MODEL AND RATING ANALYSIS IN THE HOSPITALITY INDUSTRY

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Abstract. *For any investor, the economic entity's financial reporting contributes decisively to a decision on maintaining the operational management team, changing it, purchase new shares or sell shares in that company. For this reason we think it is very important that an assessment of the entity's financial performance should be made and build a credit rating model to generate a fair and reasonable picture of it.*

Keywords: *performance, rating, bankruptcy*

1. Introduction

In avaluating the rating of economic entities, credit banks use their own rating systems. In bank lending, credibility is an essential element of moral and material support without which a credit may not be granted. Thus, customer knowledge is a key aspect which is achieved through a thorough analysis and documentation to evaluate the reality of the patrimonial and financial situation of the entity.

The default risk is an important issue that has been and continues to be in the attention of managers as they are always interested in the smooth running of the production cycle. Also, both investors and lenders study and observe the bankruptcy risk of a company as they are interested in recovering loans and interest.

The essential problem for any stakeholder is "anticipate risk, and minimize its occurrence and control it."[1]

All models of bankruptcy are based on a scoring function which is used to determine whether the company will go bankrupt or will it achieve good results in the next period of analysis.

In recent years, the economy has led tens of thousands of companies in Romania into insolvency, the figure increasing annually, respectively in 2012 a number of 21,692 companies became insolvent compared to 19,894 in 2011 and relating the net turnover of the companies entered into insolvency this is evolving exponentially.

In these market conditions, financial performance evaluation of the operational activities and financial activities of the entities has a very important role in the economy of enterprises, both in terms of their own situational awareness and regarding the financial standing of their business partners.

Financial standing targets the quantitive side of the economic entity where the indicators are based solely on financial standing and they form the basis for determining a score, which classifies the economic entity in a particular class of financial performance or a rating class.

The quantitative side of the entity refers to indicators such as liquidity, solvency, profitability, leverage, indicators that send the first signal of danger for any business.

Financial standing is primarily used by banks to analyze creditworthiness of the enterprise asking for a bank loan, these banking institutions then fitting the entity into a performance class from „ A to E" , based on a certain score. Regarding the practical part of the paper we used the information presented in the financial statements of SC Tourism Aries SA, with the help of which we then calculated the financial standing indicators used in the rating models, respectively banking models and also models regarding bankruptcy analysis, all of these providing information concerning the financial standing of the economic entity.

2. Methods and results

Eating type analysis is based on a series of economic and financial indicators used in financial analysis, indicators considering the financial strength of the company.
Subject of financial analysis is the assessment of the company's financial policy in a prior period and facilitate future decisions. This is based on the financial statements of the company, but also on other sources of information.
Determinig a company's rating, together with the rating of underlying securities represent the fondation stone for the approval of a loan, its cost(interest rate), but also the decision to continue financing a company or not, in case of a rating downgrade. The rating system is a unitary system in accordance with Basel II regulations on internal rating system approach.
At the base of rating analysis are three basic principles, namely:
Clear rating responsabilities;
• Strict enforcement of the "four-eyes" principle in the rating process;
• Rating authorisation independent of the account management.
• The credit rating must be sub-divided into three parts, as follows:
• The proposal rating is made by management account or credit analysis;
• Approval by analyzing credit rating;
• Approval rating by those who make decisions for the client.
According to Basel II client rating is unique, that each borrower has a credit rating level which he is assigned after the rating analysis.
To analyze company performance by bank based models (BRD - GSG and Transilvania Bank) and statistical and mathematical models : Altman, Robertson, we built a rating model, based on the following indicators: rotation of current assets, current liquidity ratio, solvency, financial profitability rate and indebtedness.
The results obtained from analysis using our own model can be seen in the following table:

Table 1: Model of Rating

	Accompli-shed 31.12.2008	**Accompli-shed 31.12.2009**	**Accompli-shed 31.12.2010**	**Accompli-shed 31.12.2011**	**Accompli-shed 31.12.2012**
1) Current assets rotation					
Turnover	195 677 945	229 415 602	215 805 947	219 754 104	243 626 062
Current assets	153 843 727	181 193 103	202 832 790	217 978 254	224 267 724
Spin current assets	1,27	1,27	1,06	1,01	1,09
Score given	0,0	0,0	0,0	0,0	0,0

2) Current liquidity rates					
Current assets	153 843 727	181 193 103	202 832 790	217 978 254	224 267 724
Current liabilities	77 535 385	92 833 964	118 829 602	120 634 820	116 234 517
Current rate	198,42	195,18	170,69	180,69	192,94
Score given	10,0	10,0	10,0	10,0	10,0
3) Solvency					
Equity	177 059 654	246 249 761	246 904 973	242 024 210	262 612 444
Total debt	83 577 294	99 041 020	121 282 429	134 676 198	130 139 154
Solvency	211,85	248,63	203,58	179,71	201,79
Score given	10,0	10,0	10,0	10,0	10,0
4) Financial return rates					
Net-Profit	23 839 146	32 456 007	10 572 756	11 907 807	12 359 100
Own Assets	177 059 654	246 249 761	246 904 973	242 024 210	262 612 444
Financial rate return	13,46	13,18	4,28	4,92	4,71
Score given	9,0	9,0	4,0	5,0	5,0
5) The degree of debt					
Attracted term debt +(total debt = debt <> a year + grants + inv + proviz.risc deferred income)	83 577 294	99 041 020	121 282 429	134 676 198	130 139 154
Total assets	260 636 948	345 290 781	368 187 402	376 700 408	392 751 598
Indebtedness	32,07	28,68	32,94	35,75	33,14
Score given	9,0	10,0	9,0	9,0	9,0
TOTAL SCORE	**38,00**	**39,00**	**33,00**	**34,00**	**34,00**
Mark	**Good**	**Good**	**Good**	**Good**	**Good**

Source: the company's own financial statements

Analyzing the indicators that comprise the model, we have:

• Current assets rotation decreased between 2008-2011, due to the current assets growing faster in this period compared to the net turnover, this increase being given especially by the debts is approximately 80% of current assets. In 2012 Current assets rotation increased by 7.75% on account of the advance of turnover in relation to current assets;

• The current liquidity ratio decreases in 2009 and 2010 compared with the previous year by about 2% and 12.5%, due to the faster increase in current liabilities than current assets, the company obtaining some loans at this time. In 2011 and 2012 the current liquidity ratio increases by about 6% -7%;

• Solvency decreases in 2010 and 2011 because of rising debt levels, followed in 2012 with an increase of 12.29% compared to 2011 due to a lower debt, the long-term debts being zero;
• Return on equity recorded a decrease of 67.51% in 2010 due to lower net income 67.42% mainly because of a lower activity that year. Throughout the whole period growth is achieved only in 2011, an increase of 14.9% due to the net result of the advance;
• Indebtedness has an upward trend in 2010 and 2011, when it grows by 14.84% and 8.53%, followed in 2012 by a decrease by 7.32% due to lower capital bank liabilities.
It is noted that the company recorded a good rating on all years analyzed, but it is decreasing compared with the total score in 2008 and 2009, going from 39 points in 2009 to 34 points in 2011 and 2012. This is due to lower net income, or profit representing only 61.37% in 2012 compared to the level reached in 2009.
Decrease in profit is due to the decrease in business activity, its turnover in 2012 was below the level of 2009 and lower by about 1.5%, and total expenditure growth, especially operational costs, and these increased by 12 % compared to 2009.
To improve the total score of 2012 and reaching that threshold as in 2009, we assumed the following scenario:
• A 15% increase in production in 2012, from 224,870,563 to 258,601,147, leading to an increase in net turnover, income and therefore the recorded net profit will increase by 72.79% .
Based on these assumptions we obtain the following results:

Table 2: The following application scenario own

	Accompli-shed	Accompli-shed	Accompli-shed	Accompli-shed	Accompli-shed
	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
1) Spin current assets					
Turnover	195 677 945	229 415 602	215 805 947	219 754 104	277 356 646
Current assets	153 843 727	181 193 103	202 832 790	217 978 254	224 267 724
Current assets rotation	1,27	1,27	1,06	1,01	1,24
Score given	0,0	0,0	0,0	0,0	0,0
2) Current liquidity ratio					
Current assets	153 843 727	181 193 103	202 832 790	217 978 254	224 267 724
Current liabilities	77 535 385	92 833 964	118 829 602	120 634 820	116 234 517
Current rate	198,42	195,18	170,69	180,69	192,94
Score given	10,0	10,0	10,0	10,0	10,0
3) Solvency					
Equity ratio	177 059 654	246 249 761	246 904 973	242 024 210	262 612 444
Total debt	83 577 294	99 041 020	121 282 429	134 676 198	130 139 154
Solvency	211,85	248,63	203,58	179,71	201,79

Score given	10,0	10,0	10,0	10,0	10,0
4) Financial rate return					
Net-Profit Result	23 839 146	32 456 007	10 572 756	11 907 807	46 089 684
Equity ratio	177 059 654	246 249 761	246 904 973	242 024 210	262 612 444
Financial rate return	13,46	13,18	4,28	4,92	17,55
score given	9,0	9,0	4,0	5,0	10,0
5) Indebtedness					
Attracted borrowed capital +(total debt = debt <> a year + grants + inv + proviz.risc deferred income)	83 577 294	99 041 020	121 282 429	134 676 198	130 139 154
Total assets	260 636 948	345 290 781	368 187 402	376 700 408	392 751 598
Indebtedness	32,07	28,68	32,94	35,75	33,14
Score given	9,0	10,0	9,0	9,0	9,0
TOTAL SCORE	**38,00**	**39,00**	**33,00**	**34,00**	**39,00**
Mark	***Good***	***Good***	***Good***	***Good***	***Good***

Source: the company's own financial statements

Following this scenario we find that the rate of return on equity increased from 4.71% to 17.55% placing the category A.
To increase the company's rating for the financial year 2012 from "Good" to "Very Good" is necessary to increase the rotation of current assets, current assets being at a high level, debts representing 80% of them in 2012.
Compared to 2009 the current assets increased in 2012 by 23.88% and the debt increased by 46.99%, therefore we recommend a tougher trade credit policy, but at the same time to not affect greatly the pace of sales growth.

3. Conclusions

To increase the company rating it has to improve its debt collection, but also affecting the least the trade policy in order to increase the net turnover and the net profit, respectively. Another measure that is necessary is to reduce short-term debt especially debt credit institutions, which may be financed through a long-term loan with an interest more convenient, but also because the company has no long-term debt in 2012.
Contracting the long-term loan might help disperse the debts, or a better ratio of current debt in total debt.
According to our rating model we can observe that the company recorded a good rating on all years analyzed, but it is decreasing compared with the total score in 2008 and 2009, going from 39 points in 2009 to 34 points in 2011 and 2012. This is due to lower net income, or profit because it represents only 61.37% in 2012 compared to the level reached in 2009.

Decrease in profit is due to the decrease in business activity, its turnover in 2012 was below the level of 2009 and lower by about 1.5%, and the total expenditure growth, especially operational costs, increased by 12 % compared to 2009.
To increase the company's rating for the financial year 2012 from "Good" to "Very Good" is necessary to increase the rotation of current assets, current assets is at a high level, debts representing 80% of them in 2012.
Compared to 2009 the current assets increased in 2012 by 23.88% and the debt increased by 46.99%, therefore we recommend a tougher trade credit policy, but at the same time to not affect greatly the pace of sales growth.
The analysis of financial performance and risks faced by the company is very important to know in which category of loans is the company framed by banking models, but also to know its risk of failure and to implement effective policies to avoid risk or at least reduce its effect.

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