**Word Count:2000**

**Coursework Title: Gold Medal Travel Group (Business Report)**

# Executive Summary

The company selected for the financial analysis report is Gold Medal Travel Group, which is one of the best and biggest haul trade only tour companies. The company helps the customer in itinerary services by covering a wide range, including flight routes, hotel choices, resort booking, flight routes, and stopover destinations. The financial statements for the years 2019, 2020 and 2021 were analyzed with the help of key financial ratios which highlighted the significant changes that had occurred over the period. The key financial ratios were calculated to analyze the key problem in the company and recommendations were provided based upon the detailed analysis. The overall position of the company is very risky and shows a deteriorating position after the Covid-19 restrictions which led the Gold Medal to halt their activities impacting the company operations. The recommendations were given based upon the problem identification that the company needs to maintain a strong liquidity position and should take long term loan for the investment in AI to improve business efficiency and also plan to work on “International Sports Campaign”, this will help the company to come out of financial crisis and maintain profitability as well as liquidity position.

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# Introduction

The company selected for the financial analysis report is Gold Medal Travel Group, which is one of the best and biggest haul trade only tour companies. The company belongs to the Leisure travel & tourism sector and offers services like scheduling flights, managing tours, booking hotels, and many more. According to Chen et al., (2020), the Leisure and tourism industry has a wide range of services like serving facilities, passenger transport, transport equipment rental, conferences, and social activities. The financial statements for the years 2019, 2020 and 2021 will be analyzed with the help of key financial ratios which will highlight the significant changes that had occurred over the period.

# Company Overview

The company helps the customer in itinerary services by covering a wide range, including flight routes, hotel choices, resort booking, flight routes, and stopover destinations. The range of services also includes long-haul destinations including Canada, the USA, the Indian Ocean, Dubai and Africa, the Far East, and Australia. The company is a part of Emirates Group, which serves the travel agencies and tourism operations by building a strong reputation all over the globe (Gold Medal, 2022). It is reported that the company was awarded Globe Travel Awards and TTG Awards in consecutive awards covering 2015, 2016, 2017, and 2018. Meanwhile, the company deals with 40,000 hotels and airlines all over the world. The Airlines include Etihad Airways, Virgin Atlantic, Emirates, and British Airways (Gold Medal, 2022).

# Financial Ratio Analysis

The Gold Medal Group has a year-end on 31st March, which means that the financial statements are available for the year ended 2021. The key financial ratios have been calculated to analyze the key problem in the company and recommendations will be provided based upon the detailed analysis. The Income statement and the Balance sheet for the years 2019,2020 and 2021 have been taken for the calculation of the following ratios.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019** | **2020** | **2021** |
| **Gross Profit Margin** | 15.4% | 14.0% | 5.7% |
| **Operating Profit Margin** | 4.3% | -3.8% | -487.0% |
| **Net Profit Margin** | 3.6% | -4.0% | -509.4% |
| **Interest Coverage Ratio** | 0.00 | -0.01 | -0.04 |
| **Current Ratio** | 1.2 | 1.1 | 0.8 |
| **Trade Receivable Days** | 175.8 | 132.1 | 5054.6 |
| **Trade Payable Days** | 198.7 | 159.6 | 6947.5 |
| **Cash Ratio** | 0.11 | 0.13 | 0.02 |
| **Return on Assets** | 5.9% | -7.5% | -25.8% |
| **Return on Equity** | 23.1% | -32.5% | -995.7% |
| **Return on Capital Employed (ROCE)** | 27.2% | -24.7% | -277.5% |
| **Debt-Equity Ratio** | 2.9 | 3.3 | 37.5 |

It can be observed from the above table that the above ratios are deteriorating from 2019 onwards to 2021, as the pandemic has affected the tourism industry significantly thus also the Gold Medal Travel Group. The gross profit margin shows how much the company is making a profit after paying off its cost of sales. The GP margin was 15.4% in 2019, which then slightly fall to 14% in 2020, and then fall to 5.7% in 2021. The sales of the company have been falling after the pandemic started as the government-imposed lockdown and countries closed down their border to restrict the spread of coronavirus.

The sales fall by a greater percentage when compared with the cost of sales. However, the fixed cost of the company, which are the operating costs, did not fall by too much. This indicates that the variable cost was decreasing as the sales revenue was falling while the company tried to wave off the employees and move onto cost-cutting to lower the operating expenses as much as possible. The operating profit margin was 4.3% in 2019 which represents higher operating expenses, and after which the operating profit margin deteriorated to -3.8% and thus a fall again in 2021, reaching -487%. The operating expenses were very high in 2020 and amounted to £25,547,000, representing an increase in expenses by 45% in 2020. The expenses decreased in 2021 and there were cost-cutting techniques used by the company along with layover of the employees to manage the operating expenses, but the closure of entire business operations led to a loss for the company in both 2020 and 2021 (Gold Medal, 2021).

The net profit margin of the company was 3.6% in 2019 and then fall to -4% in 2020, after which it finally falls to -509.4% in 2021 representing loss for the company in both 2020 and 2021 due to government restrictions on business operations. The company incurred losses due to heavy expenses burden and the company took the long-term loan in 2020 and 2021, which led to additional cost of interest cost thus increasing the loss for the company. The interest coverage was "0" in 2019 as the company didn't take any long-term loan in this period, but as the company moved towards a loss, the company took a loan to maintain a strong cash position and pay off expenses on time to avoid any significant financial issue. The interest coverage was -0.01 in 2019 and -0.04 as the company suffered loss and the amount of finance cost was minimal as the company incurred a small amount for a loan term loan in 2020 and 2021 (Gold Medal, 2020).

An ideal situation of the current ratio is 2:1, and it can be seen from the table above that the Gold Medal is experiencing a current ratio that is below the ideal situation for the last 3 years. This is primarily due to the closure of activities and has eventually led the current assets to fall from £77,901,000 to £42,041,000 in 2021, as the sales revenue was declining year by year which directly impacted the company’s trade receivables to fall in 2021. The Gold Medal Group needs to work on maintaining a good liquidity position by improving the cash position of the company to avoid any unforeseen circumstances in the future for the company. Trade Receivables days were 175.8 days in 2019 which then improved to 132.1 days in 2020, but after the strict government regulations, the sales revenue fall significantly which led the trade receivable days to deteriorate to 5054.6 days in 2021 (Gold Medal, 2021).

The Trade payables for the company were 198.7 days showing a good position, as the company was receiving payments early then making payments to its suppliers. The ratio deteriorated to 159.6 days in 2020 and then it reached 6947.5 days in 2021, showing a deteriorating liquidity position as the company is delaying payments for too long due to losses incurred in 2020 and 2021. The cash ratio of the company was 0.11 in 2019, which then fall to 0.02 in 2021, this shows that the company was facing a cash shortage as debtors were paying late leading to an increased period for the creditor’s payment, representing an unfavourable liquidity position for the company. The current ratio, trade receivable and payable days for the last 3 years represent that the company might face severe liquidity and cash shortage in future (Gold Medal, 2020).

In addition, the return on equity for the company in 2019 was 23.1%, this is representing an overall good return for the period, but in 2020 and 2021, the company profits turned into losses leading to a fall in return on equity. The ROE was -32.5% in 2020 which then fall to -995.7% in 2021, showing a loss situation for the company. As the equity is entirely based on the company's retained earnings, but the company incurred a loss which eventually led to a fall in the equity level of the company. Moreover, the return on capital employed is one of the most important key financial ratios which highlights the company's profitability for the amount of capital employed invested in the company. The ROCE of the Gold Medal group was 27.2% in 2019 representing a good position, but as the company incurred loss, the ROCE fall to -24.7% in 2020 and then to -277.5% in 2021 representing deteriorated position. The primary reason behind the fallen ROCE was a greater fall in the current assets compared to the current liabilities. As the loss has continuously increased over the year, and the capital employed is falling which has led to a fall in ROCE significantly (Gold Medal, 2021).

The debt-equity ratio of the Gold Medal Travel group was 2.9 in 2019 which then increased to 3.3 in 2020. After which the debt-equity ratio has increased significantly reaching 37.5 in 2021 representing that the equity level has fallen significantly whereas the liabilities haven’t gotten impacted much. The company has taken NCL in 2020 which also led to an increase in interest expense thus impacting overall profitability. But, as there is a high dependency on retained earnings representing equity levels, the company have incurred losses leading to a massive fall in equity thus an increase in the debt-equity level of the company. The overall position of the company is very risky and shows a deteriorating position after the Covid-19 restrictions which led the Gold Medal to halt their activities impacting the company operations (Gold Medal, 2021).

# Recommendations

This part will highlight a certain set of recommendations which the company need to emphasize, to avoid any financial restraint in the upcoming future of the company. As the arrival of Covid-19 into the economy has restricted many activities, primarily and majorly the tourism industry. So, steps need to be taken to improve the company operations effectively (Thams, Zech, Rempel and Ayia-Koi, 2020).

Firstly, the company needs to take long term loans to survive the deteriorating cash and liquidity position, this will be a great opportunity as the company hasn't taken many loans in the past years. As tourism is mostly open and governments have eased the lockdowns which is a golden opportunity to expand the operations and use different marketing tactics to continue the business activities (Wieczorek-Kosmala. 2022).

Secondly, the company has higher operating expenses which have impacted the profitability over the 3 years. The cost of sales has fallen but the operating expenses don't have changed significantly, thus lowering the net profit of the company. Moreover, the company need to use advanced technologies in their business operations like Artificial Intelligence, which will help reduce the human interaction at various places and, this will eventually help the company's efficiency and effectiveness, thus leading to increase sales as well (Kontogianni, Alepis and Patsakis, 2022).

Thirdly, the company needs to maintain a good liquidity position to attract investors into the company so that the company can get funds easily for future expansion and plans. Moreover, the company need to focus on upcoming international events which will help the company gain profitability and will represent an overall improved position (Brouder, 2020). The upcoming Football World Cup in Qatar is a good opportunity to expand the operations and overcome the losses incurred in the previous two years and another opportunity will be the "ICC T20 Cricket World Cup". The company can start an "International Sports Campaign” and should target the FIFA World Cup in Qatar. The Gol Medal Travel group can offer customized packages to the customers, which will attract more customers and the company will ensure to maximize their profitability with this campaign.

|  |  |
| --- | --- |
| **Net Present Value** | 21,808,552 |
| **Internal Rate of Return** | 45% |

The company can take an investment (As a Long-Term Loan) of £22,500,000 which will be used to set up a new headquarter in Qatar, and this will help the company achieve their sales target and ensure greater profitability. The above figure shows that this project will be beneficial for the company as it has a positive net present value, and the IRR is also above the cost of capital, which makes this International Sports Campaign, a positive one for the upcoming years (Lima et al, 2015).

# Conclusion

The impact of Covid-19 on the economy is drastic and has led to the closure of many companies, mostly tourism, hospitality and travel companies. The Travel Group was representing an overall good position of the company financials, but the Covid-19 led the company towards the losses in the years 2020 and 2021. The liquidity ratios were below the ideal level and the losses incurred led to a fall in profitability ratios significantly. As there were minimal sales in 2021, so even the receivable and payable cycle (in days) were very massive representing that the trade receivables were delaying the payments due to lower sales and even the company was delaying payments to its suppliers due to deteriorating liquidity position. Travel Group can focus on advanced technology like AI and can increase business effectiveness, and also focus on developing International Sports Campaign to increase the overall business operations with the help of funding/investment to improve profitability position as well as liquidity position in upcoming years.

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# Appendices

## Financial Statements 2019 and 2020

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## Financial Statements 2020 and 2021

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## Financial Forecast

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019 (Base Year)** | **Increase by (In %)** | **2022 (Forecast)** | **Incremental Change** |
| Sales Revenue | 146,891,000 | 40% | 205,647,400 | 58,756,400 |
| Cost of Sales | 124,293,000 | 30% | 171,298,120 | 47,005,120 |
| Gross Profit | 22,598,000 |  | 34,349,280 | 11,751,280 |
| Operating Expenses | 17,399,000 | 20% | 20,878,800 | 3,479,800 |
| Operating Profit/Loss | 6,257,000 |  | 13,470,480 | 7,213,480 |
| Finance Income | 28,000 | -10% | 25,200 | - 2,800 |
| Finance Cost (10% of NCL) | - |  | 2,250,000 | 2,250,000 |
| Profit/Loss for the Year | 5,308,000 |  | 11,245,680 | 5,937,680 |
|  |  |  |  | - |
| Fixed Asset | 12,741,000 | 20% | 15,289,200 | 2,548,200 |
| Current Assets | 77,901,000 | 40% | 109,061,400 | 31,160,400 |
| Total Assets | 90,642,000 |  | 124,350,600 | 33,708,600 |
| Current Liabilities | 67,680,000 | 25% | 84,600,000 | 16,920,000 |
| Non-Current Liabilities | - |  | 22,500,000 | 22,500,000 |
| Total Liabilities | 67,680,000 |  | 107,100,000 | 39,420,000 |
| Equity | 22,962,000 | 35% | 30,998,700 | 8,036,700 |
| Capital Employed | 22,962,000 |  | 39,750,600 | 16,788,600 |

## NPV and IRR Analysis

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Considerations and Assumptions for NPV** |  |  |  |  |  |  |
| Initial Investment | 22,500,000 |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| **Initial Investment** | - 22,500,000 |  |  |  |  |  |
| **Cash Inflows** |  | 11,245,680 | 11,807,964 | 12,398,362 | 13,018,280 | 13,669,194 |
| Net Cash flows | - 22,500,000 | 11,245,680 | 11,807,964 | 12,398,362 | 13,018,280 | 13,669,194 |
| Discount Rate @ 12% | 1.00 | 0.89 | 0.80 | 0.71 | 0.64 | 0.57 |
| Present Value of future cash flows | - 22,500,000 | 10,040,786 | 9,413,237 | 8,824,909 | 8,273,352 | 7,756,268 |
| **NPV** | **21,808,552** |  | | | | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **NPV @ 40% to calculate IRR** | | | | | | |
|  | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| **Initial Investment** | - 22,500,000 |  |  |  |  |  |
| **Cash Inflows** |  | 11,245,680 | 11,807,964 | 12,398,362 | 13,018,280 | 13,669,194 |
| Net Cash flows | - 22,500,000 | 11,245,680 | 11,807,964 | 12,398,362 | 13,018,280 | 13,669,194 |
| Discount Rate @ 40% | 1.00 | 0.71 | 0.51 | 0.36 | 0.26 | 0.19 |
| Present Value of future cash flows | - 22,500,000 | 8,032,629 | 6,024,471 | 4,518,354 | 3,388,765 | 2,541,574 |
| **NPV** | **2,005,793** |  | | | | |
|  |  |  |  |  |  |  |
| IRR | 45% |  |  |  |  |  |