



IMPROVEMENT OF THE ASSESSMENT OF COMPANIES' CREDIT WORTHINESS AS A PRIORITY DIRECTION OF LENDING THEIR FOREIGN TRADE ACTIVITIES

Marifat Ibodullaeva

Banking and Finance Academy of the Republic of Uzbekistan

ABSTRACT

Improving the assessment of companies' creditworthiness is a prerequisite for increasing the level of availability of commercial bank loans provided to finance their foreign trade activities. In addition, it is one of the main methods for reducing credit risk for commercial banks.

The article provides a comparative analysis of methods for assessing the creditworthiness of companies, identifying their advantages and disadvantages.

Also, the article develops scientific proposals aimed at improving the practice of assessing companies in banks of Uzbekistan.

KEY WORDS

Company, commercial bank, creditworthiness, credit, liquidity, cash flow, current assets, current liabilities.

Introduction

The Development Strategy of the New Uzbekistan for 2022-2022 notes that further increasing the export potential of the republic and bringing the volume of exports of the republic in 2026 to 30 billion US dollars by increasing the export potential of the republic through active support for the activities of exporting enterprises, further developing the export potential of local industries based on the maximum use of existing opportunities, introducing modern standards in the production of products that meet the requirements of foreign and international markets is one of the priority areas for the accelerated development of the national economy and ensuring high growth rates [1].

The Strategy "Uzbekistan-2030" sets the task of accelerating reforms in the banking system, increasing the volume of the banking services market and developing competition in the sphere by bringing the annual volume of lending in the banking and financial system to 40 billion dollars, increasing the volume of bank deposits by 4 times, improving the norms and control bases by introducing internationally recognized minimum standards and requirements in banks, introducing criteria and procedures for Islamic financing in at least 3 commercial formation of the legislative basis for Islamic financing [2].

The above facts determine the need to increase commercial bank loans provided to exporting companies. In turn, the increase in the volume of lending to exporting companies determines the need to improve the practice of assessing their creditworthiness.

REVIEW OF LITERATURE ON THE TOPIC.

E. Rusakova claims that the main indicators of companies' solvency are the following:

- *current liquidity ratio;
- *coefficient of equity;
- *solvency recovery ratio [3].

According to V. Usoskin, "commercial banks traditionally belong to the category of creditors whose loans are repaid using the net balance of current cash receipts. This value is equal to net operating profit plus depreciation charges minus accounts receivable minus the increase in inventory plus the amount of accounts payable" [4].

M. Grebneva and Yu. Korotkova came to the conclusion that the analysis of the borrower's creditworthiness as a comprehensive study of his activities for a reasonable and reliable assessment of the probability of loan repayment involves solving the following problems:

- a) determining the optimal amount of financial resources provided by the creditor and methods of their repayment;
- b) conducting ongoing control (monitoring) by the lender over the borrower's compliance with the requirements regarding the indicators of its financial condition;
- c) identification of credit risk factors and assessment of their impact on decision-making on the advisability of issuing a loan to a borrower;
- d) analysis of the sufficiency and reliability of the security provided by the borrower for the loan [5].

The most well-known models of corporate creditworthiness are the Altman and Chesser models, which include the following indicators:

- * ratio of own working capital to total assets;
- * the ratio of reinvested profit to total assets;
- * ratio of market value of shares to borrowed capital;
- * ratio of sales volume to total assets;
- * ratio of gross profit to total assets [6].

One of the main indicators of the creditworthiness of companies is the current liquidity ratio. However, economists express different opinions regarding the standard level of this indicator. For example, N. S. Kostyuchenko indicates a range from 0.1 to 0.9 as the standard value of the current liquidity ratio for the trade sector; other authors, for example, D. A. Endovitsky, without distinguishing between industries, adhere to the range from 1 to 2; and specialists from Rosselkhozbank generally use a value greater than 1.3 in their work for trade enterprises [7].

N. Kulikov and A. Koveshnikova claim that "not all data can be verified, for example, having overdue accounts payable or receivable, organizations try not to show this and classify all debt as urgent, thereby improving their positions. Some enterprises reflect "air" in reserves, and therefore, especially if these reserves are collateral, it is necessary to check their actual availability. In general, borrowers "decorate" their balance as much as possible, some, in order to increase the current liquidity ratio, transfer "short money" to the line "long-term liabilities". The inability to verify the reliability of the necessary information is another significant drawback of complex models "[8].

According to I. Alimardonov, "it is necessary to improve the methodology for determining the creditworthiness of small business entities by including in the composition of financial ratios as an addition the profit margin, debt services and accounts payable turnover ratios " [9].

RESEARCH METHODOLOGY

To conduct this study, we used various methods and approaches, in particular, the coefficient method for determining the creditworthiness of companies, as well as the expert assessment method.

In our analysis of the current state of creditworthiness, we used data from annual reports of domestic and foreign companies.

Analysis and results

In many countries of the world, commercial banks use financial ratios when assessing the creditworthiness of clients.

Table 1 Financial ratios used to determine the creditworthiness of clients in the bank "New York" (USA) [10]

Financial Ratios	Normative level
Current liquidity ratio	2:1
Quick ratio	1:1
Financial leverage ratio	1:1
Financial Margin Ratio	up to 1

New York Bank uses 4 financial ratios when determining the creditworthiness of clients, and each financial ratio has a standard value.

Commercial banks in the United States focus on the borrower's liquidity when determining the creditworthiness of their clients. Indeed, the repayment of loans directly depends on the level of the borrower's current liquidity.

Also, when determining the creditworthiness of borrowers, the level of financial margin is of great importance. Since the financial margin ratio shows the level of the borrower's debt on loans in relation to net assets (assets - debt obligations).

Table 2 Financial ratios used in large commercial banks of Uzbekistan¹

No.	Financial Ratios	I-class	II-class	III class
1	Liquidity ratio (LR)	$Cl > 1.5$	$1.5 > Cl > 1.0$	$1.0 > Cl > 0.5$
2	Coverage coefficient (Kp)	$Kp > 2.0$	$2.0 > Kp > 1.0$	$1.0 > Kp > 0.5$
3	Autonomy coefficient (Ka)	$Km > 0.6$	$0.6 > Ka > 0.3$	$0.3 > Ka > 0.15$

As can be seen from the data in Table 2, in large commercial banks of Uzbekistan, the creditworthiness of legal entity borrowers is determined using 3 financial ratios. However, this method of assessing creditworthiness has a number of shortcomings. In particular, this method does not allow assessing the borrower's debt burden on loans received. In addition, it does not take into account the financial results of the borrower's activities.

¹These financial ratios are used in practice by large banks in Uzbekistan.

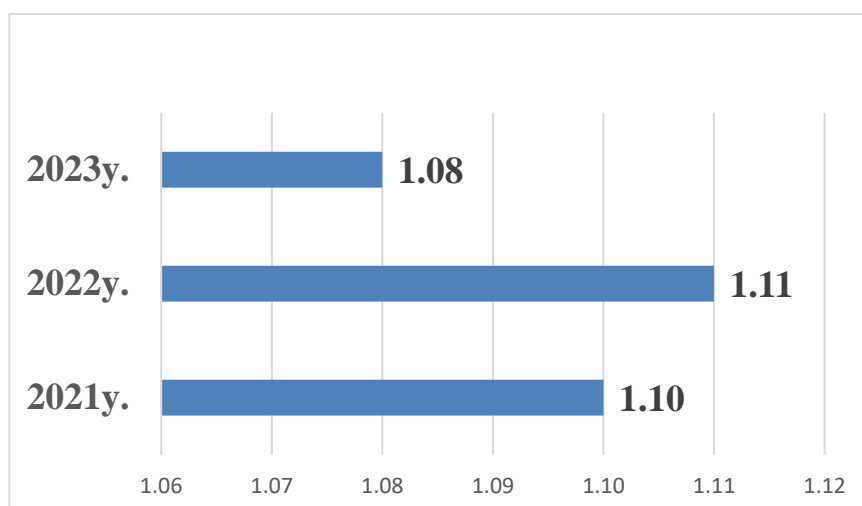


Figure 1. Current liquidity ratio of General Motors²

As can be seen from Fig. 1, in 2021-2023, the current liquidity ratio of General Motors remained stable at 1.

The relatively high proportion of short-term accounts receivable and cash in the volume of current assets helps to ensure the stability of the current liquidity ratio.

Table 3 Structure of current assets of General Motors³

Current assets	Years		
	2021	2022	2023
Cash	24.4	19.2	17.8
Marketable securities	9.8	12.2	6.9
Current accounts receivable	41.5	46.9	50.5
Inventory	15.8	12.9	15.8
Other current assetsBoška zhoriy aktivlar	8.5	8.8	9.0
Current assets - total	100,0	100,0	100,0

General Motors' total current assets .

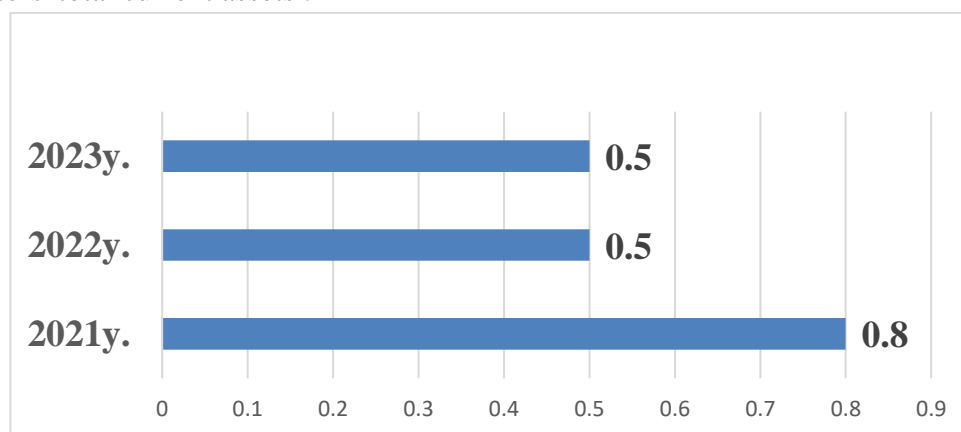


Figure 2. Current liquidity ratio of JSC Uzbekneftgaz⁴

²The figure was compiled by the author based on data from the annual reports of General Motors .

³The table was compiled by the author based on data from the annual reports of General Motors .

⁴The figure was compiled by the author based on data from the annual reports of Uzbekneftgaz.

As can be seen from Fig. 2, according to the current liquidity ratio, Uzbekneftgaz JSC is not creditworthy. This is explained by the low level of current assets in relation to current liabilities. In addition, cash has a low specific share in the volume of current assets.

Table 4. Volume and level of funds of JSC Uzbekneftgaz⁵

Indicators	2021	2022	2023
Cash, billion soums	1672	2068	790
The share of total cash in the volume of current assets, %	25.1	30.9	8.3

As can be seen from Table 4, in 2021-2023, the amount of liquid cash of Uzbekneftgaz JSC decreased significantly. Also, the share of all cash in the volume of current liquid assets of Uzbekneftgaz JSC decreased.

CONCLUSIONS AND SUGGESTIONS

We have formulated the following conclusions regarding the assessment of the creditworthiness of clients of commercial banks:

- *the main indicators of companies' solvency are the following: current liquidity ratio; equity ratio; solvency recovery ratio; financial margin ratio;

- *the most well-known models of corporate creditworthiness are the Altman and Chesser models, which include the following indicators: the ratio of equity capital to total assets; the ratio of reinvested profit to total assets; the ratio of market value of shares to borrowed capital; the ratio of sales volume to total assets;

- * One of the main indicators of a company's creditworthiness is the current liquidity ratio. However, economists express different opinions regarding the standard level of this indicator ;

- *in the bank "New York" (USA) when determining the creditworthiness of clients, 4 financial ratios are used and each financial ratio has a standard value;

- *the methodology for assessing the creditworthiness of commercial banks in Uzbekistan has a number of shortcomings. In particular, this methodology does not allow assessing the borrower's debt burden on loans received. In addition, it does not take into account the financial results of the borrower's activities;

- *in 2021-2023, the current liquidity ratio of General Motors remained stable at 1;

- *according to the current liquidity ratio, JSC Uzbekneftgaz is not creditworthy, which is explained by the low level of current assets in relation to current liabilities.

In our opinion, in order to improve the methodology for assessing the creditworthiness of clients of commercial banks - exporting companies, it is necessary, firstly, to include the financial margin ratio in the composition of financial ratios in order to assess the debt burden of borrowers on loans received; secondly, given the low level of provision of the economy of Uzbekistan with cash, to actively use the turnover ratio of companies' accounts receivable when determining their creditworthiness; thirdly, to minimize the risk of bankruptcy of the borrower, use the Altman index; fourthly, to create a database of borrower credit risks taking into account the best practices of Japan.

⁵The table was compiled by the author based on data from the annual reports of Uzbekneftgaz.

According to experts from the Asian Development Bank, the Japanese experience of creating a credit risk database (RDB) helps reduce the level of credit risks [11].

Osiyo tarakkiyot banks expertlarining fikriga kʻra, Japanning credit risks tugʻrisidagi malumotlar bazasini yaratish borasidagi tajribasini Osiening rivozhlangan mamlakatlarida qʻllash kichik va yʻrta business subjectlarini creditlash amaliyotining samaradorligini oshirish imkonini Berar Eddie ⁶.

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⁶Asian Development Bank. 2014. Asia SME Finance Monitor 2013. – Manila , 2014// <http://www.adb.org/> (date accessed : 22.08.2019).