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The Importance of Key Indicators in a Trading Company

Mircea-Iosif Rus
National Institute for Research and Development in Constructions,
Urbanism and Sustainable Spatial Development "URBAN INCERC" Cluj-Napoca Branch,
Romania
mircearus2005@yahoo.com
Alina Melania Ioniță
"Babes Bolyai" University of Cluj-Napoca
Faculty of Economics and Business Administration, Romania
alina1v@yahoo.com

Abstract

In the activity of a commercial company, there are sometimes moments when financing problems arise because the cash flow does not have the expected values, and then analyses must be made to show the causes that led to financing through debt in relation to equity. These leverage indicators show how high the financial risk may be and how the commercial company may be able to meet its financial obligations. Here, it is very important to identify the factors that led to the company's high indebtedness, especially since shareholders may accuse the executive of excessive management of the company's liquidity and assets. A decrease in profit due to increased expenses is not welcomed by shareholders or even by executives, as their benefits may also be reduced to nothing. That is why the values of certain leverage indicators must be calculated periodically to prevent a lack of liquidity that could lead to the liquidation of the company, especially since there are situations when the company cannot resort to external loans, which could restore the company's smooth operation. The objective of this approach highlights the importance of leverage indicators, whose values can form the basis for decisions regarding the financing of a commercial company's activities.

Key words: leverage indicators, debt ratio, financial leverage, interest coverage
J.E.L. classification: D24, G32, M41

1. Introduction

Leverage indicators allow us to observe the use of debt within a commercial company. Debt is a term with a special meaning for a large part of the population, similar to a credit card that requires interest payments or a commercial company mired in debt to the bank. At the same time, we must take into account that debt can allow a commercial company to develop more than its own capital allows, which can lead to profits that ultimately lead to an increase in the volume of equity capital. In addition, the company can deduct the interest on the debt owed to the lending institution. The term used by finance specialists for debt is leverage. This term simply draws an analogy between an individual who uses a lever to move a weight heavier than normal and a commercial company, in order to develop its business, uses a modest amount of capital to develop its business and form higher-value assets through debts to banks.

At the same time, leverage indicators are important, as can be seen from the following:

a) *financial risk assessment* – a high level of leverage indicators signals that the company has more debt, which can lead to financial difficulties in more unfavorable economic periods; conversely, a low level of indicators indicates a more financially stable company but may also mean an untapped opportunity for growth;

b) *measuring capital structure* – shows the ratio between equity and total debt, helping to understand how the company finances its assets;

c) assists in investment and lending decisions – investors analyze these indicators to understand how risky it is to invest in the company, and banks and other lenders use leverage indicators to decide whether to grant a loan and under what conditions;

d) reflects the ability to repay debts – the indicators reveal whether the company has sufficient resources to meet its financial obligations;

e) allows comparison between companies – these indicators are used to compare different companies in the same sector, especially to identify the most financially balanced companies.

2. Theoretical background

The performance of commercial firms is influenced by a multitude of internal and external factors, which has led to numerous studies aimed at identifying key indicators that reflect their economic health. These indicators include corporate governance, firm size, financing policies, asset structure, financial performance, and ESG values.

The importance of corporate governance in improving company performance is highlighted in the literature, as it plays a significant role in streamlining decision-making and reducing risks (Soesetio, Rudiningtyas, and Sukmawati, 2023). Similarly, the analysis by Ahmad, Mobarek, and Raid (2023) highlights that, in the context of financial crises, corporate governance, together with ESG performance and firm size, plays a moderately important role in maintaining competitiveness.

From the perspective of financial indicators, especially in sensitive sectors such as agriculture and construction, it has been found that subsidy revenues can significantly influence turnover (Aivaz, 2021a), while non-compliance in asset reporting raises questions about the accuracy of financial reporting (Matei and Aivaz, 2023).

More recent analyses place firm performance in the broader context of institutional and economic influences, such as public policies and poverty levels (Jula et al., 2025). Complementarily, factors such as financial leverage, profitability, and dividend policy are associated with firm value, especially in competitive and volatile environments.

Financial leverage has been extensively studied in relation to firm performance and has been found to be a determining factor with varying impact across sectors and markets. Arhinful and Radmehr (2023) demonstrate this effect in the case of non-financial firms in Japan, while Odhiambo, Murori, and Aringo (2025) provide a comprehensive overview of the relationship between debt and performance in various organizational contexts.

Regarding companies in coastal areas of Romania, research has shown that the structure of fixed assets (Stan and Vintilă, 2021a), the degree of indebtedness (Stan and Vintilă, 2021) and stakeholders' perceptions of the impact of tourism (Stan and Aivaz, 2021b) can contribute to understanding local development and the performance of firms in these regions.

In addition, economic risks, fraud, and reorganization decision analysis are other important topics in assessing the competitiveness of commercial firms. Recent studies have highlighted the need for integrated risk analysis and decision-making models to support sustainability and organizational adaptability (Aivaz, Florea, and Munteanu, 2024; Stroie et al., 2023).

In conclusion, the literature supports the idea that the performance of commercial firms is the result of a complex set of financial, governance, and strategic factors, and understanding the interaction between these indicators is essential for strengthening market position and adopting effective financial management policies (Chiriac et al., Aivaz, 2021b).

3. Research methodology

The completion of any scientific research work implicitly involves the combined application of a number of research techniques and procedures, through which the researcher attempts to obtain the maximum number of conclusions, starting from previous research and supplementing it with their own experiences and results, in order to formulate a final conclusion on the topic analyzed. Thus, the very etymology of the Greek words *metodos* (way, path) and *logos* (science) points us in the same direction. Often, however, even if these methods and techniques are well defined at the beginning of the research process, while the research it may become necessary to change them under the influence of external factors that may require the adoption of new methods of study or the abandonment of those already adopted.

From the outset, this paper was intended to be a qualitative study. During the research, it became increasingly clear that there was a need to expand the research with quantitative elements, designed to give greater relevance to the research conclusions and, at the same time, to eliminate subjective factors.

4. Findings

The most important leverage indicators are as follows:

a) *Degree of indebtedness (Debt-to-Equity Ratio – D/E):*

$$D/E = \frac{\text{Total debts}}{\text{Equity capital}} \quad (1)$$

This indicator shows how much debt there is for each dollar invested by shareholders. A high value for this indicator indicates a high degree of financial risk.

b) *Total debt ratio (Debt Ratio)*:

$$\text{Debt ratio} = \frac{\text{Total debts}}{\text{Total assets}} \quad (2)$$

This indicator measures the share of assets financed by debt. If the value of this indicator is higher, this shows that the company is more dependent on external financing.

c) *Long-term debt ratio (Long-term Debt to Capitalization)*:

$$\text{Long} - \text{term Debt to Capitalization} = \frac{\text{Long term debts}}{\text{Long term debts} + \text{Equity capital}} \quad (3)$$

This indicator shows long-term financial stability.

d) *Financial Leverage (Financial Leverage)*:

$$\text{Financial Leverage} = \frac{\text{Total assets}}{\text{Equity capital}} \quad (4)$$

This indicator shows how much borrowed capital is used to support the company's assets.

e) *Interest coverage (Times Interest Earned – TIE)*:

$$TIE = \frac{\text{Operational profit (EBIT)}}{\text{Interest expenses}} \quad (5)$$

This indicator shows the company's ability to pay interest from operating profit. A value below 1 for this indicator signals major problems with the solvency of the company.

A general interpretation of the values of these indicators is presented in Table 1.

Table no. 1 General interpretation of leverage indicators

Indicator	Meaning	"Healthy" values (depending on the industry)
D/E	Credit risk/External financing	<1,5 (ideally below 1 for stability)
Debt Ratio	Debt-to-asset ratio	0,3-0,6
Financial Leverage	Equity multiplication	1,5-3
TIE	Interest payment capacity	>3

Source: Author's processing

To illustrate the calculation of these leverage indicators, we used data from a commercial company in the construction industry, ASA CONS ROMÂNIA SRL. The data used was collected from the website www.termene.ro/Listafirme and includes data from the financial statements for the period 2015-2023:

Table no. 2 Financial information for ASA CONS ROMÂNIA SRL

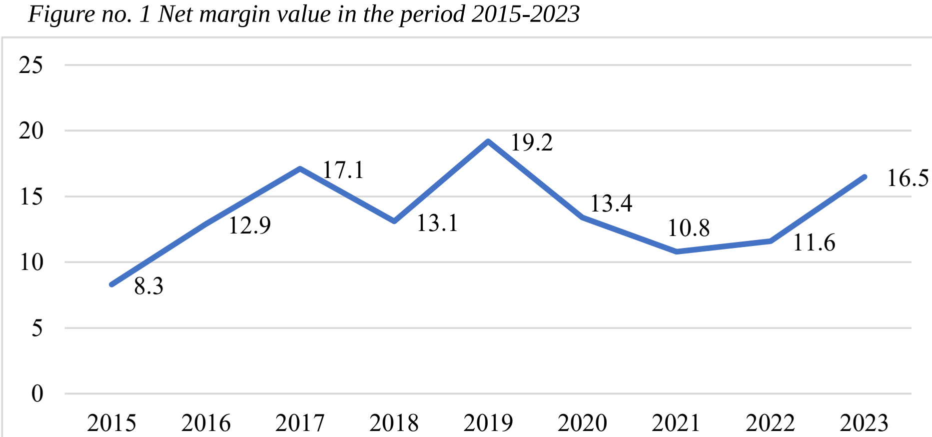
Year	Turnover (mil. RON)	Net profit (mil. RON)	Debts (mil. RON)	Total assets (mil. RON)	Equity (mil. RON)
2015	57,78	4,77	27,66	17,56	16,39
2016	78,21	10,07	23,52	49,99	26,47
2017	89,80	15,31	23,93	65,71	41,78
2018	116,88	15,29	17,12	65,16	47,75
2019	124,01	23,81	16,71	79,11	62,11
2020	87,16	11,66	13,45	80,27	66,54
2021	114,75	12,44	23,11	90,79	67,40
2022	158,08	18,36	32,03	110,65	78,34
2023	179,82	29,58	19,41	117,42	97,25

Source: Author's processing after www.termene.ro/Listafirme

Below are some leverage indicators, as the balance sheet information does not include interest or EBIT values to calculate the TIE indicator:

Net margin - calculated as the ratio between net profit and turnover. There was a significant increase in the margin between 2015 and 2019, with a decline in 2020 and a return to an upward trend, reaching a value of 16.5% in 2023, close to the 2017 value.

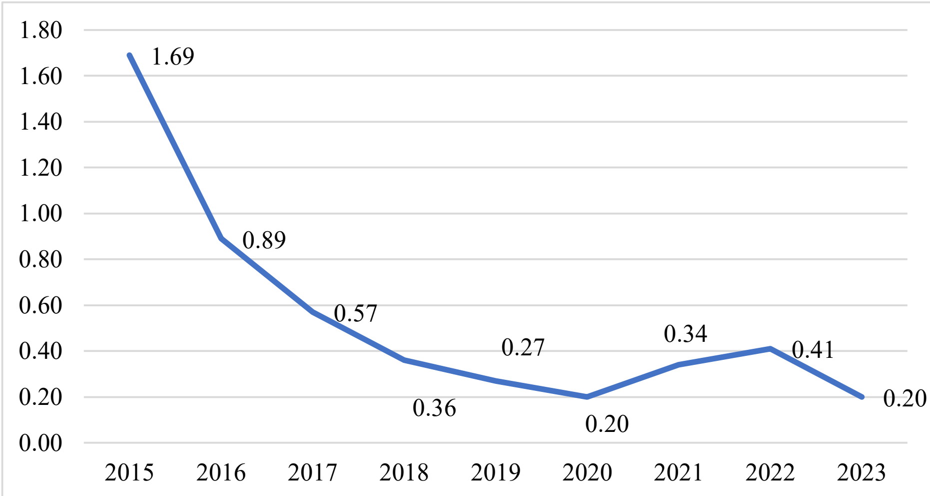
Figure no. 1 Net margin value in the period 2015-2023



Source: Author's processing

Debt ratio – calculated as the ratio between debt and equity. While the debt ratio was relatively high in 2015, it declined steadily between 2016 and 2019 and stabilized moderately between 2020 and 2023, although we should note a slight increase in 2022.

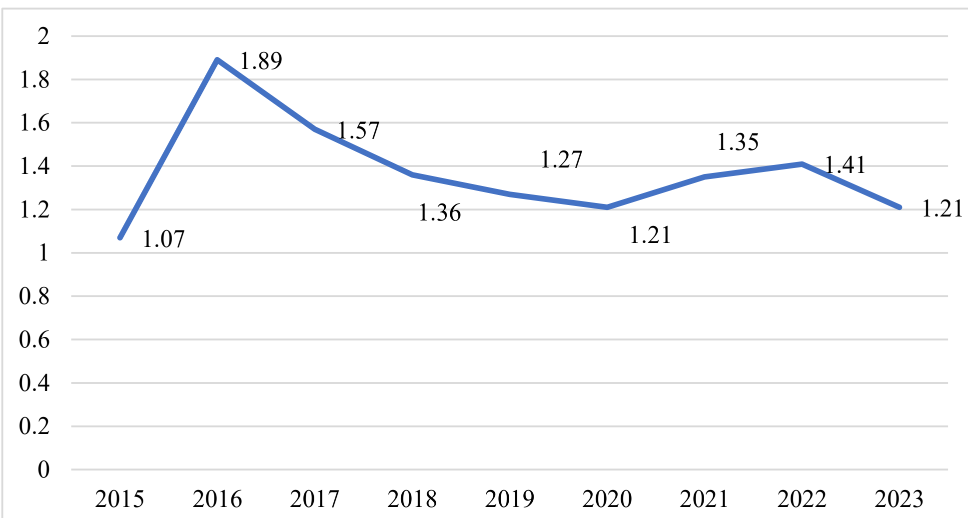
Figure no. 2 Debt ratio in the period 2015-2023



Source: Author's processing

Financial leverage – calculated as the ratio between total assets and equity. Financial leverage, which normally ranges between 1.5 and 3, is moderate and relatively stable after 2016 and indicates a balanced structure without excessive financial exposure.

Figure no. 3 Financial leverage in the period 2015-2023



Source: Author's processing

5. Conclusions

The analysis of leverage indicators highlights the importance of maintaining a balance between own and borrowed sources of financing. A high degree of indebtedness reduces the company's ability to cover financial costs, increasing the risk of insolvency. On the other hand, a moderate level of debt, combined with solid profitability, supports healthy leverage indicators, providing flexibility and long-term financial stability. It is recommended to constantly monitor these indicators and adjust the financial strategy according to market developments. At the same time, we must take into account the fact that there are companies that are highly dependent on the credit system because it provides them with the cash flow necessary to carry out their activities, provided that they can cover the interest on the respective loans.

In the case study presented, we observed a decline in indicators after 2019, with the onset of the SARS-CoV-2 pandemic, and the effects of this pandemic were felt even in the first post-pandemic year, 2021. Even though efforts were made to recover the economy after this pandemic, unfortunately, the values of 2019, the year before the pandemic, were not reached, especially since a new global economic crisis is looming.

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