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FINANCIAL ANALYSIS OF LONG-TERM SOURCES OF CAPITAL IN TOURIST COMPANIES. Part II. LIABILITIES

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ABSTRACT
The study aims at analyzing long-term sources of capital (liabilities) of diversified companies in the field of tourism. Diversification of the companies' business in the sector could be an effective defensive strategy to reduce the risk under conditions of crisis. By analyzing long-term financial resources it is possible to restructure the financial and capital structure of companies and to optimize production capacities, for more efficient strategic planning and enhancing financial sustainability. As a result, companies will reduce financial risk and will be more competitive and sustainable. Under conditions of crisis regular survey of corporate performance is crucial for the survival of the company. Performing financial diagnostics of its structure the management could implement changes for optimization and restructuring.

Key words: financial analysis, long-term sources of capital, financial sustainability

INTRODUCTION

The thesis advanced in this study that by doing financial analysis or financial diagnosis as a process of identification and assessment of the "health status" of a business organization for certain financial criteria, a diagnosis is set strategic and tactical decisions are made to maintain or bring the company in good condition and build financial sustainability.[1]

The financial status of a company is a result of its operative, investment and financial activities and can be viewed as an expression of its complex operation and a prerequisite for high current and future market value.

With financial condition are related features such as:
• provision of financial resources
• appropriate allocation and efficient use of resources
• building good solvency and financial sustainability
• optimal levels and effective use of own and borrowed capital.

The coefficients used in the analysis of financial status are related to: capital structure, financial risk, growth rate, liquidity, solvency, etc.

Capital structure is an essential indicator for the development of the business organization and it is the ratio between own and borrowed funds used for the activity. From the point of view of accountancy report, capital must be defined from the perspective of the balance sheet in the liability side of which it is recorded. Based on the balance sheet equality, equity is the value of the company's assets needed for its business and to obtain profit. On the other hand, the ratios characterizing the capital structure are indicators that reveal the financial sustainability and independence of the company from its creditors. Or, by capital structure we mean not the

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[1]Kasarova C. Models for financial diagnosis in value-oriented management, International Conference, Burgas Free University, Burgas, 2010, pp. 55-61

composition and type of assets in which that capital is materialized, and the correlation between the various sources of its formation used by company to finance its operations **(Figure 1).**

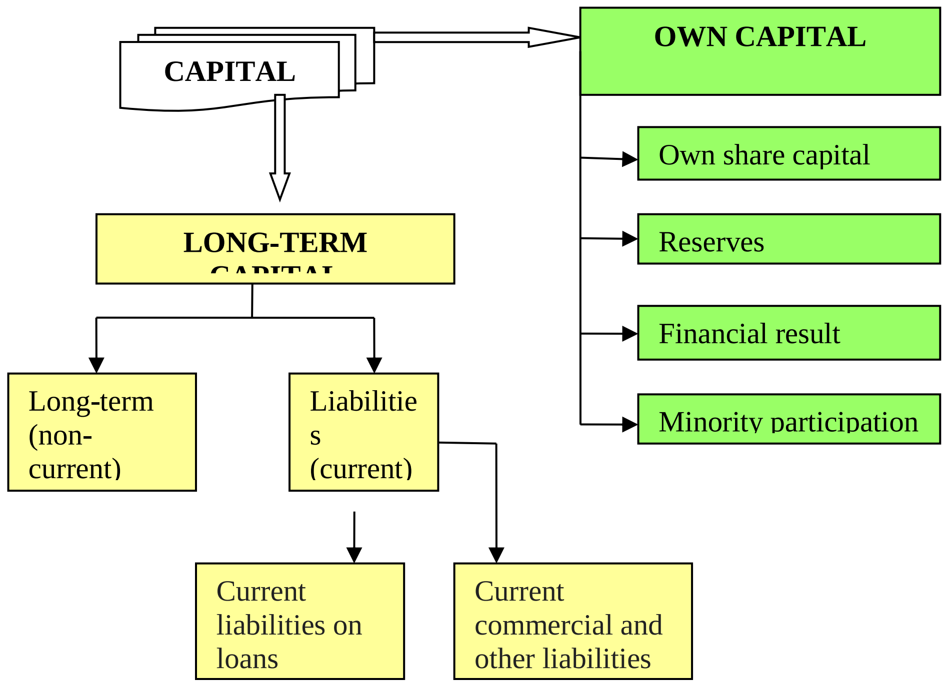

Figure 1. Structure of the company's capital

Capital structure can be seen in a narrow and broad sense. In the first case it is formed of equity and debt used to finance long-term investments, and in the second one it includes all sources of financing - equity, long- and short-term debt.

These two aspects of capital structure are integrated in two different analytical models - financial and accounting model. The following is a review of the capital structure from the point of view of the accounting analytical model.

In terms of financial sustainability capital structure characterizes the ability of the company to maintain liquidity and ability to pay its debts in long-term perspective (solvency). When analyzing capital structure it should be taken into consideration that:

- The presence of debt in a certain volume is useful for the company;
- For each company there is own, optimum proportion of debt;
- Excessive increase of debt is harmful

Table 1. *Deviations in magnitude, structure and dynamics of the liabilities of "St. St. Constantine and Helena Holding" JSC*

Indicators	Equity		Long-term liabilities		Current liabilities		Total liabilities		Variation in the structure %		
	Amount	%	Amount	%	Amount	%	Amount	%			
2008	20917	32,00	25230	38,60	19216	29,40	**65363**	**100**			
2009	22886	33,02	14322	20,66	32099	46,31	**69307**	**100**			
2010	27328	38,00	13187	18,34	31406	43,67	**71921**	**100**			
2011	30005	52,99	12339	21,79	14283	25,22	**56627**	**100**	**E**	**LL**	**CL**
Variation 2009/2008	**1969**	**9,41**	**-10908**	**-43,23**	**12883**	**67,04**	**3944**	**6,03**	**1,02**	**-17,94**	**16,92**
Variation 2010/2009	**4442**	**19,41**	**-1135**	**-7,92**	**-693**	**-2,16**	**2614**	**3,77**	**4,98**	**-2,33**	**-2,65**
Variation 2011/2010	**2677**	**9,80**	**-848**	**-6,43**	**-17123**	**-54,52**	**-15294**	**-21,26**	**14,99**	**3,45**	**-18,44**

In the value of liabilities for the period under review uneven change is also observed. In 2011 it is reduced by -15 294 000 lv. That is the result of the decrease in long-term liabilities by - 848 000 lv. and of short-term liabilities by - 17 123 000 lv. (-54.52) and increase in equity by +2 677 000 lv. (+9.80). The decrease in current liabilities was due to the drastic decrease in non-current liabilities related to the repayment of the company bond loan at the end of 2011. **(Table 1).**

Table 2. *Analysis of financial autonomy (independence) of "St. St. Constantine and Helena Holding" JSC*

Indicators	Equity	Long-term liabilities	Current liabilities	Total capital	Caut. 1	Caut. 0	Change	Impact on equity	Impact of long-term liabilities	Impact of current liabilities
	Amount	Amount	Amount	Amount						
2008	20917	25230	19216	**65363**						
2009	22886	14322	32099	**69307**						
2010	27328	13187	31406	**71921**						
2011	30005	12339	14283	**56627**						
Variation 2009/2008	**1969**	**-10908**	**12883**	**3944**	0,33	0,32	**+0,01**	**+0,02**	**+0,07**	**-0,08**
Variation 2010/2009	**4442**	**-1135**	**-693**	**2614**	0,38	0,33	**+0,05**	**-0,04**	**-0,01**	**0,00**
Variation 2011/2010	**2677**	**-848**	**-17123**	**-15294**	0,53	0,38	**+0,15**	**-0,13**	**+0,01**	**-0,03**

The analysis shows that during the studied period equity per 1 lv. of the total capital increases each year, for 2011 it has increased by +0.15 points and has reached 0.53, which is the lower limit of the recommended value for that coefficient. The reached value of the coefficient for 2011 is indicative of the shareholders that their investments can be recouped from the ownership of the company **(Table 2).**

Table 3. *Analysis of the financial dependence of "St. St. Constantine and Helena Holding" JSC*

Indicators	Long-term capital	Total assets	Cfin.dep.$_1$	Cfin.dep.c.$_0$	$\pm \Delta C_{dependence}$
	Amount	Amount	Amount	Amount	Amount
2008	44446	65363			
2009	46421	69307	0,67	0,68	**-0,01**
2010	44593	71921	0,62	0,67	**-0,05**
2011	26622	56627	0,47	0,62	**-0,15**

The results show that for the analyzed period the company gradually reduced its financial dependence, and in 2011 it fell to below 50% (0.47). This results most from the repayment of the bond loan at the end of 2011. **(Table 3).**

Table 4. *Analysis of indebtedness "St. St. Constantine and Helena Holding" JSC*

Indicators	Equity	Long-term capital	Cindebt.$_1$	Cindebt.$_0$	$\pm \Delta C_{indebtedness.}$
	Amount	Amount	Amount	Amount	Amount
2008	20917	44446			
2009	22886	46421	2,03	2,12	**-0,09**
2010	27328	44593	1,63	2,03	**-0,40**
2011	30005	26622	0,89	1,63	**-0,74**

The established values of the debt coefficient indicate that each 1 lv. of equity for 2011 corresponds to 0.89 lv. The dynamics found (-0.74 lv.) is favourable for the financial status of the company. **(Table 4 and Figure 2).**

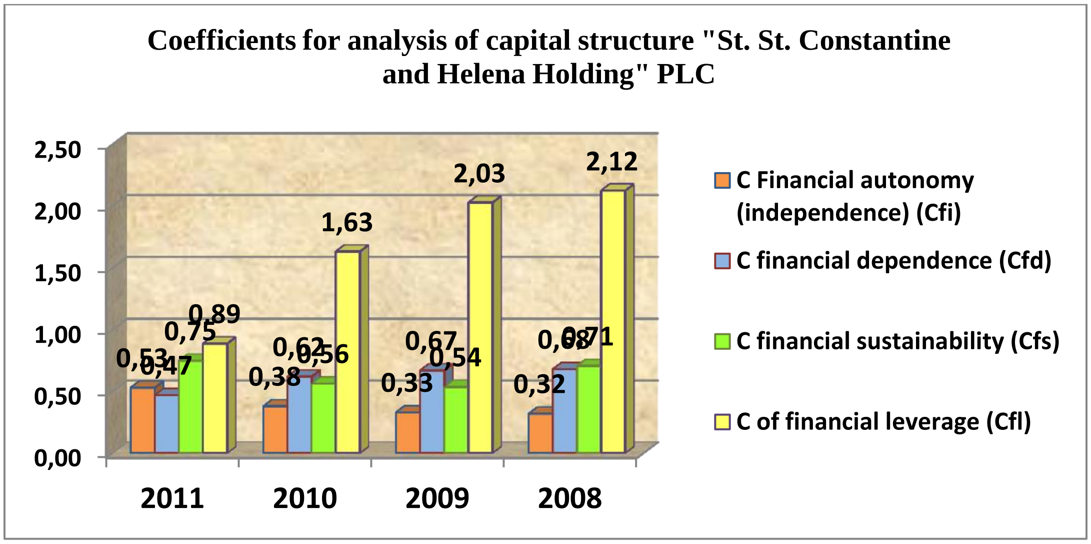

Figure 2.

Table 5. *Model of financial leverage of "St. St. Constantine and Helena Holding" JSC*

Indicators	**Total capital**	**Long-term capital**	**FL.₁**	**FL.₀**	$\pm \Delta FL$
	Amount	**Amount**	**Amount**	**Amount**	**Amount**
2008	65363	44446			
2009	69307	46421	0,67	0,70	**-0,03**
2010	71921	44593	0,62	0,67	**-0,05**
2011	56627	26622	0,47	0,62	**-0,15**

The relative share of borrowings in the amount of capital set by the value of the financial leverage in the studied period has negative growth and in 2011 it reached a value of 0.47 lv. This declining value has favourable effect on equity profitability **(Table 5).**

Table 6. *Effect of financial leverage for "St. st. Constantine and Helena Holding" JSC*

Indicators	**Total capital**	**Financial result**	**ROE.₁**	**ROE.₀**	$\pm \Delta ROE$	**Influence of FL**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**%**
2008	65363	11454				
2009	69307	13313	58,21	58,41	**-0,20**	**-5,82**
2010	71921	17755	64,97	58,21	**+6,76**	**-9,84**
2011	56627	20207	67,33	64,97	**+2,36**	**-26,58**

The found decrease in the relative share of borrowings in the amount of the total capital had a negative effect on performance, which measured by the magnitude of equity profitability, has a permanent reduction rate and in 2011 efficiency fell by -26.58 points **(Table 6).**

Table 7. *Structure and dynamics of the equity of the "St. St. Constantine and Helena Holding" JSC*

Equity	Share capital		Reserves		Financial result		Total liabilities		Variation in the structure %		
	Amount	%	Amount	%	Amount	%	Amount	%			
2008	2310	11,04	7153	34,20	11454	54,76	**20917**	**100**			
2009	2310	10,09	7263	31,74	13313	58,17	**22886**	**100**			
2010	2310	8,45	7263	26,58	17755	64,97	**27328**	**100**			
2011	2310	7,70	7488	24,96	20207	67,35	**30005**	**100**	**ОК**	**Р**	**ФР**
Variation 2009 /2008	**0**	**0,00**	**110**	**1,54**	**1859**	**16,23**	**1969**	**9,41**	**-0,95**	**-2,46**	**3,41**
Variation 2010 /2009	**0**	**0,00**	**0**	**0,00**	**4442**	**33,37**	**4442**	**19,41**	**-1,64**	**-5,16**	**6,80**
Variation 2011 /2010	**0**	**0,00**	**225**	**3,10**	**2452**	**13,81**	**2677**	**9,80**	**-0,75**	**-1,62**	**-2,38**

For the period under review sustained increase in equity is observed resulting from the constant positive dynamics of equity **(Table 7).**

Table 8. *Functional structure of the equity of the "St. St. Constantine and Helena Holding" JSC*

Equity	Own share capital		Own working capital		Total equity		Variation in the structure %	
	Amount	%	Amount	%	Amount	%		
2008	26623	127,28	-5706	-27,28	**20917**	**100**		
2009	46482	203,10	-23596	-103,10	**22886**	**100**		
2010	47940	175,42	-20612	-75,42	**27328**	**100**	**OSC**	**OWC**
2011	35585	118,60	-5580	-18,60	**30005**	**100**		
Variation 2009 /2008	**19859**	**74,59**	**-17890**	**313,53**	**1969**	**9,41**	**75,82**	**-75,82**
Variation 2010 /2009	**1458**	**3,14**	**2984**	**-12,65**	**4442**	**19,41**	**-27,68**	**+27,68**
Variation 2011 /2010	**-12355**	**-25,37**	**15032**	**-72,93**	**2677**	**9,80**	**-56,83**	**+56,83**

The established amounts, relative shares and deviations are indicative of the restructuring of financing with own working capital. In the studied period both components of equity - basic and working capital, have changed in absolute numbers and percentages that result in 56,83 percent change of the structure (reduction of 56.83% of the relative share of equity and growth of 56 83% of working capital). This dynamics shows that in 2010-2011 the funds of the company used to finance short-term assets that were diverted for the acquisition of fixed ones, recover to levels of 2008. **(Table 8).**

Table 9. *Analysis of the structure of the debt of the "St. St. Constantine and Helena Holding " JSC*

	Indicators	2011	2010	2009	2008
1	**Equity** (thousand lv.)	30005	27328	22886	20917
2	Debt (thousand lv.)	26622	44593	46421	44446
4	Non-current debt (long-term liabilities) (thousand lv.)	12339	13187	14322	25230
5	Non-current assets (thousand lv.)	47924	61127	60804	51853
10	Coefficient of debt structure (Cds)	0,46	0,30	0,31	0,57
11	Coefficient of structure of non-current debt (Csnd)	0,26	0,22	0,24	0,49
12	Coefficient of long-term borrowing (Clb)	0,29	0,33	0,38	0,55

The debt structure coefficient has the highest values at the beginning and end of the period. The reason is in the opposite tendencies in the change of the two components in the correlation. While non-current debt relatively smoothly decreases throughout the period, the total debt increases significantly and dramatically in 2010 and then decreases sharply. This situation is caused by changes in the current debt of the company, especially in the amount of non-current payables and payables to related entities.

The non-current debt structure coefficient marks significant decrease over the studied period, indicating that the share of FA financed by debt, decreases. Similar is the tendency with the Loan borrowing coefficient. The main reason for this is the significant increase of equity in the company - +1.43 times in 2011 compared to 2008, while non-current debt in the same period decreased 0.49 times. **(Table 9 and Figure 3).**

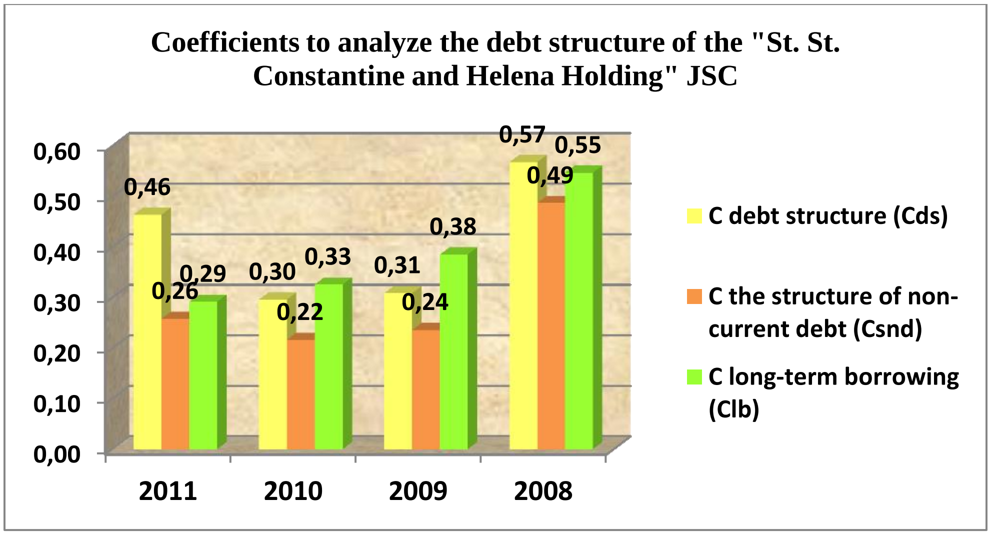

Figure 3.

Table 10. *Deviations of long-term liabilities of "St. st. Constantine and Helena Holding" JSC*

Long-term liabilities	Long-term amounts payable/obligations		Others long-term liabilities		Deferred tax liabilities		Total long-term liabilities		Variation in the structure %		
	Amount	%	Amount	%	Amount	%	Amount	%	LO	OLL	DTL
2008	25006	99,11	0	0,00	224	0,89	**25230**	**100**			
2009	14032	97,98	26	0,18	264	1,84	**14322**	**100**			
2010	12963	98,30	34	0,26	190	1,44	**13187**	**100**			
2011	12112	98,16	38	0,31	189	1,53	**12339**	**100**			
Variation 2009 /2008	**-10974**	**-43,89**	**+26**	**0,00**	**+40**	**+17,86**	**-10908**	**-43,23**	**-1,14**	**+0,18**	**+0,96**
Variation 2010 /2009	**-1069**	**-7,62**	**+8**	**+30,77**	**-74**	**-28,03**	**-1135**	**-7,92**	**+0,33**	**+0,08**	**-0,40**
Variation 2011 /2010	**-851**	**-6,56**	**+4**	**+11,76**	**-1**	**-0,53**	**-848**	**-6,43**	**-0,14**	**+0,05**	**+0,09**

For the period 2011-2008 long-term debt capital is almost entirely in the form of long-term payables. In 2009 compared to 2008 they reduced by -43.89% (or -10 974 000 lv.). This is due to the drastic reduction of liabilities on bonds **(Table 10).**

One of the most important aspects of financial analysis is to determine the relationship between market and financial risk and impact of risk on the income of shareholders.

It is known that financial risk is associated with the probability of insolvency due to available debts for the repayment of which the available liquid assets, as well as the expected cash receipts for a given period of time are not sufficient. This issue is very relevant at the time of the financial and economic crisis. The level of financial risk is actually related to the financial situation of the company for the studied period of time.

Business and financial risk are closely interrelated. With possible reduction of sales income decreases and hence the ability for servicing the loan in the short and long term. The analysis of business risk is a necessary condition for an objective assessment of the financial risk. This fact requires to analyze the two types of risk in a interrelated way by means of the financial and operational leverage.

The methods of corporate finance have always paid special attention to the concept of "value" both in its measurement and its management. In the late 1980s and early 1990s the added value (i.e. economic profit) was calculated, which is above all costs, including capital, and measures the productivity of all production factors. The models of economic value added (EVA), market value added (MVA), shareholder value added (SVA), cash value added (CVA) also develop.

The evaluation of the effectiveness of the business of public companies is done through market indicators such as market capitalization, earnings per share (EPS), sales per share (SPS), current price/earnings per share (P/E), current price/sales per share (P/S) and current price/book value per share (p/book value, P/B).

Table 11. *Indicators for measuring the earning of shareholders and financial and market risk of the "St. St. Constantine and Helena "JSC*

Indicators	**2011**	**2010**	**2009**	**2008**
Net profit	2452000	4442000	1832000	1718000
Gross profit	2427000	4368000	1916000	1834000
Fixed costs				
Cost of hired services	1385000	784000	2944000	2691000
Cost of amortization	598000	616000	682000	548000
Salary expenses	1020000	814000	634000	563000
Social security costs	161000	124000	105000	110000
Interest expenses	2502000	2688000	2770000	2832000
Total:	**5666000**	**5026000**	**7135000**	**6744000**
Number of common stocks	2309561	2309561	2309561	2309561
Dividend per share	-	-	-	-
Share price at the end of year	4,91	7,5	11,26	25,16
Equity	30005000	27328000	22886000	20917000
Debt	26622000	44593000	46421000	44446000
Non-current debt	12339000	13187000	14322000	25230000
Assets (total)	56627000	71921000	69307000	65363000
Earning before interest and taxes	4954000	7130000	4686000	4666000
Sales revenues	4344000	3852000	6585000	7675000
Sales revenue is falling per share	1,88	1,67	2,85	3,32
Last dividend was distributed for 2004				
Indicators	**2011**	**2010**	**2009**	**2008**
Earning per share	**1,06**	**1,92**	**0,79**	**0,74**
Market value	**11339945**	**17321708**	**26005657**	**58108555**
Market additional value	**-18665055**	**-10006293**	**3119657**	**37191555**
Ratio market value-book value (p/b)	**0,38**	**0,63**	**1,14**	**2,78**
Ratio share price –earning per share(p/e)	**4,62**	**3,90**	**14,20**	**33,82**
Ratio share price – sale per share (p/s)	**2,61**	**4,50**	**3,95**	**7,57**
Level of financial sustainability	**0,75**	**0,56**	**0,54**	**0,71**
Level of operating leverage	**3,33**	**2,15**	**4,72**	**4,68**
Level of financial leverage	**0,89**	**1,63**	**2,03**	**2,12**
Level of combined leverage	**2,96**	**3,51**	**9,58**	**9,94**

During the period earnings per share increased sharply in 2010 up to a value of 1.92 lv. per share as a result of maintaining the positive trend of the company net profit. The market price of shares traded on the BSE dropped dramatically from 25.16 lv. in 2008 to 4.50 lv. in 2011, which has an adverse effect on the market capitalization of the company, which follows the same dynamics. As a result, the holding company adds value only in 2008 and 2009. From the sharp decline of market price per share on the stock exchange, coefficients p/e, p/s and p/b also have a negative tendency. P/b - at the end of 2011 the market value of the company exceeds 0.38 times its book value, which indicates a reduction in investor confidence. P/e - also significantly reduced due to the faster growth rate of the "Earnings per share" indicator compared to the rate of increase of the price per share, changes in favour of profitability.

For the period under review the financial sustainability has increased to 0.75 points in 2011, approaching the maximum values accepted for this index (0.8-0.9). The differences in the values of sustainability for 2008 and 2009 compared to 2010 and 2011 are due to the fact that the growth rate of the company assets exceeds the growth rate of liabilities.

The level of the operating leverage remains significantly high and as a result of that it is considered that the holding company has high level of business risk. The analysis shows that in 2010-2011 the company has lowered the business risk in half compared to 2008-2009, but the level are still high.

The level of financial leverage has negative dynamics for the period, in 2008 from 2.12 points it dropped to 0.89 points in 2011. This is an evidence of decreasing dependence on external investors and lenders, or an increase of financial sustainability of the company. In practice, the recommended value for this coefficient is 0.5 – 1.

During the analyzed period the combined leverage varies widely. The highest value was measured in 2008 (9.94) and the lowest in 2011 (2,96). Despite the negative dynamics of the indicator, it still has high positive value, which means that the company manages the capital effectively (see Table 11).

CONCLUSION

As a result of the deduced economic indicators and categories in the financial diagnostics of the company, we could highlight the effective management of the capital, resulting from the correct strategic decisions made by the management.

The recorded positive tendencies in structural indicators give reason to claim that more efforts have been focused on the management of equity and total assets and their share in profit formation.

Due to the diversification of the company's business for the studied period, the level of revenue remained relatively constant, allowing repayment of the received bond loan, and hence the lower dependence on lenders and investors. Diversification of the company portfolio, the issued two emissions of bonds have led to an increase of profit for shareholders over the studied period, as well as positive values of the combined leverage.

The study confirmed the positive impact of monopolization in the industry through diversification of business, manifested primarily as a process of consolidation of the individual companies within the industry or outside it in order to increase profitability. Last but not least, we should note the defensive role played by diversification under conditions of economic crisis by maintaining relatively constant values of the types of viability and profitability.

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