Современный подход оценки финансовой устойчивости компании

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Аннотация

В статье представлены результаты проведенного анализа оценки современных подходов оценки финансовой устойчивости компаний. На сегодняшний день традиционные методы оценки теряют свою релевантность в связи с постоянно меняющимися стандартами в данной области. Современная оценка была проведена, делая упор на операционной устойчивости компании, как нового ключевого фактора оценки устойчивости компании. Оценка была проведена при помощи различного рода соотношений показателей операционной устойчивости компаний (в качестве примера анализа была взята Детроитская Тройка Автопроизводителей).

Ключевые слова: операционная устойчивость, финансовая устойчивость, современные подходы, платежеспособность, ликвидность.

Modern approach of financial resilience assessment

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Abstract

The article presents the results of the analysis of modern approaches assessment of companies' financial resilience. Today, traditional assessment methods are losing their relevance due to constantly changing standards in this area. The current assessment was carried out with an

emphasis on the company's operational sustainability as a new key factor in assessing the company's sustainability. The assessment was carried out using various ratios of the companies' operational stability indicators (the Detroit Troika of Automakers was taken as an example of the analysis).

Keywords: operational resilience, financial resilience, modern approaches, solvency, liquidity.

Nowadays, financial resilience is determined as the main component of organization's stability in its economic activity. An analysis of the financial resilience shows how independent is an organization, the current dynamics of this independence (increases or decreases) and the achievement ability of its main objects. Modern market conditions require the flexibility of organizations in order to get adjusted to them, to implement a proper management of its income and borrowing for a competitive existence and development. In case of an unstable financial resilience organization has to deal with insolvency, uncompetitive activity and questionable existence. But surplus of it can also has harmful influence on the activity of organization, because such a state means, that organization has a greater potential and is not generating such amount of profit, as it actually could in case of more reasonable management, that is why resilience of one or another organization should be always correctly balanced.

Financial resilience is an important topic, that should be studied in an appropriate way on the theoretical level, in order to be fully aware of all features and aspects of it for a qualitative management of made decisions in resilience analysis, control and modernization.

Key research findings

Regulators across the globe are increasingly scrutinizing firms' ability to adapt to and recover from operational disruptions, reflecting the central role the financial services industry has in the broader context of society and the wide-ranging impacts that could result when firms fail to operate seamlessly. There is paid much attention to operative resilience defining it on the same level of importance as financial one, because a lack of operational resilience could result in financial instability [3, p. 10].

Operational resilience is defined as "the ability of firms, financial market infrastructures and the system as a whole to prevent, adapt and respond to, recover and learn from, operational disruption" [4, p. 10].

A resilient enterprise is capable to recover its key business services from an unplanned and significant disruption, protecting its customers, stakeholders and the integrity of the financial system. Operational resilience of a company isn't just protecting the resilience of systems; it also covers governance, change management, business services, information security, run processes and disaster recovery. Avoiding disruption to a particular system that supports a business service contributes to operational resilience. Nowadays, the significance of financial resilience is the same as operating according to modern approaches developed by such reliable companies as KPMG, PWC, Deloitte and so on. They should be combined in order to achieve an ultimate resilience according to modern conditions of the market. Analysis should consists of different kind of indicators showing, how company's capital structure is tilted either toward debt or equity financing, how company is able to meet its obligations, is it allowed to get further perspective borrowings or is it profitable to invest in such a company, how effective company's assets are performed, what trends and dynamics has company in developing its ability to generate profit and etc.

The US automobile industry has a very intensive background. When President Obama took office, it was on the brink of collapse. The financial crisis had nearly frozen access to credit for vehicle loans and sales had plunged by 40 percent. Faced with that sober reality, the Obama Administration moved quickly to protect the broader economy by stabilizing the industry. In fact, since June 2009, when General Motors and Chrysler emerged from bankruptcy, [1, p. 10] more than 500,000 jobs have been created [5, p. 11]. The government's actions not only saved General Motors and Chrysler but they saved many businesses up and down the supply chain, which were closely connected with Ford too. That is why "Detroit Big Three" is a very interesting subject of analysis and research.

The significance of financial resilience is the same as operating one according to the modern method, which consists of six ratios. These ratios in complex help to assess resilience from both sides in order to achieve more precise results of their accrual performance.

The Debt-to-equity ratio is a leverage one, which shows the weight of total debt against the total equity. This ratio highlights how a company's capital structure is tilted either toward debt or equity financing [1, p. 10]. Calculated indicators show a positive dynamic of reducing the leverage of the company FCA during 2017-2019 through increasing amount of equity and decreasing the debt (both types of it are declining: short-term and long-term one).

This means that for every dollar in equity, the company has 58 cents in leverage in 2019, which is a good sign of qualitative management of debt and equity, as the company isn't too dependent on its debt. Lenders and investors usually prefer low debt-to-equity ratios because their interests are better protected in the event of a business decline. But the opposite side of such a low ratio is additional potential of using company's debt and equity in a more profitable way.

General Motors has an unstable performance according to this ratio from 2017 to 2019. In 2019 it is higher than the normative indicator, which preferred value is about 2, but it is not critical as there is a trend of decrease in comparison with previous year, when the degree of leverage was 2,6. The best result of using its leverage General Motors achieved in 2017, so the company should control in a better way increasing debt, in order get an optimal state again in accordance with normative value.

The worst condition of this ratio has Ford among the US “Detroit Big Three” in spite of the fact, that it is trying to reduce the leverage of the company with help of increasing equity during last three years. Such increased amount of equity and decreased one of total debt are not enough for more successful performance than General Motors in management of its leverage in 2019 as such a high degree of debt can be an obstacle for further financing with help of investors and lenders (fig. 1).

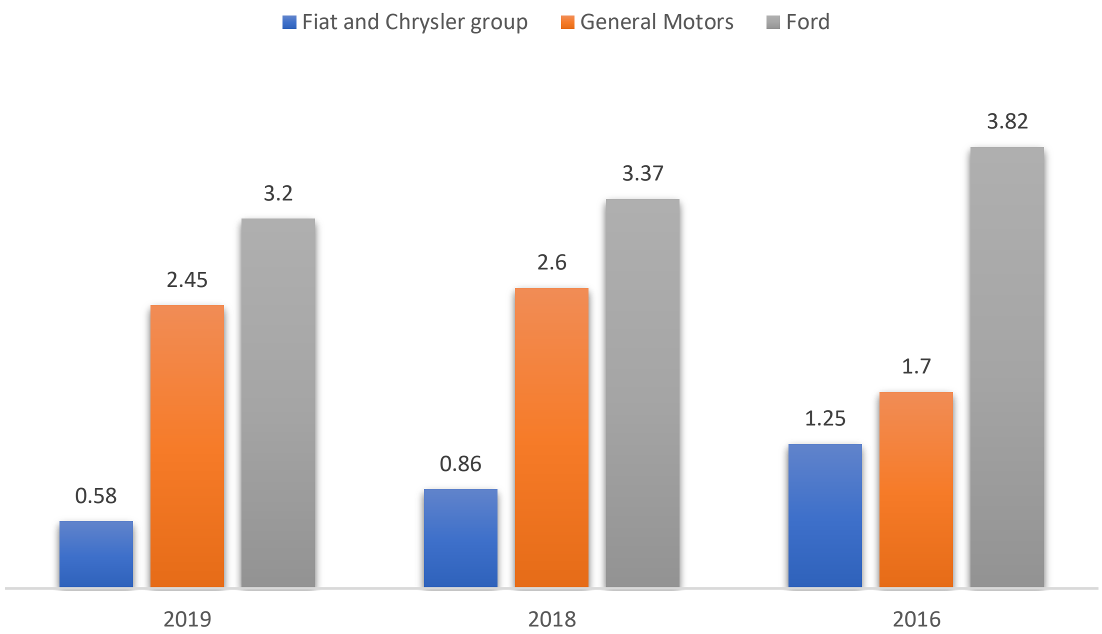

Fig. 1. Debt-To-Equity Ratio

The Debt Ratio is used by creditors and investors in order to determine the amount of debt, the ability of its repayment and the reasonability of loans as a further and safe measure of financing an organization [11, p. 11]. The second financial resilience ratio shows a significant positive decrease of leverage (connected with assets’ debt financing) of Fiat and Chrysler group during three years.

Despite of the fact, that the amount of assets is not as high as in 2017, the percentage of Debt Ratio achieves the best result due to a stable trend of declining total debt in 2019. The overall risk is 14,9%; 18,6%; 23% during 2017-2019 respectively, which can be a good sign of a solvent company with great ability to meet current and future obligations.

Paying attention to General Motors company should be said, that there is a normal indicator in 2019 (<1), nevertheless the dynamic of all percentages shows an unhealthy trend, as the degree of leverage is growing last three years. Such performance is caused by a decline of amount of total assets in comparison with previous year and a huge increase of total debt in term of last three years. Company should pay attention to this growth in order to keep the result lower the upper bound of Debt Ratio.

Moving on to the third member of the "Detroit Big Three", which name is Ford, it can be noticed, that all indicators are normal and last two years were surrounded by a healthy trend of decreasing the amount of assets financed by debt. A proper increase of amount of total assets and a proper decline of debt help Ford to achieve the best result of its performance of this ratio in 2019 during last three years, taking into account the fact that values of both parameters are not in the best state from 2017 to 2019, but proper proportions and management of this kind of leverage show such a good result and dynamics. According to Debt Ratio all three companies are capable enough to repay their debts and additional loans can be extended to them (fig. 2).

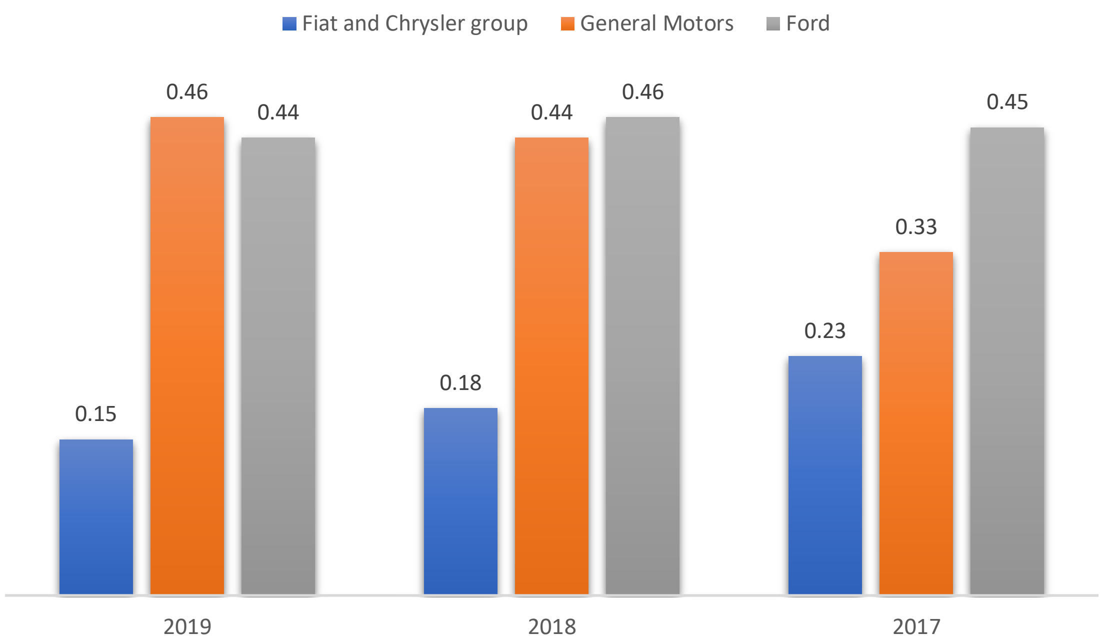

Fig. 2. Debt Ratio

The third financial resilience ratio is **Interest Coverage**, which shows how many times a company can pay the interest expenses of its debt with help of operating income [12, p.11]. Fiat and Chrysler group shows a significant sharp growth in the performance of its indicators from 4,7 to 9,8 in terms of 2017-2019 respectively, while the lower bound of this ratio is 1,5, so the value of coverage was higher in 6,5 times in 2019. This means that the interest of its outstanding debt can be excellent paid, moreover this trend is improving year by year. Using this ratio lenders and investors can be assured, that company is very reliable for further funding. Such success was achieved with help of increasing operating income and decreasing interest expense last three years.

General Motors has a good value of this ratio in 2019 (=3,03) as it is higher, than normative one (=1,5), however there is an unhealthy dynamics of declining interest coverage ratio. If the company does not pay appropriate attention to it and achieves the minimum acceptable value, General Motors will be determined as a company with a questionable state and fast-growing level of risk relative to its debt.

Talking about Ford indicator of interest coverage ratio is the worst one and also surrounded with the unhealthiest trend among "Detroit Big Three". Paying attention to data can be seen that in 2019 indicator is under the lower bound of normative value, which is an alarm for the company shareholders, that current state is very questionable for lenders and investors for further funding, that is why Ford should apply a better control of interest expenses for its debt with its operating income (fig. 3).

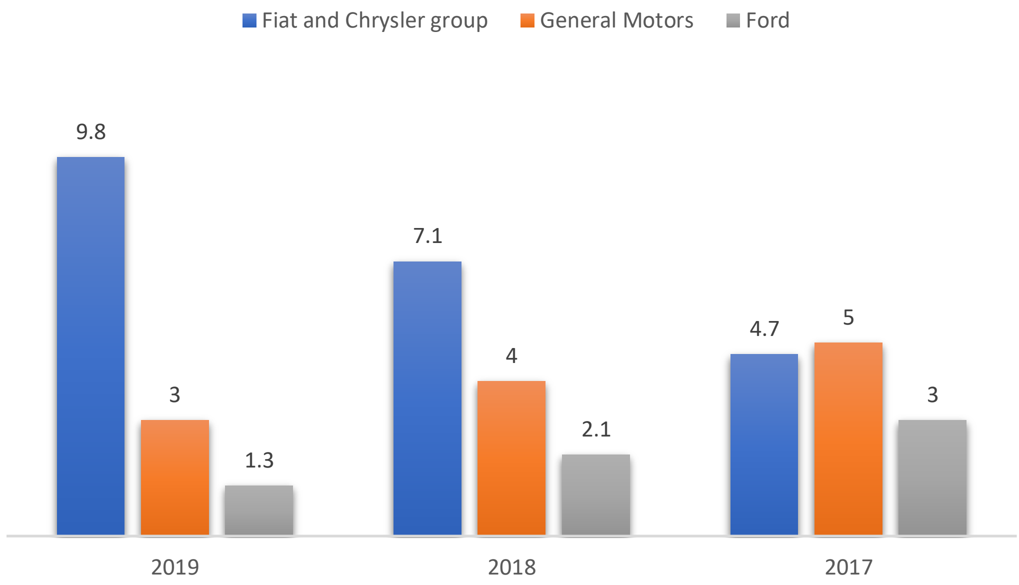

Fig. 3. Interest Coverage Ratio

The fourth financial resilience ratio is Net Debt-to-EBITDA. It is used by credit rating agencies in order to determine the probability of a company defaulting on its debt. Fiat and Chrysler group is not excessively indebted and should be able to repay its obligations as earnings before interest, taxes, depreciation and amortization are much higher than the net debt of the organization. During three years one by one indicators have a positive dynamic of decreasing with help of declined net debt and increased earnings before interest, taxes, depreciation and amortization. In such way company shows a perfect growth of its credit rating.

General Motors in their turn shows a decreasing trend of its credit rating in terms of last three years. In spite of growth of earnings before interest, taxes, depreciation and amortization, it is not enough to stop this unhealthy increase of the ratio as the amount of net debt was too huge. According to Net Debt-to-EBITDA Ratio it is recommended to the company to improve its ability of covering debt.

And the most dangerous and alarming situation has Ford according to the following ratio. The indicators show 4,5; 5,4; and 6 during 2017-2019 respectively, which cause big problems with the ability of debt repayment and with company's credit rating as earnings before interest, taxes, depreciation and amortization are significantly declining. Such a decline means that Ford has huge problems with operating performance and the financial resilience of the company is in a questionable state (fig. 4).

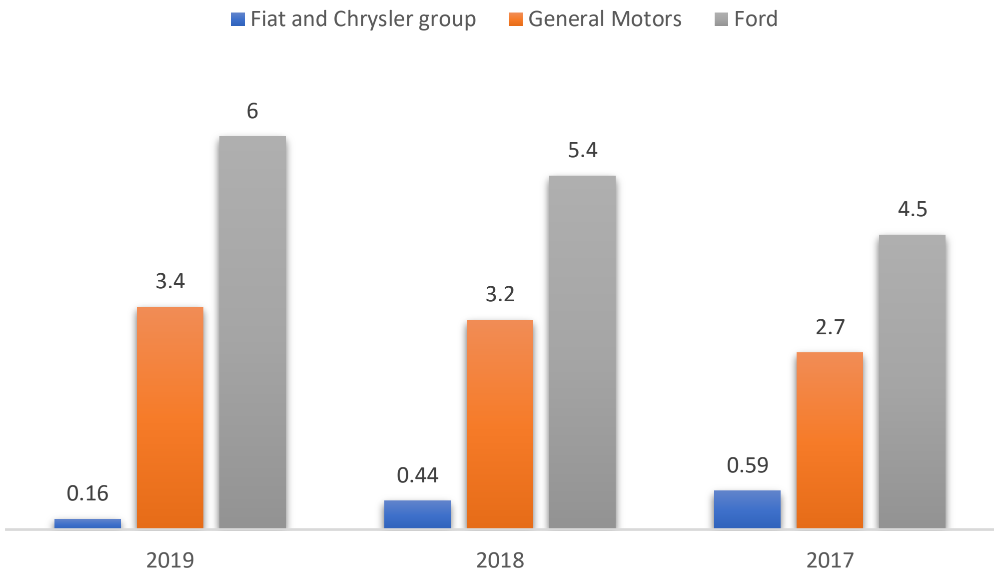

Fig. 4. Net Debt-to-EBITDA Ratio

The fifth financial resilience ratio is Return in Net Assets. It measures how well company's net working capital and fixed assets are in generating net income. Also, this ratio is used by investors and analysts to determine the effectiveness and efficiency of company's assets. A higher value is preferable and should be compared among different companies of a definite industry, which is automotive in our case.

Fiat and Chrysler group shows a significant growth of this ratio, which is the highest among "Detroit Big Three": 6; 5,8; 5,1 in 2017-2019 respectively. It means that companies assets are efficient and the company is very attractive for investors. But paying attention to net working capital the situation becomes contradictory as there are negative values during last three years, which means that current liabilities have covered the current assets more than 100%. The company should revisit its credit policy with the aim of collecting more money from its debtors. A tighter credit policy will increase the trade and other receivables, and the company will be able to face its short-term obligations. In 2019 company achieves the highest net working capital and RONA (Return on Net Assets) mostly by achieving the lowest number of current liabilities in 2019 among all three years and increasing net income up to 123395 mln. of dollars, that is the biggest result in terms of the same period.

General Motors shows a good indicator of efficiency of its assets in 2019, in spite of a stable trend of decrease during 2017-2019. The working capital of the company is negative, but much bigger, than Fiat and Chrysler group has, and reinforced by a trend of significant increase especially in terms of 2018-2019. So, company should keep the dynamic of net working capital growth and maintain efficiency of assets on an appropriate level.

And Ford has the lowest indicators of Return on Net Assets during 2017-2019, but as they are still high the efficiency of its assets is in normal condition on an appropriate level. Moreover, Ford has the best ability to meet its short-term obligations due to the healthiest numbers of net working capital among all three companies (fig. 5).

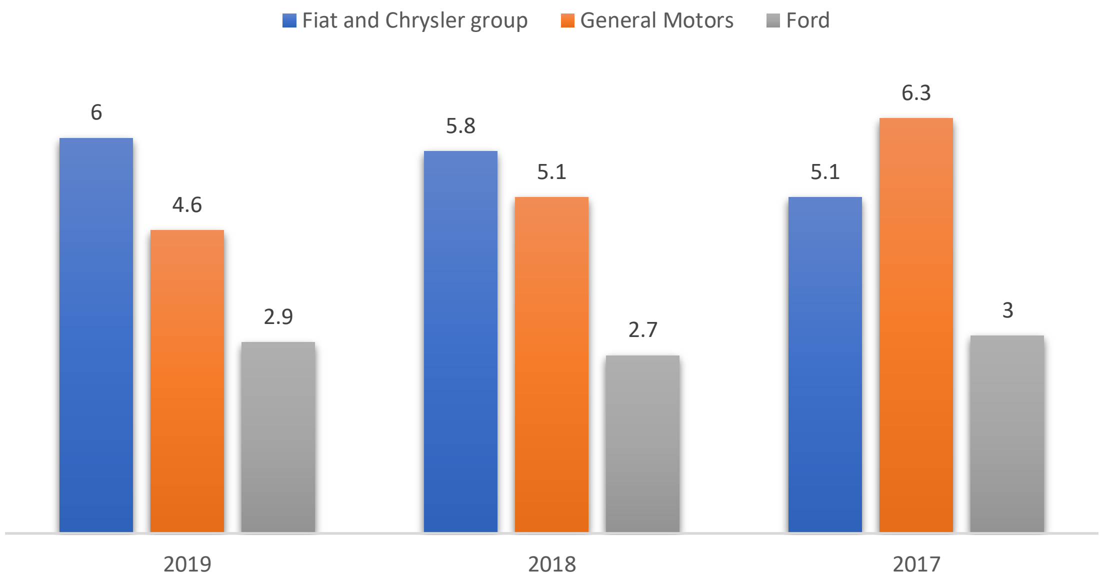

Fig. 5. Return in Net Assets Ratio

The last ratio is Asset Coverage. It evaluates company's ability of debt repayment by assets selling. If ratio is equal to 1, it means that the company would just be able to pay off all its debts by selling all its assets. Paying attention to all three companies this ratio is absolutely normal in terms of 2017-2019. Fiat and Chrysler group shows a healthy trend of increase due to several factors: increased amount of total assets and decreased debt. General Motors has a stable dynamic in 2018-2019 stopping the decline in comparison with 2018-2019, mostly with help of growth of total assets. And moving on to Ford the indicators show a slight growth reinforced by an appropriate proportion of total assets and debt (fig. 6).

Nowadays, all traditional methods are too abstract and consists of ratios, which are not correctly describing current situation of financial resilience in one or another company especially, when the analysis is done on the basis of a huge organization with enormous amount of cash flow. It is not suitable for evaluation of "Detroit Big Three" financial resilience, as there is not payed attention to such important indicators as "cash and cash equivalents", "EBIT", "EBITDA", "Short-term and Long-term debt" and others (this point is also referred to previous method). Such companies should be analyzed in a proper way, in order to achieve a proper description of their current state. Should be analyzed state of total debt in detail, payed also attention to the ability of generating income, how company deals with interest expenses and manages the operating indicators.

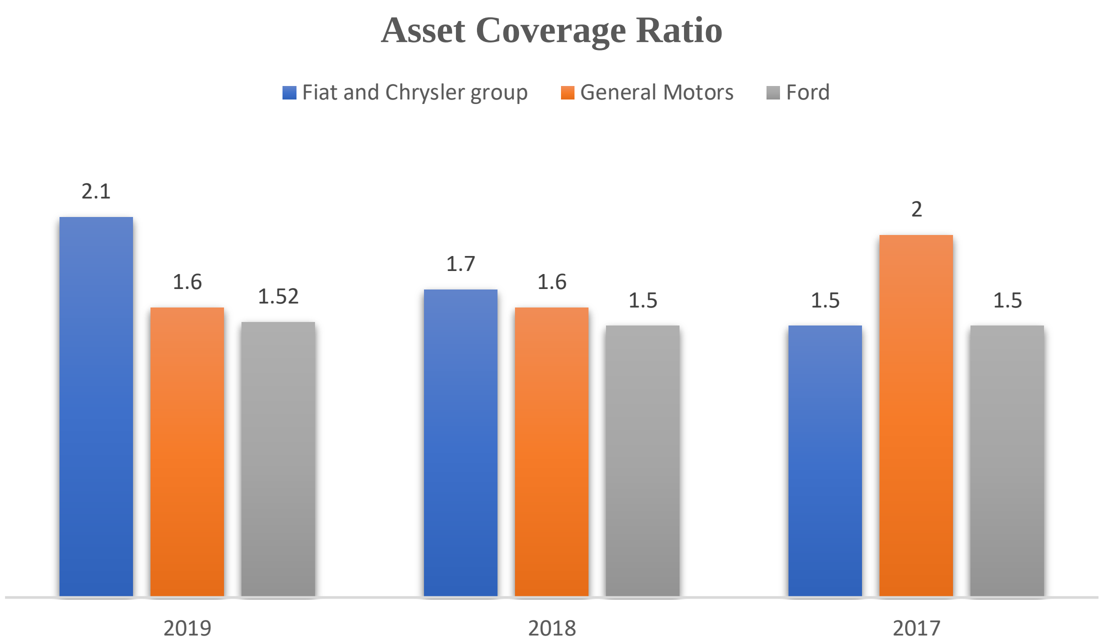

Fig. 6. Asset Coverage Ratio

There are numerous reliable facts, that can prove results of modern approach of resilience. According to Financial Times US car industry (including FCA and General Motors) is growing again and is employing more people before the financial crisis. Some auto executives, government officials and industry insiders said bankruptcy may have been the best thing that ever happened to GM and Chrysler. General Motors is one of the biggest automotive company in the world again and have an acceptable level of resilience, in spite of some problems taken into account from done analysis. General Motors should be attentive mainly to its growing debt, which is related to most part of unhealthy indicators of the company.

Fiat and Chrysler group in their turn have a better financial resilience, but the size of the company is not as huge as General Motors, that is why the degree of risk and obligations is lower. Looking at the calculated indicators, it can be noticed, that company has a great potential of expansion of its production to generate more income. So, according to a reliable article from Financial Times again, the company will spend 4,5bn$ building a new plant and extending two others to produce future vehicle models, in a boost to President Donald Trump's ambition to revive the US motor industry.

Among "Detroit Big Three" Ford has the most questionable state from the point of view of financial resilience. It has to close a big number of manufactures all over the Europe, in order to reduce its costs and risks due to a high-leverage and high-risk condition. Also, the company has troubles with operating performance as it is declining during all three periods analyzed by modern approach of resilience evaluation. Such consequences can be caused by non-bankruptcy in 2009, when General Motors and Fiat and Chrysler group were reborned with help of the government.

The modern approach proved its much higher degree of preciseness and correctness describing current state of one or another organization, than traditional ones, as the researched example of financial resilience comparison of "Detroit Big Three" members is a perfect evidence of it.

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