and 2062/63. And, the ratio increased in FY 2063/64 and 2064/65. Shakya also observed a decline in the company's CM ratio, where a one-rupee increase in sales led to a decrease in the CM ratio, with the exception of a slight improvement in the fiscal year 2062/63.

Tripathi (2002) conducted a study on the "Analysis of Financial Performance of Soaltee Hotel Limited" and determined that the current ratio and quick ratio, which indicate the liquidity of the hotel, were lower than the traditional benchmark of 2:1 and 1:1. Furthermore, the duration it takes for debtors to pay their dues to hotel appears to be lengthy due to a substantial amount being tied up in debtors. On the other hand, long-term creditors of Soaltee Hotel are in a more secure position. The hotel has bolstered its net worth by investing in assets and gradually diminishing its debt. The research also highlighted the effective asset utilization by the hotel management.

In 2004, Tripathi conducted a study on the "Financial Evaluation of Yak and Yeti Inn" and discovered that the hotel's profit position varied throughout the research period. The hotel made a profit from the fiscal year 1996/97 to 2000/01. However, due to a worsening political climate, the hotel experienced losses in the fiscal years 2001/02 and 2002/03. Tripathi also explored the connection between net profit and sales, finding a positive correlation until the fiscal year 2001/02. In the last two years,

this correlation turned negative as the hotel faced losses. Similarly, the relationship between net profit and capital employed was positive until the fiscal year 2001/02, but turned negative in the last two years.

Shrestha (2007) completed thesis entitled "Financial performance analysis of commercial banks of NIBL and NABIL". The Study found that the liquidity position of NIBL is better than NABIL and NABIL has utilized debt more than NIBL. Likewise, total deposit and total assets are higher in NIBL than that of NABIL

In 2009, Bajarcharya conducted a study on the subject "Assessment of Nepal Bank Ltd.'s Performance." The main goals of her investigation were to showcase the economic performance and impact of banks in the open Nepalese Economy. She focused on ratio analysis to analyze the financial performance and identified the strengths and weaknesses of banks by computing ratios.

2.3 Research Gap

In the existing body of literature, there is a noticeable gap in the comprehensive financial performance analysis specific to hospitality sector companies in Nepal. The majority of the studies about financial performance are focused on banking sectors. While several studies have examined the financial performance of hotels globally, there is a dearth of focused research on how unique local factors, such as Nepal's economic conditions, regulatory environment, and tourism trends, influence the financial metrics of leading hospitality firms like Soaltee Hotel Limited.

There have been limited researches conducted on the financial performance of service industries, such as the hotel sector. Moreover, much of the available research tends to concentrate on broader financial performance metrics without delving deeply into the specific impacts of key financial ratios such as the current ratio, inventory turnover ratio, debtors' turnover ratio, and total assets turnover ratio on profitability. There is a lack of detailed empirical analysis that links these financial indicators directly to the profitability and overall financial health of Soaltee Hotel Limited.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It refers to the various sequential steps to be adopted by researcher in studying a problem with certain objects in view. Research design is the plan, structure, and strategy of investigation conceived so on to obtain answers to research questions and to control variance. It is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research process with economy in procedure. This study focuses on the financial performance of Soaltee Hotel Limited, examining key metrics, trends, and factors affecting its financial outcomes. The research design for the study is structured to systematically investigate the relationship between various financial ratios and the hotel's profitability. This design incorporates a combination of descriptive and analytical approaches to ensure comprehensive coverage and robust analysis of the financial data.

3.2 Population and Sample

As the study focuses on a single entity (Soaltee Hotel Limited), the sampling pertains to the selection of appropriate financial years and quarterly periods to provide a comprehensive view. There are 18 luxury hotels with a five-star rating registered in Nepal up to the year 2022. Soaltee Hotel Limited is selected as the focus of the research study, utilizing a convenience sampling approach. The study will cover a ten-year period from FY 2012/13 to FY 2021/22 to ensure sufficient data points for trend analysis and statistical validity.

3.3 Data Collection

Data collection is a crucial phase in the research design, as it provides the foundation for analysis and insights. For the study on the financial performance of Soaltee Hotel Limited, Nepal, the data collection process will involve mostly on secondary data to ensure a comprehensive understanding of the hotel's financial metrics and their impact on profitability. As this study primarily relies on quantitative financial data, primary

data collection may not be a major component. The main source of data will be secondary data, obtained from Soaltee Hotel Limited's published financial statements, annual reports, and relevant financial publications for a period of at least ten years. The collection of secondary data will mainly involve on its financial statements. Audited financial statements of Soaltee Hotel Limited for the last ten years are obtained. These statements include the income statement, balance sheet, and cash flow statement.

These documents are essential for calculating the key financial ratios and assessing the overall financial performance. Likewise, annual reports published by Soaltee Hotel Limited are also collected. These reports often contain management discussions, financial highlights, and strategic insights that can provide additional context to the numerical data. Additional data may be sourced from industry reports, market analysis, and relevant academic journals.

3.4 Data Analysis Techniques

Once the data is collected, it is organized systematically for easy access and analysis. Unique codes to different data sets are assigned for easy identification and retrieval and a structured database or spreadsheet is created to store financial data, ratios, and other relevant information. Data analysis tools are essential for interpreting the collected data, identifying patterns, and drawing meaningful conclusions. For the study on the financial performance of Soaltee Hotel Limited, Nepal, several data analysis tools will be employed to evaluate financial metrics and their impact on profitability. The data analysis tools selected for this study are designed to provide a comprehensive understanding of the financial performance of Soaltee Hotel Limited. The use of software tools will enhance the accuracy and efficiency of the analysis, ensuring reliable and actionable findings. Here are some of the key tools and techniques that will be used:

3.4.1 Financial Ratio Analysis

Ratio analysis involves calculating various financial ratios to assess different aspects of the company's performance. Ratio analysis is a fundamental tool in financial performance evaluation, enabling the assessment of various aspects of a company's financial health. For the study on the financial performance of Soaltee Hotel Limited,

ratio analysis will help in understanding the efficiency, liquidity, profitability, and solvency of the hotel. Below are the key financial ratios that will be analyzed:

a) Profitability Ratios:

Profitability ratios measure the ability of a company to generate profit from its operations. They are crucial for assessing the financial success and operational efficiency of the company.

- **Net Profit Margin:** Measures the percentage of revenue that remains as profit after all expenses.
- **Return on Assets (ROA):** Indicates how efficiently the company uses its assets to generate profit.
- **Return on Equity (ROE):** Measures the return generated on shareholders' equity.
- **Earnings Per Share (EPS):** Indicates the profitability of a company on a per-share basis.

b) Liquidity Ratios:

- **Current Ratio:** Assesses the company's ability to pay its short-term obligations with its current assets.
- **Quick Ratio:** Provides a more stringent measure of liquidity by excluding inventory from current assets.

c) Efficiency Ratios:

- **Total Asset Turnover Ratio:** Shows how efficiently the company is using its assets to generate sales.
- **Inventory Turnover Ratio:** Measures how quickly inventory is sold and replaced over a period.
- **Debtors Turnover Ratio:** Indicates how effectively the company collects its receivables.

3.4.2 Statistical Analysis

Statistical analysis involves collecting, organizing, interpreting, and presenting data to uncover patterns, relationships, and insights that inform decision-making. In the context of the financial performance of Soaltee Hotel Limited, statistical analysis can help understand how different financial ratios influence profitability and other performance metrics.

a) Descriptive Statistics

Descriptive statistics summarize the main features of the dataset through measures such as mean, median, mode, standard deviation, variance, and range. It provides a snapshot of the data, helping to understand the distribution and central tendencies.

- **Arithmetic Mean (Average)**

Arithmetic Mean is statistical constants, which allow us to comprehend in a single effort of the whole. Formula:

$$\bar{X} = \frac{\sum x}{n}$$

Where,

\bar{X} = Arithmetic Average

$\sum x$ = Summation for total values of the variable/observation

n = Number of items

- **Standard deviation (S.D)**

S.D is positive square root of the mean of the square of the deviations taken from the arithmetic mean.

Formula:

$$S.D(\sigma) = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Where,

\bar{X} = mean

n = number of item

- **Co-efficient of variation (C.V)**

C.V is an independent unit. Two distributions can be compared best with the help of C.V for their variability. The series for which the co-efficient of variation is greater is said to be more variable or conversely, less consistent, less uniform, less stable, or less homogeneous. On the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous.

$$C.V = \frac{\sigma}{\bar{x}} * 100$$

Where,

C.V= coefficient of variation

σ = Standard deviation

\bar{x} = mean

b) Regression Analysis

Regression analysis is a statistical method used to determine the relationship between a dependent variable (e.g., profitability) and one or more independent variables (e.g., financial ratios). Techniques include:

- **Multiple Regression**

Multiple regression is a statistical method used to examine the relationship between one dependent variable and two or more independent variables. It inspects the impact of multiple independent variables on a dependent variable to understand their combined effect. In the context of analyzing the financial performance of Soaltee Hotel Limited, multiple regression can help understand how various financial ratios collectively impact the hotel's profitability. The primary purpose of multiple regression analysis in this study is to determine the strength and nature of the relationship between profitability (the dependent variable) and multiple financial ratios (the independent variables).

- **Dependent and Independent Variables**

Profitability or net profit margin (NPM) of Soaltee Hotel Limited is characterized as Dependent Variable in the study. Key financial ratios including Current Ratio (CR), Inventory Turnover Ratio (ITR), Debtors' Turnover Ratio (DTR), Total Assets Turnover Ratio (TATR) are Independent Variables of the study.

- **Regression Model**

The multiple regression model can be expressed as:

$$(NPM) Y = \beta_0 + \beta_1(CR) + \beta_2(ITR) + \beta_3(DTR) + \beta_4(TATR) + \epsilon_i$$

Where:

- β_0 is the intercept.
- $\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients for the independent variables.
- ϵ_i is the error term.

3.4.3 Correlation Analysis

The correlation coefficient is a statistical measure that describes the strength and direction of the relationship between two variables. This helps in identifying whether changes in financial ratios are associated with changes in profitability. In the context of financial performance analysis for Soaltee Hotel Limited, understanding the correlation between different financial ratios and profitability can provide insights into how these ratios are interrelated and how they influence profitability.

- **Pearson Correlation Coefficient (r)**

The Pearson Correlation Coefficient is a powerful tool for measuring the linear relationship between two continuous variables. In the analysis of Soaltee Hotel Limited, it helps to understand how various financial ratios, such as the current ratio, inventory turnover ratio, debtors' turnover ratio, and total assets turnover ratio, relate to profitability metrics like ROA. This understanding can guide better financial decision-making and strategic planning.

Formula:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where,

r = Correlation coefficient

$$x = x - \bar{x}$$

$$y = y - \bar{y}$$

Correlation coefficient measures the linear relationship between two continuous variables. It ranges from -1 to +1.

- r = +1: Perfect positive correlation (as one variable increases, the other also increases).
- r = -1: Perfect negative correlation (as one variable increases, the other decreases).
- r = 0: No correlation (no linear relationship between the variables).

3.4.4 Software Tools & Graphical Presentation

Several software tools facilitate data analysis by providing robust functionalities for statistical computations, visualizations, and reporting. Two used tools in this study are:

- **Microsoft Excel:** Widely used for financial analysis due to its powerful functions, formulas, and data visualization capabilities.
- **SPSS (Statistical Package for the Social Sciences):** A comprehensive statistical analysis tool that provides advanced statistical functions and data management features.

Graphical presentation of data is crucial for visualizing trends, patterns, and relationships in the dataset. In the context of analyzing the financial performance of Soaltee Hotel Limited, appropriate table and bar graphs is used to effectively communicate insights derived from the data.

3.5 Conceptual Framework of Research

The conceptual framework provides a visual representation of the relationships between the variables involved in the study. It presents a clear and structured approach to investigate the financial performance of Soaltee Hotel Limited. It serves

as a guide for the research process, outlining the key constructs and hypothesized relationships. By understanding the relationships between financial ratios and profitability metrics, the study aims to provide valuable insights that can aid in strategic decision-making and enhance the financial management of the hotel. The conceptual framework focuses on the impact of various financial ratios on the profitability of the hotel.

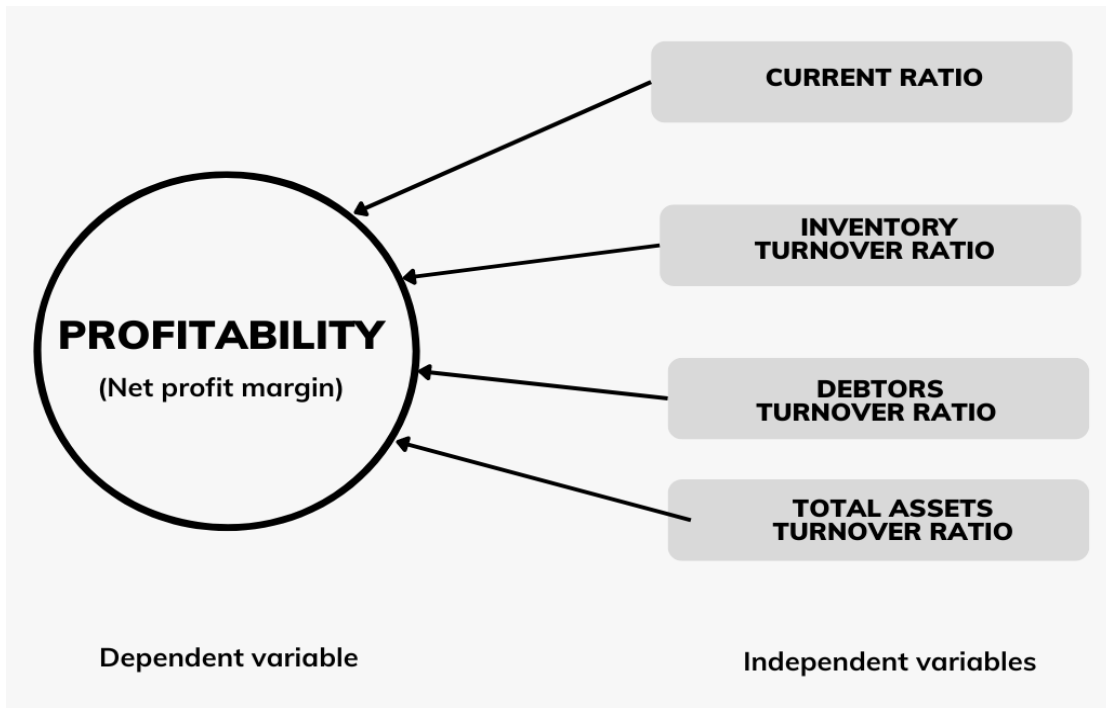


Figure 3.1: The conceptual framework of research

3.5.1 Variables

The following major variables of financial performance analysis that will be used in the study are explained briefly as;

- **Current Ratio (CR)**

The current ratio is a financial metric used to assess a company's ability to pay its short-term obligations with its short-term assets. It is a key indicator of a company's liquidity and overall financial health. The current ratio is calculated by dividing a company's current assets by its current liabilities.

Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Components:

a) Current Assets: These are assets that are expected to be converted into cash or used up within one year. Common examples include:

- Cash and cash equivalents
- Accounts receivable
- Inventory
- Prepaid expenses
- Short-term investments

b) Current Liabilities: These are obligations that are due to be settled within one year. Common examples include:

- Accounts payable
- Short-term debt
- Accrued liabilities
- Unearned revenue
- Current portion of long-term debt

Interpretation: In general, a current ratio of 2:1 is viewed as an acceptable standard.

a) Current Ratio > 2: If the ratio is 2 or greater, it indicates that the company has more current assets than current liabilities, suggesting good short-term financial health. This means the company can cover its short-term obligations with its short-term assets.

b) Current Ratio < 2: If the ratio falls below 2 it indicates that the company has more current liabilities than current assets, suggesting potential liquidity problems and a higher risk of financial distress. It could indicate potential challenges in fulfilling current obligations.

Nevertheless, the conventional benchmark of 2:1 may not be suitable for all types of businesses since it focuses on the amount of current assets rather than their overall quality.

- **Inventory Turnover Ratio (ITR)**

The inventory turnover ratio is a financial metric that measures how efficiently a company manages its inventory. It indicates how many times a company's inventory is sold and replaced over a specific period, typically a year. A higher inventory turnover ratio suggests that the company is effectively managing its inventory and selling products quickly, while a lower ratio may indicate overstocking or sluggish sales.

Formula:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

Components

a) **Cost of Goods Sold:** This represents the direct costs attributable to the production of the goods sold by a company. It includes the cost of materials and labor directly used to create the product.

b) **Average Inventory:** This is the average amount of inventory held by a company during a specific period. It can be calculated using the following formula.

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

Interpretation

a) **High Inventory Turnover Ratio:** Indicates efficient inventory management, implying that the company is selling goods quickly and may have strong sales. However, extremely high turnover may also suggest insufficient inventory levels, leading to potential stockouts and missed sales opportunities.

b) **Low Inventory Turnover Ratio:** Indicates poor inventory management, suggesting that the company may be overstocking or facing sluggish sales. This could lead to increased holding costs and potential obsolescence.

- **Debtors Turnover Ratio (DTR)**

The debtors turnover ratio, also known as the accounts receivable turnover ratio, is a financial metric that measures how efficiently a company collects its receivables or how quickly it converts its accounts receivable into cash within a specific period. This ratio is important for assessing the effectiveness of a company's credit policies and the quality of its receivables.

Formula:

$$\text{Debtor Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

Components

a) **Net Credit Sales:** This represents the total sales made on credit, excluding any returns or allowances. Net credit sales or net sales can be obtained from the company's income statement.

b) **Average Debtors:** This is the average amount of debtor a company has during a specific period. It can be calculated using the following formula:

$$\text{Average Debtors} = \frac{\text{Opening Debtor} + \text{Closing Debtor}}{2}$$

Interpretation

a) **High Debtors' Turnover Ratio:** Indicates that the company is efficient in collecting its receivables and has a good credit policy. It means that the company converts its receivables into cash quickly, which is positive for liquidity.

b) **Low Debtors' Turnover Ratio:** Suggests that the company may have issues with its credit policy or collection process, leading to slower collection of receivables. This could indicate potential problems with cash flow and higher risk of bad debts.

- **Total Assets Turnover Ratio (TATR)**

The total assets turnover ratio is a financial metric that measures the efficiency of a company in using its total assets to generate sales. It indicates how effectively a company utilizes its assets to produce revenue. A higher ratio suggests that the

company is using its assets more efficiently, while a lower ratio may indicate inefficiencies.

Formula:

$$\text{Total assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total assets}}$$

Components

- a) **Net Sales:** This represents the total revenue from goods sold or services provided during a specific period, after deducting returns, allowances, and discounts. It can be found on the company's income statement.
- b) **Average Total Assets:** This is the average value of all the assets a company owns during a specific period. It can be calculated using the following formula:

$$\text{Average Total Assets} = \frac{\text{Beginning Total Asset} + \text{Ending Total Asset}}{2}$$

Interpretation

- a) **High Total Assets Turnover Ratio:** Indicates that the company is effectively using its assets to generate sales. This suggests good operational efficiency.
- b) **Low Total Assets Turnover Ratio:** Suggests that the company may not be using its assets efficiently to generate sales, indicating potential operational inefficiencies or underutilization of assets.

- **Net Profit Margin (NPM)**

The net profit margin is a financial metric that measures the percentage of profit a company generates from its total revenue. It is a key indicator of a company's profitability and efficiency in controlling its costs relative to its sales. The net profit margin reveals how much of each dollar of revenue is retained as net profit after all expenses are deducted.

Formula:

$$\text{Net profit Margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100$$

Components

- a) **Net Profit:** Also known as net income or net earnings, this is the profit remaining after all expenses, including operating expenses, interest, taxes, and other costs, have been subtracted from total revenue. Net profit is typically found on the company's income statement.
- b) **Revenue:** This represents the total income generated from the sale of goods or services before any expenses are deducted. It is also found on the income statement.

Interpretation

- a) **High Net Profit Margin:** Indicates that the company is efficient in managing its costs and generating profit from its revenue. It suggests strong profitability and effective cost control.
- b) **Low Net Profit Margin:** Suggests that the company may be facing high costs or inefficiencies, leading to lower profitability. This could be due to high operating expenses, high cost of goods sold, or other financial challenges.

Other Financial Ratios

- **Quick Ratio (QR)**

The quick ratio, also known as the acid-test ratio, is a financial metric used to evaluate a company's short-term liquidity. It measures the ability of a company to meet its short-term obligations using its most liquid assets, excluding inventory. This ratio is more conservative than the current ratio because it excludes inventory, which may not be easily converted into cash.

Formula:

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Components

- a) **Quick Assets:** These are current assets that can be quickly converted into cash. They typically include:
 - Cash and cash equivalents

- Marketable securities
- Accounts receivable
- Short-term investments

Inventory is excluded from quick assets because it may take longer to convert into cash.

b) Current Liabilities: These are obligations that the company needs to settle within one year. Common examples include:

- Accounts payable
- Short-term debt
- Accrued liabilities
- Other short-term obligations

Interpretation

- **Quick Ratio > 1:** Indicates that the company has more quick assets than current liabilities, suggesting good short-term financial health and the ability to cover its short-term obligations without selling inventory.
- **Quick Ratio = 1:** Indicates that the company's quick assets are equal to its current liabilities, suggesting that it can cover its short-term obligations but has no surplus.
- **Quick Ratio < 1:** Indicates that the company has fewer quick assets than current liabilities, suggesting potential liquidity problems and a higher risk of financial distress.

Usually, it was commonly accepted that a ratio of 1:1 was considered to be adequate. However, it is important not to strictly rely on this rule as a company with a ratio higher than 1 may struggle to meet its short-term obligations.

- **Return on Assets (ROA)**

Return on Assets (ROA) is a financial ratio that indicates how profitable a company is relative to its total assets. It measures the efficiency of a company in using its assets to

generate profit. ROA is an important indicator of a company's operational efficiency and management effectiveness.

Formula:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Components

- a) **Net Profit:** This is the total profit of a company after all expenses, taxes, and costs have been deducted from total revenue. Net income can be found on the company's income statement.
- b) **Total Assets:** These are all the resources owned by a company, including both current and non-current assets. Total assets can be found on the company's balance sheet.

Interpretation

- a) **High ROA:** Indicates that the company is effectively utilizing its assets to generate profit. A high ROA suggests good management and operational efficiency.
- b) **Low ROA:** Suggests that the company may not be using its assets efficiently, indicating potential inefficiencies or poor management performance.

Return on Equity (ROE)

Return on Equity (ROE) is a financial ratio that measures a company's ability to generate profit from its shareholders' equity. It indicates how effectively the management is using the equity financing provided by shareholders to grow the company's earnings. ROE is a key indicator of financial performance and is widely used by investors to assess the profitability of their investment in the company.

Formula:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}} \times 100$$

Components

- a) **Net Profit:** This is the total profit of a company after all expenses, taxes, and costs have been deducted from total revenue. Net income can be found on the company's income statement.
- b) **Shareholders' Equity:** This represents the net value of the company, which is the amount that would be returned to shareholders if all assets were liquidated and all debts paid off. Shareholders' equity is found on the company's balance sheet and includes common stock, retained earnings, and additional paid-in capital.

Interpretation

- a) **High ROE:** Indicates that the company is efficiently using the equity invested by shareholders to generate profit. A high ROE suggests strong financial performance and effective management.
- b) **Low ROE:** Suggests that the company may not be using its equity efficiently, indicating potential inefficiencies or poor management performance.

Earnings Per Share (EPS)

Earnings Per Share (EPS) is a financial metric that indicates the profitability of a company on a per-share basis. It represents the portion of a company's profit allocated to each outstanding share of common stock, providing a measure of the company's profitability from the shareholders' perspective. EPS is a key indicator used by investors to assess a company's financial health and profitability.

Formula:

$$\text{Earnings per Share} = \frac{\text{Net Profit} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

Components

- a) **Net Profit:** This is the total profit of a company after all expenses, taxes, and costs have been deducted from total revenue. Net income is found on the company's income statement.

- b) Dividends on Preferred Stock:** Preferred dividends are subtracted from net income because EPS is calculated for common shareholders, and preferred dividends are typically fixed and prioritized.
- c) Average Outstanding Shares:** This is the weighted average number of common shares outstanding during the reporting period. It accounts for any changes in the number of shares over the period, such as stock splits or share buybacks.

Interpretation

- a) Higher EPS:** Suggests that the company is more profitable relative to its competitors, indicating strong management, efficient operations, or a competitive advantage in the market.
- b) Lower EPS:** May indicate potential issues within the company or a lack of competitiveness in the industry. It can be a red flag for investors to investigate further.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Ratios Analysis

The financial performance of Soaltee Hotel Limited is a critical gauge of its efficiency, profitability, and long-term sustainability. By delving into the company's financial metrics, cost management strategies, and investment decisions, stakeholders can gain a deeper understanding of its operational dynamics and market positioning. This study focuses on the financial performance of Soaltee Hotel Limited, examining key metrics, trends, and factors affecting its financial outcomes. By studying financial statements, ratios, and performance indicators valuable insights are provided for stakeholders interested in the financial landscape of the hospitality industry in Nepal and the implications for Soaltee Hotel's future growth and sustainability.

4.1.1 Current Ratio

The current ratio is a fundamental measure of a company's liquidity and short-term financial health. It is a liquidity ratio that measures a company's ability to cover its short-term obligations with its short-term assets. It indicates whether a company has enough current assets to cover its current liabilities, providing insights into its operational efficiency and risk profile. By assessing the current ratio, investors, creditors, and analysts can determine how well a company is positioned to pay its bills and manage its working capital. While a higher current ratio generally suggests better liquidity, it is essential to consider the quality of the assets, industry benchmarks, and other financial metrics for a comprehensive analysis. The formula for determining the current ratio is as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

As indicated in table 4.1, the current ratio of Soaltee hotel exhibited a consistent increase throughout the initial seven years of the study period. However, there was a decline in the last three years. Despite falling below the standard 2:1 ratio, it would be premature to label the hotel's liquidity position as weak. It is essential to consider that

these figures solely represent quantitative aspects and may not reflect the qualitative aspects of the hotel's financial standing. The unique nature of the hotel industry warrants a different perspective, where a current ratio of 1:1 is deemed acceptable.

Table 4.1
Current Ratio

(Rs. in Millions)

Fiscal Year (A.D)	Current Assets (NRs.)	Current Liabilities (NRs.)	Current Ratio (Times)
2012/13	507.48	520.18	0.98
2013/14	677.59	613.78	1.10
2014/15	817.06	666.09	1.23
2015/16	863.74	668.69	1.29
2016/17	951.68	627.76	1.52
2017/18	629.86	409.30	1.54
2018/19	698.55	442.62	1.58
2019/20	591.47	443.41	1.33
2020/21	349.00	561.36	0.62
2021/22	445.74	549.28	0.81
Mean			1.2
S.D			0.35
CV(%)			29.17%

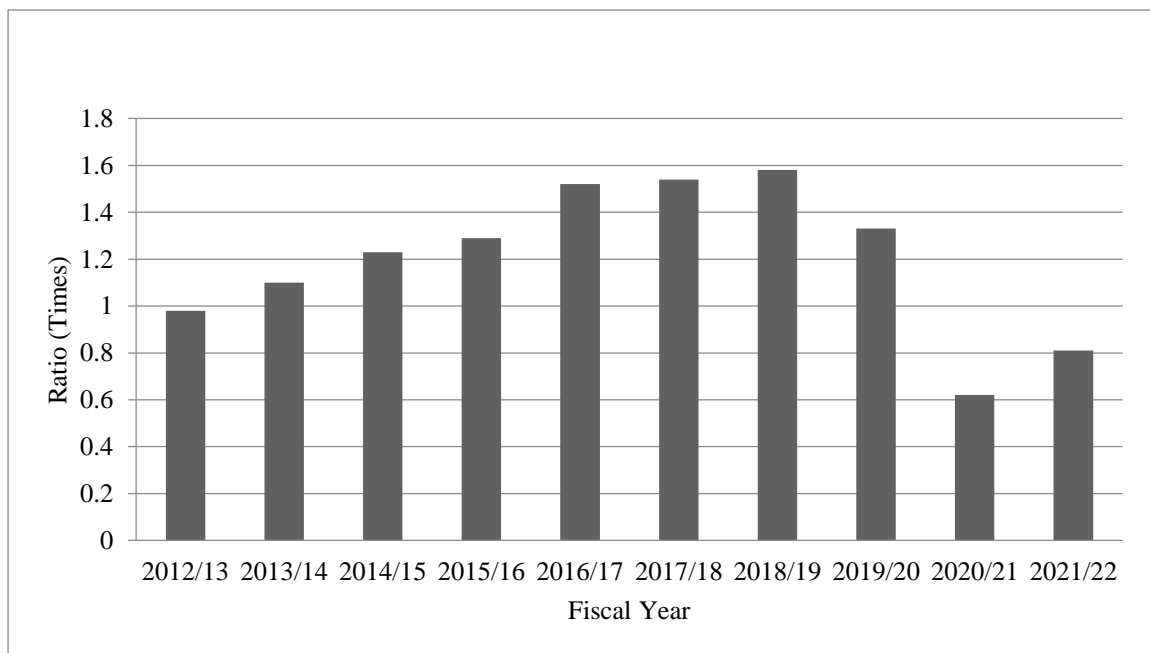
Source: Annual Reports of SHL (Refer Appendix -1)

In the realm of hospitality, establishments such as hotels face numerous short-term obligations, like employee salaries, equipment leases, and other immediate debts. This industry is known for its fluctuations, underscoring the importance of hotels maintaining enough liquid assets to meet these financial commitments, even during tough economic times. Shareholders look for a current ratio exceeding 1 as a sign of strength within the hospitality sector.

As per the data presented in figure 4.1, Soaltee hotel appears to be in a healthy liquidity position from the fiscal year 2013/14 to 2019/20, given that its current ratio consistently surpassed 1, which is considered favorable for companies in this industry.

However, the hotel's current ratio fell below 1 in the initial and final two years of the analysis, indicating a less than ideal liquidity position during those particular periods. In the last two FY current ratio was below 1 because of the effect of covid-19 pandemic. The pandemic effect was huge in the world tourism and hotel industry in those years. Hotel industry is very sensitive business that even small incident in the related subject can make big impact on it and covid-19 was very big problem throughout the world at that time.

Figure 4.1
Current Ratio



FY 2020/21 was the highly affected year in the industry all over the world because of the pandemic. Nevertheless, the most recent FY 2021/22 showed improvement in the current ratio compared to the previous year, demonstrating that the hotel management successfully worked towards maintaining a solid liquidity position.

4.1.2 Quick Ratio

The quick ratio is a critical metric for assessing a company's short-term liquidity and its ability to meet short-term obligations using its most liquid assets. By excluding inventory, it provides a conservative measure of financial health, offering valuable insights into the company's operational efficiency and creditworthiness. The quick ratio is considered a more stringent measure of liquidity compared to the current ratio

because it excludes inventory, which may not be easily converted into cash within a short period. The ideal quick ratio can vary by industry, but a common benchmark ratio is 1:1. This indicates that the company has sufficient liquid assets to cover its short-term liabilities. Industries with high inventory turnover might operate efficiently with lower quick ratios, while industries with longer inventory cycles might aim for higher quick ratios. The formula for determining the quick ratio is as follows:

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Based on the information provided in table 4.2, it appears that the overall liquidity ratio of the hotel experienced steady growth during the first half of the observation period.

Table 4.2
Quick Ratio

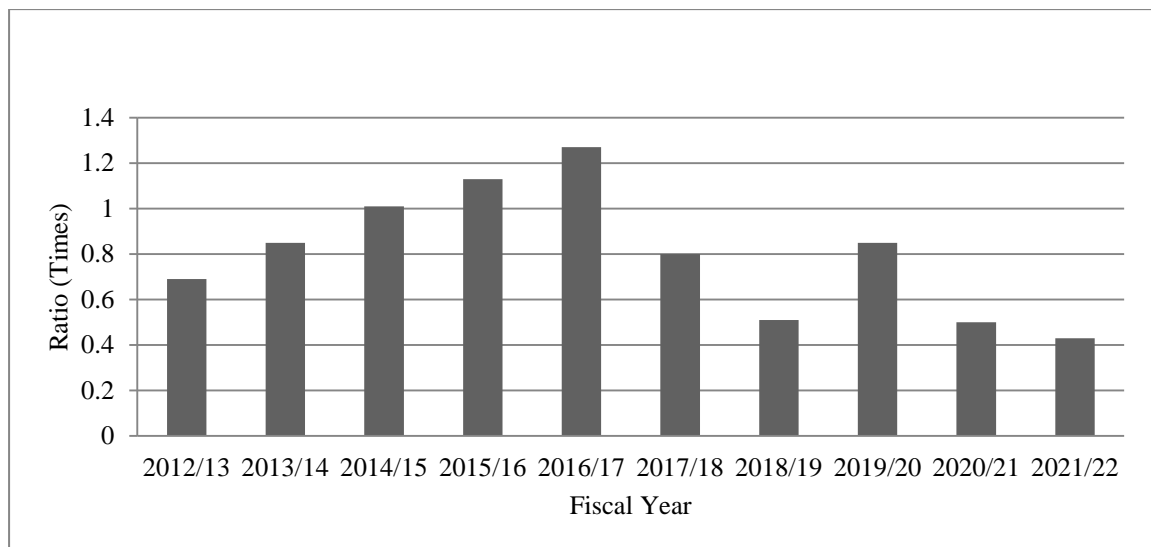
(Rs. in Millions)

Fiscal Year (A.D)	Quick Assets (NRs.)	Current Liabilities (NRs.)	Quick Ratio (Times)
2012/13	361.12	520.18	0.69
2013/14	518.83	613.78	0.85
2014/15	672.14	666.09	1.01
2015/16	753.06	668.69	1.13
2016/17	799.96	627.76	1.27
2017/18	328.56	409.30	0.80
2018/19	225.30	442.62	0.51
2019/20	376.63	443.41	0.85
2020/21	278.85	561.36	0.50
2021/22	237.50	549.28	0.43
Mean			0.804
S.D			0.31
CV(%)			38.55%

Source: Annual Reports of SHL (Refer Appendix -2)

However, following the fiscal year 2017/18, it began to exhibit a decreasing trend. Throughout the seven-year duration under scrutiny, the quick ratio consistently fell below the standard 1:1 ratio. Based on the information provided in table 4.2, it appears that the overall liquidity ratio of the hotel experienced steady growth during the first half of the observation period. However, following the fiscal year 2017/18, it began to exhibit a decreasing trend. Throughout the seven-year duration under scrutiny, the quick ratio consistently fell below the standard 1:1 ratio. Typically, a quick ratio of 1:1 is deemed satisfactory. Although the quick ratio fell below the 1:1 mark in the initial two years of the study period, it managed to reach 1:1 for three consecutive years after the fiscal year 2014/15. In the fiscal year 2012/13, the quick ratio stood at 0.69:1, but it rose to 1.27:1 by the fiscal year 2016/17.

Figure 4.2
Quick Ratio



This indicates that the hotel management successfully maintained a sufficient level of liquidity to cover short-term obligations without resorting to the disposal of long-term assets. However, in subsequent years, the quick ratio began to decline. The quick ratio dropped to 0.80:1 in the fiscal year 2017/18, and further decreased to 0.51:1 in the fiscal year 2018/19. Subsequently, in the fiscal year 2019/20, there was a notable increase as the ratio climbed to 0.85:1. Nonetheless, the following two fiscal years witnessed a significant downturn in the ratio. Throughout the last five years of the observation period, the quick ratio consistently remained below the standard 1:1

threshold, indicating that the hotel management struggled to maintain an adequate level of liquidity during this period.

4.1.3 Inventory Turnover Ratio

The inventory turnover ratio is a vital metric for assessing a company's efficiency in managing its inventory and its ability to generate sales. By indicating how many times inventory is sold and replaced over a period, it provides insights into operational performance, cash flow management, and risk management. However, for a comprehensive analysis, the ratio should be considered alongside other financial metrics and within the context of industry norms and seasonal variations. The ideal inventory turnover ratio varies by industry. For example, industries with perishable goods, like food and beverages, typically have higher turnover ratios compared to industries with durable goods, like machinery. Comparing the ratio with industry averages provides a more meaningful analysis. The formula for determining the inventory turnover ratio is as follows:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

Table 4.3 demonstrates the fluctuating inventory turnover ratio of Soaltee hotel throughout the research period. A higher ratio is preferable as it signifies effective inventory management. Evaluating inventory turnover is crucial because each turnover generates gross profit. The hotel operates within an industry known for its cyclical nature, with fluctuating guest flows throughout the year. Therefore, this ratio holds particular significance for hotels, necessitating ongoing monitoring to ensure optimal inventory levels and maximize sales opportunities.

The chart in figure 4.3 illustrates that the hotel's inventory turnover ratio is not satisfactory, as it did not show consistent improvement over the duration of the study. The ratio increased from 14.47 times per year in FY 2012/13 to 18.53 times per year in FY 2014/15. However, there was a slight decline in the ratio in FY 2015/16, attributed to a decrease in clients following a major earthquake in Nepal that year. Despite this setback, the hotel managed to maintain an adequate level of inventory to avoid missing out on any sales opportunities due to stock shortages. The following year, the ratio rose to 18.89 times per year, but it fluctuated in the subsequent years.

Table 4.3
Inventory Turnover Ratio

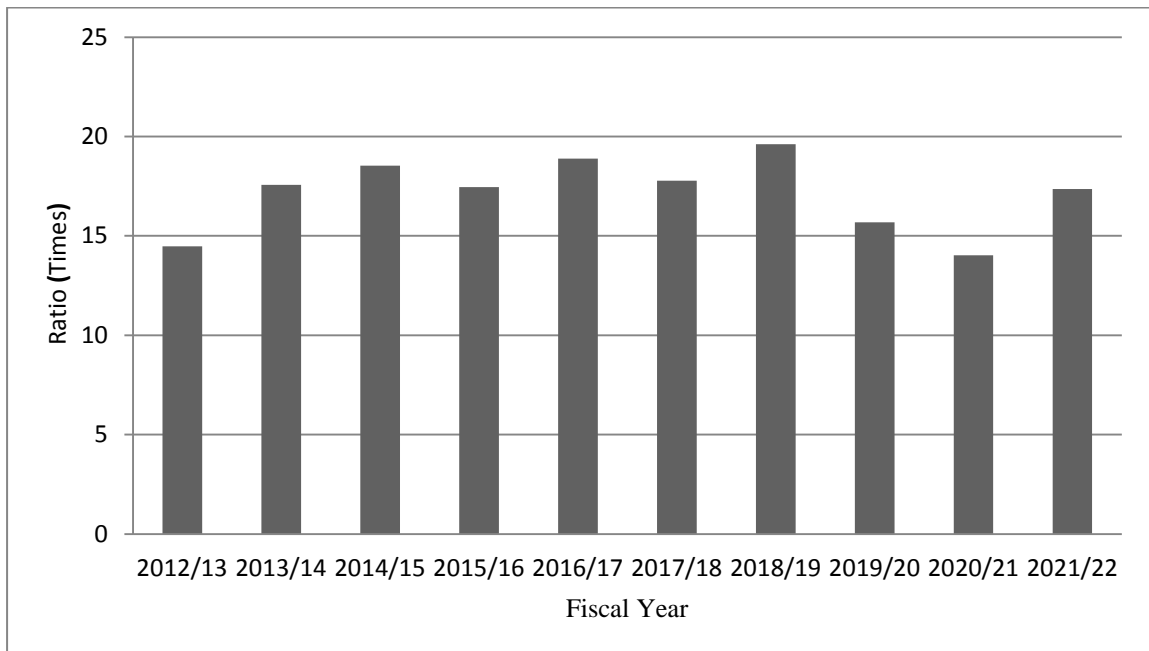
(Rs. in Millions)

Fiscal Year (A.D)	Cost of Goods Sold (NRs.)	Average Inventory (NRs.)	Inventory Turnover Ratio (Times)
2012/13	1230.85	63.81	14.47
2013/14	1265.09	72.20	17.56
2014/15	1278.49	69.50	18.53
2015/16	1274.22	73.26	17.45
2016/17	1360.55	72.91	18.89
2017/18	1206.09	67.80	17.78
2018/19	1351.92	68.92	19.61
2019/20	1012.92	64.52	15.69
2020/21	595.36	42.47	14.02
2021/22	976.83	56.24	17.36
Mean			17.14
S.D			1.23
CV(%)			7.18%

Source: Annual Reports of SHL (Refer Appendix -3)

The inventory turnover ratio rose from 17.78 times per year in FY 2017/18 to 19.61 times per year in FY 2018/19. Unfortunately, there was a decrease in the ratio in FY 2019/20 (15.69 times) and FY 2020/21 (14.02 times) due to the impact of the COVID-19 pandemic on global tourism and the hotel industry. However, in the following fiscal year, the hotel's inventory turnover ratio improved and returned to 17.36 times per year. This indicates that post-pandemic, the hotel successfully maintained an appropriate inventory level to ensure that no sales opportunities were missed due to stock shortages.

Figure 4.3
Inventory Turnover Ratio



4.1.4 Debtors Turnover Ratio

The debtors turnover ratio, is a financial metric that measures how efficiently a company collects revenue from its credit sales. It indicates the number of times a company’s accounts receivable are converted into cash during a specific period, usually a year. This ratio is crucial for assessing the effectiveness of a company’s credit policies and its ability to manage and collect debts. It is a vital metric for assessing a company’s efficiency in managing and collecting its receivables.

It provides valuable insights into the effectiveness of credit policies, cash flow management, and the risk of bad debts. While a higher ratio generally indicates better performance, it should be analyzed in conjunction with industry standards, historical performance, and other financial metrics for a comprehensive understanding of a company’s financial health. The formula for determining the debtors turnover ratio is as follows:

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit sales}}{\text{Average Debtors}}$$

The Soaltee hotel's ratio of turnover for debtors during the examined year is presented below in the table 4.4. The data in table 4.4 displays the fluctuation in the debtor's

turnover ratio for Soaltee hotel throughout the study period. A higher turnover ratio for debtors indicates that the hotel efficiently collects the payments for accounts receivable, suggesting that the company attracts a significant number of quality customers who promptly settle their credit purchases.

In the illustration 4.4, the hotel's debtor turnover ratio experienced fluctuations on an annual basis. In the fiscal year 2012/13, the ratio stood at 7.98 times, signifying that the hotel managed to collect credit sales almost 8 times a year or within an average period of 45 days. Subsequently, the ratio saw a decline, suggesting that the time taken to collect credit had increased to an average of 65 days during that period. It is possible that the management had relaxed the credit policy to attract more business, resulting in a lower debtor turnover ratio.

Table 4.4
Debtors Turnover Ratio

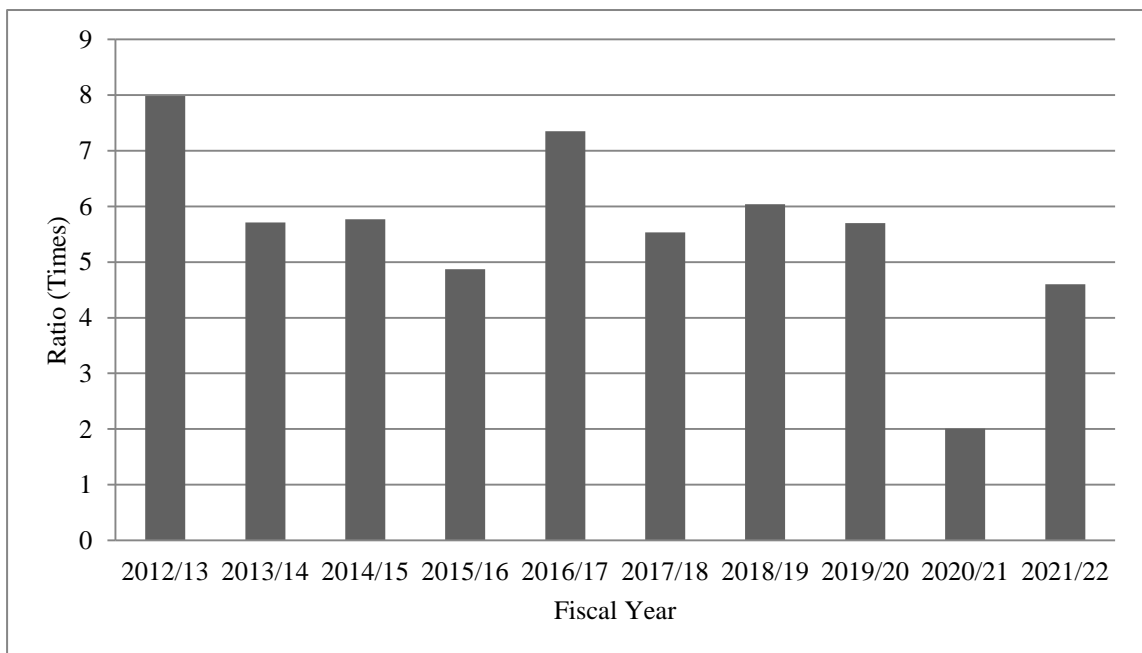
(Rs. in Millions)

Fiscal Year (A.D)	Net Sales (NRs.)	Closing Debtor (NRs.)	Debtors Turnover Ratio (Times)
2012/13	1207.41	151.29	7.98
2013/14	1331.77	233.10	5.71
2014/15	1364.97	236.64	5.77
2015/16	1139.70	233.90	4.87
2016/17	1550.54	211.08	7.35
2017/18	1568.90	283.91	5.53
2018/19	1734.15	287.12	6.04
2019/20	1151.94	202.87	5.70
2020/21	420.21	208.96	2.01
2021/22	1292.56	280.93	4.60
Mean			5.56
S.D			1.59
CV(%)			28.60 %

Source: Annual Reports of SHL (Refer Appendix -4)

However, the ratio saw a significant increase in the fiscal year 2016/17, reaching 7.35 times and reducing the credit collection period to 49 days. This surge in ratio also contributed to enhancing the hotel's liquidity position. The following fiscal year, there was a decrease to 5.53 times in FY 2017/18. The ratio peaked in the latter half of the study period in FY 2018/19, reaching 6.04 times, but subsequently dropped due to the impact of the Covid-19 pandemic, hitting a low of 2.01 times in FY 2020/21. Nevertheless, there was a slight increase in the ratio in FY 2021/22 to 4.60 times.

Figure 4.4
Debtors Turnover Ratio



4.1.5 Total Asset Turnover Ratio

The total asset turnover ratio is a financial metric that measures a company's efficiency in using its assets to generate sales revenue. This ratio helps investors and analysts understand how well a company is leveraging its assets to drive revenue growth. It provides valuable insights into operational efficiency, asset management, and overall performance. While a higher ratio generally indicates better asset utilization, it should be analyzed in the context of industry standards, historical performance, and other financial metrics for a comprehensive understanding of a company's financial health.

The ideal total asset turnover ratio varies by industry. Capital-intensive industries, such as manufacturing and utilities, typically have lower turnover ratios due to significant investments in fixed assets. Conversely, service-oriented and retail industries may have higher turnover ratios. Comparing the ratio with industry averages and historical performance provides a more accurate analysis. The formula for determining the total asset turnover ratio is as follows:

$$\text{Total Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Average Total Assets}}$$

Table 4.5 indicates that the total assets utilization ratio of Soaltee hotel was predominantly on a downward trend throughout the study period, with intermittent fluctuations.

Table 4.5
Total Asset Turnover Ratio

(Rs. in Millions)

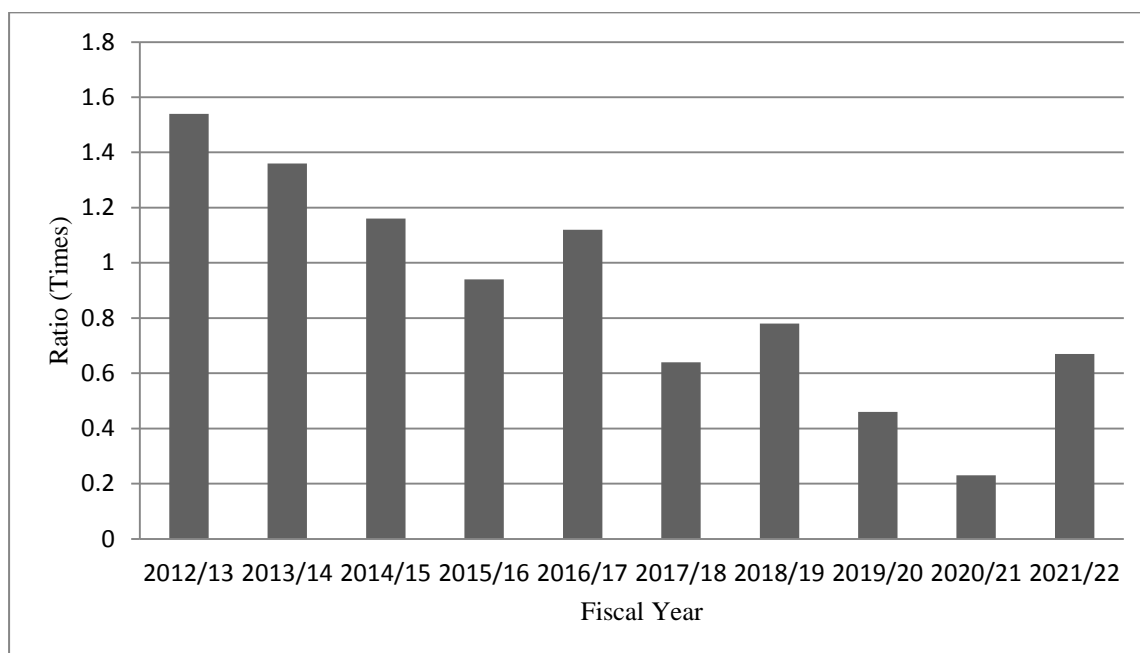
Fiscal Years (A.D)	Net Sales (NRs.)	Total Asset (NRs.)	Total Asset Turnover Ratio (Times)
2012/13	1207.41	785.78	1.54
2013/14	1331.77	975.92	1.36
2014/15	1364.97	1173.50	1.16
2015/16	1139.70	1212.90	0.94
2016/17	1550.54	1379.98	1.12
2017/18	1568.90	2465.79	0.64
2018/19	1734.15	2217.18	0.78
2019/20	1151.94	2513.53	0.46
2020/21	420.21	1818.11	0.23
2021/22	1292.56	1930.67	0.67
Mean			0.89
S.D			0.3
CV(%)			33.70 %

Source: Annual Reports of SHL (Refer Appendix -5)

There is no established criterion identified in the research regarding the optimal level of asset utilization ratio. Nevertheless, a higher assets utilization ratio is favored as it

suggests that the company has effectively utilized the assets to generate greater sales. Hotels are required to invest significant funds in expanding their operations and acquiring various types of fixed assets and other tangible assets to cater to their guests. Therefore, analyzing this ratio to evaluate the hotel's performance is crucial.

Figure 4.5
Total Assets Turnover Ratio



The graph in Figure 4.5 illustrates a downward trend in the total assets turnover ratio of the hotel from FY 2012/13, where the ratio stood at 1.54, to FY 2015/16, marking the lowest ratio of 0.94 within the initial five years of the study period. Subsequently, there was a notable increase in the ratio to 1.12 in FY 2016/17, but it soon began to decline again in the following fiscal year. By FY 2018/19, the ratio had dropped to 0.78 times, further plummeting to 0.23 times by FY 2020/21, the lowest point observed during the study period. A ratio of 0.23 times indicates that for every unit of currency invested in assets, only 0.23 currency units in sales were generated. The consistent decrease in this ratio suggests that the company may have been excessively allocating resources towards property, equipment, and machinery during that timeframe. However, there was a significant improvement in the ratio in FY 2021/22, climbing to 0.67 times, demonstrating that for every unit of currency invested in assets, 0.67 currency units in sales were generated.

4.1.6 Net Profit Margin

The net profit margin is a key financial metric that measures the percentage of revenue that remains as profit after all expenses have been deducted. It provides insights into a company's overall profitability and efficiency in managing its costs relative to its revenue. This ratio is crucial for assessing a company's financial health, sustainability, and ability to generate profit from its operations. While a higher margin generally indicates better performance, it should be analyzed in the context of industry standards, historical trends, and other financial metrics for a comprehensive understanding of a company's profitability.

The ideal net profit margin varies by industry. Industries with high fixed costs or intense competition may have lower net profit margins compared to those with lower operating costs or less competition. Comparing the margin with industry averages and historical performance provides a more accurate analysis. The formula for determining the net profit margin is as follows:

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}} \times 100$$

Table 4.6 illustrates that the profit percentage of Soaltee inn varied throughout the examination period. A higher percentage is preferable to a lower percentage as it indicates that the company can convert more of its sales into profits by the end of the period. Soaltee hotels have maintained an average net profit margin of 8% during the period under study. This indicates that the hotel is making 0.08 rupees in profit for every 1 rupee of revenue it generates.

The profit margin fluctuated between 14.96% and 17.49% from FY 2012/13 to FY 2014/15. However, following a significant earthquake in FY 2015/16, the net margin dropped to 8.13%. Despite this setback, the hotel managed to rebound in the subsequent years, achieving a net margin of 12.44% in FY 2016/17 and 16.30% in FY 2018/19.

Table 4.6
Net Profit Margin

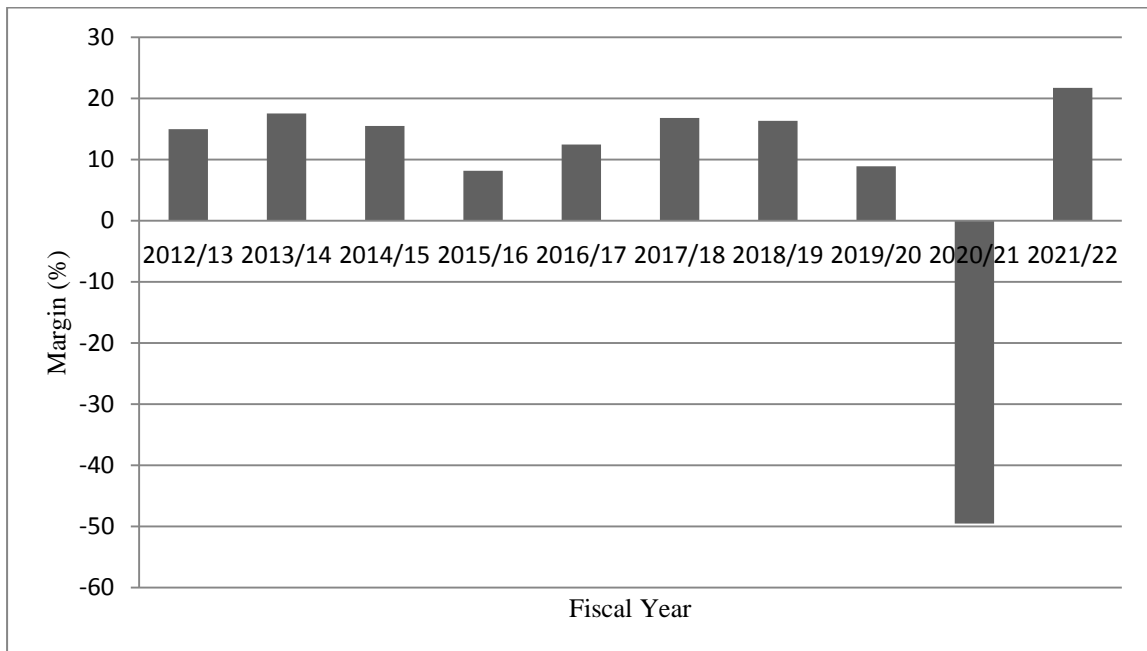
(Rs. in Millions)

Fiscal Years (A.D)	Net Profit (NRs.)	Revenue (NRs.)	Net Profit Margin (%)
2012/13	188.07	1257.27	14.96
2013/14	243.97	1394.78	17.49
2014/15	220.09	1424.16	15.45
2015/16	99.88	1228.46	8.13
2016/17	203.54	1636.12	12.44
2017/18	279.33	1664.20	16.78
2018/19	299.01	1834.33	16.30
2019/20	112.04	1264.01	8.86
2020/21	(224.93)	453.93	(49.55)
2021/22	297.24	1369.12	21.71
Mean			8.26
S.D			19.63
CV(%)			2.38 %

Source: Annual Reports of SHL (Refer Appendix -6)

However, the following year saw a decrease in profit margin to 8.86%. This decline was attributed to the impact of the global pandemic known as COVID-19. The business experienced a significant blow in the financial year 2020/21 with the net margin plummeting to a negative 49.55%. Nevertheless, as the effects of the pandemic began to wane, the hotel managed to bounce back in the subsequent year (FY 2021/22), achieving a net margin of 21.71%.

Figure 4.6
Net Profit Margin



4.1.7 Return on Assets

Return on assets (ROA) is a financial metric that measures how effectively a company uses its assets to generate profit. It is an indicator of management's efficiency in employing the company's assets to produce earnings and is crucial for assessing overall operational performance. ROA is particularly useful for comparing the performance of companies within the same industry. It provides valuable insights into management performance, operational efficiency, and the overall effectiveness of a company's asset utilization. While a higher ROA generally indicates better performance, it should be analyzed in the context of industry standards, historical trends, and other financial metrics for a comprehensive understanding of a company's financial health and efficiency. The formula for determining the return on assets is as follows:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Based on the data in table 4.7, the performance of Soaltee hotel in terms of return on assets varied throughout the research duration. Return on assets indicates the ability of a company to generate profits from the assets it has acquired.

Table 4.7
Return on Assets

(Rs. in Millions)

Fiscal Years (A.D)	Net Profit (NRs.)	Total Assets (NRs.)	Return on Assets (%)
2012/13	188.07	785.78	23.94
2013/14	243.97	975.92	25.00
2014/15	220.09	1173.50	18.75
2015/16	99.88	1212.90	8.24
2016/17	203.54	1379.98	14.75
2017/18	279.33	2465.79	11.33
2018/19	299.01	2217.18	13.48
2019/20	112.04	2513.53	4.45
2020/21	(224.93)	1818.11	(12.37)
2021/22	297.24	1930.67	15.39
Mean			12.3
S.D			12.50
CV(%)			1.02 %

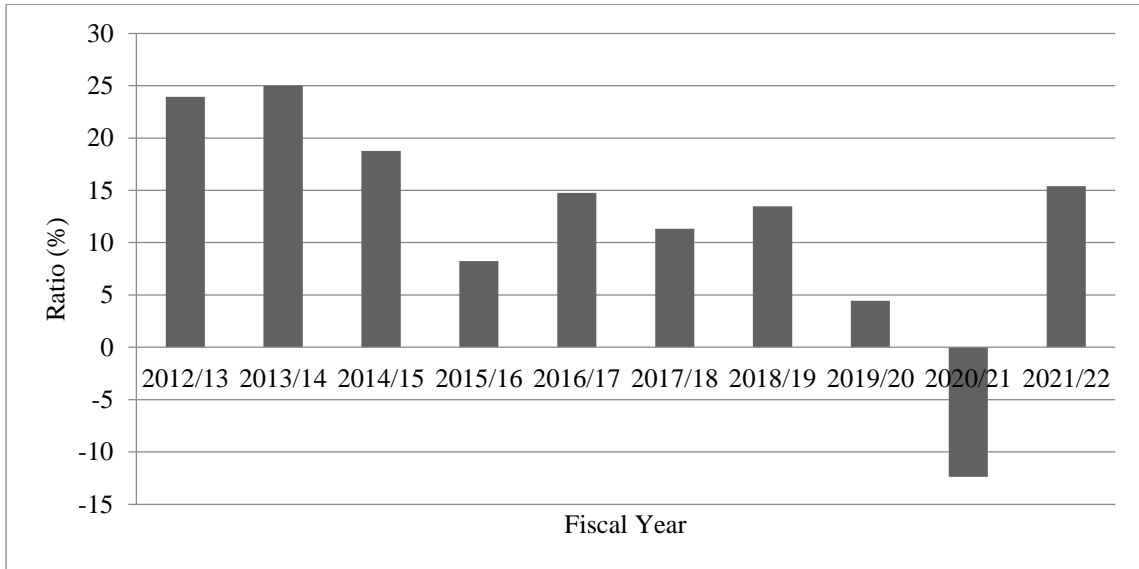
Source: Annual Reports of SHL (Refer Appendix -7)

The hotel's asset returns were on a downward trend in comparison to previous years. The return on assets (ROA) saw its peak in the first two years, FY 2012/13 (23.94%) and FY 2013/14 (25.00%). However, it began to decline afterward. The lowest ROA for the hotel was recorded in FY 2015/16, at 8.24%, mainly due to the impact of an earthquake on the hotel industry. Subsequently, in the following year, the hotel's ROA increased to 14.75%. Over the last five years of the study period, the hotel's return on assets experienced a decreasing trend, with the exception of FY 2018/19 and FY 2021/22. These two years saw an increase in ROA compared to the previous year, while in the remaining three years, the ROA decreased.

Prior to the pandemic, the hotel's return on assets had been on the rise following the earthquake. In FY 2017/18, the hotel achieved an ROA of 11.33%, which increased to 13.48% in the subsequent year. However, with the onset of COVID-19 impacting the

business towards the end of 2019, the ROA began to decline. In FY 2019/20, the hotel's ROA hit a low of 4.45%, indicating that the company was only able to earn 0.0445 rupees for every 1 rupee invested in the hotel's assets.

Figure 4.7
Return on Assets



In the following year, the Return on Assets (ROA) had dropped significantly to -12.37%. This decline in ROA suggests that the hotel was unable to boost its earnings in line with the growth of its assets in the latter part of the research period. However, in the subsequent year, it managed to reverse the ROA to 15.39%.

4.1.8 Return on Equity

Return on equity (ROE) is a vital metric for evaluating a company's efficiency in generating profit from shareholders' equity. ROE is a key indicator of financial performance, particularly for investors who want to understand how well their equity is being utilized to generate returns. While a higher ROE generally indicates better performance, it should be analyzed in the context of industry standards, historical trends, and other financial metrics for a comprehensive understanding of a company's financial health and efficiency. The formula for determining the return on equity is as follows:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}} \times 100$$

The data in table 4.8 indicates that the hotel's profit relative to its equity varied throughout the study period. The ideal ROE varies by industry. Capital-intensive industries might have lower ROEs compared to technology or service-oriented industries. Comparing the ROE with industry averages and historical performance provides a more meaningful analysis.

Table 4.8
Return on Equity

(Rs. in Millions)

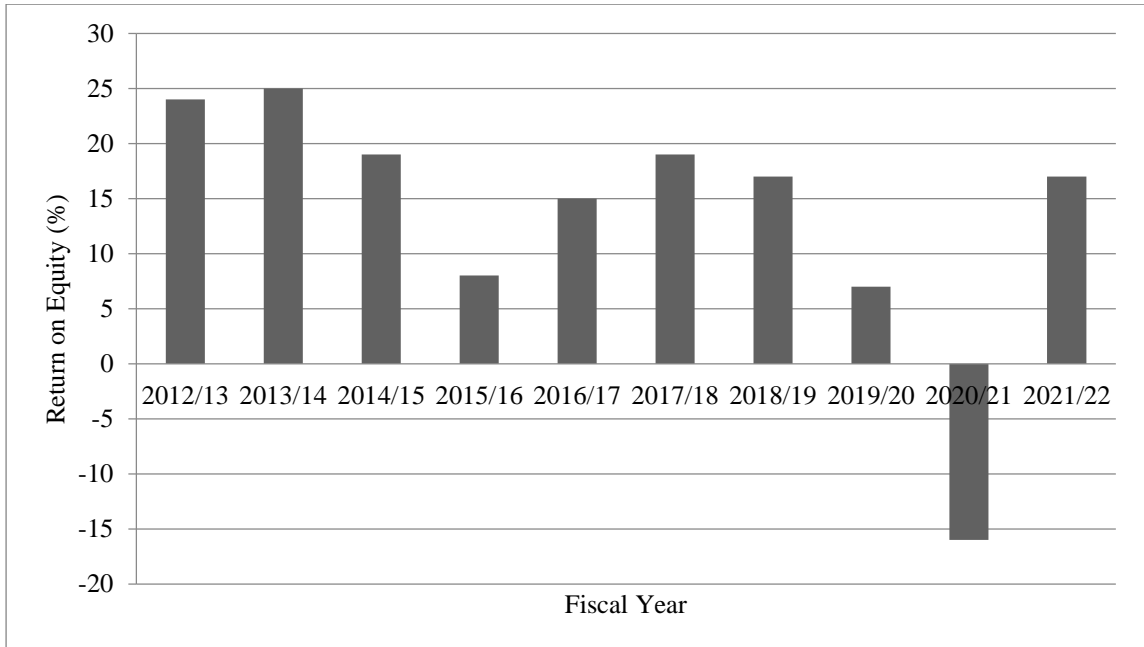
Fiscal Years (A.D)	Earnings Available to Equity Shareholders (NRs.)	Equity Shareholders Fund (NRs.)	Return on Equity (%)
2012/13	188.07	785.78	24
2013/14	243.97	975.92	25
2014/15	220.09	1164.81	19
2015/16	99.88	1205.25	8
2016/17	203.54	1373.29	15
2017/18	274.33	1443.83	19
2018/19	293.93	1632.96	17
2019/20	116.27	1661.00	7
2020/21	(244.93)	1527.95	(16)
2021/22	304.69	1792.32	17
Mean			13.5
S.D			12.72
CV(%)			0.94 %

Source: Annuals Report of SHL (Refer Appendix -8)

It is evident from the illustration 4.8 that the profit margin of the hotel experienced a consistent downward trajectory throughout the observation period. The return on investment was at 25% in the financial year 2013/14, marking the peak. Subsequently, it dropped to 8% in the financial year 2015/16. It then witnessed an upswing to 19% in the financial year 2017/18. However, following this financial year, there was a decline to a negative 16% in the financial year 2020/21. The hotel sector necessitates a significant amount of resources to expand and sustain its operations. Hence, it appears that the hotel has been steadily bolstering its financial foundation through the

issuance of bonus shares to secure the essential funds for business expansion. Consequently, this strategy led to a decrease in the return on equity during the initial years of the period.

Figure 4.8
Return on Equity



In the fiscal year 2019/20, the return on equity (ROE) saw a decrease primarily due to the impact of the COVID-19 pandemic on the hotel industry. The pandemic began to affect regions worldwide in 2019/20, resulting in an ROE of 7%. The following year, the ROE plummeted to -16%. However, as the pandemic's influence waned in the subsequent fiscal year 2021/22, the hotel's ROE rebounded to 17%. Throughout the observation period, the hotel maintained an average ROE of 13%.

4.1.9 Earnings Per Share

Earnings per share (EPS) is a fundamental financial metric that provides valuable insights into a company's profitability on a per-share basis. It is crucial for investors to assess financial health, make informed investment decisions, and compare profitability among different companies. While a higher EPS generally indicates better performance, it should be analyzed alongside other financial metrics and within the context of the company's overall financial health and industry standards for a

comprehensive understanding. The formula for determining the earnings per share is as follows:

$$\text{Earnings per Share} = \frac{\text{Net Profit-Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

The data in table 4.9 indicates that the profit per share of Soaltee hotel was also on a downward trajectory with two distinct phases in two different time periods of the research.

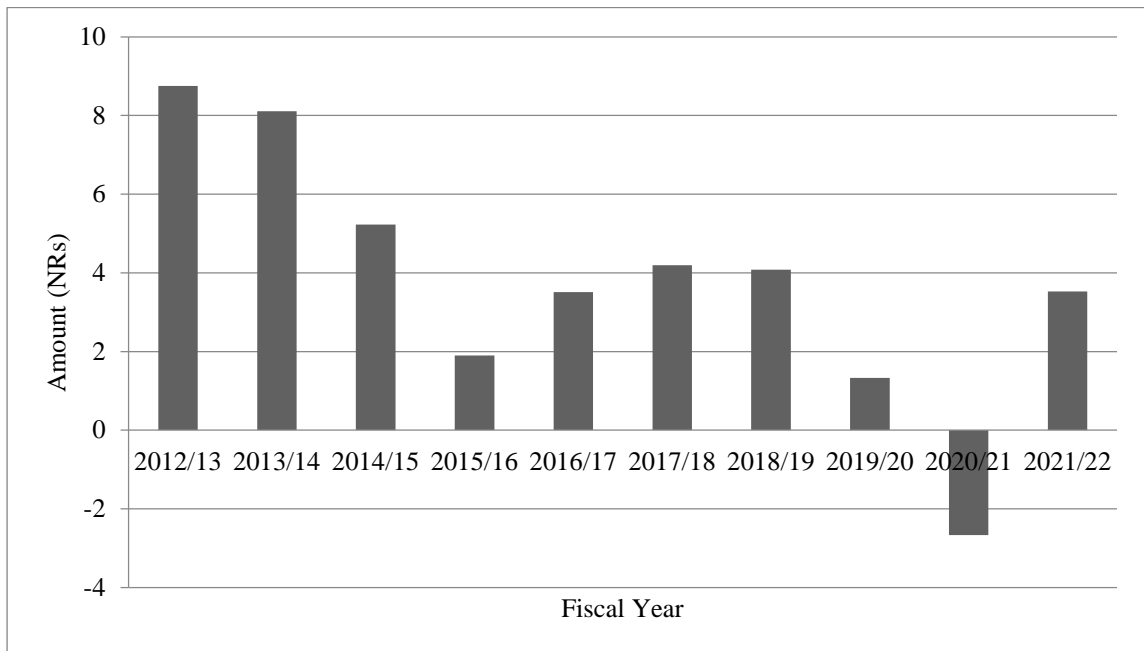
Table 4.9
Earnings per Shares

Fiscal Years (A.D)	Earnings Available to Equity Shareholders (NRs.)	Number of Equity Shares	Earnings Per Share (NRs.)
2012/13	188,078,809	21,490,851	8.75
2013/14	243,977,572	30,087,062	8.11
2014/15	220,090,771	42,121,768	5.23
2015/16	99,884,237	52,652,606	1.90
2016/17	203,545,930	57,918,130	3.51
2017/18	274,330,000	65,472,553	4.19
2018/19	293,930,000	72,041,666	4.08
2019/20	116,270,000	87,421	1.33
2020/21	(244,930,000)	91,734,082	(2.67)
2021/22	304,690,000	86,314,447	3.53
Mean			3.8
S.D			2.19
CV(%)			57.63 %

Source: Annual Reports of SHL (Refer Appendix -9)

In the initial period, the profit per share of the resort dropped from 8.75 Rs per share with a face value of Rs 10 in the financial year 2012/13. This was an impressive display by the resort as it managed to generate profits nearly equivalent to its face value. However, the resort has continuously expanded its capital by distributing bonus shares. Consequently, the number of outstanding shares in the resort has increased significantly, resulting in a decline in the profit per share.

Figure 4.9
Earnings per Share



The earnings per share (EPS) of the hotel saw a decline to 1.90 Rs per share in the financial year 2015/16. This was a result of an increase in capital, while profits also saw a decrease during the financial years 2014/15 and 2015/16. Following the fifth year of this period, the EPS began to show signs of improvement, eventually reaching 4.19 Rs per share in the financial year 2017/18. However, a second phase of declining trends commenced in the subsequent financial year. The EPS of the hotel started to decrease significantly from the financial year 2019/20, plummeting to a negative 2.67 Rs per share in the financial year 2020/21 due to business losses caused by the COVID-19 pandemic. Fortunately, as the situation improved, the hotel saw an increase in profits in the financial year 2021/22, leading to an improvement in the EPS to 3.53 Rs.

4.2 Statistical Analysis

Statistical analysis involves collecting, organizing, analyzing, interpreting, and presenting data to uncover patterns, trends, and relationships. It is a crucial part of research, enabling researchers to make data-driven decisions and validate their hypotheses. In the context of a financial performance study, such as that of Soaltee Hotel Limited, statistical analysis helps in understanding the factors influencing the

company's financial outcomes and in making informed recommendations for improvement.

4.2.1 Descriptive Statistics

Descriptive statistics involve summarizing and organizing data so that it can be easily understood. This branch of statistics focuses on describing the main features of a collection of data quantitatively, providing simple summaries and visual representations. For a study on the financial performance of Soaltee Hotel Limited, descriptive statistics help to provide an overview of the data, revealing patterns, trends, and insights that might not be immediately apparent. The descriptive analysis of the current research was conducted using the SPSS program.

Table 4.10
Descriptive Statistics

	N	Mean	Std. Deviation
NPM	10	8.26	19.63
CR	10	1.2	0.35
ITR	10	17.14	1.23
DTR	10	5.56	1.59
TATR	10	0.89	0.3

Source: SPSS output

The data analysis indicates that throughout the research period, the financial indicators observed, such as current ratio, inventory turnover ratio, debtors turnover ratio, total assets turnover ratio all exhibit a positive mean value. The mean value of net profit margin stands at 8.26 with a significant standard deviation of 19.63, indicating a wide range of values. The mean value of CR is 1.2 with a standard deviation of 0.35. The average ITR is 17.14, showing considerable variability with a standard deviation of 1.23. The average DTR is 5.56, suggesting moderate differences between values due to a high standard deviation of 1.59. This suggests that the hotel under consideration has a flexible approach to collecting receivables, adjusting its policy annually based on economic and industry conditions. Lastly, the average TATR is 0.89 with a standard deviation of 0.3.

4.2.2 Pearson's Correlation Coefficient

The correlation coefficient is a statistical measure that describes the strength and direction of a relationship between two variables. In the context of financial performance analysis, such as the study of Soaltee Hotel Limited, the correlation coefficient can help determine how different financial metrics, such as revenue, expenses, and various financial ratios, are related to each other. The current research utilized Pearson's correlation coefficient to assess the level of correlation between various factors being analyzed.

The data presented in the table 4.11 indicates that there is a moderate and unfavorable correlation between the current ratio and profitability, whereas the inventory turnover ratio shows a slightly negative relationship with the net profit margin. The correlation coefficients for these relationships are -54.80% and -45.10% for the current ratio and inventory turnover ratio, respectively. This suggests that by decreasing the current ratio and inventory levels, a hotel can potentially enhance its profitability. On the other hand, the debtors' turnover ratio displays a weak but positive correlation with profitability, with a correlation coefficient of 41.40%.

Table 4.11
Pearson's Correlation Coefficient

		NPM	CR	ITR	DTR	TATR
Pearson Correlation	NPM	1				
	CR	-0.548	1			
	ITR	-0.451	0.852	1		
	DTR	0.414	-0.331	-0.297	1	
	TATR	0.693	-0.786	-0.812	0.589	1
*. Correlation is significant at the 0.05 level (1-tailed).						

Source: SPSS output

The lack of action by the company in collecting payments from customers promptly after the sale has a direct impact on their profits. A strong positive relationship was found between the total assets turnover ratio and profitability, with a correlation of 69.30%. This suggests that the hotel is not efficiently using its assets. By optimizing the use of their assets, the hotel can increase its profitability. On the other hand, the

current ratio, inventory turnover ratio, and debtors' turnover ratio were found to be statistically insignificant at the 5% significance level.

4.2.3 Multiple Regression Analysis

Multiple regression analysis is a statistical technique used to examine the relationship between one dependent variable and two or more independent variables. This method helps to understand how multiple factors influence the dependent variable and to what extent each factor contributes to the outcome. In the context of financial performance analysis for Soaltee Hotel Limited, multiple regression can be used to assess how various financial ratios and metrics impact profitability.

Table 4.12

Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.212	0.201		-0.599	0.626
	CR	-0.594	0.414	-3.629	-1.698	0.323
	ITR	0.198	0.112	4.013	2.173	0.253
	DTR	0.031	0.020	0.902	1.049	0.516
	TATR	-0.083	0.201	-0.701	-0.462	0.772

a. Dependent Variable: NPM

Source: SPSS output

To analyze how independent variables are connected to dependent variable net profit margin (NPM) of Soaltee Hotel Limited is characterized as dependent variable in the study. Key financial ratios including Current Ratio (CR), Inventory Turnover Ratio (ITR), Debtors' Turnover Ratio (DTR), Total Assets Turnover Ratio (TATR) are independent variables. The multiple regression model can be expressed as:

$$(NPM) Y = \beta_0 + \beta_1(CR) + \beta_2(ITR) + \beta_3(DTR) + \beta_4(TATR) + \epsilon_i$$

Where:

- β_0 is the intercept.
- $\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients for the independent variables.
- ϵ_i is the error term.

The data in the table 4.12 reveals that the correlation coefficient of CR is -0.594, indicating a negative association between CR and NPM. This suggests that an increase in CR by 1 unit results in a decrease in profitability (NPM) by 0.594 unit. However, the significance level of 0.323 suggests that CR is not statistically significant. Therefore, since the P-value of $0.323 > 0.05$, we can conclude that the null hypothesis, stating that CR does not have a significant impact on NPM, is accepted.

Similarly, the table shows that the correlation coefficient of ITR is 0.198, indicating a positive relationship between ITR and NPM. This means that an increase in ITR by 1 unit leads to a subsequent increase in NPM by 0.198 unit. However, the significance level of 0.270, tested at a 5% level, suggests that ITR is not statistically significant. Thus, the null hypothesis was accepted, indicating that while ITR has a positive relationship with profitability, it does not have a significant impact.

In addition, the correlation coefficient of DTR is 0.031, suggesting a positive relationship with NPM. This implies that an increase in DTR by 1 unit results in a subsequent increase in NPM by 0.031 unit. However, the significance level of 0.516, tested at a 5% level, indicates that DTR is not statistically significant. Therefore, the null hypothesis was accepted, indicating that while DTR has a positive relationship with profitability, it is not significant.

Lastly, the correlation coefficient of TATR is -0.083, indicating a negative relationship with NPM. This suggests that an increase in TATR by 1 unit leads to a decrease in profitability (NPM) by 0.083 unit. However, the significance level of 0.772, tested at a 5% level, indicates that TATR is not statistically significant. Therefore, the null hypothesis was accepted, stating that TATR does not have a significant impact on NPM.

Based on the results of the test described above, the multiple regression equation is presented as follows:

$$(NPM) Y = \beta_0 + \beta_1(CR) + \beta_2(ITR) + \beta_3(DTR) + \beta_4(TATR) + \epsilon_i$$

$$(NPM) Y = -0.212 - 0.594 (CR) + 0.198 (ITR) + 0.031 (DTR) - 0.083 (TATR) + \epsilon_i$$

Table 4.13
Hypothesis Assessment Summary

Hypothesis	β	P - value	Empirical Conclusion
H1: The current ratio has a substantial effect on the profitability of Soaltee Hotel.	- 0.594	0.323	Reject
H2: The ratio of inventory turnover has a considerable impact on the profitability of Soaltee Hotel.	0.198	0.253	Reject
H3: The debtor turnover ratio plays a major role in determining the profitability of Soaltee Hotel.	0.031	0.516	Reject
H4: The total assets turnover ratio significantly affects the profitability of Soaltee Hotel.	- 0.083	0.772	Reject

Source: Author's Analysis

The table displayed above illustrates the significance level tested at a 5% level of significance in table 4.12, indicating that all independent variables were not statistically significant. Consequently, this led to the rejection of all alternate hypotheses and the acceptance of the null hypothesis, which posits that there is no considerable impact on profitability as a result of the chosen independent variables. In addition, the table below reveals that the correlation coefficient (R) was recorded as 0.968, signifying a robust positive relationship among the independent variables, current ratio, inventory turnover ratio, debtor turnover ratio, total assets turnover ratio and the dependent variable, net profit margin. Furthermore, the coefficient of multiple determination R² elucidates the degree to which the independent variables influence the dependent variable. Specifically, 0.961 or 96.10% of the variations in the

dependent variable are accounted for by the independent variables, while 0.046 or 4.60% are influenced by other variables beyond the independent ones.

Table 4.14
Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
0.968 ^a	0.961	0.754	0.01728	0.954	5.372	4	1	0.292

a. Predictors: (Constant), TATR, DTR, ITR, CR

b. Dependent Variable: NPM

Source: SPSS output

The adjusted R-square, a more conservative way of looking at the coefficient of determination is also above 50%. In this case, 0.754 or 75.40% of the variations in the dependent variable is explained by the independent variable. So, this indicates that current ratio, inventory turnover ratio, debtors' turnover ratio and total assets turnover ratio are the major determining factor of net profit margin of the Soaltee hotel. Only 24.60% of the variations are determinate by other factors. This table also shows that results of F-test of overall regression model is 5.372 at a significance level of 0.292 with df (4,1). This shows the results as statistically insignificant.

4.3 Major Findings

The major findings section of a research study provides a summary of the key results derived from the data analysis. In the context of "A Study on Financial Performance of Soaltee Hotel Limited, Nepal," the findings would highlight the critical insights regarding the hotel's financial health, efficiency, profitability, and the factors influencing these outcomes.

Key Findings

1. Impact of Financial Ratios on Profitability

- **Current Ratio:** The analysis revealed that the current ratio has a positive impact on the profitability of Soaltee Hotel Limited. A higher current ratio,

indicating better short-term liquidity, correlates with higher profitability, suggesting that maintaining adequate liquidity is crucial for the hotel's financial health. The hotel has successfully enhanced its financial flexibility over the majority of the study period. However, it has faced challenges in the past two years, with a continuous decline in its liquidity. Throughout seven fiscal years, the hotel maintained a liquidity position above the typical industry benchmark of 1:1. Unfortunately, in the final two years, this position dropped below the average. This suggests that the hotel was previously in a strong position to meet its short-term obligations with its current assets, but experienced difficulties in the recent years. Nevertheless, the average current ratio for the hotel during the study period was 1.20:1.

- **Inventory Turnover Ratio:** The inventory turnover ratio shows a moderate positive relationship with profitability. Efficient inventory management, reflected in higher turnover ratios, contributes to better profitability, highlighting the importance of effective stock management in the hotel industry. But the hotel's inventory turnover ratio appears to be unsatisfactory as it has not shown consistent improvement throughout the research period. It increased from 14.47 times in fiscal year 2012/13 to 19.61 times in fiscal year 2018/19 with minor disruptions in the intervening years. However, there was a decrease in the ratio to 14.02 times in fiscal year 2020/21.
- **Debtors Turnover Ratio:** The debtors turnover ratio has a significant positive impact on profitability. Faster collection of receivables leads to improved cash flow and higher profitability, indicating the importance of effective credit management. However, the hotel's rate of turnover for debtors has been inconsistent annually, varying from 7.98 times in the fiscal year 2012/13 to 2.01 times in the fiscal year 2020/21. Throughout the observation period, the average turnover was 5.56 times, suggesting that on average, it took the hotel 65 days to collect payments owed by debtors.
- **Total Assets Turnover Ratio:** This ratio also has a significant positive relationship with profitability. Efficient use of the hotel's assets to generate revenue contributes to better financial performance, emphasizing the need for optimal asset utilization. The total turnover of assets in the hotel has been on a

downward trend since the first financial year of 2012/13, when the ratio was 1.54 times, until the financial year 2015/16 when it hit its lowest point at 0.94 times in the initial half of the research period. Despite this, there was a significant increase in the ratio in the financial year 2016/17 to 1.12 times. However, in the following year, the ratio began to decline once again. The ratio has been consistently decreasing since the financial year 2018/19, when it was 0.78 times, until the financial year 2020/21 when it reached its lowest point at 0.23 times during the research period. Subsequently, the ratio experienced a slight increase in the financial year 2021/22 to 0.67 times. This indicates that for every rupee invested in assets by the hotel, sales equivalent to 0.67 rupees were generated.

- **Quick ratio:** The hotel's quick ratio has not been at a satisfactory level for most of the years during the study period. This suggests that the hotel is having difficulty in meeting its short-term obligations with its liquid assets. Only during the three years in the middle phase did the quick ratio reach a satisfactory level, indicating that the hotel was able to comfortably meet its short-term liabilities with its liquid assets. The average quick ratio is 0.80:1, which falls below the ideal benchmark of 1:1.
- **Net profit margin:** The profit margin of Soaltee hotels appeared to be unstable throughout the research period. The typical profit margin stands at 8.26%. The minimum profit margin of -49.55% was documented during FY 2020/21. This decline was primarily due to the impact of the global covid-19 pandemic. The hotel's average profit margin appears to be diminished as a result of this adverse indicator.
- **Return on assets and return on equity:** Performance indicators such as return on assets and return on equity are crucial factors in evaluating the financial health and efficiency of a company. Return on assets and return on equity of hotel is in decreasing trend except last year of the study period. The average return on assets is 12.3% and return on equity of the hotel is 13.5% respectively during the study period.
- **Earnings Per Share:** As a result of the ongoing rise in capital and the fluctuation in profits in recent years due to the impact of the pandemic, the earnings per share of the hotel has been declining throughout the research

period. The smallest EPS was minus 2.67 Rupees for each unit, with a face value of 10 Rupees each in the financial year 2020/21.

2. Descriptive Statistics Insights

- **Revenue and Net Income Trends:** The descriptive analysis showed inconsistency in both revenue and net income over the ten-year period. This trend indicates the hotel's business operations are not expanding and profitability is not increasing properly.
- **Variability in Financial Ratios:** The descriptive statistics shows that the inventory turnover ratio and debtor turnover ratio has highest mean of 17.14 and 5.56, along with 1.23 and 1.59 standard deviation during the study period. The standard deviations of various financial ratios indicated moderate inconsistency, suggesting that while the hotel has generally maintained stable financial health, there have been fluctuations that need to be monitored.

3. Correlation Analysis

- **Positive Correlations:** Significant positive correlations were found between profitability and both the total assets turnover ratio and the debtors turnover ratio. The ratio of total assets turnover shows a strong correlation and has been shown to be statistically significant, suggesting that the hotel is not making efficient use of its assets. By improving the utilization of its current assets, the hotel has the potential to boost its profitability.
- **Negative Correlations:** Current ratio and inventory turnover ratio showed negative correlations with profitability, suggesting that while these factors are important, they are not as strongly predictive of profitability as liquidity and receivables management.

4. Multiple Regression Analysis

- The multiple regression model was statistically significant, indicating that the selected financial ratios collectively explain a substantial portion of the variability in profitability. A study was conducted using multiple regression analysis to examine the influence of current ratio, total assets turnover ratio,

debtors turnover ratio and inventory turnover ratio on the profitability as calculated by net profit margin. The results revealed that current ratio and total assets turnover ratio exhibited a negative correlation, whereas debtors turnover ratio and inventory turnover ratio showed a positive correlation. The coefficients from the multiple regression table were analyzed at a significance level of 5%, indicating that all independent variables were not statistically significant. As a result, the null hypothesis was accepted.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study aimed to analyze the financial health and performance of the hotel over a defined period. The research focused on understanding how various financial ratios impact profitability and identifying key areas for improvement. The major findings from the analysis highlighted the significant influence of liquidity and receivables management on profitability, the steady growth in revenue and net income, and the moderate variability in financial ratios indicating some challenges in financial management.

The current research delves into the financial performance of Soaltee hotel over the past decade, spanning from FY 2012/13 to FY 2021/22, by utilizing crucial financial ratios. This study aims to provide a comprehensive analysis of Soaltee Hotel Limited's financial performance, focusing on key indicators, trends, and factors influencing its overall financial health. Through an examination of the company's financial statements, ratios, and performance metrics over a specified timeframe, this research aims to offer valuable insights for investors, analysts, policymakers, and others interested in Nepal's hospitality industry.

Financial Ratios Analysis, Descriptive Statistics, Correlation Analysis and Multiple Regression Analysis data analysis tools are used to achieve the objectives. Descriptive statistics found the inconsistency in revenue and net income, with moderate variability in financial ratios. In the correlation analysis financial ratios including current ratio, inventory turnover ratio, debtor's turnover ratio, and total assets turnover ratio with profitability measured by net profit margin. As in the study positive correlations were found between profitability and both the total assets turnover ratio and the debtors turnover ratio, where current ratio and inventory turnover ratio showed negative correlations with profitability.

Likewise, another statistical approach, multiple regression analysis was utilized to examine the connection between the dependent variable, net profit margin and

independent variables such as current ratio, inventory turnover ratio, debtor's turnover ratio, and total assets turnover ratio. However, the multiple regression model revealed that while the independent variables were related to the hotel's profitability, they did not have a statistically significant connection with the dependent variables.

5.2 Conclusion

The financial performance analysis of Soaltee Hotel Limited has provided valuable insights into the factors influencing its profitability and overall financial health. The study concludes that:

Maintaining adequate liquidity is crucial for enhancing profitability. The hotel's financial stability was assessed based on its liquidity position, measured by the current ratio and quick ratio. In the initial half of the study period, there was a noticeable improvement in both ratios. However, towards the end of the period, there was a continuous decline in both ratios. The average quick ratio of the hotel was 0.80:1 during the study period, falling below the ideal benchmark of 1:1. Furthermore, it showed a consistent decrease in the last three years. Similarly, the average current ratio also remained below the theoretical benchmark of 2:1 throughout the study period, although it still exceeded the acceptable level of 1:1 in the hotel industry. The deteriorating trend of both liquidity ratios in recent years indicates that the hotel is struggling to enhance its financial stability.

In terms of operational performance, the hotel exhibited an average activity based on activity ratios during the study period. The inventory turnover ratio did not show consistent improvement over the course of the study. However, there was a slight increase in the last year following a decline in the previous two years. On average, the hotel managed to turn its inventory 17.14 times per year. The debtor's turnover ratio fluctuated throughout the study period, experiencing a decline after the first year. By FY 2020/21, the ratio had dropped to 2.01 times, highlighting inefficiencies in the hotel's receivables collection practices. The hotel appeared to struggle with asset utilization efficiency as the total assets turnover ratio consistently decreased during the study period. This trend was largely attributed to the impact of the COVID-19 pandemic on the industry.

Analysis of the hotel's profitability ratios showed that the return on assets, return on equity, and earnings per share were in line with the net profit margin trend. However, all profitability ratios hit their lowest point in FY 2020/21 due to a significant decrease in foreign tourist arrivals caused by the pandemic. The global pandemic severely impacted various sectors, including tourism and the hotel industry, as travel restrictions limited movement between countries and regions.

The negative correlation of inventory turnover ratio and current ratio had suggests that an increase of 1 unit in the current ratio and inventory turnover ratio would lead to a decrease of 0.548 and 0.451 units in profitability, respectively. On the other hand, the debtor's turnover ratio and total assets turnover ratio exhibited a positive correlation with profitability, indicating that a 1 unit increase in these ratios would result in a 0.414 and 0.693 unit increase in profitability, respectively.

Upon statistical testing of the correlation coefficients the current ratio, inventory turnover ratio, and debtor's turnover ratio were statistically insignificant. However, the total assets turnover ratio showed statistical significance, implying that it does have a considerable impact on profitability. A multiple regression analysis revealed that the current ratio and total assets turnover ratio had a negative relationship, while the inventory turnover ratio and debtor's turnover ratio had a positive relationship. However, when the coefficients from the multiple regression analysis were tested at a significance level of 5%, all independent variables were deemed statistically insignificant, leading to the acceptance of the null hypothesis.

In general, the study demonstrates that Soaltee Hotel Limited has unsteady financial growth, and there are areas for improvement that could further enhance its financial performance.

5.3 Recommendations

Based on the findings and conclusions, the following recommendations are proposed for Soaltee Hotel Limited to improve its financial performance:

1. **Enhance Liquidity Management:** Regularly monitor the current ratio to ensure an optimal balance between current assets and liabilities. Implement cash flow forecasting to anticipate and manage potential liquidity shortfalls.

2. **Strengthen Receivables Management:** Develop stricter credit policies and enhance credit control procedures to ensure timely collection of receivables. Utilize technology for efficient tracking and management of receivables to reduce the collection period.
3. **Optimize Inventory Management:** Employ inventory management techniques to minimize holding costs and reduce excess inventory. Regularly review inventory levels and turnover rates to identify and address slow-moving stock.
4. **Financial Performance Monitoring:** Establish a robust financial performance monitoring framework to track key financial ratios and metrics regularly. Use financial performance data to make informed strategic decisions and adjustments.
5. **Strategic Planning:** Develop long-term strategic plans that align financial management practices with overall business goals. Incorporate scenario analysis and stress testing in financial planning to prepare for potential economic fluctuations and uncertainties.

By implementing these recommendations, Soaltee Hotel Limited can enhance its financial management practices, improve profitability, and sustain its growth trajectory. These steps will help the hotel maintain its competitive edge in the hospitality industry and ensure long-term financial stability and success.

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APPENDICES

Appendix-1

Calculation of Mean, Standard Deviation and Coefficient of Variation of Current Ratio.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{12}{10} \\ &= 1.2\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{1.228}{10}} \\ &= 0.35\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{0.35}{1.2} * 100 \\ &= 29.17\%\end{aligned}$$

Appendix-2

Calculation of Mean, Standard Deviation and Coefficient of Variation of Quick Ratio.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{8.04}{10} \\ &= 0.804\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{0.977}{10}} \\ &= 0.31\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{0.31}{0.804} * 100 \\ &= 38.55\%\end{aligned}$$

Appendix-3

Calculation of Mean, Standard Deviation and Coefficient of Variation of Inventory Turnover Ratio.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{171.36}{10} \\ &= 17.14\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{15.25}{10}} \\ &= 1.23\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{1.23}{17.14} * 100 \\ &= 7.18\%\end{aligned}$$

Appendix- 4

Calculation of Mean, Standard Deviation and Coefficient of Variation of Debtors Turnover Ratio.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{55.56}{10} \\ &= 5.56\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{25.36}{10}} \\ &= 1.59\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{1.49}{5.56} * 100 \\ &= 28.60 \%\end{aligned}$$

Appendix-5

Calculation of Mean, Standard Deviation and Coefficient of Variation of Total Asset Turnover Ratio.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{8.9}{10} \\ &= 0.89\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{0.9}{10}} \\ &= 0.3\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{0.3}{0.89} * 100 \\ &= 33.70 \%\end{aligned}$$

Appendix-6

Calculation of Mean, Standard Deviation and Coefficient of Variation of Net Profit Margin.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{82.57}{10} \\ &= 8.26\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{3854.22}{10}} \\ &= 19.63\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{19.63}{8.26} \\ &= 2.38 \%\end{aligned}$$

Appendix 7

Calculation of Mean, Standard Deviation and Coefficient of Variation of Return on Assets.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{122.96}{10} \\ &= 12.3\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{1563.20}{10}} \\ &= 12.50\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{12.50}{12.3} \\ &= 1.02 \%\end{aligned}$$

Appendix 8

Calculation of Mean, Standard Deviation and Coefficient of Variation of Return on Equity.

$$\begin{aligned}\text{Mean } \bar{X} &= \frac{\sum x}{n} \\ &= \frac{135}{10} \\ &= 13.5\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation}(\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{1620.12}{10}} \\ &= 12.72\end{aligned}$$

$$\begin{aligned}\text{C.V} &= \frac{\sigma}{\bar{X}} * 100 \\ &= \frac{12.72}{13.5} \\ &= 0.94 \%\end{aligned}$$

Appendix 9

Calculation of Mean, Standard Deviation and Coefficient of Variation of Earnings per Share.

$$\text{Mean } \bar{X} = \frac{\sum x}{n}$$

$$= \frac{37.96}{10}$$
$$= 3.8$$

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$
$$= \sqrt{\frac{48.20}{10}}$$
$$= 2.19$$

$$\text{C.V} = \frac{\sigma}{\bar{x}} * 100$$
$$= \frac{2.19}{3.8} * 100$$
$$= 57.63 \%$$

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CHAPTER-I INTRODUCTION 1.1 Background of the Study Finance is the lifeblood of an organization that helps the organization in running its operations smoothly. We can define the competitiveness and potential of an organization by its financial performance.

Financial analysis is the process of reviewing and analyzing a company's financial statements to make better economic decision. In other words, it is the process of determining actual position of the entity by establishing the strategic relationship between the items of the balance sheet, profit and loss account, and other financial statements

Financial performance is the important statement of an organization. It is a decision making process to experience strengths or weaknesses of the organization and knowledge of its revenue generation status. It is a mirror to look into development activities to be undertaken by the organization or companies. It should also measure or evaluate internal and external information of past activities, current position and future prospects of organization or venture. Financial performance evaluation looks into the management team of organization, its performance in future, efficiency of resource utilization and overall position of the organization. The analysis of

financial performance is crucial in evaluating the well-being and endurance of businesses in different sectors. Within the hospitality industry, financial metrics are essential for understanding the efficiency, profitability, and overall success of companies. Soaltee Hotel is a key player in the hospitality sector in Nepal. It is important to analyze the financial performance of Soaltee Hotel for its management, shareholders, investors, analysts, policymakers, and other stakeholders interested in the growth of the hospitality industry in Nepal. By examining important financial indicators, trends, and metrics, stakeholders can gain valuable insights into the revenue, cost structure, profitability drivers, and financial stability of the company. Analyzing financial performance helps in evaluating the strategic position of the hotel within the market, identifying strengths, weaknesses, opportunities, and threats. By systematically reviewing financial statements, ratios, and performance indicators over time, stakeholders can assess the company's ability to generate consistent returns, manage risks, and take advantage of market trends and opportunities. Additionally, comparing financial performance with industry peers and best practices allows stakeholders to make well-informed decisions and plan strategically. By comparing metrics like revenue growth, profit margins, asset utilization, and liquidity ratios, stakeholders can assess the company's performance and find areas for improvement.

One of the fastest growing sectors of the economy of this time is the hotel industry. The hotel industry alone is a multi-billion dollars and growing enterprise . The hotel industry is