



# **Analysis of Free Cash Flows Of Joint Stock Companies In Uzbekistan**

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**Abstract:** *The article describes the analysis of the state of free cash flows of joint-stock companies. Also, the financial indicators of the joint-stock companies were analyzed. In particular, free cash flows from joint-stock companies in our country were calculated based on the data of JSC "Andijondonmahsulot" and the amount of cash flows was determined.*

**Keywords:** *joint stock company; free cash flows; cash flow; net cash flow; free cash flow from capital; free cash flow to firms; shareholder; EBIT.*

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## **1.Introduction**

The implementation of almost all types of financial and economic operations of the enterprise is accompanied by the movement of funds in the form of their receipt or expenditure. This movement is a continuous process and is defined by the concept of "cash flow". The cash flow of an enterprise is a set of cash receipts and payments distributed over time, carried out in the course of its business activities. Cash flows are classified according to the lines of business of the company: Operating activities are the main income-generating activities of an organization. Investing activities are the acquisition and disposal of long-term assets and other investments that are not cash equivalents. Financing activities are activities that result in changes in the amount and composition of the contributed capital and borrowings of the entity. The summation of cash flows from the operating, financial and investment activities of the enterprise gives a net cash flow. Net Cash Flow is the difference between positive cash flow (cash inflow) and negative cash flow (cash outflow) for a specific type of activity or for the economic activity of an enterprise as a whole in a selected period of time or in the context of its individual intervals (by months, quarters, years). This indicator determines the financial condition of the enterprise and the ability of the enterprise to increase its value and investment attractiveness. For current and potential investors investing in the assets of a particular enterprise or business, the main interest is the ability to generate positive cash flows that not only cover all the necessary costs, but also provide an increase in the welfare of this business in the future. Therefore, in the decision-making process, investors focus on the free cash flow of the enterprise, which can be directed at their disposal. Depending on the purpose of the assessment, the following types of cash flows can be distinguished: 1) FCFF - free cash flow of the firm (assets). 2) FCFE - free cash flow from capital (equity) A firm's free cash flow (FCFF) is used to assess enterprise value, while free cash flow to equity (FCFE) is used to assess shareholder value. The main difference is that the FCFF evaluates all cash flows of both equity and debt.

## **2.Literature Review**

Studies by Hwang et al., (2013); John et al., (2015), Labhane and Mahakud (2016), Byrd (2010), Wang (2010), Brush et al. (2000) found a negative relationship between free cash flow and performance. Analysis of the relationship between profitability and free cash flow to firms by Sadaf (2016) investigated the impact of free cash flow on the profitability of the firms, and Zhou et al. (2012), Mojtabehzadeh and Nahavandi (2011) investigated the relationship between agency problems that arise due to the free cash flow with long term profitability used for measuring long-term profitability. Tobin's Q. Sindhu (2014) examined the relationship between free cash flow and dividend in the presence of a moderator, firm size. Another study focused on free cash flows and the results were highly statistically significant across most companies and free cash flow and only two companies showed insignificant results (Holder et al., 1998; Hossain et al., 2001 and Adjaoud and Ben, 2010). Bhundia (2012) and Jensen (1986) both determined that one of the greatest agency problems is the allocation of the free cash flow. According to Jensen (1986), the conflicts of interest between shareholders and managers over the dividend payout policy are especially severe when the organization generates large free cash flows. This is reflected in the problem of how to motivate managers to increase dividends instead of making investments with returns below the cost of capital or wasting cash through inefficiencies. Bhundia (2012) states that the operating cash flow disclosed indicates firm capacity to generate resources. He further comments that the operational cash flow should not be used only for the acquisition of new assets to allow the company to maintain its current level of activity; part of it should also be distributed as dividends. This situation of opposing uses generates an agency conflict between shareholders and managers. Kadioglu et.al, (2017) study was about free cash flow affects the performance of firms companies listed in Borsa Istanbul during the period 2009- 2015 and the result was that a negative relationship is found between free cash flow and firm performance measured by Tobin's Q ratio. The result is also that leverage has a positive effect on performance. Sitthipongpanich, (2017) found that the presence of family owners reduces the sensitivity of investment and cash flow. Guizani Moncef, (2018) posed that large managerial shareholdings increased the level of free cash flow through lower dividend payouts and Tuan, (2018) that free cash flow and corporate profitability were evident in emerging economies.

## **3. Research Methodology**

"Andijondonmahsulot" JSC, which is a joint-stock company in our country, was selected, and free cash flows were calculated according to the financial data of this company. The data was selected from 2017 to 2021, and free cash flows were calculated taking into account the joint stock company's EBIT, which is the measure of earnings before interest and taxes, and operating income after taxes. When calculating free cash flows, we first determined the EBIT indicator.  $EBIT = \text{Net Profit} - (\text{Interest Expense/Income}) - (\text{Profit Tax})$  Here, EBIT is the indicator of earnings before interest and taxes; T is the profit tax rate. After determining the NOPLAT indicator, we determine the FCFF indicator of the company's free cash flows  $FCFF = \text{NOPLAT} + \text{Depreciation Expense} - \text{Capital Expense} - \text{Change in Net Working Capital}$

## **4. Analysis And Discussion of Results**

Our object of analysis is "Andijondonmahsulot" JSC, which is a joint-stock company in our country, and the analysis of assets, liabilities and capital of this joint-stock company over the years is shown in the table below:

**Table 1. ANALYSIS OF THE INDICATORS OF ASSETS AND LIABILITIES OF "ANDIJONDONKHUSULOT" JSC<sup>1</sup>**

<b>Indicators</b>	<b>2017 year</b>	<b>2018 year</b>	<b>2019 year</b>	<b>2020 year</b>	<b>2021 year</b>
Long-term assets, billion sums	23,2	23,6	38,7	32,7	32,4
Current assets, billion sums	139,5	101,6	133,2	188,6	175,8
Total assets, billion sums	162,7	125,1	171,9	221,3	208,3
Long-term liabilities, billion sums	1,0	8,6	6,6	4,0	1,8
Current liabilities, billion sums	149,9	135,8	174,5	212,2	169,0
Total liabilities and capital, billion sums	162,7	125,1	171,9	221,3	208,3

As can be seen from the data of Table 1, the total assets of "Andijondonmahsulot" JSC have a steady trend of growth. The analysis shows that in 2017, the long-term assets of "Andijondonmahsulot" JSC amounted to 23.2 billion sums, and by 2021 they will reach 32.4 billion sums. It can also be seen that current assets were 139.5 billion sums in 2017, and increased by 26% in 2021. This shows that the increase in the assets of the joint-stock company indicates the formation of additional funds in the company. In addition, while analyzing the liabilities of the joint-stock company, long-term liabilities reached 1.0 billion sums in 2017, and 1.0 billion sums in 2021. I can see that the current liabilities increased by 1.12 times in 2021, while they were 149.9 billion sums in 2017. In particular, the analysis of the profit before interest and taxes JSC "Andijondomahsulot" is reflected in the following table (Table 2)

**Table 2. ANALYSIS OF EARNINGS BEFORE INTEREST AND TAXES OF "ANDIJONDONKHUSULOT" JSC<sup>1</sup>**

<b>Indicators</b>	<b>2017 year</b>	<b>2018 year</b>	<b>2019 year</b>	<b>2020 year</b>	<b>2021 year</b>
Net income from the sale of products, billion sums	91,6	102,5	128,9	201,4	249,8
Cost of goods sold, billion sums	81,2	93,4	108,7	163,0	204,8
Gross profit, billion sums	10,5	9,1	20,2	38,4	45,0
Sales expenses, billion sums	0,6	0,7	0,7	1,4	0,6
Administrative expenses, billion sums	1,4	1,7	2,2	3,2	2,7
Other operating expenses, billion sums	6,4	40,4	10,7	15,6	18,9
Other incomes of the main activity, billion sums	0,03	0,1	1,5	0,2	1,7
EBIT, billion sums	2,1	-33,5	8,2	18,4	24,5

<sup>1</sup>Prepared by the author based on information from <http://www.openinfo.uz/>.

Depreciation, billion sums	0,3	3,3	-0,8	2,3	6,4
EBITDA, billion sums	2,5	-30,2	7,4	20,7	30,9
Revenues from financial activities, billion sums	0,2	1,5	0,7	0,3	0,0
Expenses on financial activities, billion sums	1,9	2,2	3,0	1,6	4,4
Profit before taxes, billion sums	0,4	-34,2	5,8	17,2	20,1
Net profit (loss), billion sums	0,3	-34,3	4,2	14,3	15,7

The analysis of the data in Table 2 shows that the gross profit of "Andijondonmahsuot" JSC can be seen in a decreasing trend. In 2017, the gross profit of the society was 10.5 billion sums, and in 2021 it was reduced by 4.5 times. One of the main reasons for this is the increased production cost of the product. In 2017, 88% of the revenue from the sale of the product was spent on the cost of the product, and in 2021, 81% was spent on the cost of the product. "Andijondonmahsuot" JSC EBIT indicator of income before interest and taxes, EBIT was 2.1 billion sums in 2016, and by 2021 this indicator will be 24.5 billion sums. The reason for the rise of this indicator is that the joint-stock company's administrative expenses and other operating expenses have decreased in recent years and the gross profit has increased sharply. Also, if we analyze the net profit of the shareholding society, in 2017 it was 0.3 billion sums, and in 2021 it increased by 52 times. However, in 2018, the joint-stock company ended its operations with a loss of 34 billion sums. One of the main reasons for this was the increase in the cost of products and other operational expenses, which increased by 6.5 times.

In particular, the dynamics of free cash flows of "Andijondonkhusulot" JSC is reflected in the table below (Table 3)

**Table 3.DYNAMICS OF FREE CASH FLOWS OF "ANDIJONDONKHUSULOT" JSC<sup>2</sup>**

Indicators	2017 year	2018 year	2019 year	2020 year	2021 year
Increase in revenue from product sales, billion sums	11,5%	11,9%	25,7%	56,3%	24,1%
Income from the sale of products, billion sums	91,6	102,5	128,9	201,4	249,8
Operating margin, billion sums	2,3%	-32,7%	6,3%	9,1%	9,8%
EBIT, billion sums	2,1	-33,5	8,2	18,4	24,5
Tax rate, billion sums	0,1%	0,1%	1,2%	1,4%	1,8%
Tax on EBIT, billion sums	0,3%	-3,5%	9,9%	26,4%	43,2%
NOPLAT, billion sums	2,1	-33,5	8,1	18,1	24,0
Net investments, billion sums	-34,8	-33,7	25,0	18,9	-6,0

<sup>2</sup> Prepared by the author based on information from <http://www.openinfo.uz/>.

Capital expenditure, billion sums	0,0	0,0	0,1	0,5	3,6
Working capital, billion sums	-35,2	-37,0	25,7	16,1	-16,0
Depreciation, billion sums	0,3	3,3	-0,8	2,3	6,4
Free cash flow, billion sums	36,9	0,2	-17,0	-0,8	30,1

As can be seen from the data of Table 3, we can see that the trend of free cash flows of "Andijonmahsulot" JSC is increasing. Free cash flow was 36.9 billion soums in 2017 and increased by 22% in 2021. The growth of free cash flow of "Andijonmahsulot" JSC indicates the formation of additional resources in society and the expansion of investment opportunities. Free cash flow can provide significant information about the financial health of "Andijonmahsulot" JSC. Since free cash flow consists of various components of the financial report, understanding its composition is important for investors. provides an opportunity to provide a lot of useful information. Therefore, the increase in free cash flows of "Andijonmahsulot" JSC indicates the health of the society and the stable financial situation. In conclusion, it can be noted that "Koqon Mechanical Plant" JSC is based on the high state share and orders from state-owned enterprises the production of products cannot but affect the company's activity. Therefore, the company's image is low in the background market, despite the fact that the company operated at a loss during the recession and the company's free cash flow is high. is affecting

## 5. CONCLUSION AND SUGGESTIONS.

Based on our research, the following conclusions and suggestions were formed:

First of all, it would be appropriate if the calculation of cash flows of joint-stock companies in Uzbekistan is carried out using modern tools. In particular, the use of methods of free cash flows, which are widely used today, allows joint-stock companies to determine the formed cash resources. Also, if the company's reports reflect the indicators of free cash flows, the opportunities for investors to invest in the company would increase.

Second, through free cash flows, joint stock companies would have been able to determine dividend payment options and limit agency costs. It also serves to determine the level of health of joint-stock companies and the level of ability to pay dividends.

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