

The Analysis of Capital Performance Indicators in Joint Stock Companies: In Case GM Uzbekistan

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Abstract

Capital performance indicators of companies determine the cost of capital and investment opportunities and serve to prevent its financial risks and implement strategies for future development.

The article explores the theoretical aspects of the efficiency of joint stock companies. It also analyzes the capital structure and performance indicators of GM Uzbekistan, operating in Uzbekistan, identifies problems related to increasing capital efficiency, and elaborates scientific recommendations and practical recommendations to address them.

Keywords

Joint Stock Company; Capital; Profitability; Investment; Net Profit; Efficiency.

Introduction

At a time when globalization is taking place in the global economy, it is important to evaluate the capital performance of large companies. Today, the largest joint stock companies in the world use the indicators of Return on Equity (ROE) and Return on Assets (ROA), which are key indicators of determining the efficiency of joint stock companies. However, the fact that Uzbekistan's joint stock companies almost do not use these indicators in determining the efficiency of capital shows that the performance of the joint stock company is not fully evaluated. This indicates that the efficiency of equity and assets of joint stock companies is not determined.

In the joint-stock companies, foreign investors implement their large investment projects, taking into account their efficiency. Realization of the state-owned block of shares in the equity of joint stock companies of Uzbekistan [1] shows the need to determine the capital profitability and return on assets of these joint stock companies.

In developed countries, the indicators of return on equity, return on equity, and return on sales are used to determine the equity of joint stock companies.

Literature Review

A number of research studies have been carried out to identify and analyze the efficiency of capital in joint stock companies.

In the research of Prof. Roberto Moro Visconti [2], Return on equity (ROE) is emphasized as a measure of business profitability; it reflects how well the company uses investments to increase profits. In addition, the author describes the return on assets (ROA) as an indicator of profitability of the company, and gives the manager and the investor an idea of how effective the company's management assets are for profit generation.

According to an investigation by Pertiwi Tan and Annaria Magdalena Marpaung [3], Return on equity (ROE) is one of the ratio of profitability and have asserted that the profitability ratio is a measure of the ability of the company to make a profit and this ratio measures the level of effective management of the company. [14]

According to the research by Rouf and Wallace & Naser [4], ratios are expressed as the ratio used to estimate the ability to generate income or profit in a given financial period; At the same time, the return on assets (ROA) is the most important rate of return, which indicates the effectiveness of financial institutions. Banks, for example, have a high rate of return on assets (ROA),

which can benefit from total assets, and have emphasized high profitability.

Based on the research by JiíStrouhal, Petra Štamfestová, Alexander Ključnikov, Zuzana Vincúrová [5], asset return (ROA) is often used to measure financial performance in various research studies. Financial ratios, including asset return (ROA), can be objectively assessed and used subjectively, based on data from financial statements and the use of measurements. The impact of accounting standards on the data obtained and the accuracy of the calculation of return on assets (ROA) shows the amount of revenue generated by the unit of currency (dollars, euros, etc.) during the reporting period.

According to a study by R.F. Magomedov [6], sales profitability (ROS) is an indicator of a company's price policy and ability to control its costs, and competition strategies and product differences are important for profitability in different companies.

Looking to A.A. Zaitseva's [7] investigation, an important financial indicator for investors and business owners is the profitability of their own capital, which reflects profitability and growth in the value of the company. Certain factors affecting the return on equity can be achieved by using the DuPont model, one of the most commonly used models for calculating return on equity. The DuPont model is a method of financial analysis by assessing key factors that determine a company's profitability.

According to the research of economists from Uzbekistan A.V. Vahobov and T.S. Malikov [8], the profitability of equity allows us to determine the effectiveness of using capital invested by company owners. Usually this indicator is compared to the possibility of investing funds in other companies, securities and deposits. This indicator shows how many units of net profit the company has "earned" each unit placed by the company.

Looking to the research of SamehJouida and SlaheddineHallara on Capital structure and regulatory capital of French banks, by this article was given the investigation of Mathuva (2009)[9], who found that bank profitability is positively related to capital ratio and Tier 1 capital ratio. This study used the return on assets (ROA) and return on equity (ROE) as an estimate of profitability of the bank for the period 1998 to 2007 and also established that there was a negative relationship between capital ratio and equity.

According to the investigation of PornpenThippayana [10], on the article of Determinants of Capital Structure in Thailand, the research concluded that capital structure is important to the company to generate its assets, operations and future growth and finally result to maximize the valuation of firm. And the study for

the listed company in Thailand stock exchange market, confirmed that leverage ratios increase with firm size, and decrease with profitability significantly.

In the investigation of T.P.Nikolaeva [11], an enterprise's profitability index allows evaluating its financial performance and its effectiveness. These indicators usually correspond to the level of profitability expressed as the ratio of a particular type of income to the base. Different indicators reflect different aspects of the enterprise. Generally, enterprise efficiency can only be determined by a system of profitability indicators. It includes a group of indicators: production, sales, sales, assets, capital, and other indicators.

The first is production profitability, and the value of this indicator is that it helps to estimate the unit cost of production.

The second is the profitability of the sale, and the increase in this indicator may reflect a steady rise in product prices or an increase in demand and consequently a reduction in unit costs. The decline in this indicator reflects the opposite trend.

The third group of profitability indicators is Return on Assets (ROA), which reflects the effectiveness of invested in an enterprise.

The fourth group of profitability indicators is the return on equity, and this indicator is particularly important because it reflects the profitability of the fixed assets used by the entrepreneur. The peculiarity of this indicator is, first and foremost, the efficiency of its own funds, that is, the net profit on invested funds and, secondly, the level of risk for the enterprise, which reflects the growth of ROE. Based on ROE, an enterprise can forecast its revenue growth.

Research Methodology

The efficiency of the joint stock companies' performance is determined by the target capitalization. The main purpose of the formation of the capital of the enterprise is to optimize its structure in order to meet the demand for the acquisition of the necessary assets and to ensure the condition of efficient use. Taking these objectives into account, the enterprise's capital is estimated through the following indicators:

Return on assets

$$ROA = P : A,$$

Here,

ROA– economic profitability;

P – economic benefit; net income

A – Total Assets.

Return on Assets (ROA) shows the return on investment capital. ROA for public companies can vary significantly and can be highly dependent on the industry. Therefore, when using ROA as a comparative measure, comparing it with the company's previous ROA numbers or similar ROAs is a good idea. ROA shows investors how effective they are in converting company investments.

The higher the ROA, the better the investment means. In the medium and medium-term financial sustainability strategy of joint-stock companies it is necessary to increase the return on assets (ROA), which reflects the efficiency of its use along with the nominal growth rate of capital assets.

Return on equity (ROE) is calculated as follows:

$$ROE = (ROA + Emr) (1-T)$$

or

$$ROE = [ROA + (ROA - i) Ks] (1-T)$$

or

$$ROE = \text{Net Income} / \text{Shareholders' Equity}$$

ROE is an effective way to improve the efficiency of asset management to generate income for joint stock companies. ROE is expressed as a percentage of net income and positive equity for any company.

Return on Sales (ROS) is a financial indicator that calculates how effectively a company makes profit from its high returns. It analyzes the percentage of total revenue converted into operating income and evaluates the performance of the company [12]:

$$ROS = \text{Operating profit} / \text{net Sales}$$

Investors, creditors, and other debtors rely on this level of profitability as it accurately communicates the percentage of cash that the company generates in its profits and enables you to know the potential dividends, reinvestment potential, and ability of the company to repay its debts. Sales profitability is used to compare current and previous periods. This allows the company to analyze the time trend and compare the internal performance indicators with time. It is also useful to compare the ROS share of a company regardless of the size of the competitor.

Analysis and Results

Based on the aforementioned indicators, we will analyze the capital performance of "GM Uzbekistan" JSC in Uzbekistan. GM Uzbekistan was launched in March 2008 and today it produces 10 models of Chevrolet and Ravon cars at three production sites. In addition, there are more than 100 suppliers of GM Uzbekistan, including major suppliers of subcontractors: UzSeMyung, UzKoram, AutoComponent, Uz Dong Yang, UzHanwu, Uz Dong Won Co, Uz Dong Ju Paint, Uz Tong Hong Co, UzChasis and Auto Glass. In figure 1 shows the financial performance of "GM Uzbekistan" JSC.

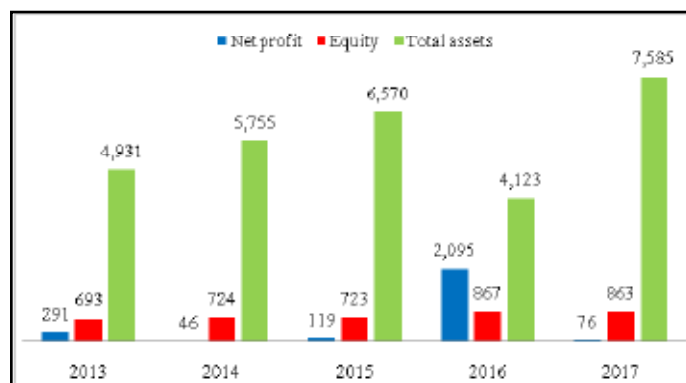


Fig. 1 : Trends in net profit, equity and total assets of GM Uzbekistan (billion UZS)

Source: Developed by the author based on the annual data of General Motors JSC in Uzbekistan.

According to figure 1, the net profit of GM Uzbekistan in 2013 was 291 billion UZS, which is almost 6 times less than in 2014. However, the net profit of the joint-stock company in 2016 was at its highest value in the period under review, at 2095 billion UZS.

Equity totaled 693 billion UZS in 2013, which has grown significantly over the years under review. In particular, the equity of the joint-stock company in 2014-2015 accounted for 724 billion and 723 billion respectively. In 2016, the figure reached 867 billion UZS. While there is a trend towards growth in total assets in 2013-2015, but, in 2016, this figure declined significantly with the amount of 4,123 billion sums, and it reached its peak of 7585

billion sums in 2017. (Figure 1).

As can be seen from Figure 2, the net proceeds from debt and product sales of GM Uzbekistan have changed significantly over the past five years.

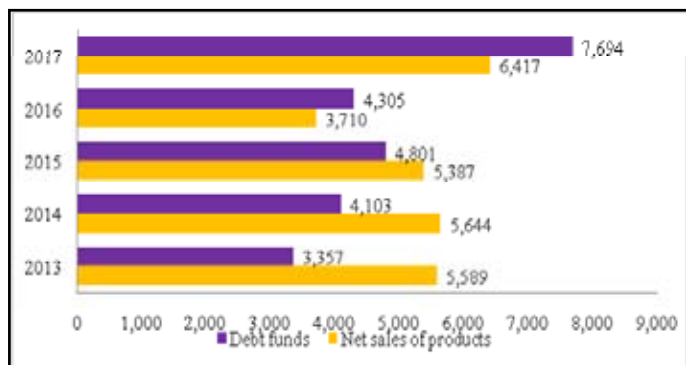


Fig. 2 : GM Uzbekistan’s net proceeds from debt and product realization (billion UZS)

Source: Developed by the author based on the annual data of General Motors JSC in Uzbekistan.

The analysis of debt resources demonstrates that in 2013 it was 3357 billion UZS, which is almost 1.2 times more than 2014. However, this figure is expected to increase to 4,305 billion UZS in 2016 compared to 2015 and increased by 1.8 times in 2017 to 7694 billion UZS (Figure 2).

The net proceeds from the sale of the product also varied considerably over the years. In particular, in 2014 it amounted to 5644 billion UZS, an increase compared to 2013, but in 2015 and 2016 this figure decreased compared to the previous year. However, in 2017 the figure was the highest and showed an increase by 1.7 times compared to 2016 about 7585 billion UZS. (Figure 2)

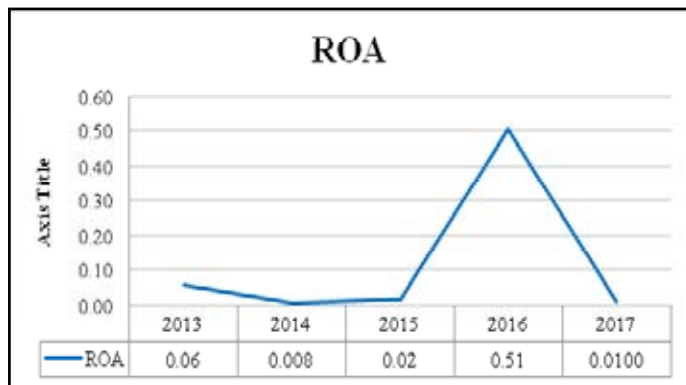


Fig. 3 : Return on Assets (ROA) of “GM Uzbekistan” Joint-Stock Company (billion UZS)

Source: Developed by the author based on the annual data of General Motors JSC in Uzbekistan.

Figure 3 shows the dynamics of the profitability ratios of GM Uzbekistan for 2013-2017. From general prospective, for the last 5 years the indicator of ROA has witnessed an oscillation, and in 2017 it decreased 6 times compared to 2013. The analysis shows that in 2014, compared to 2013, the rate of return on assets decreased significantly. This is explained by the sharp decline in net profit over the years. By 2016, however, growth has been recorded, and in 2017 it has declined by more than 50 times compared to 2016 (Figure 3).

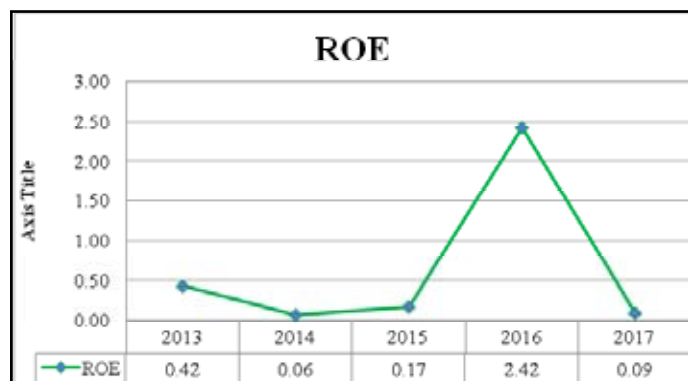


Fig. 4 : Return of equity (ROE) of GM Uzbekistan (billion UZS)

Source: Developed by the author based on the annual data of General Motors JSC in Uzbekistan.

As can be seen from Figure 4, return on equity ratio was 0.42 in 2013, which has declined significantly over the remaining two years and reached 0.17 in 2015. However, this figure was 2.42 in 2016, providing the highest net profit in 2016. However, by 2017, there was a sharp decline, which was 0.01 (Figure 4). In general, for the last 5 years this indicator has been fluctuating, and in 2017 it decreased 6 times compared to 2013.

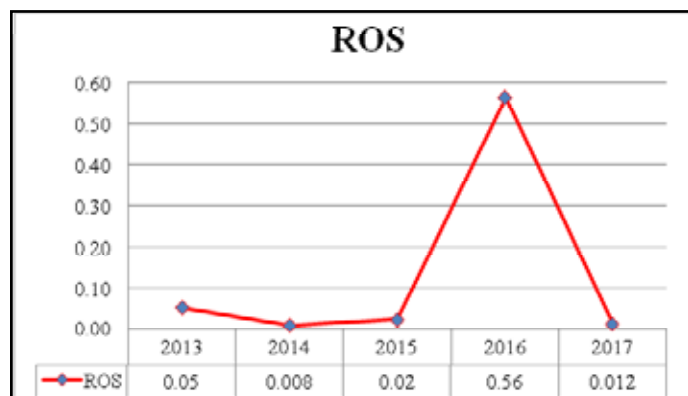


Fig. 5 : Sales profitability (ROS) of GM Uzbekistan (billion UZS)

Source: Developed by the author based on the annual data of General Motors JSC in Uzbekistan.

The analysis of the return on sales of GM Uzbekistan shows that in 2014 this ratio was 0.008, which is considerably less than in 2013. However, in 2015-2016 this situation was positive and there was a high growth rate. By 2017, there was a dramatic decline, which was 46 times less than in 2016 (Figure 5).

Conclusions and Suggestions

Capital ratios of the companies, first of all, reflect the financial results and allow to evaluate its efficiency; secondly, it will increase the attractiveness of foreign investors to companies; thirdly, it helps to prevent financial risks and to make proper plans for the future.

In our opinion, the use of capital ratios of joint stock companies provides the following opportunities:

Firstly, it determines the expected return on the stock of the joint stock and, as a consequence, demonstrates its investment potential.

Secondly, it allows joint stock companies to forecast discounted cash flows. Assists in budgeting of joint stock companies and

evaluation of investment projects.

Thirdly, it will increase the efficiency of corporate governance practice and will enable the joint stock companies to attract foreign investors.

Fourthly, it helps to identify the risks associated with the capital of joint stock companies. As a result, investors will have the opportunity to invest their temporarily free funds into the capital of the joint-stock company.

The results of the analysis of capital performance of GM Uzbekistan indicate that the priority areas of development of the company are:

- reduction of credit interest rates through the issuance of corporate bonds;
- setting up the production by cluster method which means by manufacturing spare parts of automobile, lowering the prime cost of cars;
- development of measures to reduce the initial payment of cars on a stock basis;
- increase the level of capitalization of the joint-stock company through the modernization of production facilities.

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