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Analyzing the Financial Solvency of an Algerian Company using Financial Ratios and Equilibrium Indicators

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Abstract:

In this article, we attempt to present the fundamental concepts and importance of financial management through a review of the literature, in order to analyze the financial solvency of an Algerian company using the method of financial ratios and equilibrium indicators. Our objective is to present the fundamental concepts of financial management and explore their importance through a literature review. We will focus in particular on analyzing the financial solvency of an Algerian company using the financial ratio method and balance indicators. Financial management is an essential pillar of any company, whatever its size or activity. It encompasses a set of practices and decisions aimed at maximizing the company's value by optimizing the allocation of available financial resources. This area of management includes financial planning, liquidity management, investment, and financial risk management. Analyzing a company's financial solvency is of vital importance to investors, lenders, managers and other stakeholders. By reviewing the existing literature on the subject, we will seek to deepen our understanding of the fundamental principles of financial management and their application in the specific context of Algerian companies.

We will highlight the various financial ratios and balance indicators used to assess financial solvency, as well as their interpretation and practical use in the financial analysis process. Through this article, we aim to provide a comprehensive overview of financial management, focusing on the analysis of the financial solvency of Algerian firms. We hope this review will help readers to better understand the key concepts and practices of financial management, to apply them effectively in their own professional context.

Key words: Financial Analysis; Balance Sheet; Ratios; Company; Financial Indicators.
JEL Classification : L25.

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1. Introduction:

Financial management is a system that provides the financial data needed to make important decisions in companies. It helps improve the continuity or sustainability of firms that allows it to obtain financing in the future. Indeed, financial management is a set of practices and methods that allow the company's assets and activity to be optimally managed. One of the main elements for analyzing the financial situation of a company focuses on its balance sheet with its various indicators in order to have a clear idea of the company’s financial health and the recovery measures to be taken in the event of failures.

This article will allow us to focus on the tools of the financial analysis of the company while questioning the ratio method, which will enable us to measure the company’s performance and financial health, facilitating informed decision-making. To answer this question, let us put two hypotheses forward:

Hypothesis 1/Financial analysis is an essential tool or element for decision-making within companies.

Hypothesis 2/: Analysis by the method of financial indicators and ratio analysis are necessary to interpret and analyze the financial structure.

Our objective is to identify the financial analysis tools that help managers make rational decisions. Indeed, we will examine the elements of the financial structure in order to assess financial solvency and help companies make informed decisions. These indicators constitute the dashboard for any economic and financial forecast and outlook for the company.

It is important to understand that financial analysts use the functional balance sheet because its approach corresponds to the needs of a dynamic analysis, based on the hypothesis of business continuity. (Delahaye, 1995)

2. Fundamental Concepts of Financial Analysis: Financial analysis consists of studying the financial situation of the company to highlight its strengths or weaknesses. On the other hand, it consists of assessing the profitability and solvency of the company as well as understanding the past, diagnosing the present and trying to predict the future.

It is defined as a set of techniques and methods aimed at interpreting the reality of a company by focusing on the exploitation of accounting documents, economic and financial information relating to the sector of activity of the company. The choice of a financial structure amounts to making a choice between debt and equity. (Lwandu, 2010)

Financial analysis aims at several crucial objectives to evaluate the performance and overall health of a company. Analysts make a judgment on its solvency and profitability. The first assesses the company's ability to honor its debts in the short and long term. The second measures the company's ability to generate profits in relation to its sales and equity. This includes indicators such as return on investment, return on assets and return on equity. Indeed, an accurate financial analysis provides a clear picture of the company's financial situation at a given date. This helps to understand past performance and plan future actions based on observed trends. A well-founded analysis is carried out by relying on various accounting and financial documents, such as the balance sheet, income statement, cash flow statement and appendices. These documents provide detailed information on the company's assets, liabilities, income, expenses and cash flows.

Decision-making within the company is strongly influenced by the results of the financial analysis. These indicators are decisive for making strategic decisions such as expansion, investment, restructuring or for operational decisions such as cost management and resource optimization. The conclusions drawn from the financial analysis are essential to guide the company towards informed and effective choices.

2-1 Importance of Financial Analysis: Financial analysis is of paramount importance for a company, allowing it to assess its situation by identifying financial strengths and weaknesses. The latter help managers make objective strategic decisions (expansion into new markets, acquisition of other companies or diversification of activities).

Objective financial analysis helps to reorganize and restructure accounting elements to optimize resources and improve operational efficiency. As a result, it provides opportunities for budget reallocation, reduction of unnecessary costs and optimization of cash flows.

Financial analysis helps identify and anticipate the financial risks to which the company is exposed such as liquidity, credit and market risks. By understanding these risks, the company can put in place risk management strategies to mitigate them and protect its financial stability. A rigorous and continuous financial assessment helps increase the value of the company in the market. By improving financial performance indicators and strengthening the confidence of investors and stakeholders, the company can attract more capital and increase its valuation.

Financial analysis helps detect potential financial problems before they become critical. On this basis, the company can propose and implement corrective measures to solve these problems, such as reducing costs, improving inventory management or revising credit policies. Indeed, summary documents, such as the balance sheet, income statement and cash flow statement are essential tools for carrying out a reliable financial diagnosis. A thorough analysis of these documents provides a precise overview of the firm's financial situation, facilitating decision-making. This allows the company to maintain good financial health, make informed strategic decisions in order to prosper in a competitive economic environment.

2-2 **Financial Analysis Tools:** Financial analysis tools include the balance sheet and the income statement (TCR). The balance sheet provides a representation of the company's financial situation, divided into two main categories: assets and liabilities.

Assets include fixed assets (VI) with a useful life of more than one year, operating assets (VE), realizable assets (VR), and finally available assets (VD). As for the liabilities of the balance sheet, they include equity and debts. It is essential to maintain the balance between total assets and liabilities, i.e. Total assets = Total liabilities. The balance sheet is presented in a form subdivided into two main parts: assets and liabilities. Each part contains amounts and sums which, once totaled, must always be equal between assets and liabilities.

3- Analysis of the Balance Sheet by Financial Balance Indicators and Ratios:

To assess the financial situation of a company, the approach is naturally based on its accounting documents, in particular the balance sheet and the income statement table. Then, to analyze these documents, the analyst will use the various financial diagnostic tools, such as financial balances and financial ratios.

A careful reading of the financial statement provides a clear and in-depth view of the crucial aspects of a firm's financial health. By analyzing the origins and uses of resources, we can understand where the funds available to the company come from and how they are used.

This analysis reveals the company's financial autonomy, that is to say to what extent it depends on its own resources rather than external financing. A high financial autonomy indicates an increased capacity to withstand external shocks and invest in its own growth projects, thus providing greater long-term stability. In addition, examining the company's financial structure allows us to assess its balance, it means whether it manages to maintain a fair balance between its different sources of financing, such as equity and debt.

A solid financial balance guarantees sound risk management and optimization of financing costs, thus contributing to the sustainability and longevity of the company in the market. In short, reading the balance sheet is an essential step in assessing the viability and strength of a company, providing crucial insights into its sources of financing, its autonomy and the balance of its financial structure.

The indicators of financial balance, which are essential for assessing the financial health of a company, are manifested through three key elements: working capital, working capital requirement and net cash. First, working capital provides a long-term perspective on a company's ability to finance its daily operations and meet its long-term commitments. It represents the excess of permanent resources available to cover working capital requirements, thus testifying to the financial strength of the company. Second, working capital requirement reveals the difference between current assets and current liabilities, highlighting the need for short-term financing to maintain current operations. Effective management of this need is crucial to ensure sufficient liquidity and avoid cash flow problems. Finally, net cash, which reflects the difference between cash and short-term debt, provides immediate insight into a company's ability to meet its short-term financial obligations.

By combining these three indicators, financial managers can obtain a complete picture of the firm's financial health, allowing them to make decisions regarding capital management and financial planning. In short, these indicators play an important role in monitoring and managing the company's finances, thus helping to ensure its long-term stability and growth.

Working capital is a fundamental element in the analysis of a company's long-term financial stability. It offers a valuable perspective on its ability to support its activities over time. Indeed, this concept represents a surplus of sustainable resources that allow the maintenance of the company's operational cycle, as explained by (Ginlinger,1991).

Its formula, which subtracts fixed assets from long-term resources and long- and medium-term debts, highlights the availability of resources to cover long-term commitments.

Achieving financial balance occurs when the company generates a surplus of permanent resources, thus reflecting a financial safety margin. This situation is characterized by positive working capital, reflecting the company's ability to cover its obligations over the long term while preserving its financial solidity.

Case 1 : Working Capital > 0 and the Permanent Capitals> Fixed Assets

Working capital is positive, which means that there is a surplus of financing that will be used to finance part of the operating needs; it is a long-term balance. The formula for the variation of working capital, generally expressed as the difference between permanent capital and fixed assets, represents a crucial measure of the financial health of a company.

When working capital is positive and permanent capital exceeds the value of fixed assets, this indicates a favorable financial situation. Indeed, a positive working capital suggests that the company has an excess of long-term resources compared to its short-term obligations, which gives it a financial margin of safety. In addition, the fact that permanent capital exceeds the value of fixed assets means that the company has additional net resources to support its operational activities and invest in its future growth. In short, in this case, the company demonstrates a solid financial position, which can help to strengthen investor confidence and support its long-term development.

Case 2: working capital < 0 and Permanent Capitals < Fixed Assets

In case the working capital is negative and the permanent capital is lower than the value of fixed assets, this reveals a worrying financial situation for the company. Indeed, a negative working capital indicates that the company does not have enough short-term resources to cover its immediate obligations. This can result from poor cash flow management, excessive debt or a decrease in liquid assets.

At the same time, the fact that the permanent capital is lower than the value of fixed assets highlights a lack of long-term financing to support the operations and growth of the company. This situation can lead to difficulties in meeting payments to suppliers, employee salaries and other current expenses, which compromises the long-term viability of the company.

In addition, a negative working capital can signal an increased risk of bankruptcy or liquidation, as the company could find itself unable to repay its short-term debts. Overall, this case highlights the need for the firm to review its financial strategy and take corrective measures to restore its financial balance and long-term stability. This may involve reducing expenses, increasing revenues, renegotiating payment terms with suppliers or refinancing debt. By taking proactive measures to correct financial imbalances, the firm can improve its competitive position and ensure its sustainability in the market. To sum up, the company has not generated a margin that can guarantee long-term economic and financial security.

Case 3: working capital =0 that is to say **Permanent Capitals = Fixed Assets**

In this case, the company appears to maintain a satisfactory financial balance in the long term, as permanent capital fully covers fixed assets. This situation is reassuring because it indicates that the company has adequate long-term resources to finance its investments and sustainable operations, which contributes to its long-term financial stability. In addition, this adequacy between permanent capital and fixed assets reflects prudent management of resources and efficient use of capital.

As for the working capital requirement (WCR), it provides an outlook on the company's short-term financial situation. It represents the amount of financing required to cover the company's operating cycle, which includes the time lag between supplier payments and customer collections. A well-managed WCR is crucial to ensure sufficient liquidity to meet the company's short-term obligations without compromising its daily operations.

In short, in this case, the company seems to find a delicate balance between its short-term financing needs and its long-term resources, which allows it to maintain robust financial health over the long term while effectively meeting its immediate needs. This fair financial balance is essential to ensure the growth and sustainability of the company on the market. (Selmer, 2019). While reminding the reader that the variation in the working capital requirement is expressed as follows: **Working Capital Requirement = Operating value + Realizable Value - Short Term Debts**

Case 1 : Working Capital Requirement > 0 In this scenario, when the working capital requirement (WCR) is greater than zero, it means that the sum of sales and working capital exceeds short-term debts (STD). In this configuration, the company appears to maintain a satisfactory financial balance in the short term. Operational needs exceed available resources, which requires the company to finance its current activities either by using its working capital or by contracting short-term debts.

This situation reveals prudent cash flow management and an ability to mobilize resources quickly to cover immediate needs. However, it is essential that the firm carefully monitors its WCR to avoid excessive accumulation of short-term debt, which could lead to additional financial pressure in the future. Effective WCR management ensures sufficient liquidity to meet short-term obligations while preserving the overall financial health of the company.

In summary, in this case, the company has skillfully balanced its short-term financing needs with its available resources, allowing it to maintain the financial stability that is necessary to support its daily operations and continue its growth in the market. Regular monitoring of WCR allows for early detection of any significant variations and the taking of corrective measures. This includes the management of receivables from both customers and inventories, as well as the negotiation of payment terms with suppliers.

The company must choose between using its working capital or resorting to short-term debt to finance its operational needs. This decision should be based on a cost-benefit analysis to minimize interest charges and optimize the use of internal resources.

Prudent management of short-term debts is crucial to avoid financial overload. The firm must balance its short-term borrowings with its ability to generate sufficient cash flows to repay the debts without compromising its daily operations. Proactive cash flow management helps maintain adequate liquidity. This includes optimizing cash conversion cycles and implementing strategies to accelerate cash receipts and effectively manage cash outflows.

Case 2 : Working Capital Requirement < 0 When the working capital requirement (WCR) is less than zero, the sum of sales and working capital is less than short-term liabilities (STL). Therefore, the company is in a short-term financial imbalance situation. A negative WCR suggests that the available resources, including sales and working capital, are not sufficient to cover the company's short-term obligations. This situation can result from inefficient cash flow management, a decrease in sales or an increase in short-term liabilities. In all cases, a negative WCR can lead to financial difficulties for the company, such as cash flow problems, delays in payments to suppliers and liquidity tensions.

To remedy this situation, the company must implement corrective measures, such as reducing costs, increasing sales, renegotiating payment terms with suppliers or refinancing its short-term liabilities. Restoring short-term financial balance is crucial to ensure the viability of the company and avoid more serious long-term consequences, such as payment defaults or deterioration of its financial reputation.

To conclude, a negative WCR indicates a short-term financial imbalance for the firm, requiring corrective measures to restore its financial health and operational stability.

Case 3 : Working Capital Requirement =0 Indeed, in this context where operating jobs are equal to operating resources, the firm is in financial equilibrium, which means its short-term assets are entirely financed by its short-term liabilities. In this situation, working capital is zero, because there is no need for additional working capital. Net cash, on the other hand, is the resulting balance between working capital and working capital requirement. It represents the cash immediately available to the company, which gives it an idea of its short-term financial situation. A positive net cash indicates that the company has excess cash, while a negative net cash could indicate a need for additional financing to cover current obligations. Indeed, we will approach cash flow indicators through the following cases:

Net Cash = working capital - Working Capital Requirement

Case 1 : Net Cash Flow > 0 In this case where operating uses are equal to operating resources, the firm is in immediate equilibrium. This indicates that working capital requirements are fully covered by available working capital. Any excess working capital can then be kept in cash, which strengthens the company's financial position by allowing it to have available liquidity to meet possible future needs or investment opportunities.

Case 2: Net Cash < 0 If the working capital needs aren't fully covered by the available working capital, this indicates an immediate financial imbalance for the firm. In this situation, the company will have to cover the working capital deficit using external financing sources such as cash loans, lines of credit or other forms of short-term financing. This can increase the financial risk of the company due to the interest costs and repayment obligations associated with the loans, but it may be necessary to maintain current operations.

Case 3 : Net Cash =0 When the company is in immediate balance, it is evidence of optimal financial management where working capital requirements are fully covered by available working capital. This means that the company is using its resources efficiently to maintain its current operations without the need to resort to external sources of financing. This financial balance reflects good management of the company's cash flows and assets, which can contribute to the financial stability and sustainability of the company in the short term. It also shows that the company is able to generate enough cash from its operational activities to meet its immediate financial needs. Financial ratios: A financial ratio is a ratio between two variable quantities that are related in an economic or financial way. These ratios are often used to assess a company's financial performance, financial health, profitability, operational efficiency, solvency, among other aspects. (Bruslerie, 2014)

Indeed, financial ratios can be calculated from the firm's financial statements, such as the balance sheet and income statement, and can be used to compare the company's performance over time, against other companies in the same sector or of similar size, or against industry standards. They provide useful insights for investors, lenders, managers, other stakeholders about the financial health and performance of a firm. In this approach, we will present the performance measurement indicators of the firm we have always called the financial structure ratios that indicate the vocation of the company and measure its financial health such as:

- Company vocation = Fixed Assets / Jobs (>50% industrial, <50% commercial)
- Financial autonomy ratio = Shareholders Equity / assets > 50%

- Available cash ratio = Available Value / Assets (<5% industrial, >5% commercial)
- Debt capacity ratio = Shareholders Equity / Medium and Long Term Debts > 100%
- Solvency ratio = assets / debts >100%

For greater clarity, we have voluntarily opted for the following empirical case:

3-1 The Case Study

The selected enterprise, created in 1947, is one of the main public firms in Algeria. It operates in the field of electricity and gas distribution with its head office based in Algiers. Over the years, it has evolved into a major industrial group, now with 39 subsidiaries and five affiliated companies. To do this, we have chosen the following balance sheet to which we will apply the theoretical concepts mentioned in the first part of this article.

Company budget to applay financial ratios

Assets	amount	%	liabilities	amount	%
Fixed assets	33 696 097 750	**87,28%**	**Sharholders Equity**	26 924 424 740	**69,74%**
Operating value	2 209 932	**0,01%**	**Debts**	11 681 772 767	**30,26%**
Realizable Value	4 754 387 098	**12,32**	**Medium and long term debts**	6 612 396 767	**17,13%**
Available value	153 502 727	**0,39%**	**Short term debts**	5 069 376 000	**13,13%**
Total	**38 606 197 507**	**100%**	**Total**	**38606197507**	**100%**

Source : Developed by us from the company's internal documents

<u>Analysis of Financial Balances:</u>

Working Capital= Sharholders + Medium and long term debts - Fixed assets

Working Capital= -159276243.

Indeed, when the company relies on short-term debt to finance its long-term investments, it is in long-term imbalance. This situation can be considered unfair, as it exposes the company to financial risks and short-term repayment pressures for longer-term commitments.

To restore this balance, the firm could consider different strategies like increasing equity. This could be done by welcoming new shareholders and increasing share capital, which would strengthen the firm's financial base and reduce its dependence on short-term debt.

Another approach could be to increase long-term borrowing, which would allow long-term investments to be financed more appropriately, while spreading repayments over a longer period and reducing pressure on short-term cash flow.

In summary, restoring positive working capital to financing through an increase in equity or a review of the debt structure can help stabilize the firm's long-term financial position.

Working Capital Requirement = Operating value + Realizable Value - Short term debts

Working Capital Requirement = -312778970

We found that the company is in short-term imbalance, with operating uses lower than operating resources, indicating excess liquidity. This may be the result of poor liquidity management, where available cash is mainly invested in purchasing fixed assets rather than in current operations. To restore balance, several measures can be considered. First, it may be necessary to reduce fixed assets by reducing investments in new assets and instead focusing on managing available cash efficiently. This could help to repay short-term debts (STDs) and improve the company's cash position.

Besides, to increase working capital requirements (WCRs) and reduce excess liquidity, it may be wise to increase credit sales in order to increase operating resources (OR). Similarly, increased sales may require increased production volumes, which could be achieved by purchasing more raw materials (RM) to produce more increase operating employment (OE).

To sum up, correcting the imbalance in the short term would require redirecting resources to current operations, reducing investment in fixed assets, adjusting credit and procurement policies to optimize liquidity management and restore an appropriate financial balance.

Net Cash = Working Capital - Working Capital Requirement

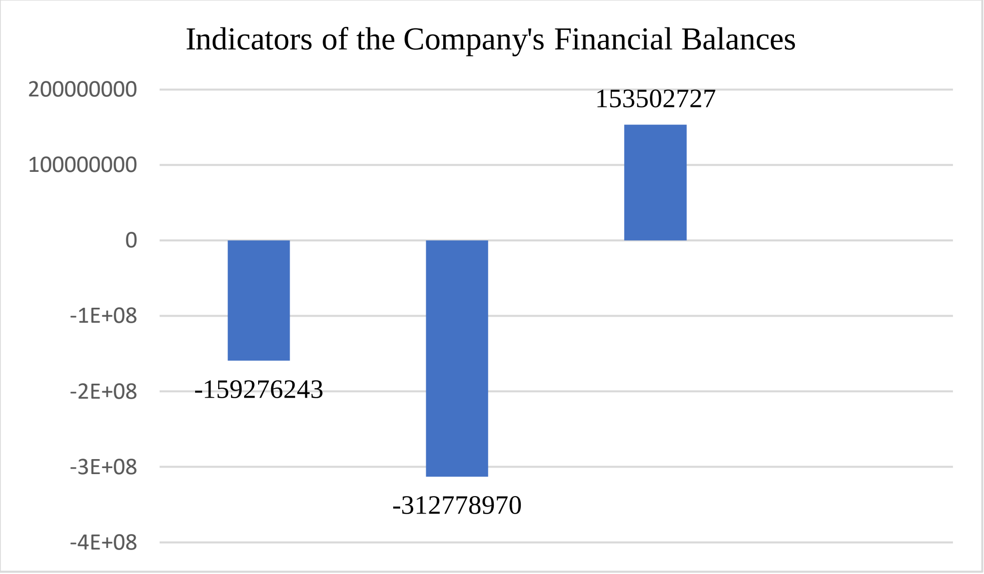
Net Cash = 153502727

This company is in immediate imbalance, with working capital requirements exceeding available working capital. This indicates an urgent need for short-term liquidity, with short-term debts unable to cover this need and the absence of positive working capital.

To address this situation, several measures can be considered. First, it may be necessary to sell some non-core machinery or assets to generate immediate cash and reduce the short-term working capital requirement. This could help cover immediate financial obligations and stabilize the company's cash position. In addition, another option would be to increase the company's equity, either by attracting new investors or by reinvesting profits to strengthen the company's financial base. This could help increase available working capital and reduce reliance on short-term debts.

Finally, if the company has a strong repayment capacity, it could also consider increasing long- and medium-term debts to cover the short-term working capital gap. However, this option would require a careful analysis of the company's repayment capacity to avoid an excessive increase in the long-term financial burden.

In summary, to address an immediate imbalance, options such as selling non-core assets, increasing equity and prudent management of long-term debt should be explored to restore a stable and balanced financial situation



Source : Developed by us from the company's internal documents

3-2 Analysis of Structural Ratios:

Company's vocation is industrial Fixed Assets / Jobs*100 >50%

We confirm that the company is industrial. The percentage of fixed assets (VI) to jobs (Jobs) is 87.28%, which indicates that the majority of the company's resources are invested in fixed assets. This suggests a strategy focused on developing and strengthening the firm's real estate assets. Such a reduction could be justified if the firm wants to diversify its investments, improve its liquidity or adjust its financing structure. This could involve selling non-core real estate assets, looking for investment opportunities in other sectors, or reassessing its investment policy to find a better balance between fixed assets and liquid assets.

In summary, although the company appears to have an industrial vocation with a high percentage of fixed assets, it may be wise to assess the need to reduce this percentage in order to optimize its financial structure and growth prospects.

Financial autonomy = Shareholders Equity / resources*100 > 50% so financial autonomy = 69,74%

It is independent from financial institutions. We find that the company is in a good financial position; it does not need to rely on financial institutions for its financing, which is evidence of its financial independence. This autonomy from financial institutions can be seen as an advantage because it allows the company to make its own financial decisions without being subject to external constraints. It can also reflect prudent and efficient financial management, as well as an ability to generate sufficient cash from its operating activities. The fact the company is in a good financial position suggests that it is able to meet its financial obligations, maintain solid profitability, finance its current operations and future investments. This can be the result of effective management of resources, adequate diversification of activities and adaptation to changing economic conditions.

To sum up, the firm's financial autonomy and good financial position are assets that can contribute to its stability and long-term sustainability. These elements enable the company to:

- **Maintain Operational Flexibility:** A solid financial autonomy ensures that the company can make strategic decisions without excessive dependence on external financing. This allows it to seize market opportunities and respond quickly to economic changes.
- **Manage Financial Risks:** A good financial position reduces the risk of over-indebtedness and decreases vulnerability to market fluctuations. The entreprise can better absorb economic shocks and manage periods of low profitability without compromising its operations.
- **Improve Investor and Partner Confidence:** A good financial position strengthens the firm's credibility with investors, business partners and financial institutions. This facilitates access to favorable financing conditions and strategic collaborations.
- **Support Long-Term Growth:** With a stable financial base, the company can invest in innovation, research and development, and the

expansion of its activities. This contributes to sustainable growth and the continuous improvement of its competitiveness in the market.

In short, financial autonomy and good financial position are fundamental pillars to ensure the stability and sustainability of a company, allowing it to act effectively through challenges and capitalize on long-term opportunities.

Available Cash Ratio = Available Value / jobs x100 *100 > 5%:

The available cash ratio, calculated at 0.39%, reveals that the percentage of available cash to total resources is less than 5%.

- With a high cash availability rate, the company demonstrates effective management of its liquidity. This ability to maintain sufficient liquidity is a testament to its financial prudence and resource management skills.

- **Financial Security:** A high level of liquidity provides financial security by ensuring that the company can meet its short-term financial obligations. This includes paying suppliers, salaries, and other current operating expenses.

- **Operational Flexibility:** The availability of liquidity allows the company to quickly seize business opportunities, such as equipment purchases, R&D investments or strategic acquisitions, without requiring immediate external financing.

- **Reduction of Financial Costs:** with available liquidity, the firm can avoid taking costly short-term loans out, thereby reducing financial costs related to interest and bank charges.

- Strategic Fund Allocation: The judicious allocation of funds to strategic investments is another sign of the company's good liquidity management. These investments may include 'Improving Business Operations': Investing in advanced technologies, automating processes, and improving infrastructure can increase operational efficiency, reduce long-term costs, and improve the quality of products or services.

The firm can use its cash to finance expansion into new geographic markets or customer segments, diversifying its revenue streams and reducing its reliance on a single market.

In our opinion, based on our analysis, with a high cash availability rate, the company not only demonstrates effective liquidity management, but also uses these funds to make strategic investments aimed at improving its business operations. This not only strengthens its current competitive position, but also prepares the company for sustainable, long-term growth.

Debt capacity = Equity Capital / Medium and Long Term Debts *100 > 100

- Indeed, the debt capacity ratio, calculated at 407.18%, indicates that the percentage of equity to long-term debt is greater than 100%. This measure suggests that the firm has a comfortable margin of safety to take bank loans from financial institutions out. This measure is a key indicator of the company's financial strength and its ability to manage new debt.

Thus, we affirm that:

- Comfortable Margin of Safety: A ratio of 407.18% means the company's equity is more than four times the amount of its long-term debt. This shows that the firm has a solid financial base and can absorb economic fluctuations without the risk of becoming over-indebted.

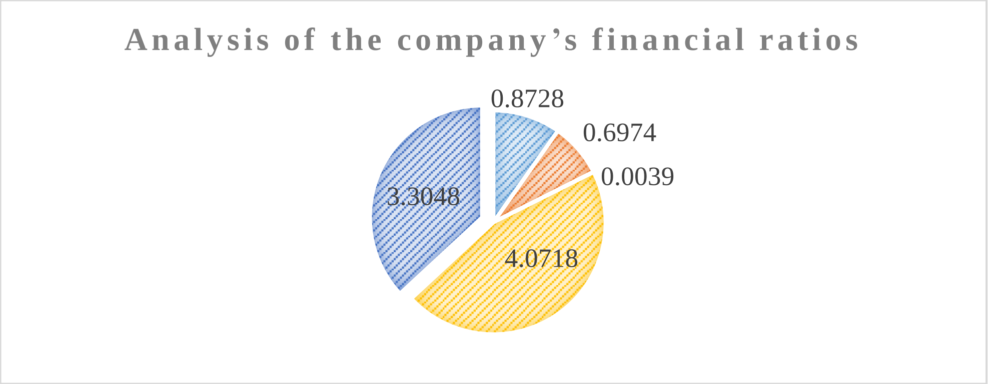
- This ratio also indicates that the company has a comfortable margin of safety to take on additional borrowing. Financial institutions are generally more willing to grant loans to companies that demonstrate such an ability to repay their debts. A high ratio strengthens lenders' confidence in the stability and solvency of the company.

- A high debt capacity ratio can also attract investors as it demonstrates the company's ability to generate enough equity to support its operations and future expansions. Business partners and suppliers may also see this financial strength as a sign of reliability.

- Financial Flexibility: Having a comfortable margin of safety allows the company to benefit from increased financial flexibility. It can invest in growth projects, seize acquisition opportunities, or develop new product lines without worrying about financial constraints.

In summary, a debt capacity ratio of 407.18% indicates that the company has a comfortable margin of safety with respect to its long-term debts. This suggests prudent and efficient management of its financial resources, which allows it to take bank loans from financial institutions with relative ease out. This financial strength strengthens the confidence of lenders, investors, and business partners, while providing the company with financial flexibility to support its future growth and operations.

Solvency = jobs / debts *100 >100%: The solvency ratio, calculated at 330.48%, indicates the company's resources are 3.3 times greater than its debts. This measure demonstrates that the company is solvent, which means that it has the financial capacity to meet its financial obligations. In the event of debt repayment, the company has different options to generate liquidity. It can recover amounts owed by customers, liquidate available cash assets, sell operating inventory and possibly sell fixed assets. These actions would allow it to repay its debts and maintain its financial solvency.



Source: Prepared by us from internal company documents

Conclusion

Financial analysis plays an important role in the development of companies. Thanks to its analysis tools, it exerts a significant influence on the company's decisions and strategies. The application of the ratio method revealed that the company enjoys solid solvency and financial independence, allowing it to request loans to meet its working capital needs.

However, despite positive cash flow, the company has a significant working capital requirement and displays negative working capital. To restore balance in the short and long term, actions must be taken on working capital and working capital requirements. Possible solutions include selling on credit or increasing production by acquiring raw materials. Alternatively, an increase in share capital can be considered, either by reinvesting dividends or by providing additional funds.

Following the use of various financial analysis tools, our assumptions were confirmed, thus demonstrating the importance of this analysis in the decision-making process. Balance indicators and financial ratios are essential to assess the structure and financial performance of the company.

Financial analysis, based on the ratio method, helps measure the performance and financial health of the company, facilitating informed decision-making. Overall, it is undeniable that financial analysis is an essential tool for investors, analysts, managers and bankers, providing them with crucial information to assess the financial situation of the company and make appropriate decisions.

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