FINANCIAL DIAGNOSTIC ELEMENTS OF THE COMPANY CASE STUDY ON CONRAG S.A.

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Abstract
Economic-financial analysis is the means by which a company can identify its own strengths and weaknesses, in relationship to the means at its disposal, as well as the opportunities and threats that it is facing. The economic-financial analysis represents a managerial tool meant to proceed to the examination of an economic entity, in order to identify and solve the problems that arise. The process of managing and administering the company, regardless of the field of activity and the proposed purpose is complex. The appreciation of the differences in performance and financial position depends on the nature of the company as well as on the system of instruments used in wealth management. The basis of our research and results for this company was the economic-financial analysis through which we identified its strengths and weaknesses in relation to the means at its disposal, but also the opportunities and threats to it.
The objectives of the research are the analysis of certain indicators in order to identify and solve the problems that this company faces in an aggressive competitive environment, to anticipate the movements of the competition and to self-evaluate the resources it has. These objectives were achieved and explained through the diagnostic analysis within the article.

Keywords: balance sheet, patrimony, assets, liabilities, treasury.

Classification JEL: **G 32**

1. INTRODUCTION

The problem of management and administration of the enterprise, regardless of the field of activity and the proposed purpose is complex.

In order to survive, any business needs information, without which the decision-making process through which the business is run could not take place. In order to obtain this information, it is necessary to analyse the annual financial statements that allow to find out the financial position and its performances. This information benefits both the company (as an internal factor) whose financial statements are analysed and suppliers, customers, potential investors and any other person who wants to know information about the company (as external factors).

An accounting information market must ensure the protection of the interests of associates by favoring:

- publication and transparency of accounting information,

- development of published accounting information in terms of quantity and quality,

- increasing the possibility of comparison in time and space.

The value of information can be defined as the difference between the net benefit of making the same decision, unaffected by the information.

Financial-accounting information is the basis of investment decisions, their accuracy and relevance decisively influencing the achievement of the optimal level of expected results.

The annual financial statements have become an important source of information, carefully analysed by all participants in the capital markets.

2. FINANCIAL SHEET

The financial balance sheet is constructed by transforming the balance sheet from the list form into the account form, confronting the asset with the liability and restating the assets/liabilities to eliminate the distortions between the reality presented in the summary documents and the economic-financial one of the company's activity (Cohen E, 2008: p.112).

The analysis of the financial balance sheet within an enterprise, highlights the way to achieve long-term and short-term financial balance. The structure of the financial balance sheet allows the liquidity of assets and the chargeability of liabilities to be compared in order to determine whether the company is able, immediately or by converting less liquid assets, to cover its debts due at a given time, such as in the event of termination. In conclusion, the financial balance serves to assess the solvency and liquidity of the enterprise (Dumitrașcu R, 2019: p. 53). The importance of the financial balance sheet in the financial analysis derives from the fact that it serves to determine the margin of financial security through the working capital (FRN), which allows companies to face risks in the short term, guaranteeing its solvency.

The grouping of items in the financial balance sheet highlights the rule of sound financial management, that of parity of maturity of assets and liabilities: permanent needs will be financed from permanent resources, temporary needs are covered from temporary resources (Dumitrașcu R, 2019: p. 70). This rule emphasizes the structure of the long-term and short-term financial balance. Items on cash (house, bank, investment securities and current bank loans) form the treasury assets and liabilities, respectively (Hoanță N, 2011: p.44).

The patrimony of a company, which carries out an economic and social activity, is the source of reflection in financial accounting. The quantification of the patrimony, at global and structural level, is made through the balance sheet, ensuring on its basis, the knowledge of the financial situation and of the result of the exercise (Robu V., Anghel I., Șerban E, 2014: p.422). It can be defined as a summary accounting document, an instrument used to complete a financial year with the help of which they are presented in a systematic way, in monetary terms, in a structure usually imposed by accounting regulations, assets and liabilities.

3. METHODOLOGY OF ASSETS AND LIABILITIES

In this article we have calculated the structure rates of assets and liabilities.

Capital structure rates express the risk that the company may face, a more stable or precarious balance between the capital attracted and its ability to meet the obligations assumed by this financing.

Structure rates are calculated as the ratio between an asset or liability item and total assets or liabilities. Asset structure rates provide information on the allocation of capital,

the degree of embolization or liquidity as well as changes in the structure of the asset. Liability structure rates provide information on the financial policy of the enterprise, financial stability and autonomy as well as the aspect regarding the degree of indebtedness (Vintilă G, 2010: p.108).

4. RESULTS AND DISCUSSIONS

Company CONRAG S.A. has romanian legal personality, carries out its activity in Braşov County and has as object of activity: the sale of materials and prefabricated buildings for constructions and the realization of construction-assembly works.

Within its activity, the company executed over 12,000 km of main and main pipelines, within the National Methane Gas Transmission System, which it built almost entirely - 90% of the network of natural gas transmission pipelines in Romania. In addition, it has executed numerous pipelines for other fluids (crude oil, water, ethylene, propylene, CO2) that also exceed 3,000 km and has executed numerous large water crossings, some of which are supported on batteries or suspended on cables, others underground, all with original technological solutions. The object of activity of CONRAG SA Braşov is mainly the installation of pipelines destined for the transport and distribution of natural gas and of the installations necessary for its good exploitation (regulation, measuring, drying, compression stations), civil and industrial constructions, roads, but also other activities such as marketing construction products.

Based on the financial balance sheet, we calculated the following balance indicators:

Net working capital.

Starting from the top of the financial balance, as a difference between the permanent capital and the net fixed assets, result the permanent financial working capital.

$$FRN = CP - A_{in}$$

Table 4.1.Net working capital

Indicators	M.U.	2017	2018	2019
Permanent capital	lei	9.432.879	21.500.371	84.085.591
Net fixed assets	lei	7.983.997	24.062.783	77.828.909
Net working capital (FRN)	lei	1.448.882	-2.562.412	6.256.682

Source:Own calculations based on data from CORNAG S.A

FRN=Current assets-Short term debts

Table 4.2.Net working capital

| Indicators	M.U.	2017	2018	2019
Current assets	lei	8.855.197	10.175.203	20.426.890
Short term debts	lei	7.406.315	12.737.615	14.170.208
Net working capital (FRN)	lei	1.448.882	-2.562.412	6.256.682

Source:Own calculations based on data from CORNAG S.A

It is observed that in 2017 and 2019, the financial working capital is positive, which means a long-term balance, the permanent capitals finance part of the current assets.

In 2018, the financial working capital is negative, which outlines an unfavorable situation, a financial imbalance. The negative value of the FRF reflects the absorption of

part of the temporary resources to finance permanent needs, countrary to the principle of financing where permanent needs are allocated to permanent needs.

Figure 4.1. Evolution of working capital
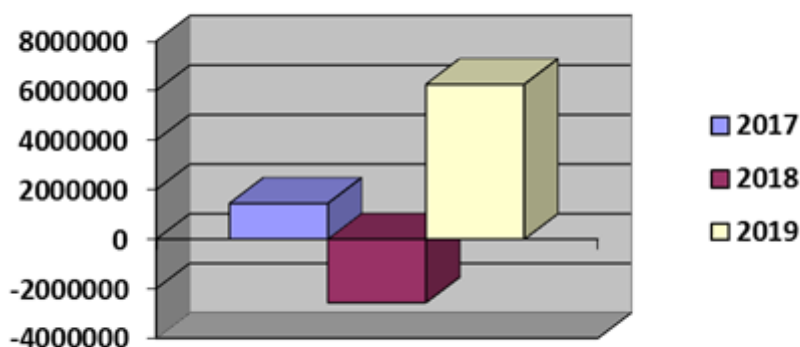
Source: The chart is made by the authors

Own working capital
Represents the surplus of equity in relation to net fixed assets.
It is determined by the relations:
FRP=Equity-net fixed assets
FRP=FR-Medium and long term debt

Table 4.3.Own working capital

Indicators	M.U.	2017	2018	2019
Equity	lei	9.432.879	21.500.371	75.831.664
net fixed assets	lei	7.983.997	24.062.783	77.828.909
FRP	lei	1.448.882	-2.562.412	-1.997.245
FRN	lei	1.448.882	-2.562.412	6.256.682
Medium and long term debt	lei	0	0	8.253.927
FRP	lei	1.448.882	-2.562.412	-1.997.245

Source:Own calculations based on data from CORNAG S.A

If in 2017 FRP has a positive value, the negative values in 2018 and 2019 represent a deficit of equity compared to fixed assets.

The negative result of the calculation relationshipis also called *borrowed working capital*.

$FR_{borrowed}=FRN-FR_{own}$
Or:
$FR_{borrowed}$=Permanent capital-Equity

Table 4.4.Borrowed working capital

Indicators	M.U.	2017	2018	2019
Permanent capital	lei	9.432.879	21.500.371	84.085.591
Own capital	lei	9.432.879	21.500.371	75.831.664
$FR_{borrowed}$	lei	0	0	8.253.927

Source:Own calculations based on data from CORNAG S.A

The need working capital

The exploitation activity involves the formation of the need for financing. From the overall comparison of the financing need of the operational cycle with the corresponding financing resources, is estabilished the working capital requirement (NFR).

NFR= Temporary needs (no treasury assets)-Temporary resources (no cash liabilities)

NFR=(Current assets-Cash)-(Short - term debt- Short - term bank loans)

Table 4.5.Need of working capital

Indicators	M.U.	2017	2018	2019
Current assets	lei	8.855.197	10.175.203	20.426.890
Cash	lei	2.742.218	2.008.400	5.035.563
Current assets(Current assets-Cash)	lei	6.112.979	8.166.80	15.391.327
Short term debt	lei	7.406.315	12.737.615	14.170.208
Short - term bank loans	lei	0	0	0
Current liabilities (Short - term bank loans)	lei	7.406.315	12.737.615	14.170.208
NFR	lei	-1.293.336	-4.570.812	1.221.119

Source:Own calculations based on data from CORNAG S.A

The need for working capital in 2017 and 2018 with negative values, represents a surplus of temporary resources in relation to the needs of working capital, while the positive value recorded in 2019 means a surplus of temporary needs in relation to temporary resources, which means that investments have been made in the operational field of activity and an increase in the activity volume.

Figure 4.2. The evolution of the need for working capital
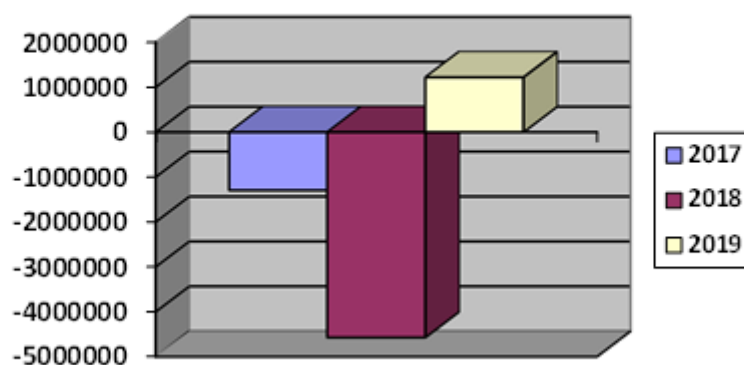
Source: The chart is made by the authors

Net treasury

In order to meet its short-term financial needs, the company must have financial and treasury resources, respectively. Treasury resources reflect the short-term financial management of the company.

It is calculated as the difference between the net working capital and the working capital requirement.

TN = FRN – NFR

Table 4.6.Net treasury

Indicators	M.U.	2017	2018	2019
Working capital (FR)	lei	1.448.882	-2.562.412	6.256.682
Need for working capital (NFR)	lei	-1.293.336	-4.570.812	1.221.119
Net treasury (T)	lei	2.742.218	2.008.400	5.035.563

Source: Own calculations based on data from CONRAG S.A.

Figure 4.3. The evolution of the net treasury
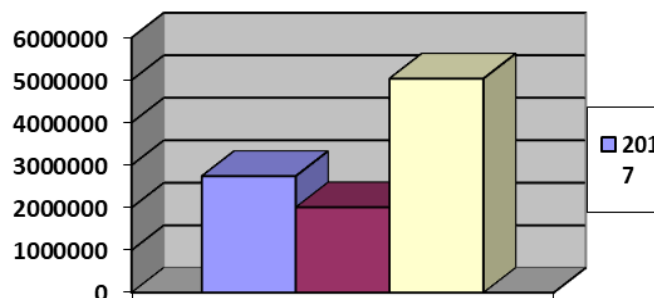
Source: The chart is made by the authors

Next, we calculated the *rate of fixed assets*. They represent the weight of permanently used patrimonial elements that reflect the level of capital investment in company

$$Ratio\ of\ fixed\ assets\ = \frac{Fixed\ asset}{Total\ asset} \times 100$$

Table 4.7. Rate of fixed assets

Indicators	M.U.	2017	2018	2019
Fixed assets	lei	7.983.997	24.062.783	77.828.909
Total assets	lei	16.839.194	34.237.986	149.439.945
Ratio of fixed assets	%	47.41	70.28	79.21

Source: Own calculations based on data from CONRAG S.A.

It is observed that, during the three years of analysis, the ratio of fixed assets had an increasing trend, in 2019, 79.21% of the total assets were fixed, which represents the level of capital investment. In this case, the situation is considered normally.

The rate of tangible fixed assets shows the share of the value of tangible assets in total tangible fixed assets.

$$Tangible\ fixed\ assets\ ratio = \frac{Tangible\ fixed\ assets}{Total\ assets} \times 100$$

Table 4.8. Tangible fixed assets ratio

Indicators	M.U.	2017	2018	2019
Tangible fixed assets	lei	7.334.347	23.108.788	74.900.357
Total assets	lei	7.983.997	24.062.783	77.828.909
Tangible fixed assets ratio	%	91.86	96.04	96.24

Source: Own calculations based on data from CONRAG S.A.

The high values, over 90%, registered in the three years of analysis, the situation being specific to the analyzed enterprise, show that the company is in possession of a large volume of equipment.

The rate of current assets shows the weight of cyclical uses in equity and indicates the level of liquidity of equity.

$$Current\ assets\ rate = \frac{Current\ assets}{Total\ assets} \times 100$$

Table 4.9. Current assets rate

Indicators	M.U.	2017	2018	2019
Current assets	lei	8.855.197	10.175.203	20.426.890
Total assets	lei	16.839.194	34.237.986	98.255.799
Current assets rate	%	52.59	29.72	20.79

Source: Own calculations based on data from CONRAG S.A.

In 2018 and 2019, there is a decrease of the current assets ratio from 52.59% to 33.38% and 26.14% in 2018 and 2019. The situation is normal given the asset structure but also justified by the object of activity of the company.

The stock rate shows the share of current assets with low liquidity in total current assets.

$$Inventories\ rate = \frac{Inventories\ and\ products\ in\ progress}{Current\ assets} \times 100$$

Table 4.10. Inventories rate

Indicators	M.U.	2017	2018	2019
Inventories	lei	2.006.062	3.396.900	5.340.311
Current assets	lei	8.855.197	10.175.203	20.426.890
Inventories rate	%	22.65	33.38	26.14

Source: Own calculations based on data from CONRAG S.A.

Considering the nature of the activity of the analyzed company, the stock ratio in addition to having oscillating values during the three years of analysis, the highest share being in 2018 of 33.38%, also has a small share, due to the fact that the company does not have a complex commodity distribution activity.

The financial stability rate shows the connection between the permanent capital that the company has for a period of one year and the total patrimony.

$$Financial\ stability\ rate = \frac{Permanent\ capital}{Total\ liability} \times 100$$

Table 4.11. Financial stability rate

Indicators	M.U.	2017	2018	2019
Permanent capital	lei	9.432.879	21.500.371	84.085.591
Total liability	lei	16.839.194	34.237.986	98.255.799
Financial stability rate	%	56.02	62.8	85.58

Source: Own calculations based on data from CONRAG S.A.

During the three years of analysis, it is noted that the company has a high degree of financial stability. A high value is registered in 2019, of 85,58%, which represents that this year 85,58% of the necessary resources were financed from the permanent capitals.

The rate of financial autonomy is a global indicator that refers to the financial autonomy of the company appreciated as a whole of its financing.

$$Financial\ autonomy\ rate\ = \frac{Equity}{Total\ liabilities} \times 100$$

Table 4.12. Overall financial autonomy rate

Indicators	M.U.	2017	2018	2019
Equity	lei	9.432.879	21.500.371	7.583.371
Total liabilities	lei	16.389.194	34.237.986	98.255.799
Overall financial autonomy rate	%	56.02	62.8	77.18

Source: Own calculations based on data from CONRAG S.A.

The rate of financial autonomy, for the three years of analysis, exceeds the percentage of 33%, a satisfactory percentage for the financial balance.

The rate of financial autonomy highlights how many of the sources of financing belong to the owner. How more the own sources have an important share in the total sources of financing, the financial autonomy of the company is higher.

Conrag S.A. has a good financial autonomy that can be used to contract a bank loan, if necessary.

$$The\ overall\ indebtedness\ rate = \frac{Total\ debt}{Total\ liabilities} \times 100$$

Table 4.13. The overall indebtedness rate

Indicators	M.U.	2017	2018	2019
Total debt	lei	7.406.315	12.737.615	22.424.135
Total liabilities	lei	16.839.194	34.237.986	98.255.799
The overall indebtedness rate	%	43.98	37.2	22.82

Source: Own calculations based on data from CONRAG S.A.

The overall indebtedness rate measures the share of total debts in the company's assets, regardless of their duration and origin. It shows to what extent the borrowed and attracted sources participate in the financing of the activity. The maximum value allowed for this indicator is 66%. Removing of this value means a reduction in the company's debt, respectively an increase in financial autonomy.

The overall indebtedness rate in the case of Conrag S.A. for the analyzed period it indicates a favorable situation, the values being below the maximum allowed value. The trend is favorable.

5. CONCLUSIONS

Diagnostic analysis is the means by which a company can identify its own strengths and weaknesses, in relation to the means at its disposal, as well as the opportunities and threats to it. Diagnostic analysis is a managerial tool designed to examine an economic body in order to identify and solve the issues it faces.

The process of managing and administering the enterprise, regardless of the object of activity and the proposed purpose is complex. The appreciation of the differences in performance and financial positon depends on the nature of the enterprise, on the system of instruments used in wealth management.

CONRAG S.A. operates in an aggressive competitive environment, which determines it to constantly relate to market demand, to anticipate competition movements and to self-assess its resources. In the environment in which it operates, CONRAG S.A. it must permanently prove its viability, capacity to cope the competition, adaptation and economic and financial performance.

The assurance of company's success aims besides the quantitative side and qualitative aspect expressed by the qualification degree of the employees. The existence of the technical-material base is an indispensable condition for carrying out the activity.

As conclusions that emerge from the analysis of the indicators of the company CONRAG S.A., it can be seen that:

The net working capital (FRN) determined for the three years of analysis, 2017, 2018 and 2019 registers positive values in 2017 and 2019, which means a long-term financial balance, permanent capitals finance part of current assets, after financing of net assets. This situation highlights the FRN as its contribution to achieving short-term financial balance which means that the company can cope with short-term risks. The negative value of the financial working capital registered in 2018, means a financial imbalance.

In 2019, the net working capital registers a significant increase, which means that the permanent sources managed to fully finance the permanent allocations, remaining a surplus to finance cyclical needs. This was due to the increase the permanent capital compared to fixed assets.

This evolution of the net working capital provides the company with a safety margin.

The positive working capital need registered in 2019, means a surplus of temporary needs, in relation to the possible temporary resources to be mobilized, while the negative values registered in 2017 and 2018, mean a surplus of temporary resources, in relation to the needs of working capital.

Positive Net Treasury (FRF> NFR) recorded by CONRAG S.A. over the three years of analysis, it is the result of the entire financial balance of the company, which means surplus financing, the result of an efficient activity, surplus that is found in the form of cash in bank accounts and at cash treasury.

From the point of view of the asset structure rates, it is found that the company is in a favorable situation, taking into account an adequate structure of fixed assets and current assets, taking into account the object of activity of the company.

The positive treasury in the three years of analysis shows that the working capital is large enough to ensure the financing of the operating activity.

Determining the rate of financial autonomy expresses the financial independence of the company. According to the analysis, it is observed that in 2019, the rate of financial autonomy was 77.18%, which means that the share of equity in total liabilities is 77.18%, highlighting a good financial situation, but it is not appropriate that other loans to be resorted which could lead to a decrease in financial autonomy.

The overall indebtedness rate shows that the company is in a favorable situation during the three years of analysis, their value being below the maximum allowable value of the indicator (66%).

CONRAG S.A. has a good financial stability, the level of the indicator having a value above the one considered optimal. In order to maintain a level that does not give rise to difficulties in the future, the company will have to increase the volume of permanent capital, especially by increasing its own capital.

The rate of fixed assets had an increasing trend over the three years, so that in 2019, 79.15% of total assets were fixed, which means a high level of capital investment, given that the maximum acceptable value is 60%.

If the optimal value of financial profitability is 20%, in the case of CONRAG S.A., there is a significant decrease in 2018 and 2019, registering a negative value in 2018 (-4.15%), this is due to the fact that significant losses in financial activity due to that there were high expenses and the operating profit could not cover these losses.

Given the fact that the construction market remains high, CONRAG S.A. must take into account the strong competition in the market, which will have to act to improve the activity, by reducing costs without compromising the quality. The main objective must be taken into account, namely, winning tenders, but this is done through the quality of the work performed and the seriousness of the workers. It should be not neglected that quality work is done with high-performance equipment.

- monitoring and controlling the performance of the services provided
- permanent diversification of the activity
- application of incentives for the employed staff
- observance of the contractual clauses, regarding the service delivery
- understanding of customer requirements in the market they will be primary requirements for maintaining the company in the market.

The value of a company's assets is not limited to that recorded in the balance sheet as a tangible asset. The accumulation over time of a certain level of knowledge, to build a reputation and a solid customer base, what is called goodwill, is a part of the wealth of society.

In the future CONRAG S.A. it will have to manage itself in such a way as to obtain good results in the future activities, which is why it will have to adapt to the constantly changing economic and social conditions.

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