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FINANCIAL ANALYSIS OF A SELECTED COMPANY

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ABSTRACT The success of every business enterprise is directly related to the competencies of business management. The business enterprise can, as a result, create variations of how to approach the new complex and changing situations of success in the market. Therefore managers are trying during negative times to change their management approach, to ensure long-term and stable running of the business enterprise. They are forced to continuously maintain and obtain customers and suppliers. By implementing these measures they have the opportunity to achieve a competitive advantage over other business enterprises.

Key words Financial analysis, company, profit, activity, profitability, liquidity, indebtedness

INTRODUCTION In a global market economy that is determined by its constant uncertainty, the business enterprises are faced with demanding economic conditions. They are exposed to constant changes of environment as well as uncompromised pressure of competitors, who are trying every day to increase the quality of their products and services and continuously to progress ahead. This fact results in a negative impact on the whole performance of the business subject. The business subject, in order to be able to maintain a stable and competitive position on the market, to provide inputs for the management, to make important strategic decisions and to achieve their economic goals, is forced to constantly analyse and monitor their financial situation with which appears towards financial subjects and the surrounding's situation. A principal factor of effective financial management consist SLOVAK UNIVERSITY OF TECHNOLOGY in Bratislava, s of financial situation knowledge. For this purpose the financial analysis is used. With it the business subject will be capable to prevent the crisis, which would lead to remediation or even to bankruptcy

OBJECTIVE The objective of this article is to provide basic knowledge about financial analysis ex-post and subsequently to evaluate the business subject progress in an area of activity, liquidity profitability and indebtedness, to reveal strengths and opportunities that the business subject should rely on. Furthermore, it also aims to determine weaknesses and threats that could lead them to difficult situations and based on the results to provide measures to improve the system of financial economic analysis of the business subject. METHODS In this article the basic scientific methods used were analysis, synthesis, induction, deduction and hypothesis creation. A synthesis of theory and knowledge will serve to obtain the theoretical basis to meet the set objective. The analysis will focus on the financial statements of a public limited company which produces equipment and components for the mining, chemical and energy industries, as well as boat and marine components. From the results of the analysis, by induction, deduction and hypothesis creation, we shall draw conclusions and suggest actions for improvement of the business subject's financial and economic analysis system.

1. FINANCIAL ANALYSIS OF THE SELECTED COMPANY The financial situation of the business subject is considered to be a complex output of their whole performance. This output is presented through the ratio indicators of activity, profitability, liquidity, indebtedness and market value. These indicators are based on the synthetic indicators of financial accounting and they demonstrate the complexity of the business subject's performance interpretation (Baran and Pastýr, 2014, 6).

1.1 Financial analysis - Ex post A financial situation analysis is the foundation of the company's economic performance analysis and usually proceeds down to primary fields and results as effectivity, efficiency, production capacity utilisation, supplement management and the like. Financial analysis detects weaknesses and strengths of the company, is the tool of "health" diagnostics and provides essential information to business management and to owners (Vlachynský, 2009, 369). Sedláček understands the financial analysis of the company as a method of the company's financial management evaluation, during which the data obtained is graded, aggregated and compared to each other. Furthermore, the relationships between them are quantified, looking for the causal connection between the data and their development is determined. This increases the explanatory power of data processing and its informative value. Thus it focuses on identifying problems, strengths, weaknesses and foremost the company's value processes. Information obtained through financial analysis enables us to reach some conclusions about general management and the financial situation of the company and represents a background for management decision making (Sedláček, 2009, 3). The main purpose of financial analysis is to express assets and the financial position of the company and to prepare the inputs for internal management decision making. The complexity and continuous execution are the essential requirements of financial analysis (Hrdý, 2009, 118) The company's financial situation is diverse and a multifaceted complex phenomenon; consequently this diversity is transferred also into the financial analysis process.

The user of the financial analysis results decides which indicator's to select and the priority of utilisation of individual parts of the financial analysis according to demand and intention (Baran et. al, 2011). Among primary users of the financial analysis we might include various subjects mainly as owners, managers, employees, lenders (suppliers, banks), debtors (customers), institutions of state and public administration, external analytics, media and etc (Baran, 2008). The review of the company's financial situation is declared by the system of financial indicators, which have to be in order and designed to reflect all the important aspects of the financial situation. Therefore, for a description of the financial situation the ratio indicators are used. The ratio indicators enable a comparative analysis of the company with other companies or with indicators for the relevant area. The sum of ratio indicators we'll present, can be considered as the sum of representative indicators. Specifically, these will be the most commonly used indicators of the financial situation characteristics. However, along with the practical application, dozens of indicators are used, and it is not possible to mention all of them (Baran, 2015). In practice, the use of several basic indicators has been proven relevant which can be categorised into groups according to individual areas of management evaluation and the financial health of the company. Mostly these are groups of indicators such as debt, liquidity, profitability, activity, capital market indicators, as well as other indicators (Knapková, 2013, 84). Based on the objectives that have been set within this article, we'll provide more detail on the ratio indicators of profitability and liquidity

1.1.1 Financial analysis - Indicators of activity The activity indicators are used for business asset management, because they evaluate how effectively a business subject manages their assets. A business subject rates the commitment of individual items of the capital in certain forms of assets. If the business subject may have more assets than is appropriate, then unnecessary costs are incurred and the profit is adjusted. In contrast, if the business subject may have few assets the possible incomes may be lost (Baran, 2015). When applying indicators of activity we see a problem in the work with flows and stocks. While the balance sheet represents assets and liabilities at a particular point in time, the profit and loss statement records the costs and revenues continuously over the year. Therefore, when working with those indicators it is necessary due to the least possible deviation from the actual that the calculation shows the average of individual balance sheets items (Pastýr, 2014). The time of stock turnover testifies how many days does a stock turnover take. In other words, it indicates the time that is required for the transition of financial resources through production and products back into the form of money. The ideal situation is when the business subject over time shows a decreasing value of this indicator. A short time (time scale) is usually the expression of greater efficiency. However, it is necessary to take into account the nature of the business. Alternatively, in the denominator instead of revenues the costs can be used.

$$\text{stock turnover} = \frac{\text{average stock}}{\text{revenues}} \text{x } 365$$

The receivables turnover tells how long the business assets hang in the form of receivables or in how long time the receivables are paid on average. The recommended value is obviously the standard time period of invoices maturity, because most of the consigned products are invoiced and each invoice has its maturity. If the time period of receivables turnover has been longer than the standard time period of invoices maturity that would mean failure to comply with the trade credit policy from business partners. However, at present it is quite common that the time of invoices payment exceeds the declared. Definitely, in this case it is important to take into consideration what is the size of the analysed company. For small businesses the longer period of receivables maturity may cause significant financial issues with the possibility of bankruptcy. While large businesses are from the financial point of view more able to tolerate longer period of maturity. The time horizon, which could be considered as optimal, should also meet the criteria of business commercial policy (Růčková, 2005, 122).

$$\text{receivables turnover} = \frac{\text{average stock of short} - \text{term receivables}}{\text{revenues}} \text{x } 365$$

The maturity of short-term liabilities reflects the time of incurrence until its payment. This indicator should reach at least the values of receivables turnover maturity. The indicators of receivables turnover maturity and the liabilities turnover maturity are important for assessing the timing differences from the inception of receivables until their collections and from incurring of liabilities until the payment. This difference directly influences the business liquidity. As far as the turnover, the time of commitment is greater than the sum of stock and receivables turnover, the suppliers credits finance receivables and stock, which is preferable. However, it may reflect low liquidity levels. Between the level of liquidity and activity is a close connection and a certain compromise should be looked for (Knapková, 2013, 105)

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$$\text{liabilities turnover} = \frac{\text{average stock of short} - \text{term liabilities}}{\text{revenues}} \text{x } 365$$

The long-term asset turnover is relevant in decision-making to determine whether to procure the next long-term production asset. A lower value of the indicator than the average in the field is a signal for production to increase capacity utilisation and for financial managers to reduce business investments (Sedláček, 2001, 61).

$$\text{long} - \text{term asset turnover} = \frac{\text{revenue}}{\text{average stock of long} - \text{term assets}}$$

In general, with asset turnover, it applies that the larger the value of the indicator, the more positively the situation is assessed. A minimal recommended value of this indicator is 1. Yet the value is influenced by the industry as well. A low value of indicator means a disproportionate business subject's asset facilities and its inefficient use (Knapková, 2013, 104).

$$\text{asset turnover} = \frac{\text{revenues}}{\text{average stock of assets}}$$

In this case, it is possible to substitute the revenues with the profits, though the result may be overestimated due to different types of income that are not related to the main business activity. 77 It is appropriate to use the sale or revenues from the sales of ones own products and services or to combine both kinds of profits (Knapková, 2013, 104)

1.1.2 Financial analysis - Indicators of profitability The indicators of profitability, sometimes referred to as indicators of profit, return, profitability ratio, are designed as a ratio of the final effect achieved by business activity (output) to some comparative base (input) that can be on the side of assets as well as on the side of liabilities, or to another base. These indicators display the positive or also negative influence on asset management, the business subject's financing and liquidity on profitability (Kislingerová, 2007, 83). All indicators of profitability have a similar interpretation, because they specify how much EUR of revenues (the numerator) cases per 1 EUR of indicator mentioned in the denominator. Because there exists a multitude of profitability ratio indicators; we'll address only those that are the most important. Altogether we'll approach the explanatory power of selected and mentioned indicators. In this article we'll mention the following, in practice most frequently used indicators of profitability (Baran, 2015). A return on sales indicator explains to us, how is the business subject able to use inputs for their effective operations. The final value of this indicator is directly influenced by the character of the business activity, price policy, production regulation, etc. A more accurate statement of this type of indicator provides us a ratio of partial results of the business subject's management to their revenues (Baran, 2015).

$$\text{return on sales} = \frac{\text{net income}}{\text{income}} \text{ x } 100$$

$$\text{operating return on sales} = \frac{\text{operating profit}}{\text{income}} \text{ x } 100$$

$$\text{share of added value in revenues} = \frac{\text{added value}}{\text{income}} \text{ x } 100$$

The profitability indicator (return of income) of total capital compares the result of business activity with the volume of invested capital (Farkašová, 2007, 42). This indicator specifies the assessment of total capital, the business subject has used for their activity. By assessment of the capital part of the equity, is a process of profit distribution after tax. It is possible for the business subject to execute the profit distribution after tax, but not until the general assembly approves the following: - to increase capital, - to subsidise funds from revenues, - to retain the profit after tax undistributed or - to repay dividends (in the case of plc). By valorisation of capital, the business subject is commissioned to pay back part of the capital to the lender. Professional literature states an indicator level reference not to be higher than the interest rate of long-term loans.

$$\text{return on assets (ROA)} = \frac{\text{net profit}}{\text{assets}} \text{ x } 100$$

A return on equity is essential for the business subject's owners and for lenders has a supporting meaning. In general, the value of indicators should be higher than the interest rate of risk-free bonds (Černá, 1997, 73).

$$\text{return on equity (ROE)} = \frac{\text{net profit}}{\text{equity}} \text{ x } 100$$

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The level of return on equity is strongly dependent on the return on assets and on the interest rate of borrowed capital. The increase of the indicator ROE mostly depends on the level of the business subject's created profit, on a drop in interest rate of the borrowed capital, on a decline in the equity's share on a business subject's return on assets and a combination of all previous factors (Baran, 2015).

2.PROPOSAL FOR IMPROVEMENTS OF MONITORED BUSINESS SUBJECT´S SELECTED RATIO INDICATORS OF FINANCIAL-ECONOMIC ANALYSIS After the processing of financial-economic analysis several weaknesses of the business subject have been revealed. In the synthesis of this information and following induction we can generalise some measures for long- term successful operation of the business subject. It is the incorporation of the following measures.

2.1 The activity ratio indicator of the monitored business subject At the time of stock turnover we propose continuous stock monitoring to prevent the adversely high inventory. As well in the future we propose some optimisation of stock flow management in relation to production or its improved procurement from various suppliers, storage and use through a precise time system, motion planning in parallel with production needs. The time of short-term receivables collection can enable further possible business development within fair trade and good customer-supplier relationships. I see the possibility of improvement or the volume and frequency of short- term receivables reduction as well as the time period of their reimbursement in the incentives of customers themselves through the provision of cash discount, price discounts for payment before the due date of the relevant receivable and thereby ensuring stabilisation or receivables turnover time reduction. A further possibility to decrease the short-term receivables collection is to introduce a strict internal control system in issuing e.g. customer invoices in the form of rescheduling. To ensure the timely payment of receivables of less responsible customers it is necessary to apply the reminders notice mechanism or sanctioning for non-compliance of contractual conditions of payment. In the case of receivables management improvement the acquired financial sources could be used to reduce the size as well as the short-term liabilities time period of the business subject from trade by invoice reimbursement from their suppliers to maturity or sooner, or reducing the need to use short- term bank loans. The long- term asset turnover has significant different values, thus I recommend that the business subject uses their long-term assets more effectively. By decreasing the stock turnover time period ensures the greater production flexibility, because the high volume of stocks binds unnecessary finances that could be invested into other business areas e.g. into its development, modernisation and etc. By reducing the short- term receivables time period through using a cash discount or price discounts for payment before maturity of the receivable will lead to a decline of unliquidated short-term receivables in the business subject. This allows further use of cashed financial sources e.g. the earlier payment of short-term liabilities of the business subject or reducing the need to use short-term bank loans. In the supplier this motivational tool can induce the willingness on his part to closer cooperate under favourable conditions. The introduction of an internal control system in issuing of customer invoices timeliness and excellence may ensured this. The decline of the short-term liabilities time period or proper and timely payment of liability to a supplier can create between him and the business subject a favourable and competitive supplier-customer relationship that can be in the future reflected e.g. in material supply for more favourable quantitative and price conditions.

2.2 The profitability ratio indicator of the monitored business subject We can state that the results of profitability indicators have positive values. That means the business subject achieves continuous profit. Almost all these indicators in a period of six years achieved within the recent two years a slight downward trend. The interests of the business subject is to stabilise or to increase these values. Therefore a continuous monitoring of indicators of sales and profit is required, to increase the level of these indicators. These objectives can be achieved by the following measures: • by a flexible pricing policy, • by improving the efficiency of the marketing mix, • by efforts to win new customers and cheaper suppliers, • by investing in financial market products for example in bonds and funds. On the other hand, to prevent further decline of the business subject’s profit, it is required to secure the economy and efficiency by optimisation of costs and by individual asset items utilisation. It is mainly the following cost items: • the cost of material and energy consumption, - by applying new production technologies and the use of new or innovated technology, - by improving work organisation and production management in the form of production process harmonisation, production capacity utilisation, - by raising the educational level of employees, • the reduction of personnel costs, - by standardised work of production employees, - by optimisation of overhead employees, - by optimisation of technical and administrative employees. Following the introduction of design measures there is a premise of the business subjects economic result increase for the accounting period as well as the increase of the revenue indicators. The business subject will accomplish a stabilised position on the market by obtaining new and more advantageous financial relationships. As well higher profitability and more efficient capital utilisation for business subject's owners will be accomplished by realisation of the mentioned measures. By optimisation of costs the business subject will secure their decrease and at the same time will create conditions for the implementation of innovative and new technologies and techniques that should be introduced to employees on the appropriate educational level.

2.3 The ratio and differential liquidity indicator of the monitored business subject In 2012, the value of the golden statistic rule indicator for the monitored business subject registered growth due to the merger of two business subjects and the growth of current assets. The value of this indicator thus reached a positive value that means the business subject is under-financed. As a result of this adverse situation, three ways of this value reduction are proposed:

• By increase of their fixed resources of settlement by raising their equity through basic capital increase in the form of share issue,

• by bond issue,

• by increase of their external sources through obtaining of long-term bank loan. Within the monitored business subject the current assets exceeds short-term obligations. The exception of this is the latest year, therefore we propose towards the future period to increase the business subject's liquidity by increasing the volume of their current financial assets: • by reducing the time of debt collection from business relations (by discount, by monitoring, by mechanism of reminders, by penalties), • by reduction of supplement turnover time (better supplement management), • by advance charge on customised production, • by sale of surplus assets, but this asset change could result in a lower ability for further business activities development in the future. After the implementation of submitted proposals for increasing the business subject's liquidity, there is the premise of a business subject's solvency increase while the conditions for balanced development are created. The business subject will have the necessary financial resources and will be able to reimburse on time their short-term obligations with their financial resources as well as be able to use them for further development.

2.4 The indebtedness ratio indicator of the monitored business subject Undertaking in relation to business activity, the business subject has acceptable values of total indebtedness as well as the self-financing coefficient, thus I do recommend to monitor, maintain and not to exceed this state or this indebtedness rate. Regarding the insolvency indicator the business subject is primarily located in insolvency, therefore I recommend that the business subject shall try to reduce the level of a short-term liabilities. After the incorporation of measures the level of equity and foreign capital will stabilise and the overall stability will be ensured. The business subject will seem more attractive in the provision of loans as well as in individual investments.

CONCLUSION In the present turbulent competitive environment the financial analysis is an essential part of monitoring the business subject and is an important tool to support the decision making of various stakeholder groups. Also it provides a picture or feedback about the whole condition of business subject and their development and about a condition of individual operation areas. This analysis is able to identify factors that with the largest stake have caused undesirable results within the business subject. Through prediction models of financial-economic analysis the business subject is able to predict their future development and possible option for bankruptcy. Among the benefits of this article belongs financial-economic analysis focused on the business subject's ratio indicators of activity, profitability, liquidity and indebtedness itself. Related proposals mentioned in this article for weaknesses elimination which were found by financial analysis are focused on practical use in the business subject's experience.

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