Indicators of Financial Analysis Employed in Quantifying the Financial Performance of a Company

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Abstract

The analysis of the performance of acompany is the most important issue of concern of the management of a company. In order to analyse the performance we use economic and financial indicators which summarizes the level of development and its evolution. These indicators provide us with important items of information about the company's level of performance, but we must keep in mind that they do not indicagte the way in which thies performance was obtained.

The purpose of this article is to present and provide information on the key synthetic indicators pointing to the results of a company. Based on the information provided by these indicators we can picture an overview of the results registered by the company at the end of a fiscal year. The main financial indicators to which I will refer in this article are: liquidity indicators, indicators of risk and indicators of profitability.

Key words: *current liquidity, acid test, net debt, leverage, profitability*
J.E.L. classification: *O12 -Microeconomic Analysis of Economic Development*

1. Introduction

The value you bring by using indicators in an analysis lies in that the analyst can evaluate past performance, assess the current financial situation of the company and he can obtain useful insights for predicting future results. Due to the large number of indicators, it is useful to think of these in terms of a broader category based on those aspects of performance they are intended to detect. Thus, we have activity indicators, liquidity indicators, solvency indicators, profitability and evaluation indicators.(http://edufin.asfromania.ro)

In the literature, liquidity and solvency are treated as different phenomena, which undoubtly contribute analyzing the financial position of the enterprise. They are usually studied together, therefore in economic practice there is a tendency to overlay their content, creating sometimes confusion over the economic essence they impose. Liquidity refers to the property of proprietary elements (assets) of transforming in money quickly and with a minimum loss, a criterion for grouping workstations in the financial report. Solvency is the ability of the company to deal with all the debts, meaning to honour due dates. (Hristea Anca Maria, 2015, pag.245)

A analysis of a company's liquidity is one of the most important aspects by means of which they test a firm's ability to cope with short-term obligations. This analysis is based on those liquid assets that can be quickly converted into cash. Liquidity reflects the company's ability to meet short-term obligations by transforming current assets (inventories, receivables, short-term investments) in cash, and a company is liquid when it generates enough cash aut of the business, by converting operations in cash in order to meet current payments.

Risk indicators represent that category of indicators that shows what percent is indebted to the company in relation to the entire capital (own and borrowed). In this article I had in mind the rate of indebtedness having as main concern the main net debt, aswell the indebtedness.

The profitability indicators are those indicators that express your company's effectiveness in getting profits from the resources at its disposal.

2. Syntethic indicators characterizing the financial performance of a company

Indicators of financial analysis represent performance indicators which reflect an activity and at the same time a form in which you can express a quantity relatively to another, usually in the form of a coefficient.

Liquidity indicators focus on cash flows and are designed to measure a company's ability to meet its short-term obligations. In other words, liquidity measures how quickly a company's assets can be converted to cash. (http://edufin.asfromania.ro)

Liquidity is based on two indicators:

-current liquidity (current ratio) which is determined as ratio between current assets and short-term debt (< 1 year).

This ratio expresses the current assets (assets estimated to be converted into cash within one year) in relation to the current debts (liabilities with maturity of less than one year). A higher ratio value indicates a higher level of liquidity, i.e. a greater ability to meet short-term obligations. (http://edufin.asfromania.ro)

-immediate liquidity (quick ratio) which is determined as ratio between (current assets-stocks) and short-term debt (< 1 year).

This indicator includes the ratio of current assets most liquids and current debts. A higher ratio value indicates a higher level of liquidity. (http://edufin.asfromania.ro)

Risk indicators can be determinate by the following formulas:

-the rate of indebtedness - net debt/equity*100.

Net debt = interest-bearing loans (total) +interest-bearing loans - cash and cash equivalents

-indebtedness (debt-to-equity ratio) - interest-bearing loans (long term)/equity*100.

This indicator measures the ratio of the total debts and equity of the company. The higher the indicator value, the lower the creditworthiness.

Profitability indicators can be determinate by the following formulas:

-net profit margin - net profit of the year/income from sales*100.

This margin indicates the percentage of revenue available to cover operational and other expenses. A high net profit margin indicates a combination of a high price and a lower cost of production.

-profit margin before interest and taxation (EBIT) - EBIT/income from sales*100.

This profit margin measures the percentage of operational business and show the company's ability to generate added value for shareholders.

-economic profitability (Return On Assets - ROA) - net profit of the year / total assets*100.

This indicator measures the efficiency of a company based on its assets. The higher the value of the indicator, the more profit it generated on certain level of assets.

-financial profitability (Return On Equity-ROE) - net profit of the year/equity*100.

This indicator measures the efficiency of a company based on equity. A high value of the indicator means that a small investment of shareholders has been transformed into a big profit. (Buglea Alexandru, 2004)

-rentability on fixed assets - EBIT/fixed assets*100.

The higher the values obtained, the better he company's performance, the higher the profits, and the more attractive the actions. The values obtained are useful for comparisons between companies in the same branch, of the same size, etc.

3.Case study on the analysis of financial indicators at S.C. OMV PETROM S.A.

To calculate the financial rates of S.C. OMV PETROM S.A., we shall use the data in the table below:

Table no. 1 The value of financial indicators – thousands of lei

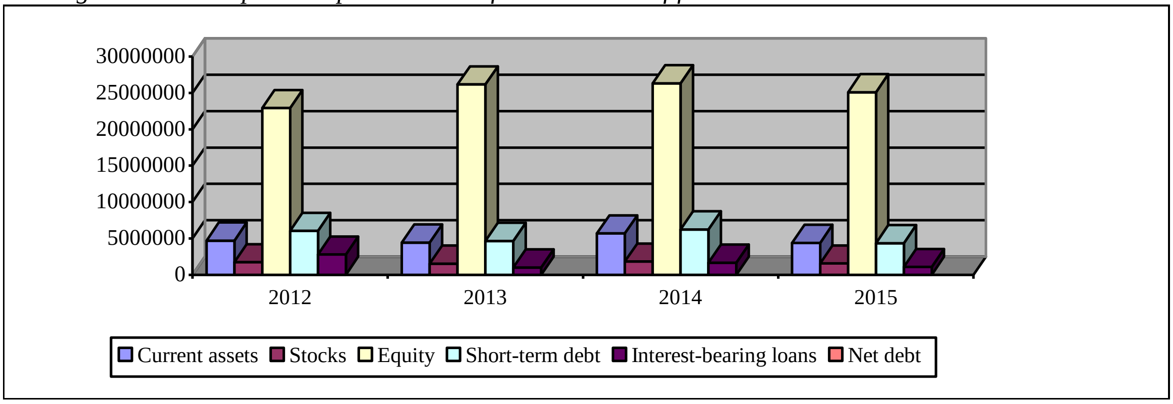
Nr. crt.	Indicators	2012	2013	2014	2015
1.	Current assets	4.692.000	4.434.000	5.680.000	4.394.000
2.	Stocks	1.725.310	1.526.740	1.819.050	1.556.920

3.	Equity	22.911.000	26.165.000	26.316.000	25.091.000
4.	Short-term debt	6.040.000	4.657.000	6.235.000	4.343.000
5.	Interest-bearing loans (total)	3.210.930	1.786.210	2.317.800	1.454.818
6.	Net debt	2.776.720	988.590	1.654.050	1.070.458

Source: http://www.bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=SNP

Graphically, the evolution of these indicators is present thus:

Figure no. 1. Graphical representation of the evolution of financial indicators 2012-2015



Source: personal processing based on data from table no. 1

Liquidity indicators is based on two indicators current liquidity and immediate liquidity.

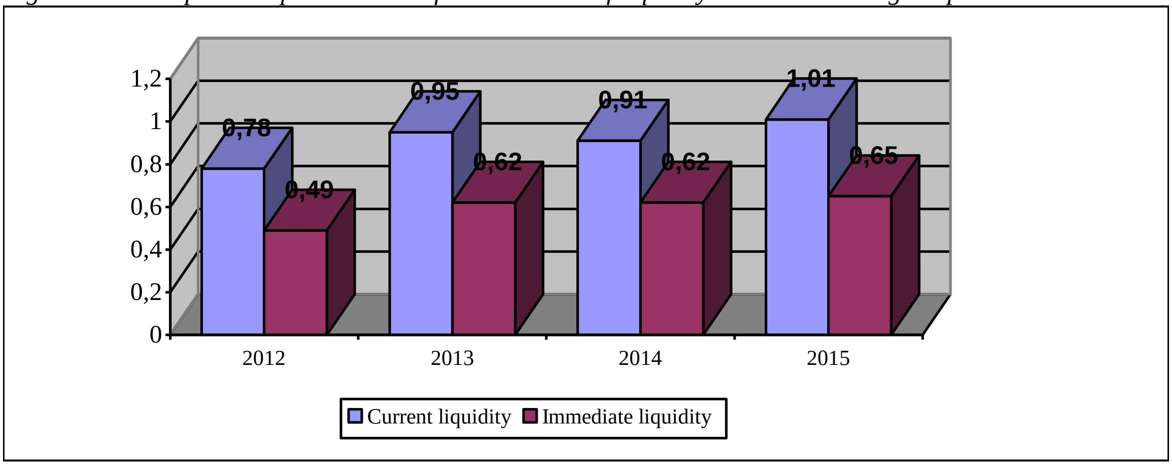
Table no. 2 Liquidity indicators

Indicators	2012	2013	2014	2015
Current liquidity (Current assets/Short-term debt)	0,78	0,95	0,91	1,01
Immediate liquidity (Current assets-Stocks/Short-term debt)	0,49	0,62	0,62	0,65

Source: Source: personal processing based on data from table no.1

Graphically, the evolution of liquidity indicators is present thus:

Figure no. 2 Graphical representation of the evolution of liquidity indicators during the period 2012-2015



Source: personal processing based on results

Risk indicators is based on the rate of indebtedness and degree of indebtedness.
Net debt is calculated as follows:
net debt = Interest-bearing loans (total) + debts relating to financial leasing – cash and cash equivalents

To determine net debt we use the data in the table below:

Table no. 3 Components of net debt – thousands of lei

Nr. crt.	Indicators	2012	2013	2014	2015
1.	Interest-bearing loans (the total)	3.210.930	1.786.210	2.317.800	1.454.818
2.	Debts relating to financial leasing	122.790	285.380	282.250	281.640
3.	Cash and cash equivalents	557.000	1.083.000	946.000	666.000
4.	Net debt (1+2-3)	2.776.720	988.590	1.654.050	1.070.458
5.	Equity	22.911.000	26.165.000	26.316.000	25.091.000

Source: http://www.bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=SNP

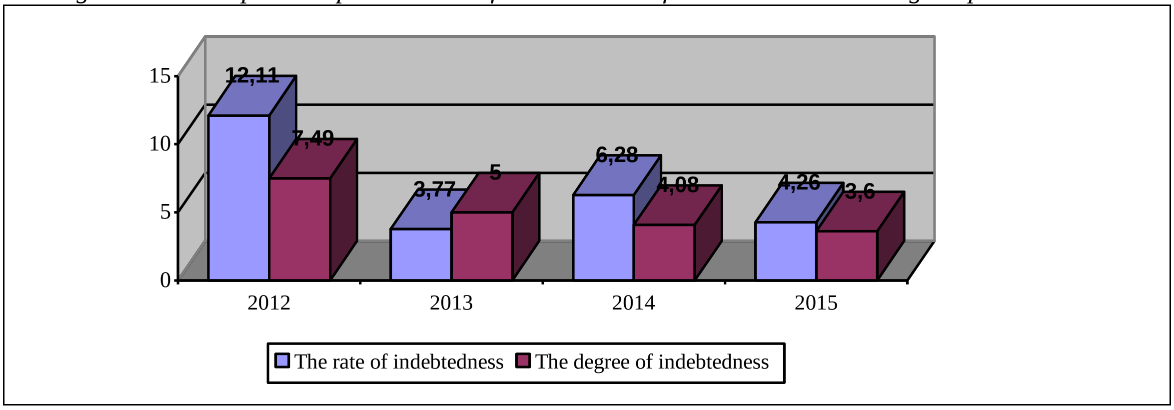
Table no. 4 Risk indicators - %

Indicators	2012	2013	2014	2015
The rate of indebtedness (Net debt/Equity*100)	12,11	3,77	6,28	4,26
Degree of indebtedness (Interest-bearning loans/Equity*100)	7,49	5	4,08	3,60

Source: personal processing based on data from table no.3

Graphically, the evolution of risk indicators is present thus:

Figure no. 3 Graphical representation of the evolution of risc indicators during the period 2012-2015



Source: own processing based on results

In terms of net debt, OMV PETROM S.A. constantly manages capital so as to ensure that the company will be optimally structured according to the exposure to risk, in order to maximise the gain of shareholders. Capital structure within the OMV PETROM S.A. consists of equity (including capital and reserves, the result carried forward, as shown in the "statement of the change of capital") and of debt. Capital risk management is part of the management of the value within the OMV PETROM S.A. and it is based on the continuous review of indebtedness of the company. (http://www.bvb.ro)

The indebtedness of OMV PETROM S.A. is calculated as net debt/equity * 100, and it was 4% at 31 December 2015 (2014: 6%) showing a decreasing exposure to the risk of indebtedness. Net debt is calculated as interest-bearing loans, including debt relating to finance lease, minus cash and cash equivalents. Beside to indicators of liquidity and risk indicators, we must keep in mind and some indicators of profitability: net profit margin.

Capital increase with 151 million resulted in net profits this year, partially counterbalanced by the distribution of dividend for the financial year 2013 (1.745 million lei). The indicator of capital in the total assets was 61% by the end of December 2014, slightly lower than the level registered by the end of December 2013 (67%).

Total debts increased by 32%, at the value of 16,859 million on 31 December 2014, largely due to the increase of provisions for scrapping about 1,383 million and the increase in long-term provisions attached to ensurance cheques issued by OMV PETROM S.A. Interest-bearing debts represent, to a large extent, amounts owed to affiliated entities in cash pooling, rising from 343 million at the end of 2013 to 1,055 million on 31 December 2014.

Current debts have increased mainly due to increased debt and related investment (especially in the Black Sea) and the increase in provisions, mainly concerning debts and interest on arrears claimed by the tax authorities in tax revision performed for the years 2009 and 2010 in OMV PETROM S.A. Due to the favorable environment of crude oil prices and strict cost management, net cash generated from operating activities was higher in 2013 as compared to 2012. Cash outflows have been used to maintain the high level of investment, and for repayment of loans and payment of dividends. Accordingly, indebtedness has reached 4.79% by the end of December 2013, as compared to 7.49% by the end of 2012.(http://www.bvb.ro)

I shall calculate these indicators on the basis of the data below:

Table no. 5 Components of net debt – thousands of lei

Nr. crt.	Indicators	2012	2013	2014	2015
1.	Net profit of the year	3.851.000	4.839.000	1.837.000	631.000
2.	Income from sales	19.123.000	18.088.000	16.537.000	13.952.000
3.	Profit before interest and tax (EBIT)	5.068.000	5.332.000	3.541.000	595.000
4.	Fixed assets	24.804.649,075	27.079.156,675	29.543.140,566	27.100.856,550
5.	Current assets	4.692.000	4.434.000	5.680.000	4.394.000
6.	Equity	22.911.000	26.165.000	26.316.000	25.091.000

Source: http://www.bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=SNP

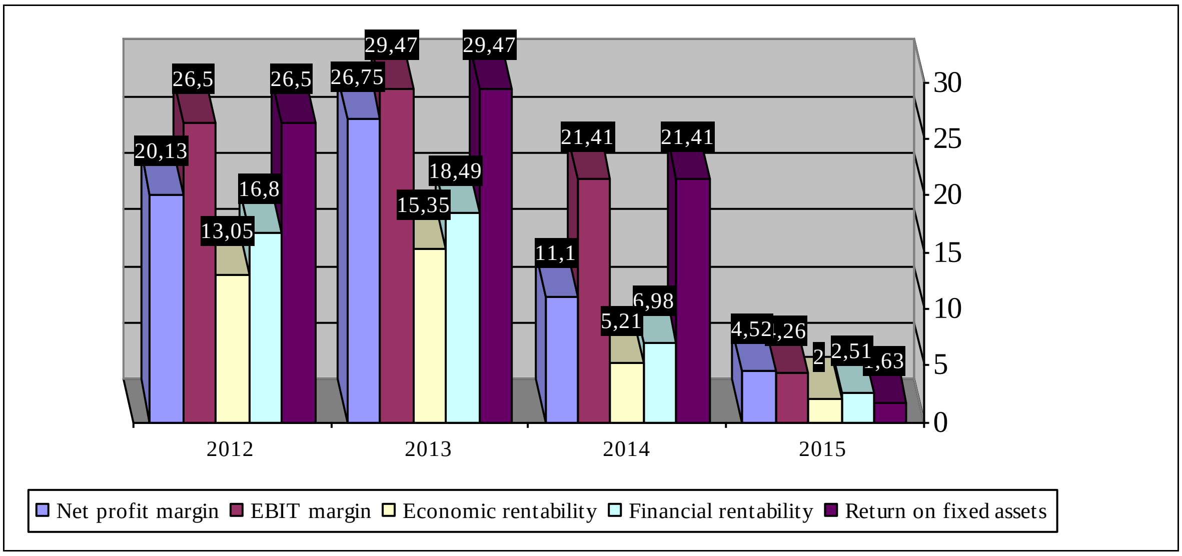
Table no. 6 Profitability indicators - %

Indicators	2012	2013	2014	2015
Net profit margin (Net profit/Income from sales*100)	20,13	26,75	11,10	4,52
EBIT margin (EBIT/Income from sales*100)	26,50	29,47	21,41	4,26
Economic rentability (Net profit/Total assets*100)	13,05	15,35	5,21	2,00
Financial rentability (Net profit/Equity*100)	16,80	18,49	6,98	2,51
Return on fixed assets (EBIT/Fixed assets*100)	26,50	29,47	21,41	1,63

Source: personal processing based on data from table no.5

Graphically, the evolution of these indicators is present thus:

Figure no.4 Graphical representation of the evolution of profitability indicators during the period 2012-2015



Source: own processing based on results

In the chart above, one can notice that în 2015 in which there have been recorded the lowest values of these indicators, briefly we can say that the company's profitability has fallen drastically this year as compared to the previous years, mainly due to the falling of sales, the increase in expenditure and the negative damage coming from the operational result. In 2014 the profit decreased significantly due to the negative effect of the operational performance and the fall of the financial result.

The year in which there have been regeistered the best values was 2013, when the company's profitability was influenced by the decrease in operational expenses and its positive effect, as well as the finasncial improvement of the company.

4. Conclusions

In 2015, OMV PETROM EBIT was a loss of (595) million as compared to a positive outcome of 3,541 million in 2014, mainly due to lower income from sales and higher depreciation adjustments for related production assets from the Upstream segment, determined as a result of the review of estimated results with regard to the price of crude oil, both on the short term and on the long run. Exploration expenses amounting to 577 million, mainly in relation to unsuccessful exploration wells (408 million lei), have also influenced the outcome. The net result was a loss of 631 million in 2015 being negatively impacted by the operational result. (http://www.bvb.ro)

In 2014, of OMV PETROM EBIT has reached the value of 3,541 million, lower than last year (2013: 5,332 million) due to the decrease in sales prices in petroleum products as a result of the decrease in international quotations, because depreciation adjustment in the gas and Energy power plant of Brazi, as a result of the introduction of a new tax on construction and additional taxation of sales growth of natural gas. Net profits fell by 62% to the significant amount of 1,837 million, influenced by the negative effect which relates to operational performance and decreasing net financial result. (http://www.bvb.ro)

In 2014, of OMV PETROM EBIT has reached the value of 5,332 million, 5% higher than 2012, due to favorable prices of crude iol, the increase of refining margins, the strict management of costs and operational expenses decrease by 8% versus 2012. Net profit increase by 26 percent to 4,839 million, influenced by the positive effect which relates to operational performance and significant improvement in the net financial result. (http://www.bvb.ro)

The net turnover of the company has increased by 18% in 2012, as compared to 2011, a total of 19,123 mil lei, especially due to the increased level of prices. Cost of sales increased by 26% as compared to 2011, reaching 12,676 million lei, mainly due to higher expenses with acquisition of third-party products while the refinery was shut down for the planned overhaul in 2012. Cost of sales increased by 26 percent compared to the year 2011, reaching 12,676 million lei, mainly due to higher expenses with acquisition of third-party products while the refinery was shut down for planned overhaul in 2012. (http://www.bvb.ro)

OMV PETROM EBIT has reached 5,068 million lei, a total of 408 million lei more than 2011, being the result of favorable oil price environment and stringent measures of cost management. The company's net financial result fell by 2012, totaling (484) mil lei (193) million lei in 2011, mainly due to expenses related to interest and penalties for alleged delays in payment of taxes, following receipt of the preliminary results of fiscal control which relates to the years 2009 and 2010 in PETROM (209 million lei). Net profit increased by 3% in 2012 compared with 2011, mainly due to the positive impact of the operating result. (http://www.bvb.ro)

5. References

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