



THE ANALYSIS OF THE FINANCIAL RISKS OF DOMESTIC AGRIHOLDINGS

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Abstract. The article focuses on the sources and main indicators of financial risks of the largest agricultural companies of Ukraine, whose shares are traded on foreign stock exchanges. On the basis of comparative analytical review of credit, liquidity, currency and interest risks we identified their potential impact on the financial stability of the investigated companies. The research results helped to determine that liquidity and currency risks are the greatest threat to the holdings at this stage of development of agricultural sector. Economic recession in the domestic market, lowering of global growth forecasts and problems with VAT refunds, which deepen the existing gap between the repayment period of receivables and payables, have an impact on the liquidity risk. Currency risk enhances the specificity of the company's liabilities structure which is dominated by the currency credit obligations, while the decline in world market prices for commodities may course fall of share of export currency earnings in income.

Keywords: agriholding, financial risk, agricultural company, Ukraine.

Introduction

The current state of Ukraine's economy not only tests enterprises to the limit but also opens before them the considerable prospects of development. Agro industrial complex has a determining place here, as one of the most perspective industry of the economy. Under such conditions the research of domestic agriholdings of the financial state is considered to be important.

Amid the unstable environment timely exposure and adequate reacting on the biggest risks of activity is vitally important. The enterprises of agro industrial complex may face the following risks: operational (risk of products spoilage; a risk of cattle diseases for the stock-raising holdings and low harvest risk for the crop-forming holdings; rise in prices for entrance resources (especially energy resources), decrease in demand for products; regulator (for example, risk of change of the system of taxation), market (prohibition on products export to certain market; competition; disparity of products quality standards). Financial risks, realization of which can negatively influence the financial firmness of enterprise which in turn can threaten it's successful development, have significant importance. Among the basic financial risks are the followings: credit risk; liquidity risk; percent risk; currency risk.

An adequate management of financial risks is the guarantee of the stable and successful functioning of any enterprise, especially powerful corporations which carry out export operations and attract funds on foreign financial markets.

Method

The research of financial risks was conducted in terms of 7 domestic agriholdings, the shares of which are traded on foreign exchanges. The authors selected the basic methods of the company's financial risks management on the ground of the analysis of the annual accounting. An empiric analysis which allowed to draw conclusion about the companies risks resilience is also conducted. The list of the used indexes is given in table 1.

Results

Credit risk is the probability of the counterparty failure to comply with their obligations. For agro industrial enterprises the biggest source of credit risk is an account receivable, the part of which in the circulating assets of the probed companies in 2013 varied from 1% in Industrial Milk Company to 48% and 52% in Milkiland and Ukrproduct Group accordingly. Indexes of circulating period of account receivable are also heterogeneous and range from 7.5 days in Industrial Milk Company to 243 days in Avangardco (Tab. 2).

Table 1.

The formulas for calculating the indicators

Indicator	Calculation
1	2
Receivables in current assets	Receivables / current assets
Receivables Turnover (RT)	Sales / Average accounts receivable
Average Collection Period (ACP)	365 / RT
Current ratio	Current assets / current liabilities
Cash ratio	Cash + Cash Equivalents / Current Liabilities
Acid-test ratio	(Cash + Marketable Securities + Accounts Receivable) / Current Liabilities
Payables turnover (PT)	Total supplier purchases / Average accounts payable
Average days of sales in payables (ADSP)	365 / PT
Net working capital (NWC)	Current assets – current liabilities

Table 2.

Indicators of receivables

Company	Receivables in current assets	RT	ACP
Avangardco IPL,	14,00%	1,50	243,30
Industrial Milk Company (IMC)	1,20%	48,15	7,58
Kernel Holding S.A.	13,60%	18,9	19,31
Milkiland N.V.	48,00%	6,18	59,04
Mironivsky Hliboproduct PJSC	6,40%	20,85	17,51
Ovostar Union N.V	18,00%	9,58	38,07
Ukrproduct Group	51,20%	7,55	48,30

Table 3.

Liquidity indicators and payable

Company	Current ratio	Cash ratio	Acid-test ratio	PT	ADSP	NWC
Avangardco IPL	5,86	1,45	2,27	22,53	16,2	526,772 thousand USD
Industrial Milk Company (IMC)	1,2	0,1	0,12	11,1	32,87	30581 thousand USD
Kernel Holding S.A.	1,56	0,11	0,32	58,15	6,28	392,1 mln USD
Milkiland N.V.	1,19	0,12	0,69	12,98	28,11	20,503 thousand EUR
Mironivsky Hliboproduct PJSC	3,38	0,53	0,74	13,54	26,95	780,731 mln USD
Ovostar Union N.V.	1,38	0,98	1,98	11,92	30,62	39792 thousand USD
Ukrproduct Group	1,49	0,11	0,87	11,53	31,66	4436 thousand GBP

The research of the company's annual reports allowed to find out the following most widespread methods of risk of such kind management:

- study of indexes of solvency and financial firmness;
- establishment of the limit of selling to one buyer (for example, for Mironivsky Hliboproduct it's 8%);
- establishment of limit of credit lending (for Mironivsky Hliboproduct it makes 5-21 days);
- study of the external credit ratings and requirements of bank guarantees (Ukrproduct Group);
- application of individual approach and long-term collaboration with contractors.

A liquidity risk is a risk of lack of funds for implementation the obligations. The analysis of the researched company's liquidity indexes testifies their sufficient liquidity, as they obtain values higher than the normative ones. A normal value of net working capital in all probed enterprises is also positive (Table 3). In order to make detailed analysis of liquidity we calculated the indexes of circulating of account payable and middle period of its redemption. For convenience of analysis we will compare the repayment periods of receivables and payables. Consequently, for most enterprises a period of rotation receivables is higher compared to the accounts that create an additional liquidity risks, because payment of bills is performed more often than cash inflows.

A considerable debt of the state in returning of VAT is an additional factor which abbreviates actual liquidity of enterprises. For enterprises it averages 16% from all current assets.

Company's annual reports research allowed to find out the following most widespread methods of risk management of such kind:

- formation the budgets and plans of cash flow, the breaking repayment plan down into time intervals (eg, 30 days, 90 days, 180 days, till a year, etc.);
- formation the cash reserves for payments (eg, Kernel reserve is equal to 60 days);
- setting the target liquidity ratios (eg, Mironivsky Hliboproduct it is equal to 1.1-1.2);
- focus on current activities financing due to cash flows from operating activities.

A currency risk shows possible losses as a result of course-changing currencies. Current dilutive processes are the source of currency risk origin, since from the beginning of the year the official course of hryvnya in relation to the US dollar became 62% worse. For enterprises it is important to balance not only the general volume of input and initial funds streams, but also in terms of the currencies. Only under such conditions it's possible to assert about minimization of currency risk. Enterprises conducted the sensitiveness analysis, however only within the limits of 5-15%, that certainly cannot adequately represent risks. In table 4 obligations of enterprises in the currencies are presented. This table testifies that most liabilities are nominated in terms of US dollars and Euros, that taking into account depreciation of national currency, can negatively influence the enterprises solvency.

Table 4.

Companies debts in terms of currencies

Company	Currency share in total debt					Total
	UAH	USD	EUR	RUB	PLN	
Avangardco IPL	11,8	67,5	20,7	0,0	0,0	100
Industrial Milk Company (IMC)	23,8	76,0	0,2	0,0	0,0	100
Kernel Holding S.A.	0,0	100	0,0	0,0	0,0	100
Milkiland N.V.	9,1	61,8	0,0	22,2	7,0	100
Mironivsky Hliboproduct PJSC	4,4	82,6	13,0	0,0	0,0	100
Ovostar Union N.V.	32,4	0,4	67,3	0,0	0,0	100
Ukrproduct Group	36,2	0,0	63,8	0,0	0,0	100

Interest risk occurs under interest rates fluctuations. Investigated enterprises are credited on fixed and floating interest rates (LIBOR and EURIBOR). Table 4 presents data on the distribution of liabilities at rates. The analysis showed that four of the six investigated enterprises pay debts of floating rates, because of an access to cheap financing. After considering the possible volatility, they are lower than the rates in the domestic market. On the other hand the analysis of the LIBOR rates indicates dynamics the minor fluctuations during the year (e.g., 6M LIBOR in September 2013 was equal to 0,3685, in September 2014 – 0,3314).

Table 5.

Companies credit rates allocation		
Company	Fixed rate	Floating rate
Avangardco IPL	77,70%	22,30%
Industrial Milk Company (IMC)	75,60%	24,40%
Kernel Holding S.A.	8,00%	92,00%
Milkiland N.V.	0,80%	99,20%
Mironivsky Hliboproduct PJSC	0,00%	100,00%
Ovostar Union N.V.	-	
Ukrproduct Group	35,60%	64,40%

Conclusions

The analysis shows that the major financial risks for domestic agriholdings are liquidity risk and currency risk. Liquidity risk has increased due to the increasing number of negative factors that reduce the inflow of funds of enterprises: the accumulation of a critical amount of state debt on VAT refunds, world fall in food prices, notably regarding the domestic export enterprises, the deteriorating of household's financial condition that can negatively affect the earnings on domestic consumers-oriented of companies. The probability liquidity risk of realization is particularly high for those businesses that have unbalanced maturity incoming and outgoing cash flows.

Currency risk implementing contributes to UAH devaluation, combined with significant liabilities in foreign currency as well as the expected reduction in foreign exchange earnings because of fall in prices for major export items. Credit risk management is important for the companies with significant part of receivables and a significant period of its collection. As for the interest rate risk for the analyzed companies it is not a significant threat, since the sources of financing for most of them are related to the dynamics of base LIBOR and EURIBOR rates, which have low volatility.

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