

STUDY ON THE TURNOVER AND PROFITABILITY INDICATORS WITHIN THE COMPANIES LISTED ON THE STOCK EXCHANGE

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Abstract:

If the balance sheet highlights the financial position of a company, the income statement brings to front its financial performance. This material aims to highlight, both in a conceptual and practical way, several financial indicators that use both balance sheet and income statement information. Thus, the turnover indicators (the rotation speed ratio and the average rotation time ratio) and the profitability indicators (the ROA-Return on Assets ratio, the ROE-Return on Equity ratio, the ROS - Return on Sales ratio) are taken into account. The practical part of the paper focuses on a comparative study conducted on two nationally significant companies, both listed on the Bucharest Stock Exchange, one of them favorably influenced by the COVID-19 pandemic and, the other one, unfavorably influenced by the COVID-19 pandemic.

Key words: *turnover indicators, profitability indicators, ratio, listed companies, COVID-19 pandemic.*

JEL classification: *G32 - Financing Policy*

INTRODUCTION

The turnover indicators measure the dynamics of the operating cycle, respectively the capacity to renew the current elements. It is determined for stocks, trade receivables and trade payables and it is manifested in two aspects, located in a ratio of inverse proportionality, namely the rotation speed ratio, which expresses the average number of renewals related to the analyzed structure during a financial year and the average rotation time ratio, which expresses the average duration in days between two successive renewals. Thus, a high value of the rotation speed ratio implies a low value of the average rotation time ratio and vice versa.

Schematically, the main turnover indicators could be represented as follows:

The profitability indicators refer to the ability of the structures related to the financial position or to the financial performance to generate net profit. In the context of a favorable result (profit), high value amounts are auspicious. In the context of an unfavorable result (loss), in the context in which the calculations are performed taking into account the numerical value in the mode (with the plus sign), as low as possible values are auspicious.

The indicator type	The indicator	The formula	The interpretation
STOCK	The stock rotation speed ratio	$\text{Turnover} / \text{Stock}$	The number of the stock renewals during a year
	The stock average rotation time ratio	$\text{Stock} * 360 / \text{Turnover}$	The average duration, in days, between two consecutive stock renewals
RECEIVABLES (CUSTOMERS)	The receivables rotation speed ratio	$\text{Turnover} / \text{Receivables}$	The number of the receivables renewals during a year
	The receivables average rotation time ratio	$\text{Receivables} * 360 / \text{Turnover}$	The average duration, in days, between two consecutive receivables renewals
CURRENT DEBTS (SUPPLIERS)	The current debts rotation speed ratio	$\text{Turnover} / \text{Current debts}$	The number of the current debts renewals during a year
	The current debts average rotation time ratio	$\text{Current debts} * 360 / \text{Turnover}$	The average duration, in days, between two consecutive current debts renewals

Table no. 1: The turnover indicators

(Source: own elaboration)

Schematically, the main profitability indicators could be represented as follows:

The indicator	The formula	The interpretation
ROA (The return on assets ratio) (The economic profitability ratio)	$\text{Net profit} / \text{Assets}$	The degree in which the assets generate net profit
ROE (The return on equity ratio) (The financial profitability ratio)	$\text{Net profit} / \text{Equity}$	The degree in which the equity generates net profit
ROS (The return on sales ratio) (The trade profitability ratio)	$\text{Net profit} / \text{Turnover}$	The degree in which the turnover generates net profit

Table no. 2: The profitability indicators

(Source: own elaboration)

MATERIALS AND METHODS

The research methodology is a social sciences specific one, from which the economic sciences are part, combining the data and information analysis, their synthesis, also with the case study or the comparative study.

In order to start this study, there were selected two large companies, visible at a national level, organized as joint stock companies, and also listed on the indicators was carried out, for the period 2017-2019, taking into account the fact that, at the time of starting this process, the financial statements for the financial year 2020 were not yet prepared or published.

The two entities were not selected in a random manner, but on the grounds that one, respectively S.C. Zentiva S.A., has positive performances (profit), but shows, during the analyzed interval, a tendency to slow down the activity, and the other, respectively S.C. Romaero S.A. has negative performances (losses), but it shows, during the analyzed interval, a tendency to rouse the activity.

RESEARCH RESULTS

This case study focuses on two large companies, legally organized as joint stock turnover indicators and the profitability indicators will be determined in value, will be graphically represented and also interpreted.

SC Zentiva S.A. was established in 1991, having as object of activity the manufacture of pharmaceutical preparations.

SC Romaero S.A. was established in 1991, having as object of activity the manufacture of aircraft and parts of aircraft.

The main turnover and profitability indicators at S.C. Zentiva S.A. are highlighted in the following:

The rotation of the stock

No.	Elements	Units	Year 2017	Year 2018	Year2019
1	Stock	lei	42093203	40549376	98982129
2	Turnover	lei	421676415	458377044	461405231
3	<i>The stock rotation speed ratio</i>	rotations	10	11	5
4	<i>The stock average rotation time ratio</i>	days	36	32	77

Table no. 3 The stock rotation at SC Zentiva SA during the 2017-2019 periods

(Source: own elaboration)

Considering the relatively non-perishable nature of the stocks run within the operating cycle of the analyzed entity (mainly raw materials and consumables), appears a moderate speed, on average of 7-8 rotations per year, entailing, implicitly, a moderate average rotation time of about 45 days. Thus, moderate volume supplies are made, benefiting from certain categories of discounts (for example, rebates, for fidelity, at the end of certain periods). During the analyzed interval, as a result of the slowdown of the entity's activity, the average rotation time gradually increases.

The rotation of the receivables

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Receivables</i>	<i>lei</i>	173145678	158176809	199832571
2	<i>Turnover</i>	<i>lei</i>	421676415	458377044	461405231
3	<i>The receivables rotation speed ratio</i>	<i>rotations</i>	2	3	2
4	<i>The receivables average rotation time ratio</i>	<i>days</i>	150	126	158

Table no. 4 The receivables rotation at SC Zentiva SA during the 2017-2019 periods
(Source: own elaboration)

Regarding the receivables, we could notice a low rotation speed, of about 2-3 rotations per year, at the level of the time interval that represents the subject to analysis. The causality of this fact comes, again, from the specificity of the activity of the analyzed entity, respectively non-perishable character of the obtained finished products and of the very high values of deliveries. Thus, we witness an average rotation time of about 140 days, with a fluctuating evolution, over the interval under analysis.

The rotation of the current debts

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Current debts</i>	<i>lei</i>	98457727	100574236	242390791
2	<i>Turnover</i>	<i>lei</i>	421676415	458377044	461405231
3	<i>The current debts rotation speed ratio</i>	<i>rotations</i>	4	5	2
4	<i>The current debts average rotation time ratio</i>	<i>days</i>	85	80	192

Table no. 4 The current debts rotation at SC Zentiva SA during the 2017-2019 periods

(Source: own elaboration)

In the case of the operating debts, referring here specifically to the trade debts of the suppliers type, it could be stated that they record a moderate turnover rate, on average of 3-4 rotations per year, over the entire period under analysis, the causality being represented by the high volume of the supplies, from the same suppliers within the field, in relation to which the payments maturities are negotiated. Naturally, moderate average rotation times are generated, with the activity slowing down towards the end of the analyzed period, the average being about of 90-100 days.

ROA

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Net profit</i>	<i>lei</i>	73026646	89241756	262620976
2	<i>Assets</i>	<i>lei</i>	440071475	497112300	898201132
3	ROA	%	17	18	29

Table no. 6 The ROA indicator at SC Zentiva SA during the 2017-2019 periods
(Source: own elaboration)

The ROA indicator expresses the degree to which the company's total assets generate net profit. Considering the positive character of the total assets, but also the positive character of the net result, the trend of the economic profitability is an increasing one, representing a favorable signal for the company.

ROE

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Net profit</i>	<i>lei</i>	73026646	89241756	262620976
2	<i>Equity</i>	<i>lei</i>	341605073	396538064	650776394
3	ROE	%	21	23	40

Table no. 7 The ROE indicator at SC Zentiva SA during the 2017-2019 periods
(Source: own elaboration)

The ROE indicator expresses the degree to which the company's equity generates net profit. Considering the positive character of the equity, but also the positive character of the net result, the trend of the financial profitability is an increasing one, representing a favorable signal for the company.

ROS

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Net profit</i>	<i>lei</i>	73026646	89241756	262620976
2	<i>Turnover</i>	<i>lei</i>	421676415	458377044	461405231
3	ROS	%	17	19	57

Table no. 8 The ROS indicator at SC Zentiva SA during the 2017-2019 periods
(Source: own elaboration)

The ROS indicator expresses the degree to which the company's turnover generates net profit. Given the positive character of the turnover, but also the positive character of the net result, the trend of the trade profitability is an increasing one, representing a favorable signal for the company.

The main turnover and profitability indicators at S.C. Romaero S.A. are highlighted in the following:

The rotation of the stock

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Stock</i>	<i>lei</i>	28875858	20433593	40085206
2	<i>Turnover</i>	<i>lei</i>	46537544	60089744	84483620
3	The stock rotation speed ratio	<i>rotations</i>	2	3	2
4	The stock average rotation time ratio	<i>days</i>	223	122	171

Table no. 9 The stock rotation at SC Romaero SA during the 2017-2019 periods
(Source: own elaboration)

Given the non-perishable nature of the stocks run in the operating cycle of the analyzed entity (mainly raw materials and consumables), one could notice a relatively low speed of 2-3 rotations per year, which implicitly entails a high average rotation time, of about 180 days. Thus, there are made high-volume supplies, benefiting from discounts, in periods when market prices fluctuate favorably. During the analyzed interval, as a result of the rouse of the entity's activity, the average rotation time is gradually reduced.

The rotation of the receivables

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Receivables</i>	<i>lei</i>	19793359	18521441	25066039
2	<i>Turnover</i>	<i>lei</i>	46537544	60089744	84483620
3	<i>The receivables rotation speed ratio</i>	<i>rotations</i>	2	3	3
4	<i>The receivables average rotation time ratio</i>	<i>days</i>	155	113	108

Table no. 10 The receivables rotation at SC Romaero SA during the 2017-2019 periods

(Source: own elaboration)

Similar to the stock, in terms of receivables, we notice a low rotation speed, of about 2-3 rotations per year, at the level of the analyzed time interval. The causality of this fact comes, again, from the analyzed entity's activity specificity, namely a long manufacturing cycle and, also, very high values of the deliveries. Thus, we are witnessing an average rotation time of about 120 days, with a trend of rousing, just as in the case of the previous indicators, at the level of the last analyzed year.

The rotation of the current debts

<i>No.</i>	<i>Elements</i>	<i>Units</i>	<i>Year 2017</i>	<i>Year 2018</i>	<i>Year2019</i>
1	<i>Current debts</i>	<i>lei</i>	297050509	413370871	480183551
2	<i>Turnover</i>	<i>lei</i>	46537544	60089744	84483620
3	<i>The current debts rotation speed ratio</i>	<i>rotations</i>	0	0	0
4	<i>The current debts average rotation time ratio</i>	<i>days</i>	2330	2511	2075

Table no. 11 The current debts rotation at SC Romaero SA during the 2017-2019 periods

(Source: own elaboration)

In the case of the current debts, referring here, specifically, to the commercial debts of the supplier type, it could be stated that they record an extremely slow turnover rate over the entire analyzed period, the causality being represented by the grants received from the government, which, although they appear within the accounts as debts, have a non-reimbursable character, but also to the crediting of the company by its shareholders, a phenomenon which, although recognized from an accounting point of view as a debt, represents a real own financing/equity. Naturally, extremely high average rotation times are generated.

ROA

No.	Elements	Units	Year 2017	Year 2018	Year2019
1	Net profit	lei	60280472	39388337	35308938
2	Assets	lei	804820540	786423672	888309304
3	ROA	%	7	5	4

Table no. 12 The ROA indicator at SC Romaero SA during the 2017-2019 periods
(Source: own elaboration)

The ROA indicator expresses the degree to which the company's total assets generate net profit. Taking into consideration the positive character of the total assets, but also the negative character of the net result (used as a size in the mode for the calculation) the decreasing trend of the indicator highlights, in reality, an improvement of the total asset's ability to generate net result.

ROE

No.	Elements	Units	Year 2017	Year 2018	Year2019
1	Net profit	lei	60280472	39388337	35308938
2	Equity	lei	423795131	373052801	408125753
3	ROE	%	14	11	9

Table no. 13 The ROE indicator at SC Romaero SA during the 2017-2019 periods
(Source: own elaboration)

The ROE indicator expresses the degree to which the company's equity generates net profit. Considering the positive character of the equity, but also the negative character of the net result (used as a size in the mode for the calculation) the decreasing trend highlights, in reality, an improvement of the capacity of the equity to generate net result.

ROS

No.	Elements	Units	Year 2017	Year 2018	Year2019
1	Net profit	lei	60280472	39388337	35308938
2	Turnover	lei	46537544	60089744	84483620
3	ROS	%	130	66	42

Table no. 14 The ROS indicator at SC Romaero SA during the 2017-2019 periods
(Source: own elaboration)

The ROS indicator expresses the degree to which the company's turnover generates net profit. Considering the positive character of the turnover, but also the negative character of the net result (used as a size in the mode for the calculation) the decreasing trend highlights, in reality, an improvement of the capacity of the turnover to generate net result.

CONCLUSIONS

Both companies operate with non-perishable stocks, which allow them to make substantial supplies at long time intervals. Thus, in terms of stocks, we could notice a low rotation speed and a high average rotation time. Also, taking into account that both companies are sourced from the same suppliers, they can afford to negotiate long payment terms.

The COVID-19 pandemic is currently boosting the activity of the Zentiva company, given that it is one with a pharmaceutical profile of activity. The same pandemic currently slows down the activity of the Romaero company, given that this is one with an aircraft construction profile of activity, the transport being severely affected by the current situation.

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