FINANCIAL MICROMANAGEMENT FOR BSE FIRMS

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Abstract
The manifestations of the difficulties for companies are represented either by the sharp deterioration of liquidity or the reduced level of profitability of the firm or the manifestation of the two trials combined. The most delicate situation for business is not the losses, but the cessation of payments. This article presents comparatively the effects of financial crisis on the evolution of key indicators of financial equilibrium of the company: working capital, normative working capital and net treasury, on the companies listed on Bucharest Stock Exchange.

Keywords
Financial crisis, financial equilibrium, BSE

JEL Classification: G11, G33

1. Introduction
The liquidity and profitability are considered the major axes of recovery information into the summary financial records. The determination of solvency of the company is not one of the key aspects of diagnosis of the distress company, but rather a specific delineation of the last phase of the degradation, when it comes to ability to pay all creditors.

The company liquidity falls as a prerequisite for survival of business opportunities, targeting the near future, while the profitability may be a long term goal of the company.

What characterizes the financial situation of a company in difficulty is, first, the "dilemmatic" status of treasury. But based on a lack of liquidity it may stay a low or even no performance cost, reflecting economic difficulties.

2. Literature Review
Altman, Edward I., (2006) in Corporate financial distress and bankruptcy: predict and avoid bankruptcy, analyze and invest in distressed debt holds that the warning indicators are somewhat different, depending on the seriousness of the difficulties facing the company, but converge to the two major axes defined above, profitability and liquidity.

Brealey & Myers (2004) in Principles of Corporate Finance show that in distressed firms, the working capital, which is a prerequisite level of liquidity, is often insufficient, which sometimes leads to termination of the payments. The causes that can determine failure of the revolving fund are different: the capital are absorbed by the losses, the short-term loans have a much lower turnover compared to the claims, which creates a lack of immediate liquidity to the company, the investment policy was far too ambitious.

3. Theoretical indicators of financial equilibrium
The part of permanent capital over the immobilized assets, known as working capital, serves to pay suppliers, waiting for materials to be processed into products and they are sold and collected. It is important that this gap in time between pay and revenue collection, to be borne by the permanent capital. In addition, since the normative working capital not take cash, it is preferable that its funding is made not from loans (which involve output flow with a certain regularity), but at the equity (benefits capitalized, growth capital or transfer of assets).

The existence of the working capital is a safety margin (the resources that finance long-term assets) which increase the confidence of partners (shareholders and creditors), which in turn will respond, in terms of financing, according to strategy which has established a compliance with certain financial structure designed to maximize enterprise value.

\[
\text{Working capital} = \text{permanent resources} - \text{immobilized assets}
\]
In assessing the financial imbalance it must be taken into account the degree of liquidity of the assets and the degree of exigibility for the short term debt. If the former is higher than the second, then the firm will achieve its surplus liquidity which will allow the payment of current liabilities to maturity.

Therefore, we should measure the total working capital, related to the business activities. The normative working capital is very closely related to the level of activity, measuring the working capital which needs the company.

NWC, the capital needed for ensuring continued operation of a business, is calculated as:

\[
\text{Normative working capital} = \text{current assets} - \text{current liabilities}
\]

The existence of a lower working capital that the normative working capital causes the tensions for treasury, characterized by an increased need for short-term bank loans to finance the current business. If working capital will be higher than the normative working capital, the company will have liquidities.

Achieving the financial equilibrium of the company involves not only the existence of a positive working capital as a safety margin, but a working capital financing the needs of the operating cycle.

It is well known the relationship between working capital and normative working capital, as fundamental relationship in studying the financial equilibrium of the company, the difference is the net treasury of the firm.

The main component of the balance in this relationship is the normative working capital; dynamic indicator, whose size is dependent, in proportion to changes in turnover. The level indicator can be expected, depending on future policy on sales company. If it is no significant changes in structure of assets and liabilities, the dependence between the normative working capital and turnover have provided certain stability.

A positive NWC means the existence of a gap between the degree of liquidity of stock and total debt and current debt level of chargeability, i.e. an earnings slowdown and an increase in rate payments. If the increasing financing needs (current use excess current resources) is a consequence of an active policy of investment then the company's financial situation can be considered normal.

A negative NWC reflects a surplus of current resources, as a result of increased rotational speed of current assets, while the existence of debts advantageous conditions for the enterprise. A negative NWC may be the consequence of temporary disruptions in the supply and renewal of stocks or of situations of failure to give short-term extinction debt.

We see, therefore, what is the importance of early studying, but in situations of difficulty, the indicators of financial equilibrium, and in particular, and the normative working capital.

In large part, for distressed firms, the financial situation is being degraded and those responsible with their recovery must deal with an already difficult situation.

The adjustment of relatively constant value of NWC (whose value is influenced by long-term decisions on investment policy and financing) with the fluctuating value of NWC (value influenced by fluctuations in activity levels and short-term gap between revenues and expenditures, these receipts and payments) is done through the net treasury.

\[
NT = WC - NWC
\]

The identification of a reduction of the results can predict an impairment of treasury. The causes may be the decline or stagnation of sales or / and the increases in spending, unjustified increase product quality. Typically, these companies go through a lengthy process of degradation.

Moreover, there are businesses with cash problems caused by delays in recovering debts from customers, significant as a share of sales, but which gain positive results. In the same category it would fall the companies with ambitious growth strategy, which have, however, a fragile financial structure that can not support growth.

Depending difficulties, the indicators are affected differently, given the cause and intensity of influenza:

a) the growth crisis
b) the erosion of competitive position
c) the errors in financing policy
d) the decrease results or no performance
e) the management errors
f) the accidental causes

4. The analysis of financial equilibrium indicators for firms on BSE

Next we calculate the working capital, normative working capital and net treasury for the first 10 companies listed on BSE during the 2010-2011 period, separately for each year, to determine which firms can go in difficulty.

The year 2010 was an atypical year and lots of events and left their mark on the evolution of the Bucharest Stock Exchange (BSE). Amid crisis emerging international markets, stock has seen many corrections during the year, thus limiting its growth over the past years.
The BET index, which includes the top ten companies in the market during the year, saw an increase of only 22.05%, being the smallest in six years. Even in these conditions, the BET index first exceeded the threshold of launching 10,000 points this summer, was boarded by significant increases in bank securities and pharmaceutical component.

The value of transactions on the Stock Exchange this year reached a new high of 3.92 billion Euros (13.8 billion lei), 40% higher than in 2009, while market capitalization has advanced by 17.2%, to 24.6 billion Euros (85.96 billion lei).

Applying the calculation for WC, NWC and NT, in year 2010, led to results presented in Table 1.

<table>
<thead>
<tr>
<th>Table no.1</th>
<th>The indicators of financial equilibrium in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>millions</td>
<td>Petrom</td>
</tr>
<tr>
<td>equity</td>
<td>13,18</td>
</tr>
<tr>
<td>liability &gt; 1 year</td>
<td>313,24</td>
</tr>
<tr>
<td>assets</td>
<td>11.37</td>
</tr>
<tr>
<td>working capital</td>
<td>2,122</td>
</tr>
<tr>
<td>current assets</td>
<td>4,690</td>
</tr>
<tr>
<td>current liabilities</td>
<td>2,580</td>
</tr>
<tr>
<td>necessary working capital fund</td>
<td>2,110</td>
</tr>
<tr>
<td>NT=WC-NWC</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: http://www.bvb.ro/ListedCompanies/FCalendar.aspx

- for working capital: 8 firms have positive working capital, and only 2 negative (Oltchim and Dafora);
- The existence of a positive WC certifies a financial equilibrium in the long term. The WC size should not be exaggerated, as purchased long-term capital costs are higher than those in the short term.
- A negative WC will highlight the company unable to secure a surplus of long-term financial resources that can be covered short-term funding needs.
- for normative working capital: 9 firms have o positive value, and only one (Oltchim) a negative one.
- for net treasury: only 3 companies (Petrom, Azomures and Rompetrol Rafinare) have positive value, and other companies a negative one.
- The existence of a positive net treasury certifies a financial equilibrium in the entire enterprise.

A negative net treasury signifies a deficit, a failure of permanent sources of the cyclical; the deficit of treasury will be covered by short-term loans.

Rompetrol Rafinare has the highest WC. The explanation of the very good situation of company is on recent explosive evolution of international quotations of oil and gas, but it is beginning to feel the positive impact of investments made in recent years for identifying and exploiting new production capacities.

In the profit and loss count of RRC, we attended the following significant developments: an advance of 34.86% of turnover; an increase of 17.63% of operating revenue; a 161.01% increase in operating brut profit; financial profit up 112.21%; obtain a net profit up 156.30% from the previous year.

The lower value of net treasury belongs to Transelectrica, which is close to the critical value of 1.81 and that in the future may cause the company to have problem.

The decreasing profits were caused mainly by the reduction of earnings from operating activities. Net turnover dropped by 10%, while operating expenses fell by 5%. Moreover, loss of financial activity has doubled, to 16.2 million lei, following the increase in financial expenses.

The year 2011 was the black year in the history of the Bucharest Stock Exchange, most issuers of decreasing market strong in the international financial crisis.

The index of the Bucharest Stock Exchange (BSE), BET, lost 70.5% in value in 2011, this is the biggest annual fall in index history. The decrease in 2011 advanced practice canceled the last four years.

All shares traded on BSE in 2011, without exception, have ended with negative returns. The value of transactions with shares registered on BSE in 2011 fell by 53% compared to the registered in 2010.

The value of transactions with shares listed on BSE fell by 50% in 2011 to 7.0 billion (EUR 1.9 billion). The number of shares traded in 2011 fell by only 9.7% and the number of transactions dropped by 13.2%.
Applying the calculation for WC, NWC and NT, in year 2011, led to results presented in Table 2.
- for working capital: 3 firms have a negative value (Oltchim, Rompetrol and Dafora), the other ones have a positive WC;
- for normative working capital: only 2 firms (Oltchim and Rompetrol Rafinare) have negative value;
- for net treasury, which is the most important indicator, only 2 firms have a positive value (Petrom and Biofarm).

Table no.2
The indicators of financial equilibrium in 2011

<table>
<thead>
<tr>
<th>millions</th>
<th>Petro m</th>
<th>Alro</th>
<th>Transg az</th>
<th>Oltchi m</th>
<th>Rompr etrol rafinare</th>
<th>Biofar m</th>
<th>Azomur es</th>
<th>Dafor a</th>
<th>Broke r</th>
<th>Transelectri ca</th>
</tr>
</thead>
<tbody>
<tr>
<td>equity</td>
<td>2.188</td>
<td>1.54</td>
<td>7</td>
<td>2.188</td>
<td>-251</td>
<td>1.562</td>
<td>129</td>
<td>391</td>
<td>170</td>
<td>86</td>
</tr>
<tr>
<td>liability &gt; 1 year</td>
<td>1.635</td>
<td>249</td>
<td>584</td>
<td>598</td>
<td>91</td>
<td>37</td>
<td>65</td>
<td>27</td>
<td>0.1</td>
<td>1.011</td>
</tr>
<tr>
<td>assets</td>
<td>2.681</td>
<td>1.61</td>
<td>3</td>
<td>2.681</td>
<td>1.106</td>
<td>2.429</td>
<td>78</td>
<td>234</td>
<td>236</td>
<td>56</td>
</tr>
<tr>
<td>working capital</td>
<td>1.142</td>
<td>183</td>
<td>91</td>
<td>-759</td>
<td>-775</td>
<td>88</td>
<td>222</td>
<td>-138</td>
<td>29</td>
<td>71</td>
</tr>
<tr>
<td>current assets</td>
<td>597</td>
<td>817</td>
<td>597</td>
<td>393</td>
<td>1.840</td>
<td>68</td>
<td>344</td>
<td>136</td>
<td>41</td>
<td>1.074</td>
</tr>
<tr>
<td>current liabilities</td>
<td>347</td>
<td>575</td>
<td>347</td>
<td>1.110</td>
<td>2.581</td>
<td>14</td>
<td>102</td>
<td>98</td>
<td>2</td>
<td>840</td>
</tr>
<tr>
<td>necessary working capital fund</td>
<td>250</td>
<td>242</td>
<td>250</td>
<td>-716</td>
<td>-740</td>
<td>54</td>
<td>241</td>
<td>37</td>
<td>39</td>
<td>233</td>
</tr>
<tr>
<td>NT= WC - NWC</td>
<td>892</td>
<td>-59</td>
<td>-159</td>
<td>-43</td>
<td>-35</td>
<td>34</td>
<td>-19</td>
<td>-76</td>
<td>-10</td>
<td>-162</td>
</tr>
</tbody>
</table>
The essence of management of the working capital is represented by the quality of company relationships with business partners. Certainly, the technical skills are important, as management experience and company position and influence at the negotiation table. None of these factors are important as relationships with business partners. The result: the companies manage properly their relationships with customers and suppliers? Treat their customers and suppliers as partners or adversaries? Company relationships based on proper professional conduct? Company leadership maintains close relationships with strategic suppliers and customers? Or the company is just trying to save his own skin?

These are just some of the questions relevant to management of the working capital and we think the answers will differentiate winning companies will get out of this financial crisis.

7. References


