IJDPP

International Journal of Development and Public Policy

| e-ISSN: 2792-3991 | www.openaccessjournals.eu | Volume: 2 Issue: 5

# Issues of Development of the Industry through Financial Analysis of the Participants of the Leasing Relationship

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**Annotation:** The article deals with the issues of financial analysis of the participants of the leasing relationship. Factors influencing the lessor's activities, indicators used in determining the lessee are given. There are scientific proposals to improve the financial condition of the parties to the lease agreement.

**Keywords:** financial analysis, lessor, lessee, solvency, liquidity, investment return.

## Introduction

Ensuring the full functioning of the infrastructure of the leasing market is one of the most important segments of the market. Therefore, the leasing market, as an integral part of the financial market infrastructure, plays an important role in the formation and ensuring the stable operation of the market infrastructure. Leasing companies, being financial entities, also constitute one of the necessary areas of market infrastructure, such as leasing services.

The lack of sources of financing for capital investments in certain enterprises is currently one of the main problems of innovative and investment leasing activities in a frequently changing environment. In the context of a lack of internal sources of financing, the difficulty of obtaining long-term bank loans is one of the real ways to attract innovative investment to purchase equipment, machinery, and equipment for leasing.

In the Republic of Uzbekistan, the law "On Leasing" defines leasing as follows: leasing is a type of investment activity for the acquisition of innovative property that can be used for business activities. It follows that, within the framework of the Law, leasing is understood as the transfer of property on the basis of a leasing agreement to individuals or legal entities for a certain fee, for a certain period and on certain conditions mentioned by the agreement, with the right to purchase the property by the lessee [1].

Traditionally, enterprises use several sources of financing in their activities: equity, bank loans, securities markets and other sources (i.e., budget funds or various funds).

However, in many developing countries, securities markets are underdeveloped, and banks prefer to work with large and fairly stable enterprises. Small businesses or newly formed businesses most often do not have access to bank financing. Often the only source of external financing for such enterprises is financial lease (leasing) or supplier loans.

## Main Part

In recent years, leasing services in our country have been developing rapidly. Under 5875 agreements concluded in 2020, lessors of the republic collected 5673 billion soums, which is 6% more than in 2019. This indicator is a symbolic expression of the stable growth in the volume of leasing services provided in recent years in the context of the coronavirus pandemic. Thus, compared with the indicator of 2017, the volume of turnover for the sale of leasing objects increased by more than 2 times [2] (Fig. 1).

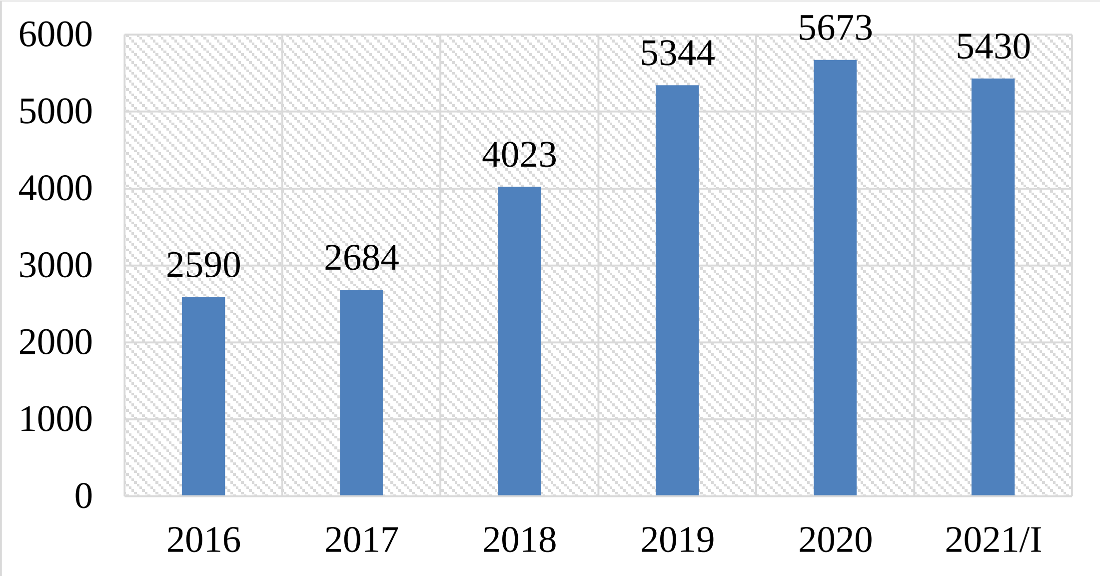


**Fig.1. Total volume of leasing services (billion sum)**

It is known that by minimizing the probabilistic losses and damages of business structures, the population and enterprises, leasing companies provide full-fledged services with subsequent protection of the interests of lessees. Leasing companies in the course of their activities directly enter into relations with legal entities and individuals and may influence the general interests of society. This, in turn, requires the regulation of leasing activities by the state. In regulating the activities of leasing companies, control over their financial stability is of great importance. One of the main indicators that determine financial stability is the solvency of both lessors and lessees. Their solvency is the ability to fulfill their obligations under the leased objects and other financial obligations.

If we take into account the specifics of the leasing activities of leasing companies, then when analyzing their solvency, it is considered appropriate to analyze the technical and long-term solvency of lessees.

According to the article “Guarantees of solvency of the lessee”, lessors cannot assume obligations that exceed the maximum allowable amount for individual risks and the maximum allowable total amount of obligations. When regulating leasing activities, the state establishes certain solvency requirements, and participants in a leasing transaction will be required to comply with these requirements.

The technical solvency of lessors is their ability to meet the requirements established by the state, and the sufficiency of the corresponding lease payments to ensure their leasing activities. Accordingly, technical solvency means that the leasing company does not comply with the requirements established by the state. It should be noted that this situation does not mean that the leasing company is bankrupt or completely insolvent. When the technical insolvency of leasing companies is revealed, the regulatory authorities strengthen control over their activities and give instructions on restoring their financial condition.

Long-term solvency can be determined in terms of cash flow and equity. The first condition means capital accumulated by leasing companies. For the volume of accumulation should be sufficient to

ISSN 2792-3991 (online), Published under Volume: 2 Issue: 5 in May -2022

cover the costs of doing business and the costs of making reimbursements in connection with the onset of leasing transactions.

The second condition means the degree to which the long-term solvency of leasing companies is ensured. For own funds must fulfill the minimum requirements established by the state, that is, the so-called minimum norms of own funds. We addressed these questions in our previous study. In particular, we noted that when lessors (leasing companies) fulfill the above conditions, only their long-term solvency can be ensured. In carrying out their activities, without violating the requirements of the law, the risk of insolvency remains at a minimum level. But it should be noted that the factors emanating from the specifics of their activities can have a significant impact on solvency (Fig. 2) [3].

Based on the above scheme, it should be noted that the leasing company must set the value level, taking into account the requests of lessees from the volume of leasing obligations assumed, and invest leasing in order to make a profit and maintain the stability of the development of the lessee's activities. This, in turn, means that the lessee must have the financial potential to cover all payments and their current expenses.

The solvency level of the lessee is determined using solvency indicators [4]. When analyzing solvency, it is considered appropriate to divide solvency indicators into standard solvency indicators and non-normative solvency indicators.

In the first case, the ratio between the normative and real indicators of solvency is taken as the basis.

In the second case, indicators that do not have a regulatory nature act as indicators of solvency.

Normative solvency indicators are usually set by the state in order to control the financial stability of the lessee's activities and are mandatory.

ISSN 2792-3991 (online), Published under Volume: 2 Issue: 5 in May -2022

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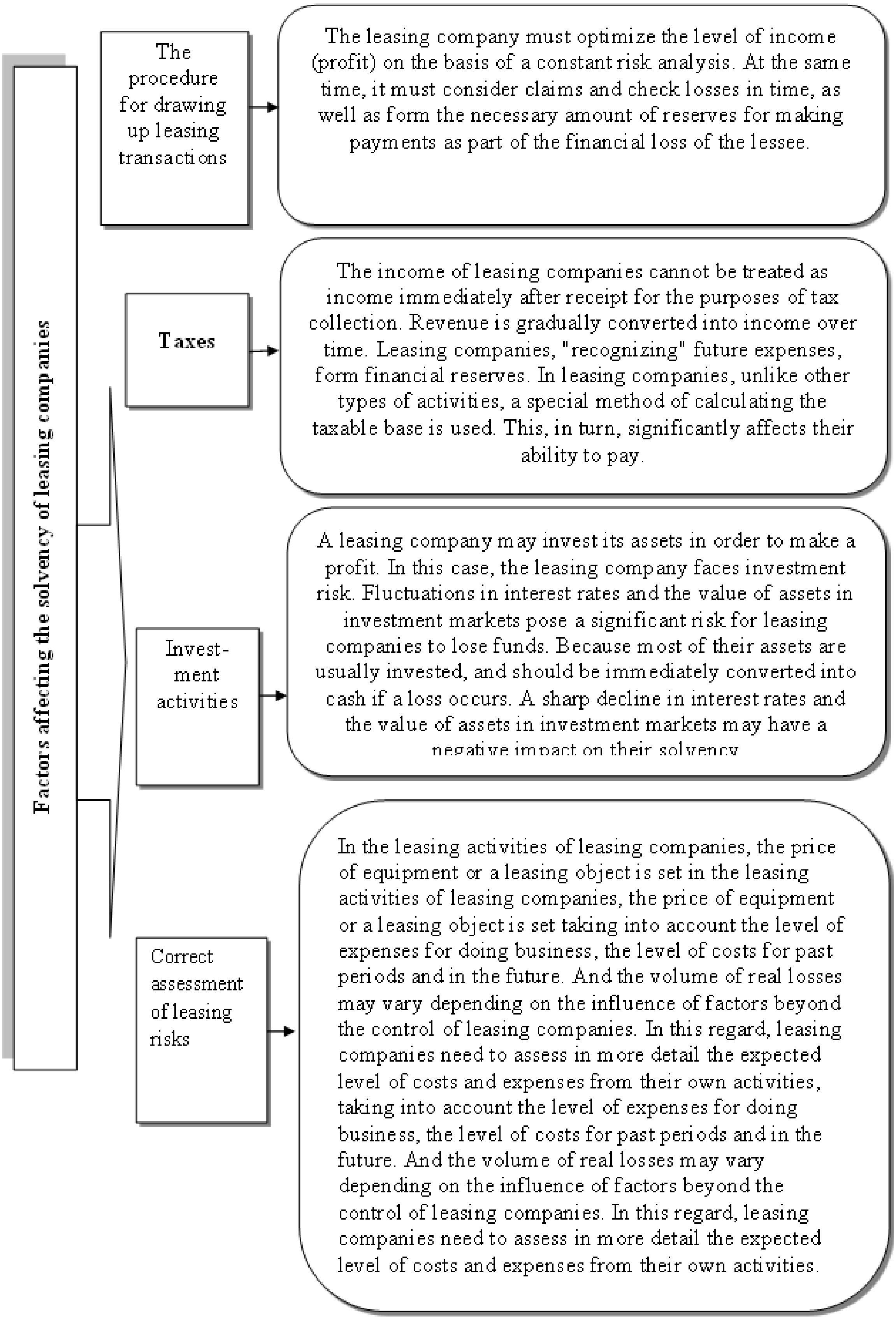


**Fig. 2. Factors affecting the solvency of a leasing company [3].**

ISSN 2792-3991 (online), Published under Volume: 2 Issue: 5 in May -2022

To do this, it is necessary to adopt a new regulation "On the solvency of lessees" with subsequent approval by the Ministry of Finance of the Republic of Uzbekistan and the registered Ministry of Justice of the Republic of Uzbekistan. Within the framework of this provision, it is necessary to establish a number of normative indicators of the solvency of lessees. According to the proposals we recommend, the following should be included in the draft document:

1. The total amount of the lessee's assets placed in the authorized capital of other legal entities is limited to 50% of the lessee's authorized capital, unless otherwise provided by law.
2. The share of the lessee in the authorized capital of any one legal entity should not exceed 30% of the authorized capital of this legal entity (unless otherwise provided by law), except for subsidiaries operating through equipment leasing, as well as activities aimed at ensuring the financial potential of the activity lessee.
3. When placing assets of lessees in bank deposits (deposits), the contribution to one commercial bank should not exceed 40% of the assets of lessees
4. When lessees' assets are placed in deposits (deposits) with credit institutions (other than commercial banks), the total amount of deposits (deposits) must not exceed 10% of the lessees' assets.

Therefore, according to the above indicators, it is possible to determine different aspects of the solvency of lessees. When determining the solvency of lessees, relative indicators are usually used. In this case, in order to fully study the solvency of lessees, it is necessary to separate the indicators within the framework of liquidity and profitability criteria.

Liquidity, being one of the main factors that ensure solvency, determines the level of sufficiency of easily marketable assets to secure lease payments and other current liabilities [5]. At enterprises acting as lessees, liquidity is provided by two sources:

1. Cash flow. The money comes in two directions. First, from the main activity; secondly, receipts in the form of interest, dividends, rents from real estate and receipts in other forms as a result of the investment of the lessee's funds.
2. Realization of assets. This source of liquidity covers investment assets. The lessee, in order to secure funds, as a legal entity, may sell securities, real estate or other types of assets.

The need for cash needed to pay for leasing objects can be determined by calculating a number of liquidity ratios.

At the same time, the level of assets of lessees necessary to provide cash in the future can be determined by the ratio of liquid assets and liabilities of the lessee. This ratio is the liquidity ratio (Table 1).

**Table** 1. **Indicators for determining the solvency of lessees**

| No. | **The name of indicators** | **Calculation formula** | **Note** |
|---|---|---|---|
| 1 | liquidity ratio ( $К_{oef}L_r$) | $К_{oef}L_r = \sum\sum V_l LA_r / \sum GR_{ez}$ | $К_{oef}L_r$- liquidity ratio;<br>$\sum V_l LA_r$- market value of liquid assets;<br>$\sum GR_{ez}$- General reserves. |

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| 2 | Level of unpaid lease payments ($\Delta U_{pai} L_{eas}^{p}$) | $\Delta U_{pai} L_{eas}^{p} = \sum U_{pai} L_{eas\ u}^{p} / \sum N_{et} R_{e}$ | $\Delta U_{pai} L_{eas}^{p}$- the level of unpaid lease payments; $\sum U_{pai} L_{eas\ u}^{p}$- unpaid lease payments; $\sum N_{et} R_{e}$- retained earnings. |
| 3 | Loss ratio ($R_{loss}^{a}$) | $R_{loss}^{a} = \sum\sum L_{osses} + \sum\sum C_{business}^{d} / \sum A_m Wages$ | $R_{loss}^{a}$- loss ratio; $\sum L_{osses}$- losses; $\sum C_{business}^{d}$- the cost of doing business; $\sum A_m Wages$- the amount of wages. |
| 4 | Investment return ratio ($R_{et} I_{n}^{in}$) | $R_{et} I_{n}^{in} = \sum I_{n}^{in} / \bar{\sum} A_{c}^{Ifun}$ | $R_{et} I_{n}^{in}$- investment return; $\sum I_{n}^{in}$- investment income; $\bar{\sum} A_{c}^{Ifun}$- the average cost of invested funds. |

Liquid assets include cash and market-priced securities. The general reserves consist of the unearned income reserve, loss reserves and expense management reserves. The liquidity ratio determines the level of sufficiency of easy-to-sell assets to cover the costs and expenses of lease payments in the future. The equivalence of this coefficient by 1 is considered sufficient.

When ensuring the solvency of lessors, the size of retained earnings also plays a significant role. In joint-stock enterprises acting as a lessee, net profit is usually distributed among shareholders, but upon agreement of shareholders, such organizations can also generate retained earnings. When studying the impact of retained earnings on solvency, it is considered appropriate to compare it with unpaid payments. The unpaid leasing payment is the funds that the lessor must pay, and those amounts that are receivables. This situation may arise when the lease agreement is extended and funds for lease payments are not received on time, as well as when funds are not paid to lessors. If lessees have receivables for leasing payments on leasing payments, they can cover costs and expenses from retained earnings. At the same time, if such payments amount to no more than 30% of retained earnings, then this process can be assessed as positive.

Yield is defined as the excess of cash received as income over cash paid as expenses. This, accordingly, has an impact on solvency. The profit of lessees is defined as the difference between gross income, investment income, other income and all expenses[1]. Various ratios can be used to determine the profitability of lessees' activities. Below we will consider the main profitability ratios.

The main factors affecting the amount of profit are losses and the level of expenses for doing business [6]. The level of unprofitability of lessees' activities is determined using the loss ratio (table 1). The calculation of this ratio allows you to compare losses and expenses for doing business with earned income. The loss ratio does not take into account investment income. In this regard, it is expedient to use this indicator for those types of leasing in which profitability is provided at the expense of income earned from the use of leasing objects. If the investment return is taken into account in this coefficient, then the loss ratio for long-term types of leasing objects will be lower relative to other types of leasing objects. Therefore, no standard is set for this coefficient.

The profitability of the activity of lessees is also greatly influenced by its investment activity. For example, in advanced economies such as the United States, the activities of lessees are not the main source of income. The main source of income is investment activity. In this regard, when

[1]Note: it is recommended to adhere to the income distribution scheme in accordance with the Regulations on Costs.

ISSN 2792-3991 (online), Published under Volume: 2 Issue: 5 in May -2022

determining the profitability of the activities of lessees, the organization must also take into account investment profitability. Investment return is calculated using the investment return ratio (table 1). This ratio calculates the level of investment return by comparing interest, dividends and other investment income with the average annual amount of funds invested in leasing facilities. But this indicator cannot fully reflect the investment return. When calculating this indicator, it is also necessary to take into account other factors that affect investment returns, such as fluctuations in the exchange rate of securities and real estate prices.

**Conclusion**

As a result, it is considered important to calculate the ratio of two sources of profitability of lessees. This indicator can be calculated using the coefficient of the level of investment profitability. In case of losses, lessees can also use investment income. Based on this, by calculating this indicator, it is possible to assess and determine the significance of income sources.

It follows that the profitability of lessees is also one of the main factors that ensure their solvency.

Consequently, lessees must always have a secured level of solvency. In addition to meeting the requirements established by the state in order to protect the interests of consumers, lessees must independently analyze their financial condition and take appropriate measures based on the results of the analysis. The presence of constant stable solvency of lessees, on the one hand, increases the confidence of their customers, and, on the other hand, strengthens their place in the leasing market. This means that the lessee is interested in analyzing and strengthening its solvency. This analysis can be carried out on the basis of the above indicators according to the criteria of liquidity or profitability. Analysis of the activities of lessees according to one or another criterion and the choice of indicators used depends on the purpose of this analysis.

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ISSN 2792-3991 (online), Published under Volume: 2 Issue: 5 in May -2022