Konchakova Varvara Igorevna

student

Scientific adviser

Tsertseil Julia Sergeevna

Candidate of Economic Sciences,

Associate Professor

Graduate School of Finance Plekhanov Russian University of Economics

Moscow

FINANCIAL ANALYSIS IN THE STRATEGIC DEVELOPMENT OF THE COMPANY

Abstract*: the paper presents the role of financial analysis in the strategic development of a company. The author has studied and presented ways to apply the results of financial analysis in developing actions to increase the efficiency of the company. The use of the method of financial ratios of financial analysis is presented as the most appropriate method in developing strategic development actions.*

Keywords*: financial analysis, strategic development of the company, financial activity of the company, method of financial ratios.*

Кончакова Варвара Игоревна

студентка

Научный руководитель

Церцеил Юлия Сергеевна

канд. экон. наук, доцент

ФГБОУ ВО «Российский экономический университет им. Г.В. Плеханова»

г. Москва

DOI 10.31483/r-109648

ФИНАНСОВЫЙ АНАЛИЗ В СТРАТЕГИЧЕСКОМ РАЗВИТИИ КОМПАНИИ

***Аннотация**: в работе исследуется роль финансового анализа в стратегическом развитии компании. Автором изучены и представлены способы применения результатов финансового анализа в разработке действий по увеличению эффективности деятельности компании. С помощью использования метода финансовых коэффициентов финансового анализа показано, какой метод в разработке действий стратегического развития наиболее приемлем.*

***Ключевые слова**: финансовый анализ, стратегическое развитие компании, финансовая деятельность компании, метод финансовых коэффициентов.*

In modern economic conditions, the analysis of the financial condition of the company is one of the most important tools to ensure sustainable development and successful functioning of entities in the market. This analysis is crucial for the development of the entire national economy, as it plays a key role in studying the prospects of individual economic entities and business owners. It is essential if we want to identify and eliminate the shortcomings of financial and economic activity, to determine the prospects for the development of the enterprise, to prevent and overcome financial crises, as well as to determine the reserves for improving the financial stability and efficiency of the enterprise. Therefore, in the base of economic priorities lies effective management and continuous improvement of economic mechanisms.

We can define financial analysis as a method of assessing and forecasting the financial position of an organization from the point of view of its foundation of its financial performance. Usually this performance of the company is publicly available with the help of financial statements and that is why this analysis can be performed both internally (by the company's management) and externally by any external analyst.

We can differentiate, several methods that are often used simultaneously or consecutively to get a comprehensive understanding of the company's financial performance:

– horizontal analysis;

– vertical analysis;

– comparative analysis;

– trend analysis;

– financial ratio analysis.

In this article we will consider and look more closely to Indicator analysis as it can give us a fuller look into company's financial activity. The financial ratio method analysis of performance includes the analysis of four main ratios:

– profitability;

– financial sustainability;

– liquidity;

– turnover.

The profitability of an enterprise comprehensively reflects the degree of efficiency in the use of material, labour, cash and other resources. The profitability ratio is calculated as the ratio of profit to the assets or flows that generate it.

In a general sense, the profitability of production implies that the production and sale of a given product is profitable for the enterprise. Unprofitable production is production that is not profitable. Negative profitability is unprofitable production. The level of profitability is determined by means of relative indicators – ratios. Profitability indicators can be divided into two groups: return on sales and return on assets.

We also calculate the profitability ratio which is defined as return on sales. It shows the share of profit in each ruble earned. It is usually calculated as the ratio of net profit in a given period to the monetary volume of sales in the same period. Profitability formula:

$$Return\ on\ sales\ =\ Net\ profit\ /\ Revenue\ [6,\ p.\ 52] \qquad (1)$$

Return on sales is an indicator that shows a company's ability to control costs and gives us a glance into its pricing policy. Differences in competitive strategies and product differentiation cause a considerable fluctuation in return on sales from enterprise to enterprise. It is often used to assess the operational effectiveness of companies.

In contrast to return on sales, return on assets can be defined as the ratio of profit to the average value of a company's assets. This indicator shows us the profitability and efficiency of a company's operations, not taking into account the influence of the amount of debt. It is usually calculated when there is a need to compare companies in the same industry. It is calculated using the formula:

$$ROA = \frac{P}{A}, \text{ where} \qquad (2)$$

ROA – return on assets;

P – profit for the period;

A – average value of assets for the period [6, p. 53].

Another important indicator is return on equity (ROE), which is calculated as the ratio of net profit (in annual terms) to the average value of equity. Return on equity shows the return on shareholders' investment in a given company.

The desired level of profitability is achieved through organizational, technical and economic measures. Increasing profitability means obtaining a greater financial result with less expenditure. The profitability threshold is the point that separates profitable production from unprofitable production, the point at which a company's revenues cover its variable and fixed costs.

The next set of indicators that we will be discussing is the financial sustainability of the company. It lets us know about the ability of a company to withstand fluctuations in market conditions without losing profits. It can be determined by the financial independence coefficient of the company and the coefficient of financial dependency.

The financial dependence ratio which is also called the financial leverage ratio is a ratio of a company's debt to total equity. The financial dependence ratio shows what share of the total capital structure is occupied by borrowed funds.

Equity-assets ratio or none other than independency ratio shows the share of an organization's assets that are secured by its own funds and is calculated as the ratio of equity to the organization's total capital. The higher the value of this ratio, the more financially stable and independent of external creditors an enterprise is.

Liquidity is the ability of an asset to be converted into cash. It is also the ability of a company to pay its short-term debts regardless of the source of its cash resources.

Current liquidity shows whether a company is able to realise all of its assets within one year and cover its liabilities. It is an important figure which is used in financial analysis to understand how efficiently a company is being run. To calculate the current liquidity ratio one has to divide the sum of all assets by the sum of term liabilities and short-term liabilities [7].

The quick ratio shows to what extent a company's liquid assets cover its short-term debts. With this absolute liquidity ratio it is possible to understand how much of the company's accounts payable can be repaid immediately with available funds.

The turnover ratio is another important factor that company should include in its financial analysis. It shows the intensity of use of certain assets or liabilities. Turnover ratios are indicators of business activity of an enterprise and are calculated by the formula:

$$Turnover = Revenue \,/\, Average\ sum\ of\ assets \text{ [6, p. 50]} \qquad (3)$$

The higher the asset turnover ratio, the more intensively assets are used in the organization's activities, the higher the business activity. However, turnover is highly dependent on industry specifics. In trade organizations with large volumes of revenues, turnover will be higher; in fund-intensive industries, it will be lower. However, turnover cannot be regarded as an indicator of the organization's efficiency or its profitability. Nevertheless, a comparative analysis of turnover rates of two similar enterprises in the same industry may show differences in asset management efficiency.

Another important ratio that can show us the efficiency of the company is the sustainable growth ratio. It shows the potential that the company has for growth using its own capital with its given structure without attracting outside financing. This ratio can be calculated by the following formula:

$$SGR = RR * ROE, \quad (4)$$

where RR is the reinvestment rate and ROE is the return on equity coefficient [3].

Let us now analyze some financial ratios. The results are presented in the Table 1 below.

Table 1

Financial ratios of Gazprom PJSC for 2020–2022

	Year			
Ratio	2020	2021	2022	Standard
A/E	0,634	0,624	0,629	>0,5
Capitalization ratio	0,577	0,604	0,589	>0,7
Own working capital ratio	-1,265	-0,638	-1,096	>0,5
Current liquidity ratio	1,437	1,545	1,593	>2
Absolute liquidity ratio	0,494	0,623	0,468	>0,2
Quick liquidity ratio	1,437	1,545	1,593	>1
TOA	0,006	0,077	0,050	>0
ROE	0,181	0,159	0,045	>0
ROS	0,021	0,204	0,112	>0
RR	0,3	0,5	0,5	
SGR	0,079	0,099	0,022	

Source: compiled by the author on basis of consolidated financial statements in accordance with IFRS 2020–2022 [8].

The current liquidity ratio has been below its preferred value throughout the period. It averaged 1.49, but has been increasing in the last year. Despite the fact that the short-term liabilities have been increasing throughout the period, the company has managed to keep the current ratio in a positive trend over the last year as it has been able to increase its current assets.

The absolute liquidity ratio has a negative trend decreasing in the last year, but it is within the preferred range. The decrease in the ratio can be explained by a sharp decrease in short-term financial investments and, accordingly, a decrease in income from these investments, which resulted in the company's inability to cover its liabilities at the moment.

The quick ratio was within the normal range throughout the period, averaging around 1.5. Over the whole period the indicator has had a positive trend increasing from 1,44 in 2020 to1,59 in 2022.

Next, we look at the profitability ratios.

Return on assets for the period increased by 0,05 from the beginning to the end of the period, having a big jump in 2021 to 0,07 but dropping again in 2022 to 0,05. Overall, we can conclude that the company is using its assets efficiently.

Return on equity has a not so positive trend, continuously decreasing throughout the period and having a big drop in 2022. Since the beginning of the period, this ratio has decreased by 0,14, and in 2022 it stopped at only 0,045. This means that PJSC Gazprom is using its own funds inefficiently, moving in a negative trend.

Return on sales does not differ from the trends of other profitability indicators going from 0,02 to 0,11 over the period having a peak in the indicator at 0,2 in 2021. This is because while net profit had a steep increase, revenue did not fall as much, causing the ratio to jump sharply. In 2022, the company was able to keep its profitability of sales in the preferred range despite the decline in net income, having the ratio at 0,11.

Next, let’s look at the dynamics of the company’s sustainability ratios.

PJSC Gazprom’s autonomy coefficient is within its preferred limits. This means that the company is able to use its own funds for its operational and investment activities. However, we can see that this ratio is on a downward trend because its assets are growing faster than its equity. Over the period the indicator dropped from 0,63 to 0,62 which is not that significant nevertheless.

The capitalization ratio is below the limit of acceptable values. This means that the company does not have enough equity capital to act as a source of funding. Although in 2021 there has been a positive change in the indicator getting close to a preferred range jumping to 0,6, still in 2022 the company experienced a drop in this indicator decreasing to 0,59.

The working capital ratio is below the norm and shows negative numbers. This means that the company does not have sufficient own funds to finance its current activities.

We also calculated the sustainable growth ratio and further we will analyze the results. It is important to not that the ratio has had very fluctuate dynamic beginning with 0,079 at the beginning of the period, having a peak in 2021 with the ratio being at 0,099, but later in 2022 dropping again to 0,022. We can say that this results are not so positive for the company as it concludes that the company's capital structure gives no potential growth rate that it can finance with the retained earnings. It means that for the prosperity of the company it is essential to get financing from outside of the company as it cannot use its own capital to ensure its growth.

Having analyzed the main financial indicators of the company, we can conclude that, in general, the company is quite effective in its activities We see positive trends in profitability and liquidity indicators, and we also see that the indicators of financial stability are within the preferred norms. The solvency of the company is in a positive state. However, looking at the sustainable growth ratio we can conclude that the company has to do some improvements in order to operate more efficiently and increase the potential for sustainable growth. Proceeding from this, let us consider several options on how PJSC Gazprom can improve its strategic development and increase the efficiency of the company.

One way to make the company operate more efficiently would be to reduce its capital expenditures. Net capital expenditure is the difference between capital expenditure and depreciation. Capital expenditure is part of cash outflow, so it has a direct impact on a company's cash flow, causing it to decrease. The allocation of capital expenditures within the framework of their impact on the existence of the company can be divided into two groups: providing these expenditures for the future growth of the company and maintaining the existing assets of the company.

If the enterprise is able to reduce the net capital cost of existing assets, it will increase value. However, there needs to be a trade-off between capital maintenance costs and the useful life of existing assets. If no capital expenditure is incurred, higher after-tax cash flows are created, but these assets will have a shorter useful life. Thus, the firm may lose value when it depletes assets at a faster rate.

In addition, the company can also pay attention to the return on equity ratio, as it also provides some insight into how finances are allocated within the company. In the case of PJSC Gazprom, the return on capital ratio is greater than zero, which is within the normal range, but it is close to zero. This means that the company is operating efficiently, which is good because external investors will be able to trust investments in this company and it can receive external financing. However, the ratio itself is not that stable and strong as it is close to zero. PJSC Gazprom should consider options to increase this ratio in order to strengthen its position in the eyes of investors and get the opportunity to increase external financing. This can be done by increasing net profit or optimizing its expenses or increasing sales. This point is closely related to the previous one, strengthening the equity ratio. By increasing the return on equity ratio and obtaining additional external financing, the company will be able to reallocate and reduce its capital expenditures and thus increase its value.

It is also worth noting that return on assets also plays an important role in increasing the effectiveness of the company. Although PJSC Gazprom's ratio is within the normal range, it is very close to zero and the company can work on increasing it. To do this, it is necessary to increase the net profit of the company by optimizing its revenues or increasing sales. This will ensure a more competent reallocation of profits to assets, because in terms of shares, the share going to assets will be smaller.

To sum up all of the above, we can conclude that analyzing the financial condition of companies is a complex but effective tool for making certain decisions aimed at increasing the efficiency of the company. It helps to give a complete and in-depth view of how the company is operating its business and what possible strategic development options it has. Thanks to the various techniques the financial analysis includes, we can draw a complete conclusion about how effective the company is at the moment, as well as consider the company in comparison with other companies and understand its place in the market. It is an essential tool for any company that wants to run its operations as efficiently as possible.

References

1. Efimova, O.V. Financial analysis – modern tools for economic decision-making: textbook. economic decision-making: textbook / O.V. Efimova. – 5th edition, revised. – M.: Omega-L, 2022. – 348 p.

2. Golopuzov, E.N. Factor analysis and mathematical justification in its implementation / E.N. Golopuzov // Economic analysis: theory and practice. – 2021. – №16. – p. 19–28.

3. Gracheva, A.V. Fundamentals of financial stability of the enterprise: textbook / A.V. Gracheva. – 2019. – p. 15–35.

4. Kovalev, V.V. Analysis of economic activity of the enterprise: textbook / V.V. Kovalev, O.N. Volkova. – 2018. – 424 p.

5. Lipsitz, I.V. Economy: book for universities / I.V. Lipsitz. – 2019. – 632 p.

6. Krylov, S.I. Financial analysis: textbook / S.I. Krylov. – Ekaterinburg: Published by Ural University, 2018. – p. 368.

7. Savitskaya, G.V. Analysis of Economic Activity: textbook / G.V. Savitskaya. – 3rd ed. – M.: INFRA-M, 2021. – 272 p.

8. Sichinava, G.T. Factors implicing on financial sustainability of financial company / G.T. Sichinava // Forum of Young Scientists. – 2017. – №12 (16) [Electronic resource]. – Access mode: https://clck.ru/38SYBU (date of access: 08.12.2023).

9. Zhilkina, A.N. Financial analysis: textbook and practice for the applied bachelor's degree / A.N. Zhilkina. – M., 2019. – 285 p.

10. Annual accounting reports of Gazprom PJSC [Electronic resource]. – Access mode: https://www.gazprom.ru/investors/disclosure/reports/2022/ (date of accessed: 10.12.2023).