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CONSIDERATIONS ON FINANCIAL AUTONOMYOF AGRICULTURAL COMPANIES AND CAPITAL EFFICIENCY (CASE STUDY)

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Abstract

Ensuring financial autonomy of agricultural companies will be assessed and supported using liabilitiesstructurerates, respectively, of equity and borrowed capitals.

Also, the company's capacity to meet financial commitments is measured by ratios expressing indebtedness and the liquidity – solvency extent.

The company's financial independence is ensured by a structure adequate to its financial profile and is evaluated using the following rates: financial stability rate; current level of funding; globaland on term financial autonomy rate; globaland on term borrowing rate.

By simply viewing the structure of liabilitiesgraph and by the size of installments, the high share of current liabilities with a maturity over one year in total financing sources can be observed.

The case study was carried out at S.C. AGROMEC DRAGALINA S.R.L., which produces cereal, sunflower, rapeseed, sugar beet and soy.

Analysing the achieved and soldproduction, a significant increase is observed due to an increase in cultivated areas, along with crop diversification and achieving higher total production (+ 17%) and the influence of increasing selling prices.

In 2007, as the reference year, assetsfunding was more stable and more effective:

- a global financial autonomy ensured by equity of 16.29%;
- subsidies for investments accounted for 21.2%;
- a high current through debt financing with maturities up to one year of 22.02%
- a share of long-term debt in total liabilities of 40.49%.

Key words: financial autonomy, efficiency, subsidies, capital

INTRODUCTION

Strategy for development and efficiency of agricultural production from a given area is based on the economic and financial situation of the agricultural sector, which should take into account the adoption of those measures aimed primarily at increasing agricultural production and, second, to strengthen and streamline its management by implementing a performance based on application of new, modern, high productivity technologies (Brata Anca, 2008; Bucătaru D., 1997; Chiran A. et al., 2008; Cîmpanu M.B., Chiran A., 2012)..

All these measures will contribute to strengthening viable enterprises, having a major influence on increasing the efficiency of agricultural production through marketing and managerial skills of farmers and agricultural activities towards profitable investment orientation, including integrated projects by accessing E.U. funds (Ciurea I.V., Lăcătușu I, Puiu I., 2000).

In this context, there will be conditions for financial autonomy of agricultural units and efficient use of capital (own and borrowed), creating new jobs and improving the quality of life of rural population, which will be achieved only by using sustainable natural resources, economic and human resources available to each analyzed unit.

The Common Agricultural Policy (C.A.P.), in its current form, is constructed around two pillars: the first is that of the common market organizations and includes common measure sofregulating the functioning of integrated markets for agricultural products and the second one is that of rural development and includes structural measures by targeting harmonious development of rural areas (*diversification of activities, productquality growth, environmental protection, etc.)* (Chiran A. et al., 2009; Chiran A. et. al., 2013).

In the newcreated context, Romanian farmers must adapt to the economic reality existing in Europe and worldwide, to adopt technical and economic methods that will provide stability and secureeconomic efficiency, while being forced to comply and produce under European and world market standards (Cîmpanu M.B., Chiran A., 2012; Macovei Gh., 2002; Mihai C., 1997).

MATERIAL AND METHOD

The purpose of research is the development of strategies for the development and efficiency of agricultural units in Botosani county, in order to ensure their financial autonomy through European funds managed by specialized institutions.

Research objectives included the following aspects:

• *research of the current situation regarding the main financial indicators at reference year level (2007);*

• *study of the maineconomic and financial technical indicators achieved in plantproduction and recommending options for development and efficiency of agricultural units in Botosani county;*

• *identify factors that contribute to ensuring financial autonomy and the efficiency of capital (own and borrowed).*

The research methodology followed several stages:

• *study of domestic and international literature;*

• *concrete information gathering in the researchedcompany;*

• *ordering, processing and presenting the results in a clear summary form (tables, figures);*
• *analysis and interpretation of results;*
• *formulating conclusions and recommendations.*

RESULTS AND DISCUSSION

Market conditions during this period and price fluctuations have influenced the final turnover of the unit (Fig. 1):

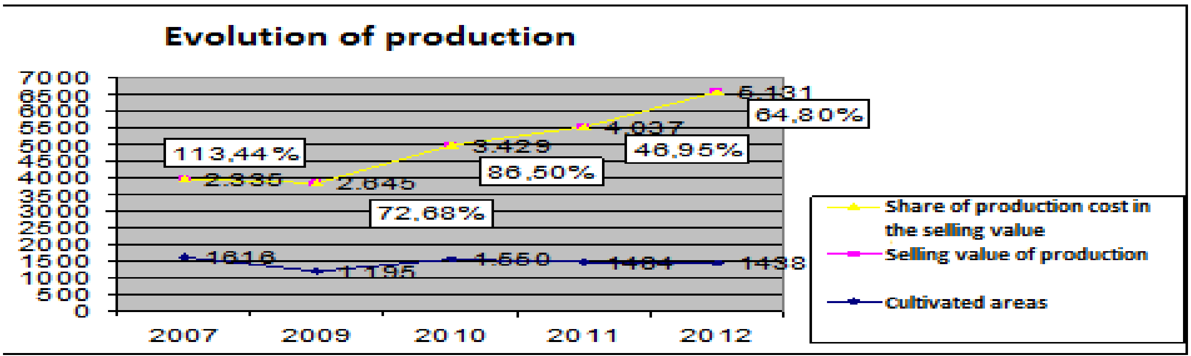

Fig. 1 - Evolution of the cultivated area, the cost and value of cargo in 2007-2012

If cultivated areas and cropping patterns have fluctuated without too much variation, however, commodity production value was ascending, reaching, in 2012, a doubling of the amount recorded in the reference year of 2007 (5.130,7 ths. lei, compared to 2335,3 ths. lei). Compared to 2007, during 2009-2012 there were highervalues of growth rates of return, with the exception of 2010, when economic and financial performance dropped noticeably as a result of the negative influence of climatic conditions, manifested by excessive drought and very high temperatures (Fig. 2):

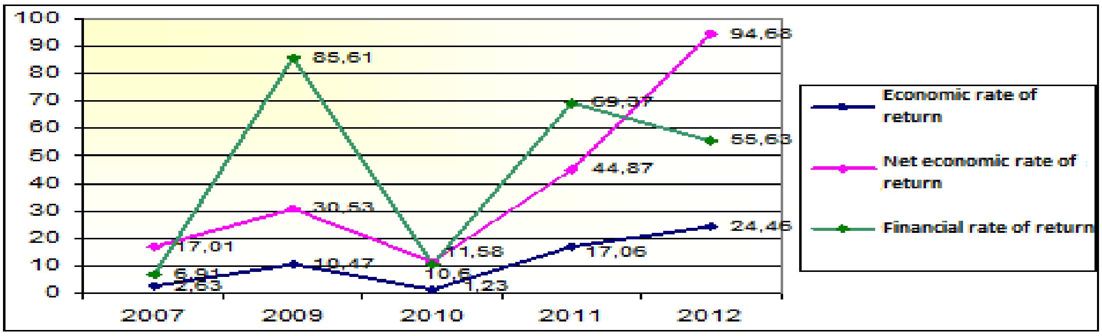

Fig. 2 – Evolution of rates of return in 2007-2012

In the 2009 – 2012 period, compared to 2007,we observe an improvement in the efficiency of assets and capital and capacity to honor commitments, the revival being reduced in the 2009 - 2010, but with significant growth of indicators in 2011 and especially in 2012.

In 2012, the situation was very well controlled, the unit recorded net working capital at a higher value due to the substantial increase in equity (in obtaining a financial result almost double the previous year) and due to the reduction efforts of investment in fixed assets.

Intermediate cash flow indicators calculated for the period 2009-2012, compared with those obtained in 2007, show an upward trend with increasing financial performance, and the own capital value, amid favorable changes in financial liabilities and their cost (Tab. 1):

Tabel 1

Evolution of cash flow (management, available and operational) in 2007-2012

Indicators	M.U.	Analyzed period				
		2007	2009	2010	2011	2012
Result / net profit	ths. lei	45,1	510,5	70,7	944,2	1706,1
Interest expenses	ths. lei	208,1	279,2	320,2	214,9	161,2
Amortization expenses	ths. lei	435,1	301,5	456,5	696,4	947,7
Cash-flow management	ths. lei	688,3	1091,2	847,4	1855,5	2815,0
Variation in equity	ths. lei	45,1	510,5	70,7	694,1	1706,1
Variation in financial liabilities	ths. lei	-2116,8	730,4	41,9	-159,5	-787,3
Available cash-flow	ths. lei	2324,9	-451,1	278,3	624,5	948,5
Operating cash-flow	ths. lei	480,2	812,0	527,2	1640,5	2653,8

By both methods, the ability to finance itself, calculated either from gross operating surplus or by the net result, shows an increase of its value, in 2007 it was 2.28 times higher than the previous year.

As shown in the preceding table, for 2009-2012, self-financing capacity aquired ever better values compared to the reference year 2007, with the exception of the non-performing year of 2010.

Ensuring **the financial autonomy** of the evaluated companyis estima-ted by liabilities and capital structurerates. This capacity to meet financial commitments is measured by ratios expressing indebtedness and the liquidity – solvency extent.

The company's financial independence is ensured by a structure adequate to its financial profile and is evaluated using the following rates: *financial stability rate; current level of funding; globaland on term financial autonomy rate; globaland on term borrowing rate.*

By calculating the rates, but also by simply viewing the figure regarding liability structure, we observe the high share of current or over one year maturity debt in total financing sources (Fig. 3):

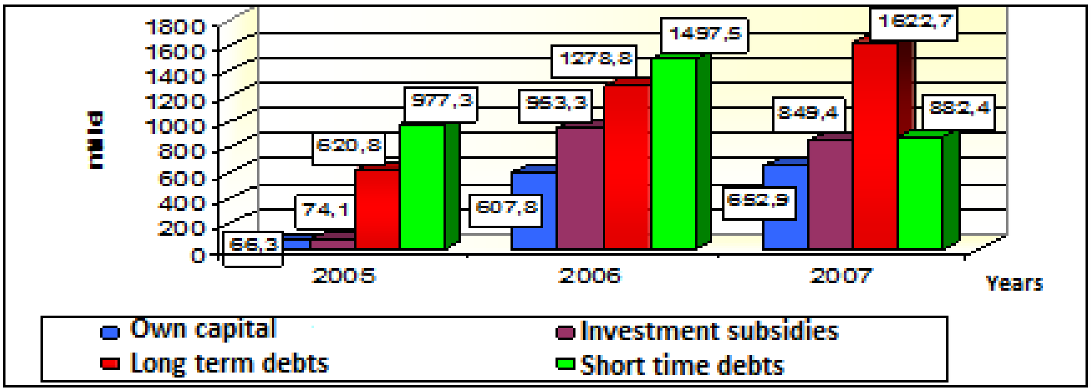

Fig. 3 – Structure of total liabilities in 2005-2007

Overall indebtedness rate recorded in 2007, amounting 62.5%, exceeded the recommended safe limit of 50 % (Fig. 4):

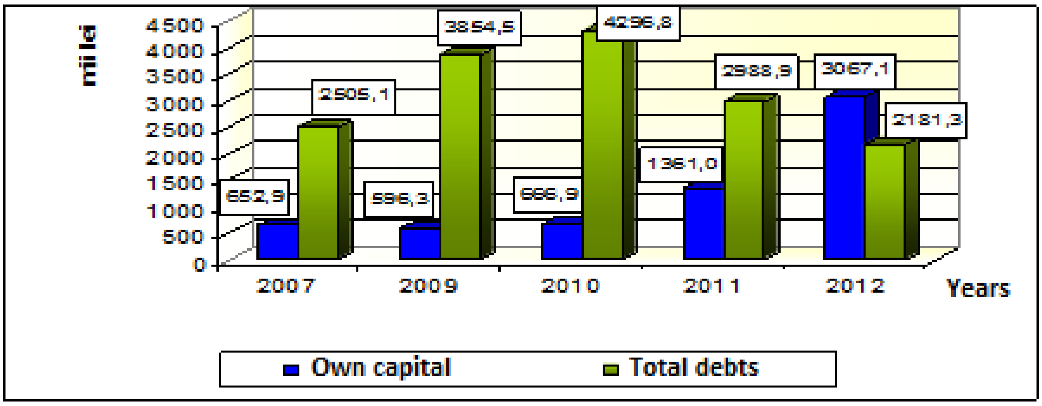

Fig. 4 - Evolution of total debt in 2007-2012

Essentially, equity available to the company acquires an increased share compared to other attracted sources: short-term debt and long-term investments and subsidies. Thus, **the global financial autonomy rate** reached 54.83 % in 2012. Reducing total debts improves global borrowing rate indicator from an alarming level of over 70% to the satisfactory level of 39 % in 2012.

Liquidity and solvency of the unit give the measure of its ability to honor its commitments (Tab. 2).

Thus, in terms of **overall liquidity**, in 2007, it reached a good enough level, 2.1, while the generally recommended level is 2 to 2.5.

Reduced or **immediate liquidity**, or the ability to drive and pay current liabilities on account of the most liquid current assets (receivables and availability,) have not reached the optimal level terms, but show a low liquidity level of 0.43, compared to the recommended 0,8, and a level of 0.053, compared to a recommended level of 0.2-0.3.

Tabel 2

The evolution of liquidity and solvency indicators during 2007 – 2012

Indicators	M.U.	Analyzed period				
		2007	2009	2010	2011	2012
Current assets	ths. lei	1854,9	2602,1	1987,4	1792,5	2941,2
Receivables	ths. lei	332,3	1518,3	1156,2	450,8	629,8
Availabilities	ths. lei	46,4	13,6	4,0	99,8	265,5
Total asset	ths. lei	4007,4	5092,5	5501,6	4792,7	5593,6
Short term debts	ths. lei	882,4	1454,4	2347,7	1753,9	1015,9
Total debts	ths. lei	2505,1	596,3	666,9	1361,0	3067,1
General liquidity	Coef	2,10	1,79	0,85	1,02	2,90
Reduced-current liquidity	Coef	0,43	1,05	0,49	0,31	0,88
Immediate liquidity	Coef	0,053	0,01	0,002	0,057	0,261
Solvency ratio	Coef	1,60	8,54	8,25	3,52	1,82

Regarding **solvency** of the unit or its ability to pay its debts, in 2007, a generalsolvency rate of 4.54was recorded, which is a satisfactory value for the company's situation.

The calculated solvency ratio shows a coverage of total debt to total assets account for 1.6 times, which is relatively satisfactory, given that a normal situation requires total assets represent twice the total debt.

General liquidity, the capacity of covering current liabilities on account of current assets, starts from a satisfactory value recorded in 2007 (2.10), with a variation less satisfactory in 2009-2011 (a critical value 0,85 in 2010), but with a good come back in 2012 *(general liquidity 2.90).*

Given the increase of the value of inventories *(less liquid current assets),* attention was required by the **current liquidity indicator**, that had an unsatisfactory record value in 2007 (0.43), after which varies in 2009-2012, forecasting good values in 2009 and 2012.

Immediate liquidity shows rapid debt repayment capacity, due to immediate existing cash, and had a value which is within the prescribed limits only in 2012.

In terms of unit's capacity to cope with maturities using resources at its disposal, namely solvency, the unit has recorded very good values of this indicator in 2009-2011 and in 2007 and 2012 values were close to the recommended one: 2 (1.60 and, respectively, 1.82).

Regarding working **capital productivity indicator**, there is a normal evolution on the ends of the range: approx. 4 times in 2007, 2009 and 2012, with hiatuses in 2010 and 2011.

Finally, a turnover which is on an uptrend (8.221,7 ths. lei in 2012 to 2058.0 ths. lei in 2007) demonstrates an efficient use of working capital, also increasing (1.925,3 ths. lei in 2012 to 972,5 ths. lei in 2007), the unit having a surplus of current assets to current liabilities which it uses to obtain higher incomes from agricultural products obtained from exploitation.

CONCLUSIONS

By agricultural land (392,8 ths. hectares), Botosani county presents a strong agricultural character, each inhabitant assuming the 0,985 hectares of agricultural land, respectively, 0.749 hectares of arable land.

Although Botosani county includes a large area of land, this natural resource can not be fully exploited, crop productivity is still quite low.

A comparative analysis of 2009-2012 compared to the reference year 2007, resulted in a slight decrease in cultivated areasfor wheat and rye, barley, barley, oats, sunflower, sugar beet, potatoes and vegetables. Instead, there were significant increases in maize, legumes and fodder plants.

The patrimonial situation presented for 2009-2012 revealed that the companies have developed significantly, being engaged in an extensive process of investment, which increased their capital assets, using as main sources for investment structural funds and long-term financial loans.

To these sources were added equity and, to a certain degree, even some temporary sources that have been used for financing the short-term part.

On December 31st, 2012, the observation unit had a total asset consisting mainly of fixed assets (mainly machinery and technological equipment) and about 1/3 of current assets (mainly stocks). Although, until accessing and use of E.U. funds, asset structure had a very low level of liquidity, highlighting a lack of resources to cover the debt in 2009-2012, all liquidity indicators calculated from the overall to the immediateliquidity, have improved, approaching the recommended level.

Analysis of the companies' capacity to meet total debt by calculating the solvency ratio showed an upward trend, approaching the recommended optimum coefficient of 2.

It also noted that, for drafting of European funding projects, funding applications and financial reporting from the projects, a very cumbersome documentation is required. Analyzing the values obtained from the calculation of key indicators, we observed that the amount of working capital, the amount by which current usedassets exceed the value of current liabilities has been steadily increasing, rise which was influenced primarily by the increase in the value of inventories (3.27 times in 2007 compared to 2006).

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