Kyiv National University of Trade and Economics

Department of Economics and Business Finance

FINAL QUALIFYING PAPER

on the topic:

Management of attraction of bank credits of the enterprise

based on data of PrJSC “Dityachiy svit “Kyiv”, Kyiv

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Introduction

In economy where it is possible for companies to use external sources of financing of its own needs the relevance of the topic of debt finance is not in doubt. As every company is unique so recommendations and approaches of credit management are to be modified accordingly.

Purpose of the paper is to analyse credit policy of the PrLSC “Dityachiy svit”, its ability for attraction of bank credit for financing its capital project described further and to propose ways of improvement of credit management.

Main tasks of the paper are to assess the ability of the company to attract bank credit for financing of its need, to give recommendation both what and how to choose among bank`s propositions the best one, to assess influence of a chosen proposal on financial performance of the company.

The object of the paper is ability of the enterprise to attract debt financing.

The empirical base for purpose of the paper is private joint-stock company “Dityachiy svit”, that is located in Kiev city.

For achieving the paper`s purpose the following methods were used. Altman Z-score analysis and the Biver Model were used in order to assess company`s financial position. The idea is that stronger financial position of a borrower, less risks for a lender, less interest rate for a credit. Assessing financial position is done in order to find out the chances of the company to get as warmer as possible conditions of the credit agreement. The two models were used as no one model can be totally accurate.

In purpose of assessing the creditworthiness of the company the Chesser model combined with method of the National Bank of Ukraine were used. Again the two models were used as no one model can be totally accurate.

There are several bank` proposition that satisfy the needs of capital project of the company. The Grand Element method was used for choosing the best proposition among the bank`s propositions.

As source of information for writing the first chapter scientific magazines and publications were used.

The laws of Ukraine, reports of the National Bank of Ukraine and reports of such international rating agencies as World Bank and S&P GMI were used in order to analyse the external environment of doing business in Ukraine. Additionally information about the company`s peers was collected in order to compare the financial results of companies with ones of PrJSC "Dityachiy svit".

Financial statements for the last three years were used for assessing internal conditions of the company, its financial results and profitability.

The official internet sites of Ukrainian banks were used for collecting date about credit agreements` conditions.

Practical application of the paper is that now the company is aware about its creditworthiness and ability to use debt financing for needs of its capital project. The methodology described in the paper is adapted for needs of the company and easily can be used in future.

CHAPTER 1. THEORETICAL AND METHODOLOGICAL APPROACHES TO BANK CREDIT MANAGEMENT OF THE ENTERPRISE

The successful financial activity of the enterprise is impossible without the constant attraction of bank credits. On the one hand, their use in the turnover of the enterprise is due to the objective necessity, namely: the mismatch in time between receipts and costs, seasonality of production, implementation of investment projects that require significant investments for several years. On the other hand, bank loans help to provide the expansion of production and economic activity, updating of the technical base, etc.

Bank loans are one of the cheapest sources of borrowing by businesses, but their excessive growth in the capital structure is dangerous due to the growing risk of losing financial stability. That is why enterprises need to control the optimization of the size and timing of borrowed credit resources when forming the borrowed capital with the help of loans concluded with banking institutions.

Table 1.1 presents a description of the needs for credit resources to ensure certain strategies for enterprise development and the risks that arise.

Conducting an effective policy of bank credit management can give a significant spur to the restructuring of the real sector of the economy, renewal of basic funds, organization of new products, expansion of production facilities, reconstruction, technical equipment, fixed capital formation, financial assets, working capital replenishment.

The process of managing bank loans at the enterprise is one of the most important areas in financial management, which contributes to the creation of an optimal financial structure of the organization's capital and thus expands the financial potential and profitability.

In the works of domestic and foreign scientists, there is no unified approach to the content of the concept of "banking credit management", which may be due to the complexity of credit as an economic category and the variety of its forms. It is noted that credit management can be conducted not only by lending banks but also by business entities operating in various sectors of the economy, for example, enterprises that have received a bank loan or provided a commercial loan to customers in the form of deferred payment for goods, works, services.

Table 1.1

Characteristics of the needs for credit resources and the risks that arise

The selected development strategy	The need in credit resources	Types of credit	Risks that arise	Creditability analysis by groups of indices
Growth	Working capital financing caused by an increase in production volumes; Implementation of investment decisions; Renewal of basic funds; Implementation of STP achievements in production	Long-term	Organic (market); Deterioration of the liability structure; Sufficiency of credit coverage sources	Financial stability; Solvency; Total liquidity
Limited growth	Working capital financing caused by the seasonality of production or consumption; The need to provide deferred payment to product consumers	Short and medium-term	Deterioration of liquidity; Organic (market)	Indicators of turnover of funds and inventories; Current financial needs
Decrease	Working capital financing caused by inefficient financial activities; Working capital financing caused by difficulties in product sales	Short-term	Deterioration of liquidity; Organic (market); Sufficiency of credit coverage sources	Liquidity indices; Current financial needs; Possibilities of bankruptcy
Combination	Acquisition of basic funds for production reorientation; The need to provide deferred payment to product consumers	Long-term	Organic (market); Sufficiency of credit coverage sources	Liquidity ratios; Financial stability; Solvency; Possibilities of bankruptcy

Additionally, the content of bank credit management is determined by the nature of credit operations for a specific participant in credit relations: active (providing funds) or passive (receiving funds). However, many scholars believe that the area of credit operations and their management is limited to active banking operations. For example, Professor O.I. Lavrushyn notes that credit management "refers only to the process of granting a loan, the bank's activities in the field of its active operations".

It should be especially noted that there is no general opinion about the object of credit management, since, in the literature, the statements "credit relations management", "credit process management", "credit operations management", "crediting management", and "credit management" are used as synonymous. However, the concept of "credit management" seems to be very conditional, since credit is an economic category that exists regardless of the wishes of economic entities; the term "lending" (that is, the provision of credit) refers only to active lending operations; credit transactions and credit relations accompany the course of the credit process.

It should be noted that this position is disputed by many domestic scientists, does not correspond to the terminology used in the documents of the National Bank, and differs from the definitions given in the educational and methodological literature. Due to the ambiguity of the interpretation of credit in statutory enactments and the variety of its forms as an economic category, it is proposed to define the concept of "credit management" in a broad and narrow sense. In a broad sense, it is recommended to understand credit management as the management of the credit process, that is, the process of meeting the temporary need of an enterprise to use additional funds on a repayable basis.

Thus, I.O. Blank defines the policy of bank credit management as a system of principles and methods of development and implementation of financial decisions regulating the process of attracting bank loans.

O.V. Bazartinova believes that the policy of bank credit management is a choice of strategy, systems, principles and implementation of decisions to attract the most rational sources of borrowed capital in the real economy in accordance with the development needs of the organization, which directly affect the financial performance.

In a broad sense, bank credit management is a very capacious, multidimensional concept. Its content depends on the composition of participants and the nature of credit transactions, which are classified in Fig. 1.1.

Simply put, the content of credit management also depends on the status of the borrower: state, credit organizations, individual, corporate borrowers (loans issued to the last group of borrowers, as a rule, have the largest share in the loan portfolio).

In the narrow sense, it is recommended to understand bank credit management as the management of the received bank credit at the enterprise. Bank credit management, understood in a narrow sense, is one of the components of enterprise management, that is, the management of all processes that characterize the enterprise's activities: financial, economic, labour, technical and technological, organizational, legal, social. Therefore, an important task is to determine the place of bank credit management in the enterprise management system.

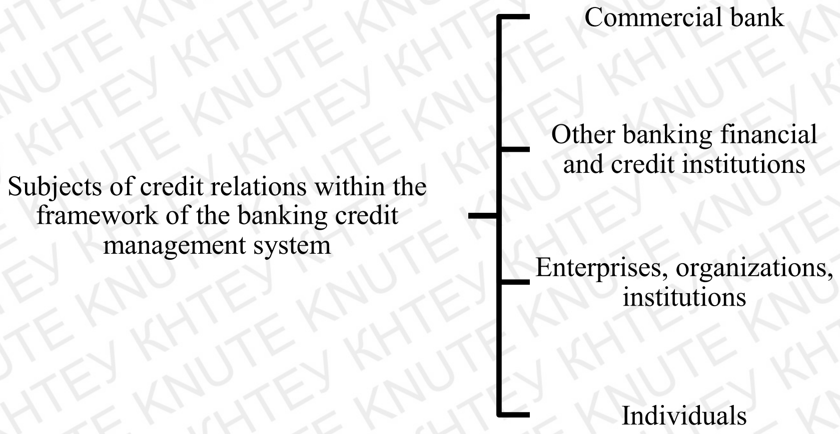


Fig. 1.1. Subjects of credit relations within the framework of the banking credit management system

Thus, it can be concluded that the policy of bank credit management is the choice and justification of the most rational strategy for attracting bank loans related to its optimal formation from different sources, and the choice of optimal ways of its use that directly affect the financial result of the enterprise.

In general, the financial management for attracting bank loans of the enterprise is a system of principles and methods for the development and implementation of financial decisions that regulate the process of attracting credit funds, as well as determining the most rational source of borrowed capital financing according to the needs and development opportunities of the enterprise.

At the initial stage of bank credit funds management, it is necessary to determine the sources and volumes of attracting financial resources. Then, the effectiveness of a certain source of attracting resources is assessed, the forms of attraction are optimized, and the risk associated with the formation of capital/credit is assessed. The main objects of management for attracting bank loans are their cost (price) and structure. The subject structure is determined in accordance with the external sources of financing the enterprise's activities, which include various forms of loans and credits (Figure 1.2).

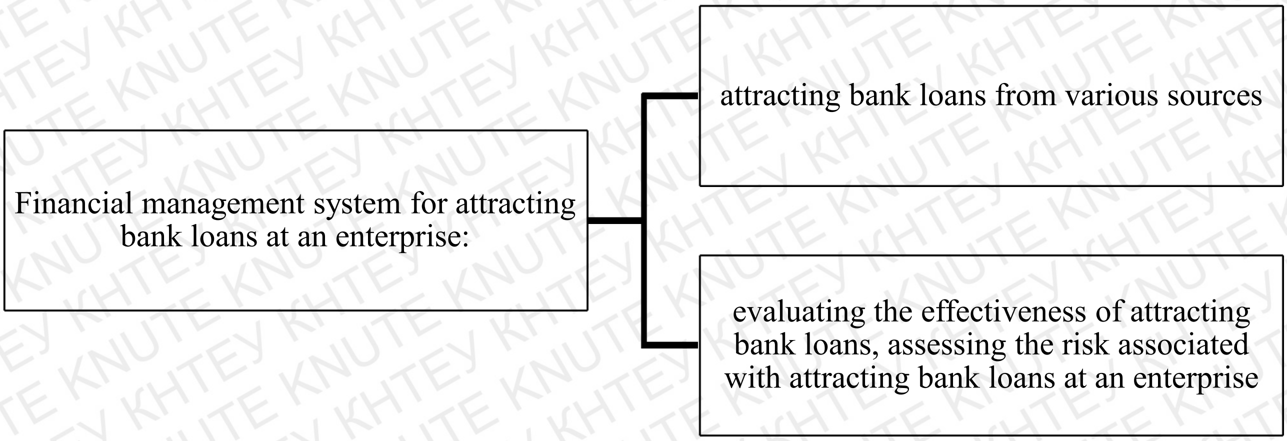


Fig. 1.2. Management system for attracting bank loans at an enterprise

An important stage of bank credit management of economic entities is to determine its most rational source of attraction, which would reduce the weighted average capital cost. In general, the capital cost is defined as the fee for the use of borrowed financial resources, including the payment of interest, dividends, commissions, exchange rate losses and other costs (it is believed that the worse the capital structure, the higher its weighted average cost).

Lack of borrowed funds does not allow the company to develop normally, and excessive use of borrowed funds reduces the financial stability of the enterprise.

The process of forming a policy of attracting bank loans by the enterprise consists of ten stages:

1. The analysis of attracting and using bank loans in the reporting period.
2. Defining the goals of attracting bank loans in the future.
3. Determining the maximum amount of borrowed capital, taking into account the sufficient financial stability of the enterprise.
4. Estimating the cost of obtaining a bank loan from different banks.
5. Determining the ratio of short-term and long-term loans.
6. Determining the forms of attracting bank credit.
7. Determining the composition of major creditors.
8. Organizing effective conditions for attracting loans.
9. Ensuring the effective use of borrowed funds.

10. Ensuring timely payments on loans.

In the system of bank credit management, an important issue for the company is the control and minimization of risks associated with attracting bank credit resources.

The purpose of bank credit management at an enterprise is to determine its most rational source of borrowing, which contributes to an increase in the value of the company's equity capital. The essence of managing this process is manifested in the implementation of the functions presented in Figure 1.3.

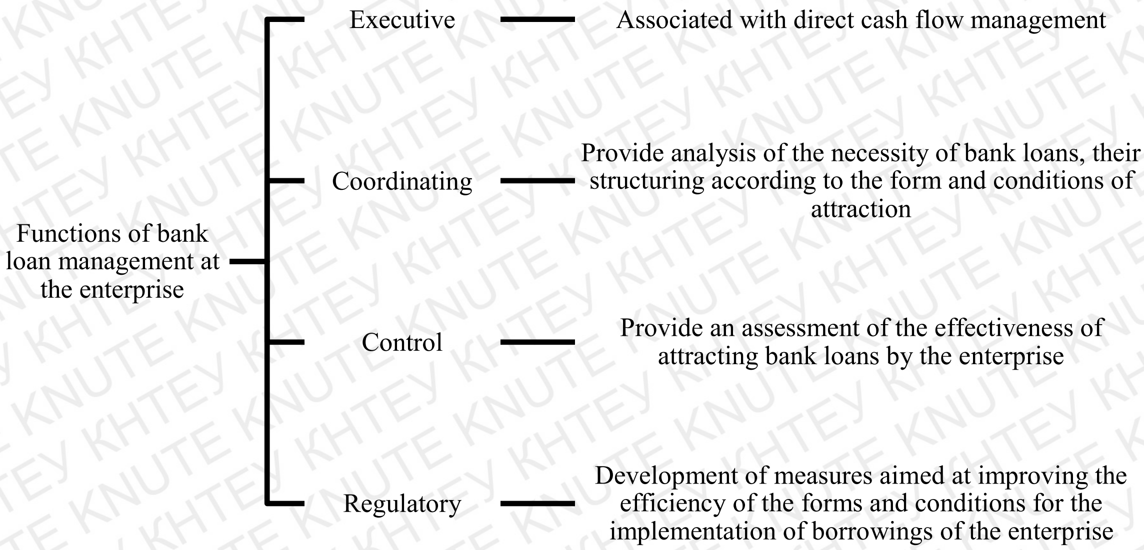


Fig. 1.3. Functions of bank credit management at the enterprise

Bank credit management at the enterprise is a system of principles and methods for the development and implementation of management decisions related to its optimal formation from various sources, as well as ensuring its effective use in various types of economic activities of the enterprise.

Bank credit management at the enterprise is aimed at solving the main tasks presented in Table 1.2.

When analyzing the optimality of the capital structure, it is of the utmost importance to take into account the assessment of its impact on the financial stability of the enterprise. In order to take into account this influence, it is necessary to assess the structure of the company's financing. The structure obtained in this way should have proportions that are safe from the stance of financial stability between the sources included in its composition. To determine these safe proportions, one should use the critical (maximum permissible) values of some coefficients for assessing the financial condition, stability and solvency.

Table 1.2

Tasks of bank credit management at the enterprise

Task	Implementation methods
Establishing a sufficient volume of attracted bank loans, ensuring the necessary rates of economic development of the enterprise	Determining the general demand for a bank loan to finance the assets necessary for the enterprise
	Creating asset financing schemes using a bank loan
	Developing a system of measures to attract bank loans
Optimizing the distribution of bank capital by type of activity and areas of use	Financing methods of the current financial needs of the enterprise, taking into account the provision of circulating assets with its own circulating assets
Ensuring conditions for achieving the maximum profitability of attracted bank loans at the envisaged level of financial risk	Reducing the cost of attracting bank loans. Controlling the return ratio on invested capital and the costs of attracting bank loans
Ensuring minimization of the financial risk associated with the use of bank loans at the foreseen level of its profitability	Diversifying the forms of attracted bank loans. Financing investment projects with an optimal combination of equity and borrowed capital. Avoiding certain financial risks, using effective forms of their internal and external insurance.
Ensuring a constant financial balance of the enterprise in the process of its development	Rationalizing the structure of borrowed capital by the period of attraction. Calculating the possibility and feasibility of increasing borrowed capital (calculating the effect of financial leverage), changing its structure and the structure of the organization's balance sheet, maintaining a sufficient level of autonomy.
Ensuring sufficient financial flexibility and stability of the enterprise	Reducing the level of financial risks Conducting timely settlements with creditors

The general assessment of financial stability involves determining the stability of sources of capital formation, resource sustainability, and stability of management. The study of the structure of the balance sheet liabilities makes it possible to identify possible causes of financial stability (instability) of the enterprise. Thus, increasing the share of own equity from any source contributes to strengthening the financial stability of the enterprise. The ratios that characterize the financial stability of the enterprise are shown in table 1.3.

Determination of the limits of financial stability is an important economic aspect. Thus, insufficient financial stability can lead to insolvency of the enterprise and lack of funds for the development of production and the activities of the business entity in general. Excess financial stability also harms production and economic activities, as it acts as a brake on their development, increasing the costs of the enterprise with excess stocks and reserves.

Table 1.3

The contents of ratios that characterize financial stability

Index title	Contents
Financial independence ratio (autonomy, the concentration of equity)	Shows the share of equity in the total amount of fund sources (balance sheet currency)
Debt capital concentration ratio	Shows the share of borrowed capital in the total amount of fund sources (balance sheet currency)
Financial dependence ratio	Shows the amount of funds per unit of equity
The current debt concentration ratio	Shows what part of the assets is formed due to current liabilities
Financial stability ratio (provision of total debt with equity)	Shows the correlation of equity and borrowed capital
Financial leverage ratio (financial risk)	Shows the correlation of borrowed capital and equity
The ratio of stock provision with equity	Characterizes the amount of own working capital per unit of inventory
Current asset manoeuvrability ratio	Characterizes the amount of working capital per monetary unit of current assets
Equity manoeuvrability ratio	Characterizes the amount of working capital per monetary unit of equity
Debt capital manoeuvrability ratio	Characterizes the amount of working capital per monetary unit of borrowed capital

In practice, in addition to the analysis of the financial stability of the enterprise, it is advisable to analyze solvency when assessing the financial condition. The algorithm for conducting a statistical assessment of the solvency of economic entities is as follows:

1. Balance sheet liquidity analysis is one of the main stages of statistical analysis of the company's solvency, as it allows to determine the type of liquidity and assess the company's capabilities for the future. In addition to determining the type of the balance sheet liquidity of an industrial enterprise, it is important to calculate such coefficients as the solvency recovery ratio for 6 months and the solvency loss ratio for 3 months.

2. Analysis of general and partial solvency indicators. The coefficients make it possible to determine the company's ability to meet its obligations during the year.

The general indicators of solvency include the following:

- solvency ratio (absolute liquidity);

- intermediate (fast, instant) liquidity ratio;
- coverage ratio (total liquidity);

Thus, the solvency of the enterprise plays an important role in making any decisions regarding the financial condition. Solvency has a positive effect on the implementation of production plans and meeting the needs of production with the necessary resources. It is aimed at ensuring the planned reception and expenditure of financial resources. It is the liquidity and solvency that allows the enterprise to assess the ability to timely and fully meet its current obligations.

Thus, the importance of analysis and assessment of financial stability of the enterprise is that, according to its results in a crisis economy, businesses have the opportunity to better manage financial management to ensure stable and progressive development of the enterprise, quickly respond to changes in its market environment, observe the indicators that affect the solvency and financial balance, determine measures to maintain the efficiency of financial and economic activities of the enterprise, and make decisions on attracting bank loans or their repayment.

CHAPTER 2. FINANCIAL POSITION AND CREDIT POLICY OF THE ENTERPRISE

2.1. Financial position of the enterprise

Private joint stock company "Dityachiy svit" possesses the shopping mall in Kiev city that is located on Malishka street near Darnitsya metro station and the shop "Kazka" on Velika Vasilkivska street. The main sources of income are leasing of shopping mall`s places for retailers and retail of the kid`s goods in "Kazka" shop. The main activities of the company according to classifier of economic activities (CEA) are represented in Table 2.1.

Table 2.1

Main activities of PrJSC "Dityachiy svit" according to classifier of economic activities

CEA	Activity
47.19	Other types of retail trade in non-specialized stores
56.10	Activity of restaurants, rendering of services of mobile food
68.20	Leasing and operation of own or leased real estate

Locations of the shopping mall are to be leased for retail traders. The location near Darnitsya metro station is trader's hub from 1980s. There could be found anything from restaurants to pharmacy. Dislocation near highly populous district from one side and Darnitsya metro station from another makes this location highly profitable for retail activity. The "Kazka" is a retail shop that sellyi children's goods (clothes, toys, etc.). The shop is located in living district on Velyka Vasylkivska St.

According to legislation of Ukraine the company is classified as small company. The company does not have targets to reach new frontiers, consume competitors or to expand enormously. Information form financial statement reveals that the strategy of the company for the next year is to ensure the functioning of fixed assets, maintaining them in good condition, improving the condition of leased space. To achieve those goals the plan of overhaul of the building combined with total rebranding of the shopping mall was created.

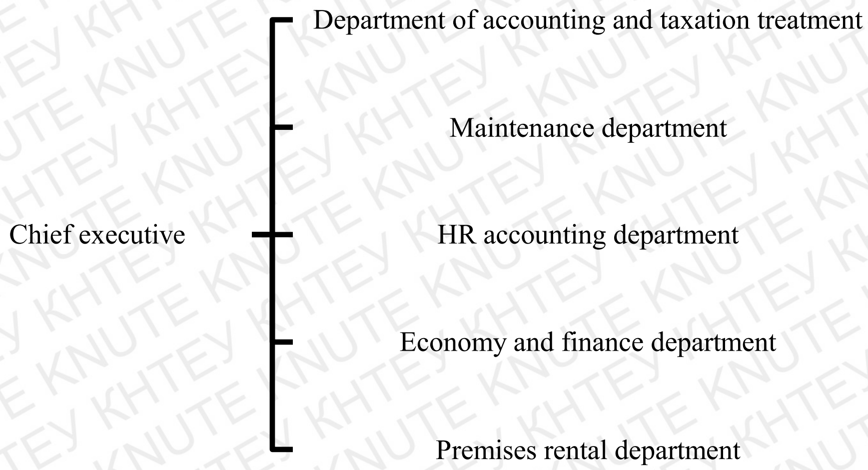


Fig. 2.1. The organizational structure of the PrJSC "Dityachiy svit"

The following segment is the analysis of the competitive advantages of the shopping centre. It is done in order to compare results of operational activity of the company and its peers.

Table 2.2

The assessment of service benefits of the PrJSC "Dityachiy svit" in 2019

Factors	Weight	Shopping malls							
		Piramida		Aladin		Prospect		Dityachiy svit	
		Estimate	Weighted	Estimate	Weighted	Estimate	Weighted	Estimate	Weighted
Quality of rental services	0,07	5	0,35	4	0,28	4	0,28	4	0,28
Product price level	0,06	5	0,3	4	0,24	4	0,24	4	0,24
Market share	0,09	5	0,45	4	0,36	4	0,36	0	0
Market share growth dynamics	0,05	4	0,2	3	0,15	3	0,15	2	0,1
Financial stability of the enterprise	0,03	5	0,15	4	0,12	4	0,12	3	0,09
Business profitability	0,04	5	0,2	4	0,16	4	0,16	4	0,16
Management level	0,05	4	0,2	4	0,2	4	0,2	4	0,2
Employee qualification level	0,05	5	0,25	5	0,25	5	0,25	4	0,2
Uniqueness of products	0,05	5	0,25	4	0,2	4	0,2	4	0,2
Experience in the market	0,04	5	0,2	5	0,2	4	0,16	4	0,16

The continuation of table 2.2

State of technology	0,06	5	0,3	4	0,24	5	0,3	4	0,24
Range of services	0,09	5	0,45	4	0,36	5	0,45	4	0,36
Availability of investments for expansion	0,04	4	0,16	4	0,16	4	0,16	4	0,16
Effectiveness of the marketing system	0,03	5	0,15	4	0,12	4	0,12	3	0,09
Customer advice	0,01	4	0,04	5	0,05	5	0,05	4	0,04
Brand awareness	0,06	5	0,3	4	0,24	5	0,3	4	0,24
Company image	0,02	5	0,1	4	0,08	5	0,1	4	0,08
OVERALL ASSESSMENT	1		4,05		3,41		3,6		2,84

Thus, it may be concluded that, among shopping centres, the "Piramida" shopping centre has the highest level of competitive ability with a score of 4.05. The second and third places are held by the "Aladin" (3.6 points) and "Prospect" (3.41 points) shopping centres respectively. The researched enterprise, the “Dityachiy svit” shopping centre holds the last place with 2.84 points.

To describe total economic conditions of the country in which the company operates the Doing Business rating and the S&P rating were used. According to DB rating the Ukraine is at 64th place among 190 countries with overall score of easiness of doing business of 70,2 in the year of 2020. It is better than in 2019 when the country occupied the 71st place with the overall score of 68,25.

The S&P rating gives B grade that is classified as highly speculative economy. Ukraine in this rating stays next to such countries as Uganda, Venezuela, El Salvador, Senegal and Rwanda. Basing on the information above it is possible to say that business environment in Ukraine is not friendly in terms of doing business.

Before financial analysis is completed one important step must to be done. Leasing activity of analyzed company is main activity that stays next to retail activity. But according to the legislation of Ukraine income from leasing activity has to be written down in “other operational income” line of income statement. To avoid distortion during financial analysis net income and other operational income will be united in total revenue. The Firgure 2.1 shows the volume and the change in total revenue and EBIT during analyzed period.

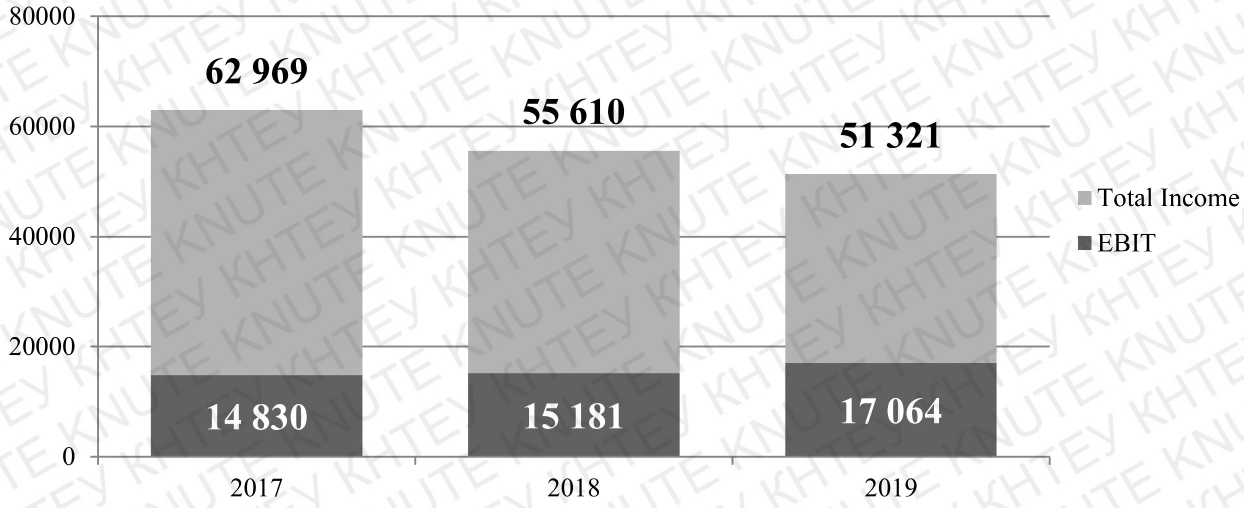


Fig. 2.2. Total revenue and EBIT of PrJSC "Dityachiy svit" during the analyzed period, thousands UAH

Talking about financing results unstable and stagnating economic situation badly affects results of business activity. As shown in Table 2.3 revenue was decreasing for past three years. Income declined for 18% during the period in three years but EBIT increased for 15%.

Table 2.3

Total revenue, EBIT of PrJSC "Dityachiy svit" during the analyzed period, thousands UAH

	2017	2018	2019	Change in thousands UAH		Change in %	
				2018/ 2017	2019/ 2018	2018/2017	2019/2018
Total Revenue	62 969	55 610	51 321	-7 359	-4 289	-0,12	-0,08
Revenue from leasing	23 548	28 292	29 726	4 744	1 434	0,20	0,05
Sales	39 421	27 318	21 595	-12 103	-5 723	-0,31	-0,21
EBIT	14 830	15 181	17 064	351	1 883	0,02	0,12
Net Profit	12 152	12 431	13 967	279	1 536	0,02	0,12

Those contradictory changes are caused by decrease in retail activity of the "Kazka" shop and increase in income from leasing activity. Sales decreased for 45% for three years but income from leasing increase for 26%.

Amount of assets decreased mainly because of decrease in working capital for 23% for the period in three years caused by decrease in retail trade of "Kazka" shop.

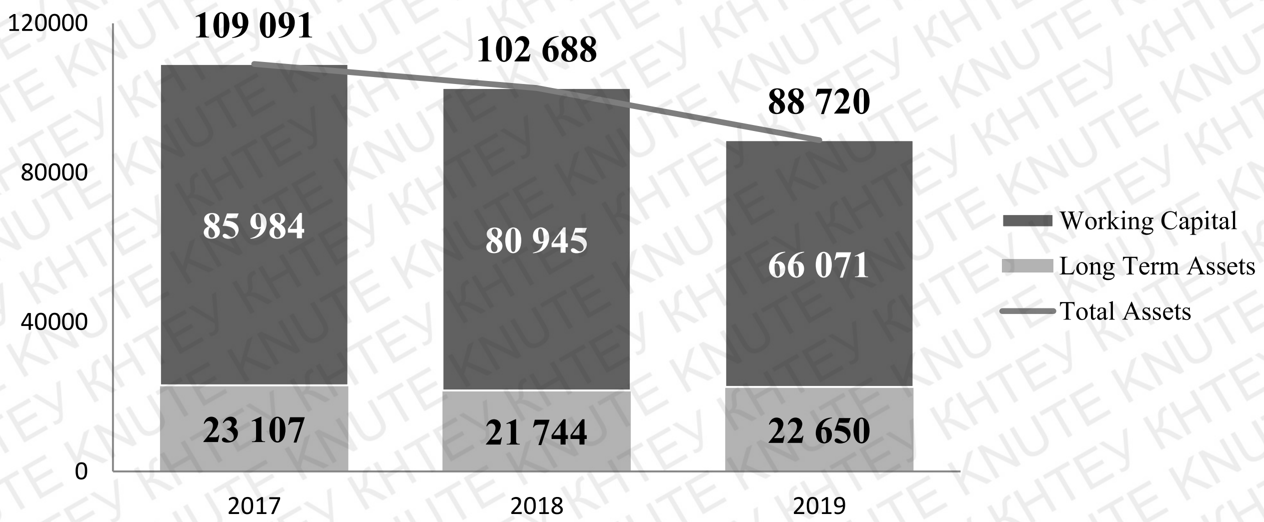


Fig. 2.3. Amount of long term assets and working capital of PrJSC "Dityachiy svit" during the analyzed period, thousands UAH

Amount of long term assets stays almost the same for the whole period. Total decrease in assets for the period of three years is 18,67% or 20 371 thousands UAH.

Table 2.4

Amount of long term assets and working capital of PrJSC "Dityachiy svit" during the analyzed period, thousands UAH

	2017	2018	2019	Change in thousands UAH		Change in %	
				2018/ 2017	2019/ 2018	2018/2017	2019/2018
Working capital	85 984	80 945	66 071	-5 039	-14 874	-0,06	-0,18
Long-term assets	23 107	21 744	22 650	-1 364	906	-0,06	0,04
Total assets	109 091	102 688	88 720	-6 403	-13 968	-0,06	-0,14

More accurate change in assets is represented in analysis of the company`s structure of the capital. Despite decline in sales and decrease in assets the financial position is strong that can be confirmed by financial analysis below. Profitability indicators provided in Table 2.5 show slow but steady increase for last three years. The biggest increase is shown by EBIT margin increase in 9,7% for three years. Net profit margin increased for 7,9% for three years. Return on assets increased for 4,6% and return on equity increased for 5,2% for the period in three years.

Table 2.5

Profitability indicators of of PrJSC "Dityachiy svit" for last three years

	2017	2018	2019	Change	
				2018/2017	2019/2018
Operational Profit Margin	15,77%	18,74%	22,38%	2,97%	3,64%
EBITA Margin	27,25%	31,00%	36,67%	3,75%	5,67%
EBIT Margin	23,55%	27,30%	33,25%	3,75%	5,95%
Net Profit Margin	19,30%	22,35%	27,21%	3,06%	4,86%
Return on Assets	11,14%	12,11%	15,74%	0,97%	3,64%
Return on Equity	13,75%	14,10%	18,96%	0,35%	4,85%

Liquidity indicators show readiness of the company to pay its current debts without delays. But also indicators reveal that huge sums of money are unused. The quick ratio shows the possibility of the company to pay its debt by cash and by money on a bank account. The optimal value is 0,2-0,35. If it is less, the company faces problems with repayment. But if it is more, than the company has problems with cash management. In case of PrJSC "Dityachiy svit" the quick ratio is 2,2 in the year of 2017 and 2,47 in the year of 2019.

Table 2.6

Liquidity and leverage indicators of PrJSC "Dityachiy svit" for analyzed period

	2017	2018	2019	Change	
				2018/2017	2019/2018
Liquidity Indicators					
Quick Ratio	2,20	2,31	2,47	0,11	0,16
Current Ratio	4,15	5,57	4,39	1,42	-1,17
Leverage Inicators					
Debt to Equity	-	-	-		
Equity to Assets	81,00%	85,84%	83,05%	4,83%	-2,79%

Current ratio shows the possibility of the company to repay its current debt by all working capital. The optimal value is 2. But in 2018 its value was 5,57. The exceeding was almost in three times. In the year of 2019 current ratio decreased to 4,39 but still it is very high. Capital structure analysis provided further reveals that almost 42% of all assets in 2019 are just cash. Even fixed assets account for only for 25%. Such high values of liquidity ratios may reveal problems with cash management. But the reason is that the company purchase goods in bulk and sell in retail. Operating efficiency indicators that are represented in Table 2.7 show that payables\` period in 2019 was 295 days that is more for 34 days in 2017. Comparing this period with the period of inventories\` sales in 329 days in 2019 and with the period of receivables\` payment in 2 days it becomes clear that all those money are accumulated due to a steady flow of funds from sales of goods and income from leasing during the year but payments for the goods are done by only a few huge transactions during the same year.

Leverage indicators reveal that equity accounts for more than 80% of all sources of financing. Moreover capital structure analysis provided further reveals that more than 70% of all assets are financed by retained profit. There is no long term debt at all. Operating efficiency indicators show decline in efficiency. Period of sales of inventories increased from 261 days in 2017 to 329 days in 2019. That caused increase in operational cycle from 263 days in 2017 to 331 days in 2019. The reason of such a increase is decrease in sales of goods in “Kazka” shop.

Table 2.7

Operating efficiency indicators of PrJSC “Dityachiy svit” for analyzed period

	2017	2018	2019	Change	
				2018/2017	2019/2018
Inventory Turnover	1,40	1,21	1,11	-0,19	-0,10
Receivables Turnover	164,62	213,07	178,51	48,44	-34,56
Payables Turnover	1,40	1,36	1,24	-0,04	-0,12
Period of inventories\` sales, days	261	301	329	39,77	28,33
Period of receivables\` payment, days	2	2	2	-0,50	0,33
Period of payables\` payment, days	261	269	295	7,84	25,78
Operational Cycle, days	263	302	331	39,27	28,66

The continuation of table 2.7

Financial Cycle , days	2	33	36	31,43	2,88

The financial cycle increase for 34 days during the period in three years from 2 days in the year of 2017 to 36 days in the year of 2019. The reason is that operational cycle increased for 68 days but period of payables` repayment increased only for 34 days. In order to keep financial cycle low the operational cycle has to be decreased or period of payables` repayment has to be increased.

Table 2.8

DuPont analysis of PrJSC "Dityachiy svit"

DuPont	2017	2018	2019	2018/2017	2019/2018
Return on Equity	13,75%	14,10%	18,96%	0,35%	4,85%
Return on Assets	11,14%	12,11%	15,74%	0,97%	3,64%
EBIT Margin	23,55%	27,30%	33,25%	3,75%	5,95%
Asset Turnover	0,58	0,54	0,58	-0,04	0,04

DuPont analysis reveals that because of stable assets` turnover rate and increase in EBIT margin from 23,5% in the year of 2017 to 33,3% in the year of 2019 the return on equity also increased for 5,2% from 13,75% in 2017 to 18,96% in 2019. Increase of the return on assets was from 11,1% in the year of 2017 to 15,7% in the year of 2019. Asset turnover rate stays almost the same during the period in three years. The reason is that the rate of decrease in sales is almost the same as the rate of decrease in assets.

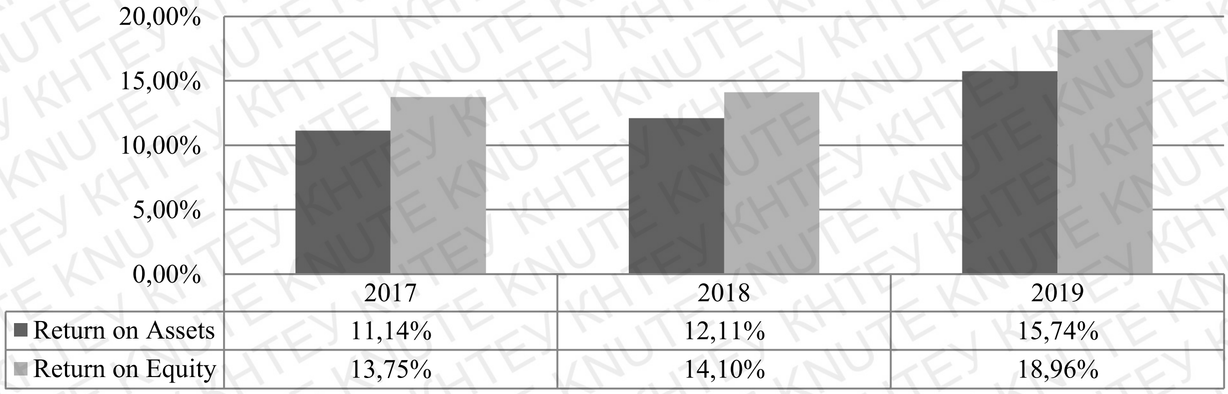


Fig. 2.4. Return on equity and return on assets in comparison

Altman Z-score is used to analyze company`s financial strength. In this case Altman Z-score analysis reveals that the company not only stable in terms of finance but also improve its situation during the period. In 2017 Altman z-score was 3,43 and in 2019 it increased to 3,57.

$$Z=1{,}2*X1+1{,}4*X2+3{,}3*X3+0{,}6*X4+0{,}99X5 \quad (2.1)$$

The methodology of the Altman Z-score analysis proposes to calculate Z score by using formula (2.1). In general, if a Z-score is greater than 2,99 it is considered that the company is safe from bankruptcy.

Table 2.9

Altman Z-score of PrJSC "Dityachiy svit"

	Weight	2017	2018	2019
Sales		62 969	55 610	51 321
Working Capital		85 984	80 945	66 071
Equity		88 367	88 145	73 680
Total liablilities		20 724	14 544	15 041
Retained Earnings		75 992	75 770	61 305
EBIT		14 830	15 181	17 064
Total assets		109 091	102 688	88 720
X1 (Working capital/Total assets)	1,2	0,79	0,79	0,74
X2 (Retained Earnings/Total assets)	1,4	0,70	0,74	0,69
X3 (EBIT/Total assets)	3,3	0,14	0,15	0,19
X4 (Equity/Assets)	0,6	0,81	0,86	0,83
X5 (Sales/total assets)	0,99	0,58	0,54	0,58
Altman Z-Score		**3,43**	**3,52**	**3,57**

The Biver Model is also used for estimation of financial strength of the company. The model proposes to calculate five indicators and compare its values with "waterline" values that are considered as minimal required values for company to be safe in financial terms. Those values are written down in "waterline" column. As could be seen from Table 2.10 all indicators are greater than minimum values that means that financial position of the company is steady during 2017-2019 years.

Table 2.10

Biver Model is used for analyzing of financial position of PrJSC "Dityachiy svit"

	Formula	Waterline	2017	2018	2019
Biver Coeficient	EBITA/Liabilities	>0,5	0,83	1,19	1,25
Return on Assets	Net Profit/Assets	>7%	11,14%	12,11%	15,74%
Debt to Assets	Liabilities/Assets	<37%	19,00%	14,16%	16,95%
Maneuverability factor	(Equity-Long Term Assets)/Assets	>0,4	0,60	0,65	0,58
Current Ratio	Working Capital/Short Term Liabilities	>3,2	4,15	5,57	4,39

Weak points of the company\`s activity are increase of period of inventories\` realization, decrease in sales of toys and decrease in amount of assets, accumulated money on a bank account that are not used, increase in operational cycle, low asset turnover. But in general, company is stable in terms of finance. Financial strength is increasing during the analyzed period. The return on equity increases steadily even despite decrease in retail trade. The company possesses enough cash to satisfy demand of its creditors. Overall productivity is steady, EBIT margin and return on equity increase, low financial cycle, financing more than 80% of assets by equity and stable overall financing position according to Altman and Biver methodologies.

2.2 Capital structure of the enterprise

The next step is to analyze dynamics and structure of assets and liabilities of the company to be fully aware of the financial position of the company. The capital structure is based on two main indicators: the amount of equity capital and the amount of borrowed funds. From a strategic point of view, the capital structure is an important element for any company, since it directly affects how effectively the company uses the available resources, and it is a factor that increases the company's value.

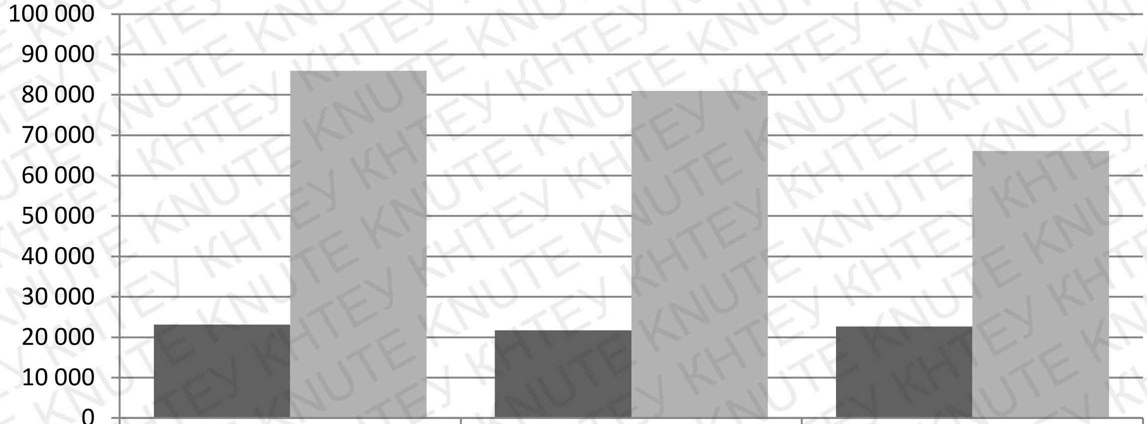
The importance of decisions related to the choice of the capital structure is based on the possible obstacles to the development of the company in case of poorly distributed borrowed and equity funds. Firstly, high capital costs arising from an imbalanced capital structure require higher returns on investment projects, while potentially attractive projects run the risk of being rejected due to insufficient returns. Secondly, due to additional restrictions caused by the high rate of return, the company becomes less flexible and manoeuvrable and, as a result, does not quickly respond to changes in the sales market. Thirdly, within the conditions of suboptimal capital structure, the agency conflict, i.e the conflict between the manager and the owner, is aggravated. Thus, the analysis of the dynamics of the capital structure of the enterprise helps to make decisions related to the attraction of borrowed funds and therefore is very useful for the studied enterprise.

Table 2.11

Dynamics of assets of PrJSC "Dityachiy svit", thoulsand UAH

Type of assets	Years			Change	
	2017	2018	2019	2017/2018	2018/2019
1. Fixed assets	23 107	21 744	22 650	-1 364	906
2. Current Assets	85 984	80 945	66 071	-5 039	-14 874
2.1 Inventory	17 645	12 450	10 194	-5 195	-2 257
2.2 Receivable	22 567	34 560	18 348	11 993	-16 212
2.3 Cash	45 576	33 604	37 136	-11 972	3 533
4. Total Assets	109 091	102 688	88 720	-6 403	-13 968

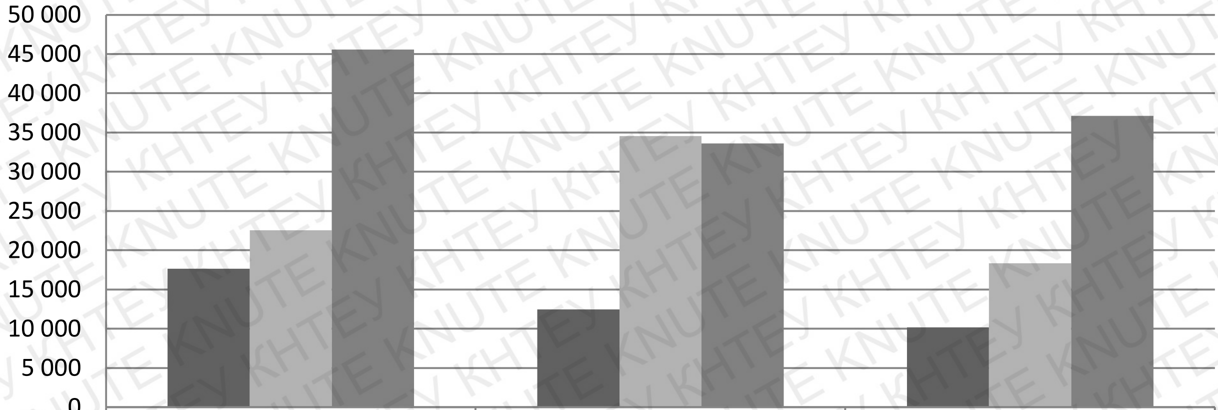
The value of fixed assets does not change much during the analyzed period. That is because of every year`s investments in fixed assets that were done mainly to cover amortization of the assets during that period. Fixed assets decreased from 23 107 thousands UAH in 2017 to 22 650 thousands in the year of 2019. Decrease was 458 thousands UAH or 1,98% during the period in three year.



	2017	2018	2019
1. Fixed assets	23 107	21 744	22 650
2. Current Assets	85 984	80 945	66 071

Fig. 2.5. Dinamics of fixed and current assets of PrJSC “Dityachiy svit”, thousands UAH

Current assets also decreased from 85 984 thousands UAH in the year of 2017 to 66 071 thousands UAH in the year of 2019. Total decrease was 19 913 thousands UAH or 23,16%.



	2017	2018	2019
Inventory	17 645	12 450	10 194
Receivable	22 567	34 560	18 348
Cash	45 576	33 604	37 136

Fig. 2.6. Dynamics of parts of working capital of PrJSC “Dityachiy svit”, thousand UAH

Inventory decreased for 42,2% or 7 451thousands UAH during period of 2017-2019 from 17 645 thousands UAH in the year of 2017 to 10 194 thousands UAH in the year of 2019. The amount of cash decreased for 10% during 2017-2019 years from 45 576 thousands UAH in the year of 2017 to 37 136 thousands UAH in the year of 2019. The reason of such changes in current assets is decline in sales of “Kazka” shop.

Total amount of assets decreased for 18,67% or 20 371 thousands UAH during analyzed period from 109 091 thousands UAH in the year of 2017 to 88 720 thousands in the year of 2019.

Table 2.12

Structure of assets of PrJSC “Dityachiy svit”

Type of assets	Years			Change	
	2017	2018	2019	2017/2018	2018/2019
1. Fixed assets	21,18%	21,17%	25,53%	-0,01%	4,35%
2. Current Assets	78,82%	78,83%	74,47%	0,01%	-4,35%
2.1 Inventory	16,17%	12,12%	11,49%	-4,05%	-0,63%
2.2 Receivable	20,69%	33,65%	20,68%	12,97%	-12,97%
2.3 Cash	41,78%	32,72%	41,86%	-9,05%	9,13%
4. Assets	100,00%	100,00%	100,00%	0,00%	0,00%

The structure of assets shows that approximately 40% of assets in 2019 are cash. The reason is that the company purchase goods in bulk and sell in retail. According to information from notes 98,66% of all cash or 33 917 thousands UAH are money on the letter of credit accounts. Those money can`t be used by the company as it wish, but those money stay on an accounts to be used for payments for goods delivered according to the contracts with suppliers.

Receivables showed increase in 2018 for 12,97% and accounted for 33% of all assets in the year of 2018 . But during 2019 it decreased for same amount during year of 2019. Receivables account for 20,7% of all assets in 2019.

Inventory faces constant slow decrease from 16,2 % in 2017 to 11,5% in the year of 2019.

Current assets` share decreased from 78,8% in the year of 2017 to 74% in the year of 2019. Fixed assets show slight increase from 21.2% in the year of 2017 to 25,5% in the year of 2019. Increase was for more than 4% in 2019.

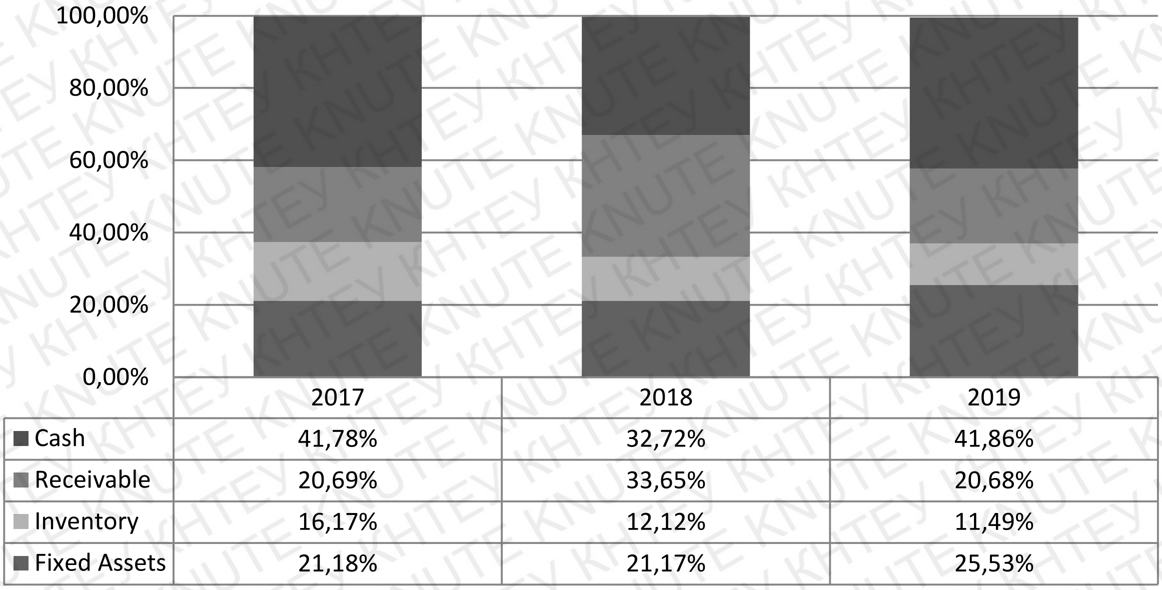


Fig 2.7. Structure of assets of PrJSC "Dityachiy svit"

Dynamic of sources of financing reveals that equity decreased from 88 367 thousands UAH in the year of 2017 to 73 680 thousands in the year of 2019. This decrease in equity was caused by decrease in retained profit for 14 687 thousands UAH or for 19% for the period 2017-2019. Retained profit decreased from 75 992 thousands UAH in the year of 2017 to 61 305 thousands UAH in the year of 2019.

Current liabilities decreased from 20 724 thousands UAH in the year of 2017 to 15 041 thousands in the year of 2019 during the period in three years. Decrease was 5 687 thousands UAH or 27%. Long term financing is absent at all. Payables decreased from 19 758 thousands UAH in the year of 2017 to 12 898 thousands UAH in the year of 2019. Total decrease was 6 860 thousands UAH or 35 % during the period 2017-2019.

Table 2.13

Dynamics of sources of financing of PrJSC "Dityachiy svit", thoulsands UAH

	2017	2018	2019	2017/2018	2018/2019
Equity	88 367	88 145	73 680	-222	-14 465
Retained profit	75 992	75 770	61 305	-222	-14 465
Current Liabilities	20 724	14 544	15 041	-6 181	497
Payables	19 758	12 941	12 898	-6 817	-43
Total sources	109 091	102 688	88 720	-6 403	-13 968

The structure of liabilities shows that more than 80% of assets are financed by equity. Almost 70% of assets are financed by retained profit. Share of equity increased from 81% in the year of 2017 to 83% in the year of 2019.

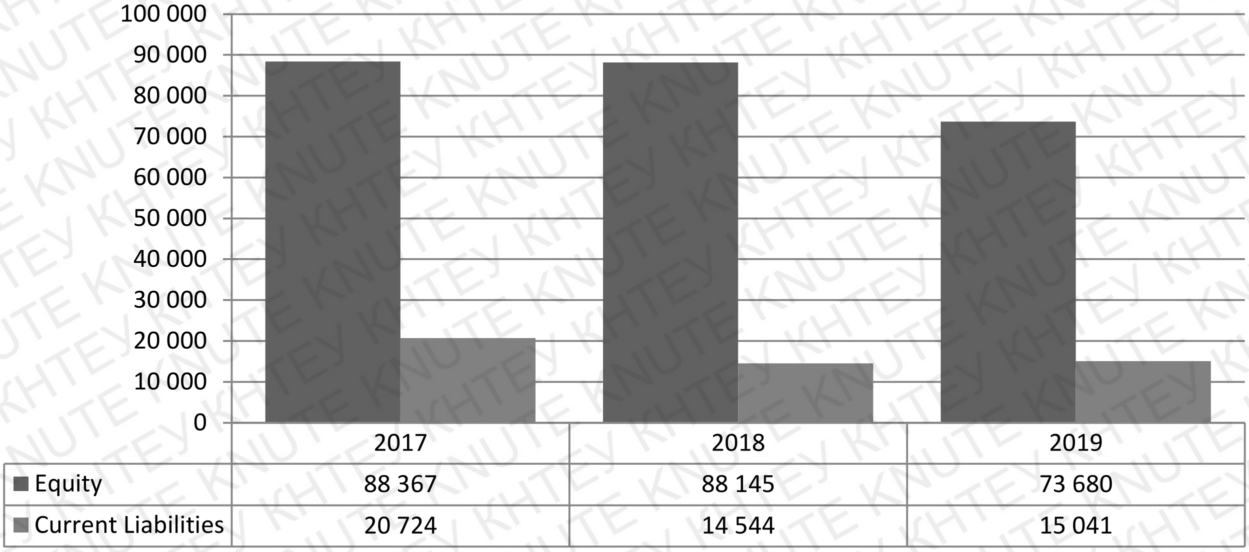


Fig. 2.8. Dynamics of sources of financing of PrJSC "Dityachiy svit", thoulsands UAH

Current liabilities` share decreased from 19% in the year of 2017 to 16,9% in the year of 2019. Current liabilities are only 16,95% of all liabilities in year of 2019 and 86% of it are payables. In the year of 2017 19% of all assets were financed by debt. In the year of 2018 it decreased to 14,2% . And in the year of 2019 it increased to 16,95%. As result during 2017-2019 period the share of current liabilities decreased for 2%.

Payables` share decreased from 18% in the year of 2017 to 14,5% in the year of 2019. Total decrease was 3,57% during 2017-2019.

Table 2.14

Structure of sources of financing of PrJSC "Dityachiy svit", %

	2017	2018	2019	2017/2018	2018/2019
Equity	81,00%	85,84%	83,05%	4,83%	-2,79%
Retained profit	69,66%	73,79%	69,10%	4,13%	-4,69%
Current Liabilities	19,00%	14,16%	16,95%	-4,83%	2,79%
Payables	18,11%	12,60%	14,54%	-5,51%	1,94%
Total sources	100,00%	100,00%	100,00%	0,00%	0,00%

During analyzed period total amount of assets decreased for 18,67% or 20 371 thousands UAH. Decrease of assets was caused by decrease in inventory and receivables because of decrease in sales if toys. The amount of fixed assets stays still. On the bank account of the company the huge amount of cash is accumulated that accounts for almost 42% of all assets in the year of 2019. The notes reveal that 98% of all money are on the letter of credit accounts.

More than 80% of all assets are financed by equity. Long term financing is absent. Besides, almost 70% of liabilities are retained profit. The share of current liabilities decreased form 19% in the year of 2017 to 17% in the year of 2019. The decrease is due to fall of sales of the “Kazka” shop. Financing mostly by own means gives a strong base for financial independence. Plus, the company has stable cash inflow from leasing activity. As result the company is highly stable in financial terms that could be proved by financial analysis above.

But there are some downturns. Accumulating money on a bank account creates extra expenses such as inflation tax. Plus, possible income that can be earned by using debt is lost.

2.3 Bank credit management of the enterprise

During analyzed period of years 2017 – 2019 the company totally financed by internal means. Financial analysis reveals steady financial position of the company. Almost 42% of all assets are cash and almost 70% of all assets are financed by retained profit. The reason of this is that main activity of the PrJSC "Dityachiy svit" is leasing activity that is stable and profitable during the period of 2017 -2019 years. Analysis of financial position by Altman Z-score and Biver methods reveals that despite such a way of financing the financial position of the company is firm.

In the next year the management of the PrJSC "Dityachiy svit" plans to do the capital repair of the main building on Malyshka street combined with rebranding of the whole shopping mall. The building is in need of installing of new ventilation and plumbing systems. The inside load-bearing structures are in need of maintenance because of old period of exploitation. The rebranding plan is to be done in order to attract more profitable sellers such as pharmacies, foreign clothes sellers, sellers of household appliances and others. According to financing plan the all works are to be done in eleven months and cost 9 000 thousands UAH. Basing on finance analysis provided above and creditworthiness analysis provided below and considering that the project is capital project and taking into account the sum of the project it was decided that the banking credit will be the source of financing.

In order to prepare for negotiation with banks and valuate the company`s chances in achieving worm conditions of credit contract the creditworthiness analysis was done. For this purpose the Chesser model was used. The Chesser model of valuation of the company`s creditworthiness shows that PrJSC "Dityachiy svit" is classified as reliable borrower. The model was created for banks to assess the creditworthiness of borrowers.

The target of analysis is to calculate the P coefficient. If P coefficient is below 0,5 the borrower is classified as reliable. The model uses formulas 2.2 and 2.3.

$$Z= -2{,}04 -5{,}24X1+0{,}0053*X2-6{,}6507*X3+4{,}4*X4-0{,}079*X5-0{,}102*X6 \qquad (2.2)$$

$$P=\frac{1}{1+e^{-z}}, \tag{2.3}$$

where e = 2,71828, the Euler's number.

The result of calculation of P coefficient is represented in Table 2.15.

Table 2.15

The Chesser model of valuating of creditworthiness of PrJSC "Dityachiy svit"

Index	Formula	Weigth	2017	2018	2019
Income			62 969	55 610	51 321
EBIT			14 830	15 181	17 064
Cash			45 576	33 604	37 136
Working Capital			85 984	80 945	66 071
Shareholders			2 707	2 707	2 707
Equity			88 367	88 145	73 680
Liabilities			20 724	14 544	15 041
Assets			109 091	102 688	88 720
X1	Cash/Assets	5,24	0,42	0,33	0,42
X2	Income/Cash	0,0053	1,38	1,65	1,38
X3	EBIT/Assets	-6,65	0,14	0,15	0,19
X4	Liabilities/Assets	4,4	0,19	0,14	0,17
X5	Shareholders capital/Equity	-0,08	0,03	0,03	0,04
X6	Working capital/Income	-0,102	1,37	1,46	1,29
P index			0,48	0,30	0,37

Besides with Chesser model it is useful to analyse the creditworthiness of the company by methodology presented by National Bank of Ukraine. The methodology is obligatory in use for commercial banks of Ukraine. Additional advantages of the methodology are that it takes into accounts the size of the company and type of its activity. The methodology is described in the resolution №351 of the board of the National bank of Ukraine from 30.06.2016 named "On approval of the Regulations on determining the amount of credit risk by banks of Ukraine for active banking operations". According to the methodology there are nine classes of financial position. The first class of financial position means that the company is profitable, its financial position is sound and its creditworthiness is high. The nine`s class of financial position means that the company is near to bankruptcy. The methodology proposes to calculate an integral Z-index that composes values depending on the size of the company and its main activity. By results of Z-index calculation the class of financial position is attached to the company.

According to legislation of Ukraine the PrJSC "Ditcyachiy svit" is considered as small company that operates in field of retail trade. So the formula for the Z-index is formula 2.4.

$$Z = 1{,}936 + 0{,}359 \cdot X7 + 0{,}299 \cdot X8 + 0{,}616 \cdot X11 + 1{,}137 \cdot X13 + 0{,}183 \cdot X14 + 0{,}266 \cdot X17 \qquad (2.4)$$

The value of every Xi depends on corresponding index. Indexes and their formulas are shown in Table 2.16. The column 2019 consists of results of calculation of indexes using result of company`s activity in the year of 2019. Inputting the Xi valued in formula reveals that the Z index for PrJSC "Ditcyachiy svit" according to methodology of NBU is 3,2. That means that the company is related to Class 2 of NBU`s classification and is reliable in terms of credit relationships.

Table 2.16

Calculation the values of Indicators for Z-score analysis by NBU`s methodology

Indicator	Formula	2019	Xi
K7	Liabilities/Assets	16,95%	0,721
K8	Payables for goods and services/Cost of sales	81%	0,24
K11	Net Debt/Sales	-172%	1,0628

K13	Not Operational Assets/Assets	20%	0,105
K14	Working Capital/Sales	306%	0,869
K17	Gross Income/Net Financial Expenses	-184%	0

Now when all financial analyses have been accomplished it is time to choose the most suitable credit proposition. The four propositions of different banks were taken. Those four propositions satisfy financial needs of capital project in terms of credit sum, the time of financing and the way of repayment. In purpose of defining the best proposition the Grand Element methodology will be used. The Grand Element is an integral indicator in statistics used to compare the conditions for the provision of various loans. All loans` provisions will be compared with average market provisions in order to find the best proposition. For each of bank`s proposition the total present value of lending has to be calculated. The total present value of lending of every bank`s proposition has to be compared with the average total present value of lending that is on the market according to average market condition of financing using formula of Grand Element calculation (2.1). The result of the analysis is in the Table 2.17. The calculation of the total present value of lending for every proposition is represented in Appendix GE.

$$\text{Grand Element} = 1 - \left(\frac{\text{Total present value of lending}_x}{\text{Average total present value of lending on the market}}\right) \quad (2.1)$$

According to results the proposition of Alfa Bank is the best among four propositions with Grand Element value of 9% that is maximum among all considered credit`s proposition. The proposition of Privat Bank can be considered as plan B because of Grand Element value of the credit`s proposition is 5%.

Table 2.17

Choosing the best proposition by the Grand Element methodology

Bank	Price of credit	Delay in Payments	Interest rate`s payaments	Credit`s repayment mode	Additional payments	Grand Element
Average market conditions	14,40%	-	every year	in the end of every year	0	-
AlfaBank	15,00%	year	every 6 mounts	every 6 mounts	0,9% of credit body	9%
Raiffeisen Bank Aval	16,00%	-	every year	in the end of every year	0,99% of credit sum	-15%
Privat Bank	13,00%	-	every 6 mounts	in the end of every year	1% of credit sum	5%
TassBank	16,00%	year	every year	in the end of every year	1% of credit sum	-10%
Period of fund rising, months					36	
Credit sum, thousands UAH					9000	
Discount rate					1,05	

For Alfa Bank`s proposition the payment calendar is presented in Table 2.18. The calendar shows total interest for using bank credit will be 2 362 thousands UAH during the next three years. The payments will be done every six months beginning in June 2021 and ending in December 2023.

Table 2.18

Payment calendar for Alfa Bank`s proposition, thousands UAH

Payments Date	Credit`s Body	Interest Payments	Amortization of the Credit`s Body	Total Payment
Jun.2021	9000	675	1500	2175
Dec.2021	7500	562,5	1500	2062,5
Jun.2022	6000	450	1500	1950
Dec.2022	4500	337,5	1500	1837,5
Jun.2023	3000	225	1500	1725
Dec.2023	1500	112,5	1500	1612,5
$\sum$		**2362,5**	**9000**	**11362,5**

As result of the work that was done above the company has a source of financing of its capital project. The project will be financed by a bank credit. The best proposition among Ukrainian banks was chosen using Grand Element methodology. The payment calendar was scheduled and represented.

CHAPTER 3. WAYS OF IMPROVEMET OF CREDIT POLICY OF THE ENTERPRISE

According to credit rating for government bonds provided by S&P credit rating agency the Ukrainian government bonds have credit rating of B that is considered as speculative. That means if it happens that the government has any problems with repaying its debt entire country`s economy will be damaged. As result dealing with the banking system in Ukraine may be risky adventure in some cases considering economic and political instability in the country.

But according to statistics the discount rate of NBU decreases for last 5 years from 30% in March 2015 to 11% in January 2020. And in June 2020 it decreased even further to 6%. In fact, that is the cheapest price for Ukrainian currency not only for the last five years but even for the last thirty years.

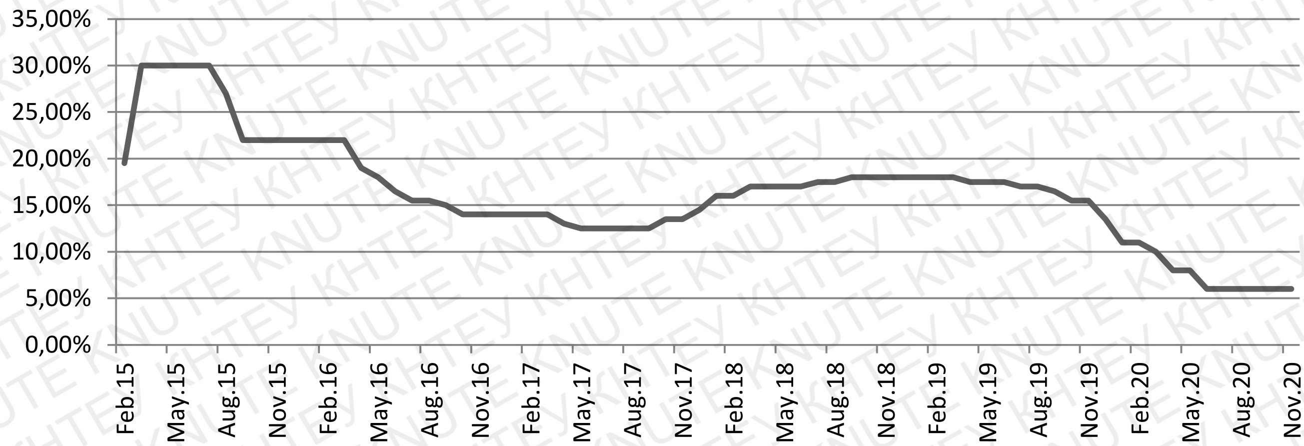


Fig. 3.1. The discount rate of the NBU for the last five years

Considering steady financial position, high creditworthiness of the company, cheap price for credit money and calculated effect on company`s profitability in future periods provided below it was decided that the overhaul of the building and subsequent rebranding project would be financed by a bank credit.

The best bank`s proposition was decided in Chapter 2 by using Grand Element methodology.

Before implementing the project it is important to analyze how it`s realization will affect the profitability of the company and how bank credit will affect profitability of equity. For this purpose future incomes will be planed and financial leverage will be calculated.

The project will be implemented during the year of 2020 and the results of 2021 will be a base for analysis of results.

The planning of income statement for the years 2020-2021 described as follows. The decrease in sales was a result of decrease in purchasing power of customers. So for the year 2020 the company expects decrease by the same rate as in 2019. In 2021 the company expects settling of the situation and stopping of decreasement. Formulas for sales` calculation are formula 3.1 and 3,2. The rate of inflation in 2021 is considered as one in 2020 and is 5%.

$$\mathrm{Sales}_{2020} = \mathrm{Sales}_{2019} * \left(\frac{\mathrm{Sales}_{2019}}{\mathrm{Sales}_{2018}}\right) \tag{3.1}$$

$$\mathrm{Sales}_{2021} = \mathrm{Sales}_{2020} * \text{Rate of Inflation in 2021} \tag{3.2}$$

The coast of sales in the year of 2020 and 2021 is the rate of cost of sales in 2019 multiplied by planned sales. The formula (3.3) is used.

$$\text{Cost of sales}_{2020} = \mathrm{Sales}_{2020} * \left(\frac{\text{Cost of Sales}_{2019}}{\mathrm{Sales}_{2019}}\right) \tag{3.3}$$

Other operational income is going to save the rate of the year of 2019. In 2021 the company expect of increase in income for 40% cause of implementation of rebranding project and attraction of more profitable sellers.

The administrative costs and selling expenses will be saving the rate of the year of 2019. In 2021 they will increase for 15% and 35% respectively cause of implementation of rebranding project.

The other operational expenses and the other financial income will save the rate of the year of 2019.

The financial expenses are going to be 1 237 thousands UAH in 2021 due to repayment plan of bank credit.

The results of income statement`s planning are presented in Table 3.1. The planned income statement is fully represented in Appendix F2.

Table 3.1

Planned Income Statement of PrJSC "Dityachiy svit", thousands UAH

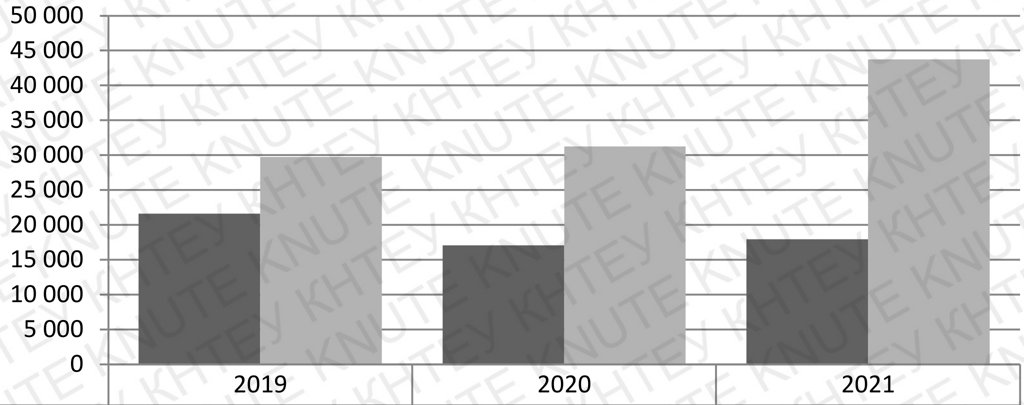
	Years			Change		Change	
	2019	2020	2021	2020/2019	2021/2020	2020/2019	2021/2020
Sales	21 595	17 071	17 924	-4 524	854	-21%	5%
Cost of Sales	11 307	8 938	9 385	-2 369	447	-21%	5%
Gross Profit	10 288	8 133	8 539	-2 155	407	-21%	5%
Other Operational Income	29 726	31 233	43 726	1 507	12 493	5%	40%
Administrative Cost	3 878	3 640	4 186	-238	546	-6%	15%
Selling Expenses	23 775	22 520	30 402	-1 255	7 882	-5%	35%
Other Operational Expenses	874	905	937	31	32	4%	4%
Operational Income	11 487	12 301	16 740	814	4 440	7%	36%
Financial Expenses	0	0	1 238	0	1 238		
EBIT	17 064	18 838	24 403	1 774	5 565	10%	30%
Net Profit	13 967	15 447	18 995	1 480	3 548	11%	23%

Sales is expected to decrease from 21 595 thousands UAH in the year of 2019 to 17 924 thousands UAH in the year of 2021. Total decrease is going to be 3671 thousands UAH or 15,9%. Gross profit is expected to decrease from 10 288 thousands in the year of 2019 to 8 539 thousands UAH in the year of 2021. Total decrease will be 1 749 thousands UAH or 15,9%.

Other operational income is expected to increase 1 507 thousands UAH in the year of 2020. In the year of 2021 other operational income is planned to be increased for 40% cause of implemented rebranding plan that will allow the shopping mall to attract more profitable sellers.

Administrative cost is expected to increase for 308 thousands UAH or 8,85% during the period of 2019-2021. Despite increase in 6% in the year of 2020 it is planned to increase administrative cost for 15% in the year of 2021 to provide higher quality service for new renter. Selling expenses is planned to be increased for 6 627 thousands

UAH or 29,72% during the period of 2019-2021. In the year of 2021 it is planned to increase selling expenses to attract richer buyers.

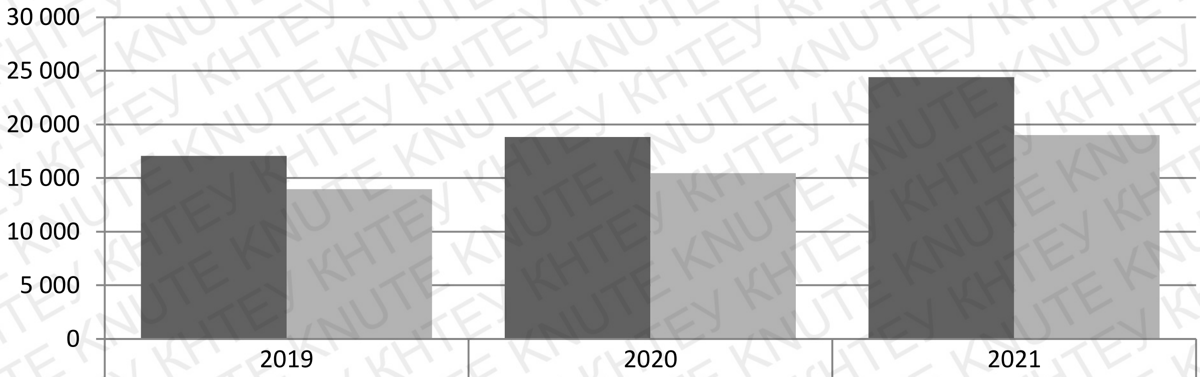


	2019	2020	2021
Sales	21 595	17 071	17 924
Other Operational Income	29 726	31 233	43 726

Fig. 3.2. Comparison of planned sales and other operational income in future periods of PrJSC "Dityachiy svit", thousands UAH

Cause of delay in payment of interest rate for one year financial expenses appears only in 2021 and is up to 1 238 thousands UAH.

EBIT is expected to increase from 17 064 thousands in the year of 2019 to 24 403 thousands UAH in the year of 2021. Increase will be 7 339 thousands UAH or 39,9%. Net income is going to increase from 13 967 thousands UAH in the year of 2019 to 18 995 thousands UAH in the year of 2021. Increase is going to be 5 028 thousands or 33,5%.



	2019	2020	2021
EBIT	17 064	18 838	24 403
Net Profit	13 967	15 447	18 995

Fig.3.3. Comparison of planned EBIT and net profit in future periods of PrJSC "Dityachiy svit", thousands UAH

As for planning of equity the only changes will be done in retained profit. The payments to shareholders are planned to be at least for 15 000 thousands UAH for the year of 2020 and 20 000 thousands UAH for the year of 2021. The retained profits are calculated using formula 3.4.

$$RP_{01.01.2021} = RP_{01.01.2020} + \text{Net Profit}_{2020} - \text{Shareholders Payment}, \quad (3.4)$$

where RP- retained profit.

The payables are planed using payable turnover index for the year of 2019 that was 1,24. The turnover index is planned to be maintained during the period of 2020-2021. The formula (3.5) is used.

$$\text{Payables}_{2020} = \left(\frac{\text{Sales}_{2020}}{\text{Turnover Index}}\right) \quad (3.5)$$

The current supplies and other current supplies are calculated using the rate of growth of the year of 2019.

Additional long term and short term credits appears. They are written down in balance sheet according to repayment plan represented in Table 2.18.

The Table 3.2 represents how the planed balance sheet looks like. The planned balance sheet is fully represented in Appendix F1.

According to financial statement during the year of 2019 retained profit decreased by half from 81 985 thousands UAH on the 1st of January 2019 to 40 624 thousands UAH on the 1st of January 2020. The reason is in need to repay dividends to shareholders for two years plus expenses for covering amortization of fixed assets.

In the years of 2020 and 2021 it is planned to maintain retained profit on level of 40 000 thousands +/- 10% in order to maintain strong financial position of the company.

In the year of 2020 long term financing appears. Short term credit liability appears in the year of 2021 due to delay of interest rate`s payments for one year.

Table 3.2

Planed Balance Sheet of PrJSC "Dityachiy svit", thousands UAH

	Years			Change		Change	
	2019	2020	2021	2020/2019	2021/2020	2020/2019	2021/2020
Shareholders Capital	2 707	2 707	2 707	-	-	-	-
Retained Profit	61 305	40 847	40 569	-20 457	-279	-33%	-1%
Equity	73 680	53 222	52 944	-20 457	-279	-28%	-1%
Long Term Debt	0	9 000	7 500	9 000	-1 500	-	-17%
Short Term Debt	0	0	1 500	0	1 500	-	-
Payables	9 138	7 408	7 404	-1 730	-4	-19%	0%
Total debt financing	15 041	22 124	19 928	7 083	-2 196	47,10%	-10%
Total Financing	88 720	75 346	72 872	-13 374	-2 475	-15%	-3%

Total debt financing is planned to increase for 7 083 thousands UAH or 47% in the year of 2020 and to decrease for 10% or 2 196 thousands UAH in the year of 2021. Decrease will be due to decrease in financing by payables and other short term liabilities.

Total decrease in sources of financing is planned to be from 88 720 thousands UAH in the year of 2019 to 72 872 thousands UAH in the year of 2021. Decrease is expected to be 18,38% or 15 878 thousands for the period in 2019-2021. The main reason is decrease in retained profit and decrease in other current liabilities.

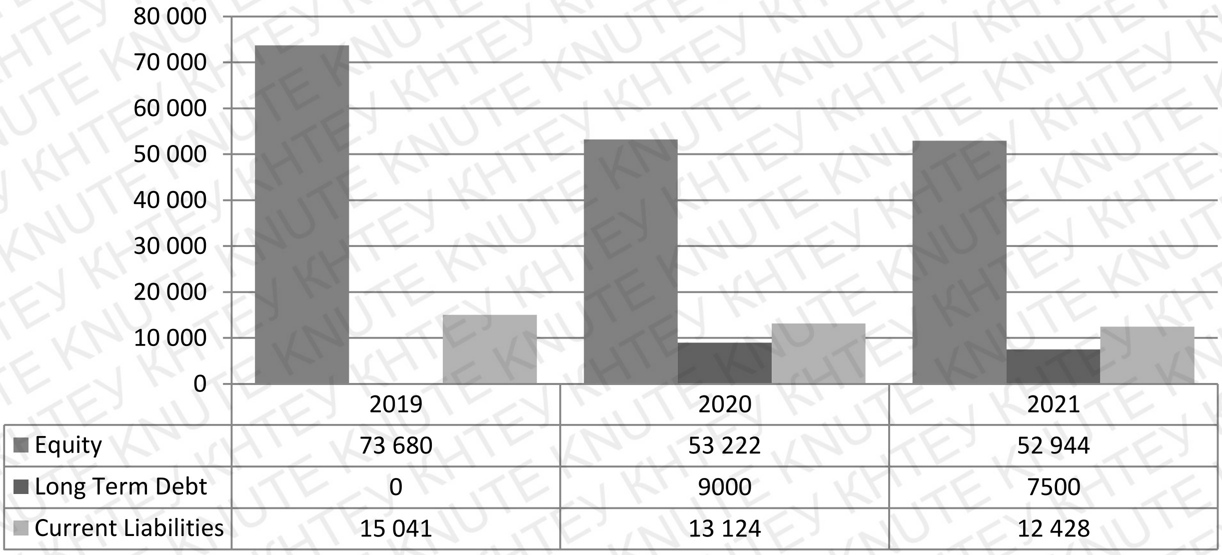


Fig. 3.4. Comparison of planned sources of financing of PrJSC "Dityachiy svit", thousands UAH

Change in productivity is calculated in the Table 3.3. All margin indicators increase during planned period except decrease of net profit margin for 1,17% during the year of 2021. The return of assets increases from 15,74% in the year of 2019 to 26% in the year of 2021. The return on equity increases from 18,95% in the year of 2019 to almost 36% in the year of 2021.

Table 3.3

Planned profitability indicators of the PrJSC "Dityachiy svit"

	Years			Change	
	2019	2020	2021	2020/2019	2021/2020
Operational Profit Margin	22,38%	25,47%	27,15%	3,08%	1,69%
EBIT Margin	33,25%	39,00%	39,58%	5,75%	0,58%
Net Profit Margin	27,21%	31,98%	30,81%	4,76%	-1,17%
Return on Assets	15,74%	20,50%	26,07%	4,76%	5,57%
Return on Equity	18,96%	29,02%	35,88%	10,07%	6,86%

It is planned that return on asset will increase from 15,7% in the year of 2019 to 26,1% in the year of 2021. Return on equity is expected to increase from 19% in the year of 2019 to 35,9% in the year of 2021.

Having planed Income Statement and Balance Sheet it is possible to calculate financial leverage and find out how return on equity has changed cause of using debt financing. The financial leverage is used for calculation of how the return on equity will change in case of using debt as a source of financing. For financial leverage calculation the formula (3.6) is used. Difference between 1 and tax rate is called tax burden. EBIT to assets ratio is called economic profitability. Debt to own capital ratio is called level shoulder.

$$FL=(1\text{-}Tax)*\left(\frac{EBIT}{Assets}\text{-}1\right)*\left(\frac{Debt}{Own}\right) \tag{3.6}$$

where FL – financial leverage;

Tax – income tax (18% as for the year of 2019).

The results of financial leverage`s calculation are in the Table 3.4.

Table 3.4

Calculating financial leverage of PrJSC "Dityachiy svit"

	2020	2021
EBIT	18 838	24 403
Assets	75 346	72 872
Interest	15,00%	15,00%
Equity	53 222	52 944
Liabilities	22 124	19 928
Tax Burden	0,82	0,82
Economic profitability	25%	33%
EP-Interest	10%	18%
Lever shoulder	0,42	0,38
Financial leverage	3,41%	5,71%

As can be seen the ROE is increased for 3,41% in the year of 2020 and in 5,71% in the year of 2021. It means that because of using debt for financing company`s expenses return on equity is greater for 3,41% in 2020 than in case if the company used only its own capital for the purpose of financing.

There are reserves of increasing financial leverage that are shown in Table 3.5.

Table 3.5

Reserves of PrJSC "Dityachiy svit" of increasing of effect of financial leverage

1	Increasement in Sales of toys of the "Kazka" Shop
2	Decrease in Administrative cost by implementing CRM System
3	Increasement of assets` turnover ratio
4	Negotiation with bank in purpose of increasement of interest rate.

Sales of children's goods of "Kazka" shop decreases for last three years. This trend not only has to be stopped but reversed. In order to increase economic profitability of the enterprise sales should be increased. Increase in economic profitability affects financial leverage positively. Increase in sales should be combined with increase of assets` turnover. Increase in assets` turnover means that the company saves volume of sales but needs less equity to finance its operational activity. This increase in productivity will positively affect financial leverage.

As for the year 2019 the company still doesn't have CRM System. The system should be implemented in order to satisfy the needs of more profitable renters of the shopping mall. This will also decrease administrative expenses that positively affect economic profitability and financial leverage.

The provisions of the credit contract with the bank are results of direct negotiation between borrower and creditor. Considering strong financial position and high creditworthiness it is possible to decrease the interest rate of borrowed funds.

Table 3.6

How decrease in interest rate affects financial leverage

	Financial leverage	
Interest rate	2020	2021
15,00%	3,41%	5,71%
14,00%	3,75%	6,01%
13,00%	4,09%	6,32%
12,00%	4,43%	6,63%
10,00%	5,11%	7,25%

In case if interest rate will be decreased from 15% to 10% financial leverage will increase from 3,41% to 5,11% in the year of 2020 and from 5,71% to 7,25% in the year of 2021. So the negotiation with the bank about decrease of interest rate should be done.

As conclusion it has to be said that the company is totally able to maintain its operational activity by its own means. Both stable profitability and absence of strategic plans that require substantial investments make it unworthy to involve debt financing. The overhaul of the building and subsequent rebranding project could be done by using its own capital but only in expense of shareholders payments. But as appeared there are factors that make debt financing more preferable that financing by its own means. Stable financial position, absence of debt financing and low discount rate of the central bank made it possible to consider debt financing as possible source of financing of needs of capital plan. Financial analysis provided further reveal that by using debt finance it is not only possible to avoid reduction of shareholders` payments and save profitability but increase the return on equity by financial leverage`s effect. As result it is recommended to use debt financing for financing capital plan of the company.

Conclusions and proposals

The purpose of the project was to analyse credit policy of the enterprise, its ability to attract new bank credits and propose way of improvement of the enterprise`s credit policy.

First of all theoretical and methodological approaches to bank credit management were described. Positive and negative aspects of using bank credit were highlighted. The main obstacles that may happen and possible negative effects were pointed out. And the idea of using bank credit was described in generally.

For better understanding of the situation internal and external conditions were described. The opinions of World Bank and S&P GMI were used to describe improving but still hard economic conditions of doing business and poor state of the monetary system in Ukraine. Financial results of the PrJSC "Dityachiy svit" were compared to its peers revealing that its peer perform at least better than the company.

PrJSC "Dityavhiy svit" possess two sources of incoming cash flow. The first one is shopping mall. The places in the shopping mall are to be leased to sellers of goods and services. Cash flow from its activity constantly increases. The second one is the "Kazka" shop. For last three years revenue from selling goods in the shop decrease.

Financial analysis reveals increasing profitability of the company despite decrease in sales of the "Kazka" shop and overall decrease in assets of the whole joint-stock company.

Capital structure analysis reveals that during 2017-2019 more than 80% of all assets were financed by equity. Other 20% were current liabilities such as payables. Bank credits are absent at all during the period in 2017-2019. The reason of decrease in assets was decrease in working capital, more accurate - the decrease in goods and receivables. The reason is in decrease in sales of the "Kazak" shop.

Financial position of the company is firm and sound that was confirmed by using the Altman Z-score analysis and the Biver Model.

In the year of 2019 there is the plan to do the capital repair of the main building on Malyshka street combined with rebranding of the whole shopping mall in order to attract more profitable seller and wealthier buyers. The company is totally able to finance its needs by using its own capital. But it is only possible in case of reducing dividends` payments to shareholders. Cause of it the bank credit was considered as possible source of financing.

In order to examine the company`s positions in negotiation with bank the creditworthiness analyses were done. The Chesser Model and the model of National Bank of Ukraine were used. Both models reveal good creditworthiness of the company. Using the Grand Element methodology the best bank`s proposition was chosen. The plan of repayment of bank credit was composed too.

Financial planning was used for analyzing how using bank credit may affect financial results of the company in the years of 2020 and 2021. It reveals that it is not only possible to save profitability but to increase it and there is no need in decrease in shareholders` payments. Financial leverage`s effect shows that by suing bank credit it is possible to increase return on equity for 3, 41% in the year of 2020 and for 5,71% in the year of 2021.

Additionally the list of steps for increasing effect of financial leverage was done. First of all it is important to decrease the interest rate by direct negotiation with the bank. Considering financial position of the company and low discount rate of NBU it is possible to accomplish.

Talking about credit management of the company it is recommended to use debt financing only for financing long-term capital needs. The company has firm financial position and stable profitability. Its operational activity can be totally financed by its own means. As result there is no need to use debt financing except for financing long-term projects that need substantive sum of financing.

In generally it is recommended to use bank credit for financing the need of the company for realization of the capital project described above.