

ISSUES ON THE INFLUENCE OF EUROPEAN FUNDS ON DEVELOPMENT AND EFFICIENCY OF AGRICULTURAL UNITS (CASE STUDY AT S.C. PREMETALICA S.R.L. BOTOSANI - PART II)⁹⁾

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MATERIAL AND METHOD

We have continued the case study from S.C. PREMETALICA S.R.L. Botoșani, which accessed European funds, being specialized in animal production.

The research aim is the elaboration of development and efficiency strategies for agriculture in Botoșani county, by submitting investment projects to attract EU funds.

For this purpose we used several financial indicators: production year, added value, commercial margins, rates of return, working capital (working capital needs, the speed of rotation by turnover), cash flow (management, available, operational), capacity of self - financing (global self-financing rate, term self-financing rate), total indebtedness (global and on term), liquidity-solvency level.

The authors have analyzed and explained the development and trends in financial indicators that manifest within the studied unit, with the influence of various internal and external factors, with direct consequences on the development and efficiency of the company's activity, focusing particularly on accessing and using EU funds.

RESULTS AND DISCUSSIONS

The year production has recorded an increase trend in each year of the reviewed period, from an additional 395.78% in 2009 compared to 2007, 50.47% in 2010 compared to 2009, 150.87% in 2011 compared to 2010 and 120.8% in 2012 compared to 2011 (Table 6):

The year 2010 is characterized by a decrease in production year, due to lower capitalized production, which rose in the previous year, but with a

⁹⁾ This paper is a continuation of the first part: summary and introduction can be found in the first part.

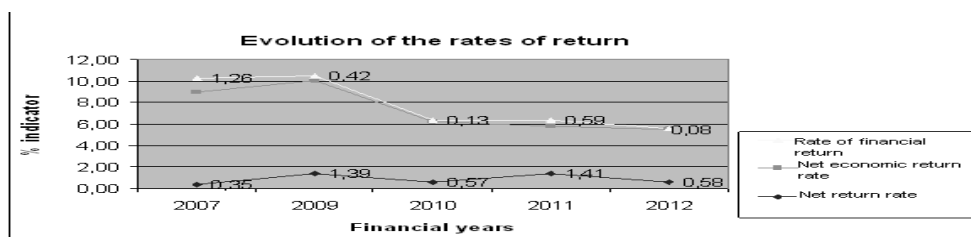


Fig. 5 Evolution of the rates of return in the period 2007-2012

From the calculated values of the two components, we observe, invariably, a shortage of own working capital, the attracted sources being used for the fixed assets, permanent allocations, whence the surplus funds which are released to cover temporary cyclical needs. We observed that in the period of 2007 - 2010 this indicator was positive, very high in 2009 and 2010, an increase ensured by foreign working capital (investment grants and loans to cover investments).

For 2011 and 2012, net working capital was negative, indicating a lack of resources that the unit is facing. The rotation speed of the working capital through turnover is the "security margin of the company", with a recommended value of 30 to 90 days, which, the lesser it is, the faster funds recover and turnover is achieved with less need of funds. Values that have been calculated for this period have increased beyond the 90 days after 2007 (which recorded a solid rotation speed of the working capital of 40.57 days). Starting with 2009, the indicator degraded gradually until the end of 2012.

Calculating the funding rate of the current assets from the working capital, we observe a substantial coverage of current assets from permanent resources in 2009 and 2010 (79.91% and 75.44%). For the period 2011 – 2012, naturally, this rate was negative. The need for working capital to finance the company, during 2009 – 2012, has been variable (Table 8):

Table 8

Evolution of the need for working capital in the period 2007-2012

Indicators	Analyzed period				
	2007	2009	2010	2011	2012
Equity - ths. lei	119,4	207,6	107,7	340,6	1.043,7
Long-term debts + investment subsidies – ths. lei	4.719,3	8.272,3	7.482,1	5.830,2	3.649,1
Permanent capital – ths. lei	4.838,7	8.479,9	7.589,8	6.170,8	4.692,7
Turnover – ths. lei	697,7	548,7	1.160,6	1.724,6	1.368,9
I. Net working capital- ths. lei	77,5	1.791,7	1.399,8	-166,6	-1.007,1
-Ownworking capital - ths. lei	-4.641,7	-6.480,6	-6.082,3	-5.996,8	-4.656,2
-Foreign working capital	4.719,3	8.272,3	7.482,1	5.830,2	3.649,1
-Rotation speed of the revolving fund - days	40,57	1.191,86	440,21	-35,25	-268,52
II. Need for working capital- ths. lei	-584,7	2.064,6	1.452,9	-173,7	-716,0
- overall funding rate - %	-13,26	86,78	96,34	95,90	140,66
- current needs rate - %	14,11	79,92	75,83	-21,54	-122,34
III. Net cash – ths. lei	662,2	-272,8	-53,1	7,1	-291,1
Net cash-flow for the year- ths. lei		-935083	219.730	60.227	-298233

Source : Own processing data S.C. PREMETALICA S.R.L. Botoșani

• In 2009 and 2010 it was higher than the available fund, thereby generating a negative net flow, a lack of liquidity,

• With a negative value in 2007 and 2011 to 2012 that relates to a net working capital, also negative, in which net cash deficit indicates negative cash flow.

From the presented data we observe a winding path of the cash - flow during 2009 -2012, with negative values in 2009 and 2012.

Through the indirect method, other intermediate cash flow indicators can be calculated, such as cash - flow management, available cash – flow, operational cash - flow (Table 9).

Table 9

The evolution of management, available and operational cash-flow in the period 2007-2012

Indicators	Analyzed period				
	2007	2009	2010	2011	2012
Net profit – ths. lei	1,5	0,9	0,14	2,0	0,8
Interest expenses – ths. lei	222,9	352,8	309,4	243,4	219,5
Depreciation expenses – ths. lei	37,3	612,4	651,0	806,6	846,2
Management cash- flow - ths. lei	261,7	966,1	960,6	1.052,1	1.066,5
Equity variation – ths. lei	1,5	75,1	-99,9	232,8	703,0
Financial liabilities variation– ths. lei	3.332,3	-480,0	-516,3	-537,1	-114,5
Available cash- flow - ths. lei	-3.109,4	758,6	925,7	549,7	-368,3
Operational cash- flow – ths. lei	38,8	613,3	651,1	808,6	847,0

Source : Own processing data S.C. PREMETALICA S.R.L. Botoșani

Self-financing capacity, also called the self-financing gross margin, is a residual cash flow that offer sown available resources for financing various needs. Self-financing capacity, calculated either from gross operating surplus or the net result, shows an increase of its value. In 2009 it was almost twice higher than in the 2007 (198.10%) and in 2011 there was an increase in self-financing capacity of 32.67% over the previous year.

Because no dividends were distributed during this period, the actual self-financing was at the same level of self-financing capacity (Table 10).

Table 10

Dynamic of self financing and self-financing in the period 2007-2012

Indicators	Analyzed period				
	2007	2009	2010	2011	2012
I. Subtractive method					
Gross operating surplus- ths. lei	354,3	212,2	1,4	-368,8	-129,0
+ Other operating income - ths. lei	51,7	676,2	983,7	1537,3	1.569,9
- Other operating expenses – ths. lei	1,7	0,4	26,3	83,9	313,6
+ Financial income – ths. lei	0,5	8,0	88,9	159,1	92,9
- Financial expenses – ths. lei	409,8	581,5	431,7	412,7	366,1
- Profit tax – ths. lei	0,9	6,8	6,5	22,3	7,1
Self – financing capacity– ths. lei	-5,9	307,7	609,5	808,6	847,0
II. Additive method					
Net profit – ths. lei	1,5	0,9	0,14	2,0	0,8
+Depreciation and calculated provisions expenses- ths. lei	37,3	613,8	651,0	806,6	852,2
-Income from commissions – ths. lei	-	-	-	-	6,0
+The net book value of disposed assets – ths. lei	147,7	65,7	6,3	-	-
-Income from assets transferred and the share of investment grants– ths. lei	192,5	372,7	48,0	-	-
Self – financing capacity – ths. lei	-5,9	307,7	609,5	808,6	847,0
Self – financing- ths. lei	-5,9	307,7	609,5	808,6	847,0

Source : Own processing data S.C. PREMETALICA S.R.L. Botoșani\

The way the company's financial autonomy (independence) is ensured is assessed by rates of liability structure, respectively of the capitals, expressing leverage and the liquidity – solvency level. Financial autonomy is ensured by the existence of an appropriate financial structure and evaluated by the following rates: the rate of financial stability, the level of current funding, the global and on term financial autonomy rate, overall borrowing rate and on term. By the calculation of rates, but also by simply viewing the figures of liability structure (Figure 6, Figure 7), we observe a massive weight of liabilities, current or with a maturity of over one year, within the total financing sources, compared with the high inconsistency of equity.

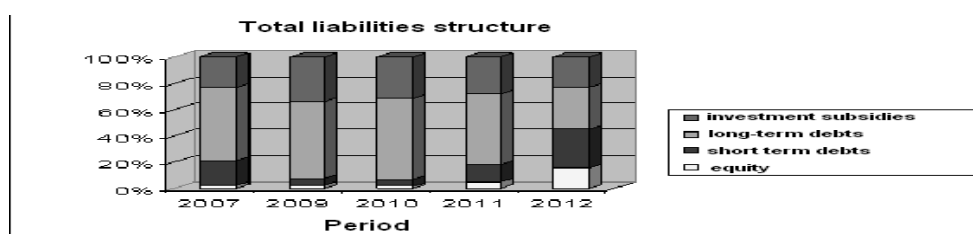


Fig. 6 Evolution of the total liabilities in the period 2007-2012

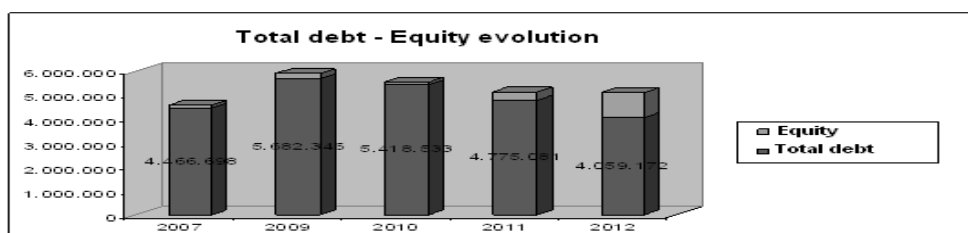


Fig. 7 Evolution of equity and total debt in the period 2007-2012

Liabilities with a maturity of over one year have dominated in 2007 and the period from 2009 to 2011, but in 2012 they declined in favor of short-term debts, maturing up to one year.

Investment subsidies, funding sources accessed through the SAPARD program, represented, in this period, a consistent and beneficial sequence of the unit's liability structure. In 2011 and especially in 2012, this equity became more visible after a steep increase of capital.

Financial autonomy indicators - structure rates of liabilities for the period 2007 - 2012 had the following the evolution (Table 11).

Financial stability rate, which reflects the share of permanent capital (long-term debts and equity) in total liabilities, reached close to the recommended level of 66 % (60.94 % and 63.06 %) only during 2009-2010, while in 2007 and 2011 values were above the minimum of 50 % and in 2012 they have dropped to 47.68 %.

Table 11

Evolution of liabilities, the rate of financial stability, financial autonomy rate (global and forward) and total indebtedness rates (global and forward) in the period 2007-2012

Indicators	Analyzed period				
	2007	2009	2010	2011	2012
Short term debts–ths. lei	1.134,4	447,8	453,0	947,0	1.939,2
Long time debts – ths. lei	3.332,3	5.234,5	4.965,6	3.828,1	2.120,0
Total debts– ths. lei	4.466,7	5.682,3	5.418,5	4.775,1	4.059,2
Investment subsidies – ths. lei	1.387,0	3.037,8	2.516,5	2.002,1	1.529,1
Own capital– ths. lei	119,4	207,6	107,7	340,6	1.043,7
Permanent capital – ths. lei	3.451,8	5.442,1	5.073,3	4.168,7	3.163,7
Total liabilities– ths. lei	5.973,1	8.930,4	8.045,5	7.120,5	6.634,6
Financial stability rate- %	57,8	60,9	63,1	58,5	47,7
Current funding level - %	19,0	5,0	5,6	13,3	29,2
Term financing structure indicator - %	32,9	8,2	8,9	22,7	61,3
Global financial autonomy rate -%	2,0	2,3	1,3	4,8	15,7
Term financial autonomyrate - %	3,5	3,8	2,1	8,2	33,0
Global indebtedness rate -%	74,8	63,6	67,4	67,1	61,2
Term borrowing rate - %	96,5	96,2	97,88	91,8	67,0

Source : Own processing data S.C. PREMETALICA S.R.L. Botoșani

Term financial autonomy rate, which indicates the proportion of equity in permanent capital, should be above 50 %, but the nearest value was registered in 2012, when it reached 32.99 % (after capital infusion which increased equity, so greatly reduced due to lack of consistent financial results). **Global financial autonomy rate**, which indicates the share of equity in total liabilities, recorded very low values, for the reasons mentioned here, indicating a financial imbalance and risk of insolvency. Reduced value of this ratio is complementary to the global leverage rate, which measures the share of debts in total liabilities.

Global leverage ratio was quite high compared to a recommended level of under 50 %, but is enhanced by the influence of the share of subsidies for investment in unit liabilities. Financial autonomy is also analyzed through liquidity and solvency indicators that highlight some features of the unit that give the measure of its ability to honor its commitments (Table 12).

Table 12

Evoluția indicatorilor de lichiditate și solvabilitate în perioada 2007-2012

Indicators	M.U.	Analyzed period				
		2007	2009	2010	2011	2012
Current assets	ths. lei	1.211,9	2.242,3	1.855,5	783,2	934,8
Claims	ths. lei	480,1	617,2	186,0	146,4	263,4
Cash	ths. lei	662,2	0,25	9,6	9,9	111,6
Total assets	ths. lei	5.973,1	8.930,4	8.045,5	7.120,5	6.634,6
Short term debts	ths. lei	1.134,4	447,8	453,0	947,0	1.939,2
Total debts	ths. lei	4.466,7	5.682,3	5.418,5	4.775,1	4.059,2
General liquidity	coef.	1,07	5,01	4,10	0,83	0,48
Reduced liquidity	coef.	1,01	1,38	0,43	0,16	0,19
Immediate liquidity	coef.	0,584	0,00	0,021	0,010	0,058
Solvency ratio	coef.	1,34	1,57	1,48	1,49	1,63

Source : Own processing data S.C. PREMETALICA S.R.L. Botoșani

General liquidity, the unit's capacity of coverage for current liabilities on account of current assets, started from a poor value recorded in 2007 (1.07), then a great variation in the period of 2009 - 2010 and a sharp decline in 2011 and especially in 2012 (0.83 and 0.48). Current liquidity indicator, which recorded a satisfactory value in 2007 and 2009 (1.01 and 1.38), is an increasing drop between 2010 and 2012 (from 0.43 to 0.16), which shows the incapacity to pay current debts that have raised their value during this period. In terms of the unit's capacity to cope with maturities of own sources, namely solvency, the unit has been consistently below the recommended values of 2 throughout the period 2007 - 2012, from 1.34 in 2007 to 1.63 in 2012.

CONCLUSIONS

1. Financial indicators used in the retrospective analysis of the results obtained by SC PREMETALICA SRL Botoșani, are its "vital signs", helping to monitor the actual state, signaling the potential problems and identifying trends.

2. Even though, before accessing and using E.U. funds, asset structure had a very low degree of liquidity, highlighting a lack of resources necessary to cover the debt, between 2009 and 2012 all calculated liquidity ratios, from the overall to the immediate liquidity, have improved, approaching the recommended level.

4. Analysis of the firm's overall ability to cope total debts, by calculating the solvency ratio, has shown an upward trend, approaching the optimal coefficient recommended: 2.

5. The profitability indicators have high lighted, in the pre-E.U. period, a relatively low capacity to mobilize resources (by performing rotational speeds) or to create greater resources from the newly created value (profit), so that , by accessing european funds, especially in the last years of the 2009-2012 period, the situation changed radically.

6. It is recommended maximizing the added value: a focus on the best possible use of the company's resources to enter the market with a high added value (**cost of entry as low as possible, high processing level => better price recovery**).

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