

Chapter II

Performance audit relating to Government company

2. Working of KTDC Hotels & Resorts Limited

Executive Summary

KTDC Hotels & Resorts Limited was incorporated in the year 1965 as Kerala Tourist and Handicrafts Corporation Private Ltd. The company is engaged in providing hotel and restaurant services, boating operations, need based travel assistance, support services etc.

Financial position and working results

The Company showed operating Profits during 2006-07 to 2010-11. The Accumulated Loss could not be wiped out and as on 31 March 2011 stood at ₹21.54 crore.

Operational performance

Most of the properties of the Company were located in prime tourist locations in the State. During 2006-07 to 2009-10 the State witnessed spurt in tourist inflow but the Company failed to capitalise on the flow indicating poor marketing strategy.

Out of the 70 business units 35 units made losses during the audit period.

Out of eight budget hotels three were running on continuous Losses. The re-branding and modernisation of Yatri Nivases as Tamarind Easy Hotels did not improve their performance.

Star classification

Obtaining Star Classification improves brand value by ensuring that the standards

are maintained and helps in attracting more high spending tourists. Though the Company was operating nine premium and eight budget properties none of its units, except Hotel Aranya Nivas Thekkady, had Star Classification.

Poor Occupancy

Average occupancy of Company's hotels ranged from 27 per cent to 42 per cent as against the State average of 59.85 per cent to 68.90 per cent. The business potential through channels other than Segment I operators was not being fully tapped.

Performance of boat operations

Company failed to fully exploit the revenue earning potential from boating operations at Thanneermukkom, Kochi and Kumarakom.

Conclusions and Recommendations

We observed (1) steadily falling occupancy in Company's properties despite the State witnessing an upswing in tourists traffic (2) Company failed to obtain star classification for the properties barring one (3) they failed to control food cost within the prescribed norms and (4) boat operations which had high revenue generation potential were not tapped. The Performance audit report contains six recommendations to improve the working and revenue generating potential of the Company.

Introduction

2.1 The Kerala Tourism Development Corporation Limited (Company) under the administrative control of the Department of Tourism (DoT), Government of Kerala (GoK) was originally incorporated in December 1965 as Kerala Tourist and Handicrafts Corporation Private Ltd., with headquarters at Thiruvananthapuram. The Company started commercial operations in March 1966. The name of the

Company was changed to Kerala Tourism Development Corporation Limited in July 1970.

The main objectives of the Company are starting, operating and promoting establishments, hotels, resorts, undertakings and enterprises, which are likely to accelerate the development of tourism in the State. To reflect this core activity, name of the Company was changed to KTDC Hotels & Resorts Ltd. in October 2010. In addition to the above, Company was also engaged in boating, tour operations and providing need based travel assistance and support services to tourists.

The Company operated a total number of 70 properties, catering to luxury segment travellers (Premium properties - 9), upmarket segments and budget travellers (Budget Hotels and Tamarind Easy Hotels - 21) and travelling public (Motels and Restaurants). In addition, the Company was also engaged in running beer parlours spread across the State. Company had two units outside the State, Anantha Restaurant, New Delhi and Hotel Project at Chennai. While many properties of the Company are leased properties from DoT, none was leased out to other parties.

Organisational set up

2.2 The management of the Company was vested in a Board of Directors consisting of 15 members (Official – 6 & Non Official – 9). The Managing Director was the only functional Director of the Company who was assisted by the Secretary & Finance Controller, Commercial Manager, Marketing Manager and Chief Corporation Engineer in carrying out the functional activities of the Company. There were separate unit managers to look after the day-to-day operations of each unit.

The Company was having three Regional Offices headed by Regional Managers to monitor the activities of the centralised units in the respective regions- South, Central and North of the State. They were given the responsibility of management and administration of units under them.

Scope of Audit

2.3 The working of the Company was last audited and included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Kerala for the year ended 31 March 1996. The Report was considered by the Committee on Public Undertakings (COPU) and their recommendations were included in its 63rd Report (1998-2000) which was presented to the House on 18 December 2000. The implementation status of COPU recommendations was included in the present performance audit report wherever necessary. The present audit covers activities of the Company for the five years period 2006-07 to 2010-11. In conducting this performance audit, we examined records maintained at the Head Office and at 38 out of 70 units of the Company, the selection of which was based on stratified random sampling method.

Audit Objectives

2.4 The audit objectives of the performance audit were to ascertain whether the available resources were utilised economically, efficiently and effectively to achieve the objectives of the Company by analysing whether:

- the infrastructure available was utilised effectively to achieve maximum efficiency in operations;
- the marketing system was geared to the business needs;
- the Human Resource management was efficient;
- the project management and contract management were efficient and economical; and
- the Management Information System/ Internal Control/ Internal Audit system/ Corporate Governance practices were effective.

Audit Criteria

2.5 The following criteria were adopted for the performance audit:

- tourism policy, plan documents of Government and the Company;
- unit-wise targets fixed by the Company in respect of Turnover, Profitability etc;
- norms fixed in respect of occupancy, food cost and reduction of the cost of operation;
- human resource policies of the Company;
- capital budgets and estimates for renovation/ capital works;
- policies and guidelines prescribed for Management Information System/ Internal Control/ Internal Audit/ Corporate Governance.

Audit Methodology

2.6 The following mix of methodologies were adopted for attaining audit objectives:

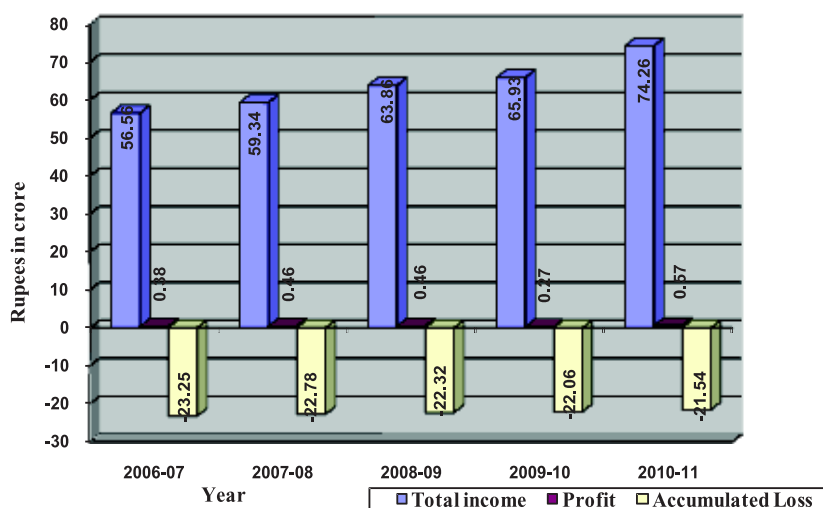
- review of Board minutes, Agenda Notes and minutes of other committee meetings;
- scrutiny of targets and achievements of the units;
- analysis of financial statements;
- scrutiny of project work files;
- examination of records in respect of estimation, mobilisation and utilisation of funds/grants;
- review of Minutes of Performance Review Meetings, MIS reports, Project Reports, Internal Audit Reports;
- interaction with the officials of various units/departments.

Audit Findings

2.7 The audit objectives, audit criteria and scope of the performance audit were explained to the Management in an Entry Conference (February 2011). Audit findings were reported to the Government/ Management (July 2011) and discussed in an Exit Conference (August 2011) which was attended by Secretary, Tourism Department, GoK and Managing Director of the Company. The Company replied (August 2011) to the performance audit report but the Government had not furnished their reply. Views of the Management have been considered while finalising the report.

Financial Position and Working Results

2.8 The Company is a wholly owned Government Public Sector Undertaking. Its Authorised Share Capital as on 31 March 2011 was ₹85 crore against which the Paid up Capital stood at ₹77.70 crore. The Company had been running continuously on very low margins during 2006-07 to 2010-11 and the Accumulated Loss of the Company as on 31 March 2011 was ₹21.54 crore. The position of Total Income and Profits of the Company during the five years ended 2010-11 was as placed below:



Though the Company had been maintaining its Sales, its margins being low were not enough to wipe out its Accumulated Losses.

Return on Capital Employed

2.9 The Return on Capital Employed during the audit period was as follows:
(₹ in crore)

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|-------------|-------------|-------------|-------------|-------------|
| Paid up Capital | 48.60 | 59.45 | 70.70 | 71.70 | 77.70 |
| Capital Employed | 41.00 | 43.12 | 47.00 | 51.93 | 69.06 |
| Net Profit/ Loss after Tax and before Interest | 2.08 | 1.96 | 1.41 | 0.73 | 1.00 |
| Return on Capital Employed (per cent) | 5.07 | 4.55 | 3.00 | 1.41 | 1.45 |

Though, the Company showed a positive Return on Capital Employed during 2006-07 to 2010-11, it showed a declining trend from 5.07 *per cent* (2006-07) to 1.45 *per cent* (2010-11). This was as against the average cost of funds ranging from 7.3 *per cent* to 8.4 *per cent* of GoK during the same period. The low Return on Capital Employed arose out of poor cash flows. Low occupancy and operational inefficiencies contributed to it. Due to poor returns, the Accumulated Losses could not be wiped out. The Company did not declare any Dividend during the period.

Tourism Growth in Kerala and Company's share

2.10 During the period 2006-07 to 2009-10, the State saw increase in tourist traffic (both domestic and foreign) but the Company was unable to capitalise on the growing tourist arrivals in the State as tabulated below:

Foreign guests

| Year | Visited Kerala | | Stayed in KTDC hotels | |
|---------|----------------|--------------------------------------|-----------------------|--------------------------------------|
| | No of tourists | % of increase as compared to 2006-07 | No of tourists | % of increase as compared to 2006-07 |
| 2006-07 | 468658 | -- | 16785 | -- |
| 2007-08 | 554913 | 18.40 | 20166 | +20.14 |
| 2008-09 | 570953 | 21.83 | 16172 | (-) 3.65 |
| 2009-10 | 586667 | 25.18 | 11703 | (-) 30.27 |

Domestic guests

| Year | Visited Kerala | | Stayed in KTDC hotels | |
|---------|----------------|--------------------------------------|-----------------------|--------------------------------------|
| | No of tourists | % of increase as compared to 2006-07 | No of tourists | % of increase as compared to 2006-07 |
| 2006-07 | 6387724 | -- | 130677 | -- |
| 2007-08 | 6879884 | 7.70 | 122630 | (-) 06.16 |
| 2008-09 | 7712250 | 20.74 | 117487 | (-) 10.09 |
| 2009-10 | 8803917 | 37.83 | 122887 | (-) 05.96 |

(Source: Economic Survey, GoK)

The falling tourist traffic in Company's properties was reflective of poor infrastructure facilities, maintenance, etc. combined with poor marketing and needs urgent management initiatives.

Management stated (August 2011) that due to global economic slowdown after 2008-09; foreign tourists had curtailed duration of their stay, thus adversely affecting the occupancy of its properties. The higher percentage of increase in tourist arrival in the State was mainly in districts where the Company's properties (budget & premium) were practically nil.

The reply was not reflective of the actual position. The statistics of tourist arrivals indicated that tourism had remained unaffected by global economic slowdown and even showed an increasing trend. The districts of Thiruvananthapuram, Ernakulam and Thrissur recorded the highest tourist arrival during the period but the Company's premium and budget properties at these locations failed to capitalise on this.

The major audit findings are discussed in succeeding paragraphs.

Operational Performance of Hotels and Resorts

2.11 The Company could make gainful returns only when each unit was run competitively and was able to cover its Cost of Operations and generate Surplus. We observed that during the audit period, out of the 70 units of the Company, 35 units made Cumulative Profits and the other 35 units recorded Cumulative Losses. The Loss making units were found in all categories of properties.

| Category of Unit | Total Units | No of Profit making units | Total Profit made during the period 2005-06 to 2010-11 ¹ (₹ in crore) | No of Loss making units | Total Loss made during the period 2005-06 to 2010-11 ¹ (₹ in crore) |
|-------------------------------|-------------|---------------------------|---|-------------------------|---|
| Premium | 9 | 5 | 27.52 | 4 | 4.42 |
| Budget | 8 | 3 | 1.23 | 5 | 2.88 |
| Tamarind | 13 | 1 | 0.27 | 12 | 4.58 |
| Motels | 11 | 6 | 3.17 | 5 | 0.93 |
| Restaurants and Beer Parlours | 21 | 17 | 4.70 | 4 | 0.48 |
| Others | 8 | 3 | 2.46 | 5 | 1.87 |
| Total | 70 | 35 | 39.35 | 35 | 15.16 |

In the Report included in the Report of The Comptroller & Auditor General of India for the year ended 31 March 1996 it was observed that the Working Results of units were arrived at without allocating Head Office Overheads. COPU of State Legislature had also recommended for allocation of Head Office Overheads to units for the purpose of performance evaluation. The Company continued partial allocation of Head Office Overheads until 2009-10. Based on observations made during the performance audit, Company allocated its Head Office Overheads fully to all the functional units (on the basis of Turnover) while finalising Accounts for the year 2010-11. Consequently, number of Loss making units which otherwise would have been 29 increased to 35 during the year.

Management, in accepting (August 2011) the audit observation, stated that steps were being taken to reduce the number of Loss making units and improve the overall performance. We observed that the Company had introduced a system of Memorandum of Understanding (MoU) between Company and the units where separate targets were fixed for each unit in terms of Occupancy, Gross Income and Operating Profit. Management also stated that by virtue of certain inherent limitations like poor location, small room inventory etc, it was difficult to turn certain units into Profit making.

Star Rating

2.12 The Department of Tourism, Government of India classifies hotels into different categories (1 – star to 5- star deluxe, heritage etc) based on the facilities and services offered. Hotels have to apply to the Hotels and Restaurants Approval and Classification Committee (HRACC) under the Department of Tourism, Government of India to get them rated. The star classification has an inherent

¹ Profit/Loss arrived at after allocating advertisement expenditure, depreciation and gratuity provision pertaining to staff deployed in the units.

business advantage. However, at present (November 2011) only one property of the Company (Hotel Aranya Nivas in the premium segment) had star classification.

Management assured (August 2011) to take necessary steps for obtaining star rating in a phased manner. It further added that all the criteria required for star rating could not be met by the Company due to the financial implications involved.

Management, however, had not made any proper analysis on how many of its properties were meeting the parameters required for star classification. No property-wise analysis had been made for the additional infrastructure facilities, if any, required and the financial commitment involved. We felt that even if additional facilities were required in its high end properties the financial commitment thereon would be more than offset by enhanced profitability and improved brand perception. The Company should urgently make short term and long term plan in this regard.

2.13 The Company was also losing financial concessions associated with star classification offered by GoK. For instance, Classified Hotels (1 to 5 star, 5 star Deluxe, Heritage etc) approved by DoT, GoK were eligible for the subsidy in their electricity tariff for a period of five years from the date of approval by DoT. The concession in electricity tariff was reimbursable from DoT from the year 1998-99 onwards. Two of Company's premium properties (Tea County, Munnar and Waterscapes, Kumarakom) though commenced operation after the year 2000, could not avail this concession as they did not go for Star Classification Rating and Approval Certificate from DoT, GoK before April 2006. The loss of such concession in electricity tariff for the audit period from 2006-07 to 2010-11 for these two units worked out to ₹0.26 crore (*Annexure 7*).

Absence of star rating resulted in loss of concession in electricity charges amounting to ₹0.26 crore.

Marketing

2.14 Marketing was one of the key managerial functions having an important bearing on the performance of the Company. We observed that:

- The expenditure towards advertisement and publicity was negligible, at an average of 0.68 *per cent* of Turnover during the last three years. Further, out of the total amount earmarked for advertising and publicity, 57 to 65 *per cent* of the funds on an average was spent in the non-impact sector i.e., publications with limited circulation and not related to tourism sector.
- The Company did not have an exclusive Marketing Department though it operated in a highly competitive environment. Even though Government had accorded sanction for the formation of Marketing Department (February 2011), no efforts had gone into making it operational (September 2011) which hampered campaigning and business canvassing. The Company was losing season after season share of tourist traffic. We noticed lack of planning and initiative in the marketing efforts of the Company to take advantage of the tourist traffic.
- The Management direction to the units to place hoardings and sign board within 6 kilometres radius of its properties was not complied with in many of

its Tamarind and Budget category properties, thus leading to inadequacy of publicising these units at the regional/ local levels.

- Even though the Board of Directors suggested (June 2009) for the exclusive promotional campaign for Thekkady and Thirunelly units, in view of their unique position, the Management failed to devise any specific strategy for exploiting the full potential of those units.
- The Company participated in 12 international and 69 domestic Travel and Tourism fairs and Road shows incurring an amount of ₹0.79 crore during the period 2006-07 to 2010-11. The Company did not have any feed back mechanism for the impact assessment of these promotional campaigns. In fact, the measures taken by the Company had not yielded any positive result as was evident from the fall in tourist traffic at the Company's properties.
- The potential of pilgrim tourism/ wellness tourism in the State was not explored or utilised by the Company resulting in decline in occupancy of properties like Nandanam Guruvayoor, Ayurvedic Lake Resort Thanneermukkom etc.

Management replied (August 2011) that adequate steps would be initiated to enhance the Company's presence in the web world and efforts were underway to market its properties through all channels.

Occupancy

2.15 The occupancy in properties of the Company ranged from 17 *per cent* to 53 *per cent* during the audit period 2006-07 to 2010-11 as detailed below:

(in percentage)

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|----------------------|-----------|-----------|-----------|-----------|---------------|
| Premium Hotels | 53 | 50 | 43 | 40 | 36 |
| Budget Hotels | 36 | 36 | 34 | 28 | 30 |
| Tamarind Easy Hotels | 38 | 25 | 19 | 17 | 17 |
| Average | 42 | 37 | 32 | 28 | 27 |
| State Average | 68.9 | 70.15 | 62.65 | 59.85 | Not available |
| All India Average | 66.9 | 69.4 | 63.1 | 59.9 | Not available |

(Source : HVS FH & RA Indian Hotel Industry Survey)

Average occupancy ranged from 27 per cent to 42 per cent as against the State average of 59.85 per cent to 68.90 per cent.

As seen from the table, occupancy during 2006-07 to 2010-11 was showing declining trend in all categories of properties of the Company and the year 2010-11 witnessed the lowest occupancy except for budget hotels which showed slight improvement. The Company's average occupancy performance of 42 *per cent* to 27 *per cent* compared very poorly with the average occupancy of 68.90 *per cent* (2006-07) to 59.85 *per cent* (2009-10) recorded by hotel industry in the State.

The Company was operating 21 hotels as at the end of 2006-07. The DoT, GoK handed over nine other properties to the Company for operation during 2006-07 to 2010-11.

Analysis of occupancy statistics showed that while number of units having occupancy upto 20 *per cent* increased from two to eleven, those having occupancy of more than 50 *per cent* decreased from five to two during the audit period.

| Year | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---------|---------|---------|---------|---------|
| No. of units operated | 21 | 26 | 26 | 30 | 30 |
| Room nights available | 227030 | 237600 | 250347 | 269513 | 275687 |
| No of units having occupancy upto 20 per cent | 2 | 6 | 10 | 13 | 11 |
| No of units having occupancy ranging from 21 to 50 per cent | 14 | 14 | 15 | 16 | 17 |
| No of units having occupancy above 50 per cent | 5 | 6 | 1 | 1 | 2 |

Management while accepting the audit findings, pointed out that performance based on city-wise averages would give a more realistic picture for comparison.

The fact, however, remained that properties of the Company fared poorly even when city-wise averages were adopted as was evident from performance of Bolgatty Palace Hotel, Kochi (paragraph 2.21) and Mascot Hotel, Thiruvananthapuram.

Tariff

2.16 The Company had a differential tariff policy for its properties based on seasonal classification as ‘Peak season’, ‘Season’ and ‘Off season’. The sale of rooms in the Company’s properties was mainly carried out through direct booking from guests, bookings from tour operators/ agents, corporate bookings etc. The tour operators were broadly classified into three categories – Segment I, II and III in addition to ‘Other Agents’ based on the quantum of room nights canvassed by them. Special rates were offered to the tour operators with maximum discounts extended to the Segment I agents. The details of bookings through various modes in the major premium properties of the Company during the period from 2007-08 to 2010-11 were as given in *Annexure 8*. The percentage share of direct bookings exhibited a decreasing trend whereas the percentage share of bookings through travel agents increased substantially. The volume of bookings through operators of Segment II and III was negligible when compared to that of Segment I.

The special rates to agents offered for deluxe category rooms in respect of five properties during the season period of 2010-11 were as shown below:

(Amount in ₹)

| Property | Published Tariff | Realisation of Tariff from Agents | | | Remarks |
|----------------------------------|------------------|-----------------------------------|------------|-------------|---|
| | | Segment I | Segment II | Segment III | |
| Tea County, Munnar | 4800 | 2877 | 3177 | 3227 | Revenue less realised is ₹350 when transaction is routed through Segment I Agent instead of Segment III Agent |
| Waterscapes, Kumarakom | 5100 | 2777 | 3077 | 3127 | |
| Hotel Samudra, Kovalam | 3800 | 1988 | 2288 | 2338 | |
| Mascot Hotel, Thiruvananthapuram | 3950 | 1938 | 2238 | 2288 | |
| Aranya Nivas, Thekkady | 3900 | 2266 | 2566 | 2616 | |

We are of the opinion that as maximum discounts were extended to Segment I agents, other tour operators were not motivated enough to generate business for the Company. There was also the chance of other tour operators diverting their bookings through Segment I agents. We further observed that property-wise targets of room nights were not fixed for categorisation of the agents. This had adverse revenue implications to the Company as significant revenue was lost on bookings routed through Segment I operators.

Analysis of the sales of the top two Segment I agents (Intersight Tours & Travels and Jaimaruthy Holidays) in the major premium properties (*Annexure 9*) revealed that bulk of the business were generated at properties at Munnar, Kumarakom and Kovalam. These being otherwise highly attractive tourist destinations in Kerala, business could very well be generated on its own through enhanced marketing efforts by the Company. We observed that in the bookings from the above top two Segment I agents in seven premium properties during the period from 2007-08 to 2010-11, the Company had to forego income to the extent of ₹3.23 crore (*Annexure 9*) while the total revenue contribution because of these agents was only ₹7.40 crore. The discount policy in vogue failed to ensure growth of business in all the premium properties of the Company.

The Government and the Company, during the Exit Conference (August 2011), agreed to devise measures to increase bookings through Segment II and Segment III operators and direct/ online route in its properties.

Food cost

2.17 In the Action Taken Note (ATN) to the COPU Report (2000), the Company had assured to maintain the food cost levels at 25 *per cent* of catering income for premium properties and 40 *per cent* for other units. In order to maintain the food costs at the prescribed level, the Company fixed (July 2008) benchmarks for catering expenditure for various categories of hotels. Maximum permissible food cost fixed for Premium Hotels, Business/ Budget Hotels/Tamarind Easy Hotels and Motels/Restaurants were 25 *per cent*, 30 *per cent* and 35 *per cent* respectively.

We observed:

- Majority of the units failed to achieve the targets fixed despite the operational freedom given to Unit Managers.
- More than half of the extra expenditure on food cost was borne by premium properties pointing out to the need for higher internal control over purchase of provisions and vegetables, food production and sales in this segment because of the materiality involved.
- Inbuilt capability of the software HOTSOFIT (installed in all premium properties) to analyse food costs on a daily basis was not being utilised pointing to lack of firm control over food cost.
- Even though units in Thiruvananthapuram (Mascot, Chaithram and Samudra) and also Tea County, Munnar had resorted to procurement of provisions from State run PSUs like SUPPLYCO, HORTICORP, KEPSCO etc., at lower rates, the system had not been uniformly adopted by other units.

The expenditure over norms fixed on account of excess food cost during 2008-09 to 2010-11 worked out to ₹3.75 crore as detailed below:

Food cost in excess of norms worked out to ₹3.75 crore during 2008-09 to 2010-11.

| (₹ in crore) | | | | | | |
|--------------|----------------------|-----------------------|-------------|-------------|-------------|-------------|
| Sl No | Sector | No. of units | 2008-09 | 2009-10 | 2010-11 | Total |
| 1 | Premium | 9 | 0.68 | 0.62 | 0.90 | 2.20 |
| 2 | Budget | 8 | 0.17 | 0.15 | 0.13 | 0.45 |
| 3 | Tamarind Easy Hotels | 13 | 0.18 | 0.15 | 0.15 | 0.48 |
| 4 | Motel Aaram | 14 | 0.15 | 0.08 | 0.10 | 0.33 |
| 5 | Restaurant and BP | 22 | 0.09 | 0.05 | 0.05 | 0.19 |
| 6 | Others | 4 | 0.07 | 0.00 | 0.03 | 0.10 |
| Total | | 70² | 1.34 | 1.05 | 1.36 | 3.75 |

The Company failed to control food costs within its prescribed norms. Management stated that food cost percentage was fixed as a line of control but was not a rigid one. The objective was to try to come near to the line of control as it would be difficult for many units to achieve the norm due to low volume as food costs come down when scale of business is high. But the point remained that the food cost incurred by the units exceeded norms by wide margin indicating need for remedial steps.

Energy costs

2.18 Utility costs formed a major item of operating expenditure of the Company of which energy costs constituted the main component. Properties of the Company consumed energy mainly in the form of electricity (lighting and air conditioning), fuel for generators (standby power) and fuel for boilers (for heating running water). Figures pertaining to energy costs over the five years period 2006-07 to 2010-11 along with their comparison with industry average were as given below:

| Year | Total Energy cost (₹ in crore) | Revenue from lodging & catering (₹ in crore) | Percentage of energy cost to revenue generated from lodging & catering | Industry average in percentage# |
|---------|-----------------------------------|---|--|---------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| 2006-07 | 3.89 | 48.94 | 7.95 | 6.65 |
| 2007-08 | 4.47 | 52.93 | 8.44 | 6.32 |
| 2008-09 | 4.52 | 55.18 | 8.19 | 7.34 |
| 2009-10 | 4.12 | 58.72 | 7.02 | 7.60 |
| 2010-11 | 4.56 | 66.60 | 6.85 | NA |

^(Source: HVS FH & RA Indian Hotel Industry Survey)

For the years 2006-07 to 2008-09, as seen from column (4) and (5), the energy consumption was high when compared with industry average. The improvement in 2009-10 and 2010-11 was due to lower occupancy and higher tariff.

We observed that even though hotel industry across the world had been incorporating energy efficient systems Company had not conducted any energy audit in its properties except Hotel Mascot to explore efficient possibilities. None of the properties of the Company had any non-conventional/ alternative energy

² This does not include four other units for which norms have not been fixed. Of the 70 units, 3 Motel Aarams and 1 RBP were closed during 2009-10.

source like solar power despite cost savings brought out by ways suggested in energy audit of Hotel Mascot³.

- Wide variations were noticed in parameters of efficiency of Diesel Generator sets indicating that internal control over consumption of fuel (HSD⁴) for generation of captive power in various properties was weak and the consumption/ generation data was not being closely monitored.
- Company issued 38 purchase orders for 358 air conditioners valued at ₹0.81 crore as part of renovation/creating additional facilities in various properties, without insisting on star rating of the products which was indicative of energy efficiency norms issued by Bureau of Energy Efficiency-Government of India.

Management, while admitting (August 2011) that energy audits had not been conducted, pointed out that energy costs of the Company were comparable with industry standards and that steps were being taken to improve the internal control over fuel consumption. They also assured to take steps to bring down the energy cost to the extent possible.

Segment wise performance of hotels and resorts

The performance of each of the segments of the properties of the Company was as discussed below:

Premium Hotels

2.19 A review of the performance of the premium hotels showed that four out of nine units in this category made an Aggregate Loss of ₹4.42 crore while the remaining five earned a total Profit of ₹27.52 crore during the period 2006-07 to 2010-11.

Though Company's properties enjoyed unique locational advantages they recorded poor operational results mainly due to poor marketing and maintenance.

2.20 Hotel Samudra, Kovalam could achieve an average yearly occupancy of 50 *per cent* on only two occasions during the audit period. The Expenditure Turnover Ratio of the unit increased from 72.35 *per cent* in 2006-07 to 126.70 *per cent* in 2010-11, further adversely affecting its profitability. The below par operational performance was mainly due to poor room facilities, poor food quality and maintenance as observed in the Individual Property Audit report (December 2008) prepared by an external agency. The Company decided to renovate the property only in August 2009 but the renovation work was taken up belatedly (June 2010) on piecemeal basis through 69 different agencies. Though, the property was shut down for a period of five months from June 2010 to September 2010, the work was not completed (May 2011). The Profit of the unit declined from ₹1.59 crore in 2007-08 to (-) ₹0.59 crore in 2010-11.

³ As per the energy audit report, installation of solar panels would result in an annual savings of Rs.15 lakh.

⁴ High Speed Diesel oil.

2.21 The performance of Bolgatty Palace/ Island Resorts had been declining since 2006-07 and was below par when compared with the overall industry performance in the locality. The unit registered occupancy of only 57.7, 51.6, 41.8 and 41.1 *per cent* when compared with the industry average of 75.4, 75.2, 67.4 and 64.4 *per cent* respectively during the years 2006-07 to 2009-10. In a property audit conducted by an independent agency during the years 2008-09 and 2009-10 the unit managed only a *fair* ranking in parameters of experience of check-in, restaurant services, food quality and maintenance of premises. The Average Room Revenue (ARR) of the property during the year 2009-10 was only ₹2243 as against industry achievement of ₹2610. The Revenue Per Available Room (Rev Par) during the same period was only ₹963 indicating poor utilisation of room inventory. The unit had not taken any effective action to increase its occupancy by brand positioning, aggressive marketing etc.

2.22 The occupancy of Ayurvedic Lake Resort, Thanneermukkom unit declined from 17 *per cent* in 2006-07 to an abysmally low of nine *per cent* in 2010-11. We observed:

- The Resort was designed with a connected load of 100 KVA; the Company was allowed to avail only a maximum of 33.33 KVA load at a time by KSEB and as a result it was left unmarketable.
- The Establishment Expenditure recorded a quantum jump due to Fixed Charges and the increase in the number of permanent employees during the period 2006-07 to 2009-10 further added to Operational Losses.

Management stated (August 2011) that the property was constructed by the DoT without considering the operational convenience and was taken over by the Company as per Government direction. The Company was in the process of promoting the resort as an Ayurvedic resort after necessary upgradation.

The reply was, however, silent as to the increase in strength of employees and Establishment Expenditure. Being a commercial entity, the Company should make special efforts to make the property viable.

Budget Hotels

2.23 Out of eight Budget Hotels operated by the Company during the audit period, five sustained an Aggregate Loss of ₹2.88 crore and the remaining three hotels made a total Profit of ₹1.23 crore.

A further analysis of the performance revealed that three out of five loss making hotels were continuously making Losses during the audit period. The performance of Hotel Chaithram showed a marked improvement during 2009-10. In case of Malabar Mansion, Kozhikode, the profitability was due to operation of beer parlour.

The Management stated (August 2011) that all the loss making properties of the Company were showing improved performance and this would increase significantly once online reservation system was extended to this category also.

Rebranding of Yatri Nivas Hotels as Tamarind Easy Hotels was not successful despite an investment of ₹5.00 crore in upgradation.

Tamarind Easy Hotels (TEH)

2.24 The Yatri Nivas Hotels (a budget category accommodation) constructed and handed over to the Company by DoT, GoK using funds from Central Government wore a negative brand image on account of lack of ambience, poor maintenance and up-keep and lack of modern amenities. The Company re-branded (2007-08) the existing Yatri Nivas hotels and new units handed over by DoT as ‘Tamarind Easy Hotels’ and spent ₹5.00 crore (***Annexure 10***) for the upgradation/ modification works (undertaken during 2007-08 to 2010-11) by providing additional amenities (mainly installing air conditioners and water heaters). However, the performance of all the units (6 existing and converted and 7 new units) continued to be discouraging and all the units except TEH Parassinikkadavu recorded Losses. Cumulative Loss recorded by the Tamarind units during the period from 2005-06 to 2010-11 amounted to ₹4.58 crore.

We observed that TEHs differed in facilities offered and were not amenable to be clubbed under a single category/brand. Uniform tariff structure for the tamarind brand was adopted without considering the differences in the individual hotels and the Company had to drastically reduce (May 2011) tariff.

Motel Aarams

2.25 Motel Aarams (wayside amenities providing boarding and lodging to traveling public) were constructed by DoT, GoK and handed over to the Company for operation. Out of 11 Motel Aarams, four were making continuous Losses and we observed that some of these units were taken over without conducting proper viability study. Though, these units were making Losses continuously during the period, the Company had not taken any effective steps to make these units viable. The Loss made by five Motel Aarams during the period under audit worked out to ₹0.93 crore.

Despite the Board decision (January 2005) to close down the Loss making units, the Company continued operation of the motels at Athirappally and Adoor which resulted in further Loss of ₹0.36 crore (Athirappally ₹0.19 crore, Adoor ₹0.17 crore).

Restaurants & Beer Parlours

2.26 During the period under audit, the Company started seven new Restaurants & Beer Parlours (RBP) and closed ten units. As on 31 March 2011, the Company had 21 RBPs. The total loss made by the four continuously Loss making RBPs as on 31 March 2011 was ₹0.48 crore and 17 units together made a Profit of ₹4.70 crore.

We observed that the Company continued operation of RBP Haripad despite the Board decision (January 2005) to close it down which resulted in further Loss. The Company meanwhile closed three Profit making RBPs citing failure to find suitable alternative premises to carry out the business on expiry of the lease period of these premises. Total Profit made by these three units for five years period prior to closure was ₹1.14 crore as detailed below:

(₹ in crore)

| Name of unit | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | Total Profit |
|--------------|---------|---------|---------|---------|--------------------|--------------|
| Aluva | 0.04 | 0.01 | 0.04 | 0.09 | 0.07 | 0.25 |
| Valancherry | 0.11 | 0.16 | 0.11 | 0.17 | -0.02 ⁵ | 0.53 |
| Olavakode | 0.07 | 0.09 | 0.11 | 0.10 | -0.01 ⁶ | 0.36 |
| Total | | | | | | 1.14 |

Management replied that closure of the above units was due to reasons beyond their control like non-availability of suitable premises. The contention was not acceptable as closure of these profitable units had only benefited the private parties operating in the area.

Performance of Boat operations

2.27 The Company undertook boat operations in five centres, namely Thekkady, Veli, Kochi, Kumarakom and Malampuzha. The revenue generated from boat operations in each of the unit and the contribution of each unit to the total boating revenue (expressed as percentage) of the Company was as given in **Annexure II**. As was evident from the data, Turnover from boating operations declined after 2008-09. Boat operations at Thekkady contributed the major chunk of boating Revenue due to partial monopoly enjoyed by the Company in Periyar Lake; the only other agency involved being the Forest Department. We observed:

Underutilisation of potential for boat operations

Potential for boat operation was under exploited.

2.28 Even though some of the properties of the Company (ALR Thanneermukkom, Waterscapes, Kumarakom and Bolgatty Palace Hotel, Kochi) had very good potential for boat operations, the same was under utilised despite the decision taken in the Managers' meeting (August 2007) to concentrate on this segment to increase overall revenue. While there was no boating activity at Thanneermukkom and Bolgatty, share of revenue from boat operations at Kumarakom declined from 5.63 per cent in 2006-07 to 2.86 per cent in 2010-11.

Boat operations at Thekkady

2.29 The Forest Department controls boating activities at Thekkady and the Company operates four safari boats in the lake. The boats operated were all handed over to the Company by DoT and were of varying capacity ranging from 20 seats to 126 seats. We observed that the Company was not deriving the full potential for revenue from its operations at Thekkady due to operation of lower capacity boats. Analysis based on operational performance of boats showed that in terms of number of trips per month, JALARAJA (boat having largest capacity) had a break even point six times lower than the smaller capacity boat JALAMOHINI showing higher Revenue earning potential of larger boats. Operation of higher capacity boats was preferable also in the context of passenger safety since the smaller boats were of vintage type of upto 45 years.

⁵ No sales activity during the period.

⁶ Loss during this period was due to adjusting Administrative Expenditure of ₹4.14 lakh against ₹1.79 lakh charged in 2006-07.

Management replied (August 2011) that capacity enhancement at the destination required permission from the Forest Department. We, however, observed that there was failure to obtain the required clearance from the Department.

Manpower Management

2.30 Manpower management is essential in hospitality sector in which the Company is functioning. Taking this into view the HVS FH & RA Indian Hotel Industry Survey had placed the average manpower per room for industry at 1.7 to 2.0. We observed while going through the manpower needs of the Company that it had an average strength of 2.17 to 2.74 per room.

The percentage of employee cost in comparison with total earnings of the Company rose from 25.27 *per cent* (2006-07) to 32.04 *per cent* (2010-11) as detailed in the following table.

| | (₹ in crore) | | | | |
|-----------------------------------|--------------|---------|---------|---------|---------|
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Total Earnings | 56.56 | 59.34 | 63.86 | 65.93 | 74.26 |
| Salaries Wages and Other benefits | 14.29 | 18.54 | 18.76 | 19.84 | 23.79 |
| Percentage of employee cost | 25.27 | 31.24 | 29.38 | 30.09 | 32.04 |

Besides it employed the services of 629 to 907 contractual staff adding weight to the work force and affecting the finances adversely. We also observed violations in established method of determining staff strength, staff promotions and postings. Promotions were effected without ensuring the required experience in the lower post, no benchmarks were fixed for administrative overheads in the individual properties resulting in deployment of excess staff.

Construction and renovation works

2.31 Properties of the Company are being upgraded and renovated periodically to keep them in good condition and to provide better amenities to attract more customers.

We observed:

- The work for the construction of three Star Hotel at Chennai was awarded (July 2007) at ₹10.46 crore through KITCO Ltd. (Project Management Consultant [PMC]) with a stipulated period of completion of 10 months. Deficient pre-award formalities and monitoring of the work by KITCO and stoppage of work (May 2008 to June 2009) by the contractor demanding price escalation affected the progress of work. GoK while sanctioning the price escalation of ₹1.54 crore directed to recover penalty for further delay beyond 10 months. The work has not been completed so far (November 2011) and no penalty has been recovered. Due to substantial delay in completion of the project, the Company lost the anticipated Profit amounting to ₹2.12 crore for two years. KITCO had recovered mobilisation advance along with interest amounting to ₹0.93 crore from the contractor during the period December 2007 to November 2010 which had not been passed on to the Company. Interest loss on this account amounted

to ₹0.15 crore. Management in their reply (August 2011) giving the reasons for various lapses did not contest the audit observation.

- The work for the construction of Marina House at Bolgatty was awarded (February 2008) at ₹3.64 crore after the expiry of the validity period (November 2007) of offer. The contractor refused (April 2008) to execute the work. The failure of the Company to issue work order within validity period led to re-tendering to a new contractor at ₹4.46 crore resulting in additional expenditure of ₹0.82 crore.

Management replied (August 2011) that the delay in award of work was due to delayed Government sanction.

- Though the Company was having an Engineering Wing, the major civil works for the new properties/ major renovation works for existing properties were being executed through KITCO as consultant for the entire project activities. A review of records revealed that the Company had paid consultancy fee of ₹1.37 crore in respect of seven projects entrusted to KITCO. The Company had not made any cost benefit analysis for executing the major civil works through KITCO despite having a dedicated engineering wing. None of the works entrusted to KITCO was completed within the time schedule. KITCO was executing agreements on behalf of the Company with the contractors even though it was only a PMC. As per the agreement executed with KITCO by the Company, there was no provision to recover penalty for the delay in completion of works. The agreements executed by KITCO with the contractor contained the penalisation clause which enabled them to recover liquidated damages at the rate of one *per cent* of the contract value per week subject to maximum of 10 *per cent* for delay in completion. In the absence of penalisation clause in the agreement with KITCO, the Company could not enforce recovery of ₹1.50 crore (being 10 *per cent* of the contract value) for the delay in completion of three projects ((i) Road work to Bolgatty from Goshri - ₹0.10 crore, (ii) Three Star Hotel Project at Chennai - ₹1.05 crore and (iii) Marina House - ₹0.35 crore). Retention money recovered from the contractors was being retained by KITCO and was not passed on to the Company. Interest loss on this account worked out to ₹0.12 crore. The Company was undertaking works on behalf of the DoT while entrusting its own works to KITCO.

Company stated (August 2011) that the permanent technical staff available in the engineering wing was insufficient to undertake the large number of works spread across the State. Though no cost benefit analysis was done, execution of major works through KITCO was beneficial since it enabled the engineering wing to renovate Tamarind Easy Hotels in time. While admitting delay in completion of works executed, it was stated that this was not entirely due to KITCO. Reply was, however, silent on defective agreement clauses as to recovery of liquidated damages/ retention money.

We observed that renovation of Tamarind Hotels did not improve their profitability. The causes of delays in most of the projects were due to non fulfillment of pre-project formalities (getting clearance from local authorities, survey of site, preliminary design etc.) for which KITCO was directly responsible.

Other Audit Observations

Uneconomic operation of Oak Field Resorts, Munnar

Operation of a private resort entrusted by the Government resulted in a loss of ₹0.32 crore.

2.32 The GoK took possession of Oak Field Resort at Bison Valley Village in Udumbanchola Taluk and as per Orders of Hon'ble High Court of Kerala (January 2009) entrusted the same to the Company for running for a period of three to four months. Subsequently, the Government extended (March 2009) the period till the final judgment of suit pending before the Hon'ble High Court. The average occupancy of the unit was less than 11 *per cent* and the unit incurred a Loss of ₹0.32 crore during its 26 months of operation from February 2009 to March 2011. The Company was yet to take effective action for getting the Loss reimbursed from the Government.

Management replied (August 2011) that the matter had been brought to the attention of the Government and a final decision was awaited.

Engagement of manpower for cleaning contracts

2.33 The Company had been outsourcing manpower for cleaning activities in its various properties at a mutually agreed rate based on the area cleaned from the year 1999-2000 onwards.

Scrutiny of the five cleaning contracts awarded during 2006-07 to 2010-11 revealed:

Man power recruited for cleaning activities were deployed in other functional areas

- Wide variations between actual area of the properties and area sanctioned for cleaning. The area to be cleaned was worked out based on the staff requirements in the Company's properties rather than actual area to be cleaned.
- The contract workers recruited for cleaning activity were deployed in other operational areas like office administration, accounts, cooking, front office management, dish maintenance.
- Proper registers were not maintained by the units for recording the area cleaned by the workers though payments were envisaged on the basis of area actually to be cleaned, indicating poor control over the outsourced service.

Management accepted (August 2011) that some of the units were engaging employees recruited through cleaning contracts in other operational areas to overcome acute shortage of manpower. It was also submitted that this arrangement had cut down establishment and salary cost.

Role of Board of Directors

2.34 The Board of Directors of the Company comprised six official members and nine non-official members. As all important matters affecting the Company are to be deliberated in Board meetings, the presence of members and their effective participation in the deliberations play an important role in the functioning of the Company. During the period from 2006-07 to 2010-11, 21 Board meetings were

conducted. The attendance of the official and non-official members in these meetings in the audit period was as detailed below:

| Year | No. of Board Meetings | Total no. of Board Members ⁷ | No. of Official Members | No. of Official Members attended | No. of Non-Official Members | No. of Non-Official Members attended |
|---------|-----------------------|---|-------------------------|----------------------------------|-----------------------------|--------------------------------------|
| 2006-07 | 4 | 32 | 28 | 20 | 4 | 3 |
| 2007-08 | 4 | 60 | 28 | 7 | 36 | 27 |
| 2008-09 | 4 | 60 | 24 | 9 | 36 | 34 |
| 2009-10 | 4 | 60 | 24 | 14 | 36 | 26 |
| 2010-11 | 5 | 75 | 30 | 14 | 45 | 31 |

The participation of the official directors in the decision making process was inadequate and was only 47 *per cent* in 2010-11. Further, the Board did not comprise members having professional qualification and industry knowledge.

Very rarely in the Board meetings were there any specific unit wise monitoring of the performance and proposals for improvement. Given the low occupancy of the properties it would be appropriate if unit wise detailed review of performance was taken up as an agenda in each meeting which would facilitate close monitoring to bring about improvement in occupancy level and profitability of the operation.

Management stated (August 2011) that participation of official directors in the Board meetings was improving. It was also stated that the matter of appointment of Directors having professional qualification and industry knowledge would be brought to the notice of Government. With regard to review of performance of units it was assured that performance review of units now done at head quarters level would be reported to the Board.

Internal Audit & Internal Control

2.35 The Internal Audit of the Company was entrusted to external firms of Chartered Accountants. The general guidelines for Internal Audit, scope and areas to be covered which were outlined in the appointment letter of internal auditors were only general in nature. As the Company had not formulated an Internal Audit Manual, the points to be reviewed under different areas of operation during an audit were not specified in detail.

We observed that transactions of the Company were reviewed in Internal Audit but system deficiencies had not been brought out for corrective action. For instance, although Internal Audit was bound to appraise the economy and efficiency with which resources of the Company were utilised, the comparative inefficiencies in energy consumption, food production etc., across the units were not brought out.

An overall review of the Internal Control system revealed the following:

⁷ Total no. of members in a year is the product of no. of members in the Board and the no. of meetings held in the year (8 members in 2006-07 and thereafter 15 members).

Credit was
extended without
safeguards

- **Financial Internal Control** - As per the approved procedure of the Company, credit period permissible to travel agents was limited to 21 days to be further supported by Bank Guarantees for the credit limit. Maximum credit period permissible for other category of customers was only 30 days. We observed that:
- There was no stipulation of credit limit based on risk analysis. No bank guarantees were being collected to regulate the amount of credit that could be given. This lapse facilitated various travel agents to default/ delay in remitting dues.
 - Major portion (87 *per cent*) of sundry debtors related to premium properties. Maximum amounts were due in Mascot Hotel, Thiruvananthapuram where debtors included Government Departments, celebrities and bureaucrats.
 - There was no system of fixing responsibility on Managers for recovery of dues which was sanctioned by them despite the Board decision in this regard.
 - Management Information System on debtors was inadequate. Due to non matching of receipts against bills (Bill matching) when payments were made by the parties, the accounting software was incapable of generating reliable age-wise data on debtors.
- **Monitoring system** - In order to improve the performance of the Company's properties, Management introduced the system (August 2008) of entering into Memorandum of Understanding (MoUs) with unit level managers. Under the system targets with regard to Occupancy, Income and Profitability were fixed on quarterly basis. Performance of units against the targets was analysed in the quarterly MoU meetings chaired by the Managing Director. Review of the system since its inception showed that:
- Number of units which could achieve the target for occupancy was only three in 2009-10 and seven in 2010-11 out of a total number of 31 units for which occupancy targets were applicable. In case of target for income, only 24 and 30 units out of 70 units could achieve the target in 2009-10 and 2010-11 respectively.
 - Concrete steps for improvement of performance were rarely seen suggested in the review meetings. Diagnosis of the problems and guidance was lacking.
 - Standardised format was being applied across the board for performance evaluation. Hence, parameters applicable for hotels were also adopted for restaurants and boat operations. It was also noted that targets were not being set for fuel cost, administrative cost etc.
 - Even though two and a half years had elapsed since introduction of the MoU system, system of accountability and reward had not been integrated into the target and monitoring system without which we feel the intended benefits could not be fully realised.

- The post of Vigilance Officer was vacant for the last 18 months. Surprise inspections by the vigilance wing were not being carried out at present.
- **Non-maintenance of Control Registers** - The Control Registers for various functional activities such as Purchases, Works etc were not being maintained by the Company. The Company did not maintain a separate register for grants showing the details of funds received, amount utilised and physical achievement etc., of each individual project. As such, information pertaining to the year-wise and scheme-wise utilisation of grants was not compiled and analysed.

Conclusions

- The overall check-in of tourists to properties of the Company showed a declining trend. The Company failed to exploit the business potential although most of the properties of the Company were located in prime tourist locations in the State and despite there being an upswing in tourist inflow into the State during 2006-07 to 2010-11.
- Due to failure to obtain star classification in majority of its units, the related benefits of enhanced brand image and improved occupancy could not be tapped by the Company.
- The business potential through channels other than Segment-I operators was not being fully tapped and tariff to the customer through these routes was substantially higher.
- The Company failed to control food costs within its prescribed norms.
- The re-branding and renovation of Yatri Nivas Hotels, after its entrustment by State Government, as Tamarind Easy Hotels, incurring heavy capital investment had not resulted in any improvement in performance of these units.
- Boat operation had high potential for revenue generation as the Company had many locational advantages. The Company did not tap this opportunity fully.

Recommendations

- There is need to improve the occupancy rate by improving the amenities at the Company's properties and through proper marketing strategy.
- The Company should make efforts to get its properties star rated to exploit the market potential.
- There is a need to incentivise bookings through all segments and through attractive tariff.
- Food costs should be brought within the norms fixed.

- **The Government may also consider the viability of the properties before entrusting them to the Company.**
- **The potential of boat operations should be exploited by tapping locational advantages and employing new and higher capacity boats.**