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ANALYSIS OF LIQUIDITY AND PROPOSAL TO COST OPTIMIZATION IN
THE COMPANY LLC «RMB-LEASING»

Bachelor's Thesis 2015

ABSTRACT

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Bachelor's Thesis

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This thesis researches the activities of a leasing company. Overall the work includes several chapters. The first two give an idea of the commissioner and the leasing market, where the company operates. The next chapters provide an analysis of the company's performance. The conclusion lists the recommendations, which were made during the work on the research on the indicated topic.

The aim of this study was not only to analyze the financial condition of the company, detect its positive and negative sides and introduce the recommendations on cost optimization, but also to compare European and Russian leasing markets and to show the advantages of leasing in comparison with alternative methods of financing.

The Company's financial statements together with memorandum and other internal documents were used to carry out a single case study research. It was decided to use time-series analysis to provide descriptive questions of this thesis with reliable and robust answers.

After a diligent analysis of the financial data, researcher expresses opinion on the company and provides constructive suggestions which could be applied to improve the company's operations and lead to its further financial development.

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1 INTRODUCTION

In modern conditions, one of the priorities for the Russian enterprises, due to significant moral and physical deterioration of fixed assets - is attracting of new investments with a further purpose of updating the capital, involved in a production of goods. Moreover, increased global competition in terms of Russia's accession to the WTO requires sharp increase in investments to modernize and upgrade production facilities. Funds, attracted by traditional sources of investments, are not enough (Aircraft Finance and Lease Russia & CIS, 2015).

As a result, there is a need to introduce new forms of financing, allowing to attract long-term investments. One of the tools that accelerate the investment process can be leasing that has been widely used in the world and unites all the elements of trade, credit and investment operations. Moreover, financial leasing could be used as an innovative finance solution that hedges away the market risk and helps companies deal with economic recessions. These perspective to be studied issues have defined my choice and interest to write the thesis of this particular topic and share the results with the society of how the leasing services can be helpful to solve issues of purchasing the necessary assets for all types of firms in dynamically-changing market conditions.

1.1 Leasing Concept

Leasing is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. (IAS 17 – Leases, 2010)

Another definition was given by Carter, MacDonald and Cheng (1997) who stated that *lease is an agreement between two parties, the "lessor" and the "lessee". The lessor owns a capital asset, but allows the lessee to use it. The lessee makes payments under the terms of the lease to the lessor, for a specified period of time. Leasing is, therefore, a form of rental. Leased assets have usually been plant and machinery, cars and commercial vehicles, but might also be computers and office equipment. There are two basic forms of lease: operating leases and finance leases.*

"Book Accounting" is how the company views transactions using GAAP, or Generally Accepted Accounting Principles. The other ("Tax Accounting") is how the IFRS, or International Financial Reporting Standards views transactions. These two often come into play when leasing equipment. It is important for a company to understand the differences in how each accounting method views equipment leases. To give a good starting example of why this is necessary, a True Lease (which is an IFRS term) doesn't always qualify as an Operating Lease (which is an Accounting term), but an Operating Lease always qualifies as a True Lease (Fletcher, 2015).

Therefore, under international financial reporting standards, a lease is an arrangement where the lessor agrees to allow the lessee to use an asset for a stated period of time in exchange for one or more payments. A finance lease is one in which the lessee assumes substantially all risks and rewards associated with the asset, while an operating lease is any lease other than a finance lease (Sagg, 2015).

As one of the most popular financing tools in modern business world, financial leasing service uses finance leases to leverage assets. A finance lease (or capital lease) is a type of equipment lease that is treated like a purchase. The leased equipment is shown as an asset and corresponding liability on the lessee's balance sheet, and the tax benefits of ownership may be realized, including Section 179 deductions (Fletcher, 2015). Operating Lease is a type of equipment lease that is generally viewed as a rental. The leased equipment is not shown as an asset on the company's balance sheet. This is always viewed as a "true lease" by the IFRS, and the company (the lessee) cannot take the tax benefits of ownership (Fletcher, 2015). Following table explains advantages of leasing and compares it with other methods of financing.

Table 1. Comparative characteristics of the lease with alternative methods of financing

| <u>Financing Methods</u> | <u>Advantages</u> | <u>Disadvantages</u> |
|--------------------------|--|---|
| Leasing | 1. Allowing companies to manage their working capital by spreading payments over the life of the asset, i.e. it does not require immediate payments that allows firm to purchase expensive assets without spending large amounts of funds; | 1. Need to make advance payment of 25-30% of the transaction value; 2. Payments are made regardless of the state of equipment and results of operations; |

| | | |
|------------------------|--|---|
| | <ol style="list-style-type: none"> 2. More flexible source than a loan, as it provides an opportunity to develop convenient payment scheme (e.g. the lease payments can be made after receiving the revenue from the sale of goods, taking into account the seasonality of the business); 3. Making budgeting exercises easier as lease payments are regular and usually for a fixed amount; 4. Taking advantage of local fiscal treatment which implies that leasing can also be beneficial from a tax point of view, i.e. lease payments are charged to cost of production (COGS) of the lessee and, therefore, reduce the profits to be taxed; 5. Received assets are usually not listed on the balance sheet of the lessee, so that it is exempted from paying taxes on this property; 6. Being the only available source of funds - particularly for smaller companies who have high growth potential, leasing may be the only way to finance their development. | <ol style="list-style-type: none"> 3. Additional guarantees or pledge are required; 4. Legal complexity of the deal. |
| Bank Loan | Tax privilege on investing in fixed assets in the amount of interest paid on the loan | <ol style="list-style-type: none"> 1. Source of interest payment - net profit; 2. Limited period of time and size of maturity. |
| Purchasing | A lump sum purchase of the property and the possibility for immediate use of it | <ol style="list-style-type: none"> 1. Large non-recurring costs; 2. Possible violation of balance liquidity; 3. Source - net profit. |
| Commercial Loan | The possibility of installment payment | <ol style="list-style-type: none"> 1. A high risk of non-payment; 2. A high cost of credit. |

1.2 Research Problem

The choice of the theme of the thesis was identified by a number of reasons seen as actual problems by the author. Firstly, the leasing market in Russia is very young and not developed (The Moscow Times, 2008). Second, “Automotive finance & leasing study – Russia” published by KPMG in 2012 has found out that leasing is a very promising direction for the work of economists because professional experts are sorely lacking in Russia in this field. Finally, leasing has a potential to become a highly effective tool of attracting the investments into the Russian economy, and with a focus not only on the large but also medium and small businesses (KPMG, 2012).

Yet, the major problem remains the need to find affordable sources of financing the activity of “RMB-Leasing” and its lease transactions, develop the policies of the company’s behavior with its customers and suggest ideas on covering its main risk – currency fluctuations, so “RMB-Leasing” will be able to repay its foreign debts and maintain balance liquidity.

1.3 Research Objective and Limitation

The research focus of this study is the company LLC "RMB-Leasing". A subject of an analysis will be the financial operator (lessor) who implements leasing relationships in practice, attracts bank loans for financing its leasing transactions, invests own funds in leasing projects. That lessor will be analyzed, on which depends the success of the implementation of leasing as a tool for the investment policy.

The purpose of the thesis is to develop practical proposals for improving the activity of the leasing company "RMB-Leasing" especially in a condition of a crisis. Taking into account time and relevance of researched and prepared proposals as a limitation, it is necessary to solve series of interrelated tasks:

- To analyze the activity of a leasing market member - LLC "RMB-Leasing", to trace the dynamics of its financial performance on the long-term basis;
- To determine how close the firm comes to a bankruptcy level in a condition of crisis and point out its liquidity;
- To develop general recommendations for the improvement of the company, taking into consideration specifics of the leasing business.

1.4 Research Question

In a condition of a changing market full of uncertainties, such as on the eve of a crisis, the main question, that arises, sounds as following – “How to develop operating activities of RMB-Leasing company during a crisis period?”. Complete answer on stated question requires combination of answers on sub questions, each of which is partly involved in the considered topic. They are the following:

1. What new sources of funding could be there?
2. How to minimize currency exchange risk?
3. How to increase operating marginality?
4. Where to find potential long-term customers?
5. How the lease transactions and decisions on their application can be changed in its core?
6. What is the company’s level for each type of liquidity? Does it satisfy the liquidity optimum interval for the leasing industry? How close the company is to bankruptcy level?
7. How profitable is the company? What are the indicators? What exactly generates profits?

2 RUSSIAN AND EUROPEAN MARKET COMPARISON

2.1 Leasing Cycles

Leasing is a financing method now practiced in most countries throughout the world. Amembal, Ruga and Isom (1999) write that recent statistics indicate leasing is currently a \$500 billion industry worldwide. Different countries, however, are in different stages of development, ranging from the arising to the mature industries. Regardless of the stage of development, some companies will choose to grow domestically while others will achieve targeted growth via overseas expansion.

Although each country's leasing industry occupies its own unique spot in the development cycle, there is a common pattern of progression as an industry grows and matures. This pattern of progression, hereinafter referred to as the leasing cycle, consists of six stages (Amembal, Ruga and Isom, 1999, 23).

Finance leases represent the first stage of the leasing cycle. Leasing is just becoming recognized as a form of finance and there is relatively little competition. Finance leases are full payout leases, with non-cancellable terms, in which the lessee buys the asset at the end of the lease (Amembal, Ruga and Isom, 1999, 30).

At the end of the lease term the purchase price is generally very nominal. The finance lease is very similar in structure to an installment loan and is used heavily as a form of credit financing. The Russian leasing industry is in the finance lease stage of the leasing cycle.

The next stage of the leasing cycle represents the response to growing competition within the leasing industry. Although the product remains the finance lease, as competition increased, lessors have found they must differentiate their product. One method of differentiation is to structure the lease to meet the lessee's cash flow needs. As a result, one characteristic of this stage in the cycle is creative lease structures.

Lessors also offer additional services as another means of differentiating their products. For instance, residual options, other than the nominal option, become available at this point in the cycle. These options would include lease renewals and the option to

purchase at a fixed value. The building in of residual acts to lower the cost to the lessee, further differentiating the lease from a traditional loan.

As the industry grew, new products / institutions were created. Leveraged leasing was introduced as another financing method and captive leasing subsidiaries were formed by manufacturers to support the sale of their products (Amembal, Ruga and Isom, 1999, 42). The Indonesian leasing industry is in the creative / flexible finance stage of the leasing cycle.

Changing of lessors into the third - operating lease stage of the leasing cycle - was generally caused by the issuance of accounting and / or tax guidelines that create a branching of products. Another motivating factor was the continued acceleration of competitive pressures as more players entered the leasing market.

It is during the operating lease stage of the cycle that lessors first begin to take true residual risk in their assets. Movement into this stage of the cycle implies a developed secondary market for used equipment as the lessor must now manage the new risk created by ownership of the asset at lease expiry. Coping with this risk requires asset management and lease remarketing skills (Amembal, Ruga and Isom, 1999, 54).

The asset risk is not limited to end-of-lease events, however, as operating leases do not necessarily go to maturity. Growth of the operating lease market was fueled by lessees, seeking off balance sheet financing, a hedge against residual risk and a lower periodic cost. Lessors, due to market pressures, are forced to price their leases on after-tax basis and pass the tax benefits of ownership on to the lessee in the form of lower lease rates. The types of assets leased under operating leases range from vehicles (with established secondary values) to computers, in which there is a high risk of technological obsolescence. The United Kingdom could be classified as being in the operating lease stage of the leasing cycle.

As an industry progresses, the more intense the competition becomes. One result of this increased competition is the fourth cycle represented in Innovative Lease when the continued efforts of the leasing industry are taken to differentiate its products, not only from other financial offerings, but also from competition within the leasing industry. Other motivations include efforts to infuse more equity into the industry and a continued search for innovative, lower cost financing instruments. The types of prod-

ucts that characterize this point in the cycle include income funds, wrap leases, securitization, venture leasing and project finance (Amembal, Ruga and Isom, 1999, 67). The UK leasing industry is entering this stage.

There comes the last point in the leasing cycle when the penetration of leasing begins to level off due to a saturation of the market – Maturity stage. There is an abundance of lessors offering a wide variety of products, with little differentiation between the products. The leasing industry has matured and its products have almost become a commodity. Because of this, there is very little scope for product differentiation. Lessors, therefore, begin to differentiate their products through value-added services such as more rapid turn-around times on documentation and credit, flexibility in the lease structure and the level of customer service (Amembal, Ruga and Isom, 1999, 71).

Maintaining profitability becomes a prime issue to lessors in a mature market. A shift from external (product) focus to an internal (operations) focus occurs as lessors address the expense side of the profitability equation. Lessors look inward and strive to become low-cost providers. At the same time, more money is spent on research and development and improving the technical skills of the lease company's personnel.

A consolidation of the industry in the form of mergers and acquisitions is a natural outgrowth of the mature industry as companies attempt to increase revenues through expansion into new markets. Others seek new markets through product lines that are different from those they have traditionally offered. Given the globalization of the leasing industry, lessors in a mature industry also look more and more to business outside of the domestic market as a means of increasing revenues. The United States leasing industry appears to have reached this stage.

2.2 Leasing in Russia

Leasing in Russia over the past few years has not only become one of the modern financial instruments, but a real ability to upgrade production facilities, to attract investments and to implement new technologies. Leasing became the basis of new efficient technologies of running the business.

For the Russian industry it is more than urgent. Borrowings are too expensive because of the high risks. In its turn, leasing minimizes the risk of creditors. Not only the risk

of losing invested funds is low (the equipment remains the property of the lessor until the full payment of the contract), leasing also is focused on upgrading of equipment and technologies - exactly that provides a qualitative breakthrough in the business.

Development of leasing relations in Russia takes place under conditions of slow growth in business activity, the absence of real and relatively cheap investment resources, required for investments in fixed assets. Moreover, the situation is compounded by the precarious financial situation of majority of Russian companies, as well as the legal framework disorder, lack of real customs and tax exemptions for leasing. Therefore, resolution of legal issues and the establishment of economically viable environment for the implementation of leasing operations will undoubtedly contribute to the active development of leasing in Russia, especially taking into account the overall wear of fixed assets and the urgent need of replacing them.

At the moment, the leasing market has numerous leasing companies, whose number is constantly growing. These companies are able to drive the production capacity and sufficiently satisfy the needs of industrial and commercial enterprises in their usage of equipment (property). In addition, with a deficit of financial resources, these structures are able to help many businesses survive by providing technological equipment for their production.

Based on this and the current situation in Russia, with all its problems and difficulties, it is necessary to note the positive side of leasing mechanism. Therefore, it is advisable to take the advantage of its opportunities and actively establish them in productive activities.

2.3 European Leasing Market

Commencement of the leasing deals was initiated by the telephone company «Bell», USA. The executive management decided not to sell their products (telephones) but to lease them (Bell Memorandum, n.d.). So, it was created a tool that today has an increasingly important role in acquisition of means of the production.

Stages of development of the global leasing market:

- **1877** - The telephone company «Bell» started to lease its phones

- **1957** - Establishment of American Leasing Corporation - the first leasing company in the world (with a specialization in auto lease)
- **1962** - Foundation of the first leasing company in Germany
- **1990** - The beginning of development of the leasing business in Russia. "Baltic leasing" was the first leasing company. In 2015, leasing services will be present in Russia for 25 years.

Germany is one of Europe's leading countries in terms of development of leasing relations. Leasing business began in this country in 1962, when the first leasing company - Deutsche Leasing GmbH - was registered in Düsseldorf. Since that time, it took more than a half of a century for a country to reach the current stage of development (Deutsche Leasing Memorandum, n.d.).

The largest leasing companies in Germany, such as group of Deutsche Leasing, which owns 12 branches in Germany and 11 subsidiaries in various countries, including Russia (company "Deutsche Leasing Vostok") are leading in Europe and ranked high in the world rankings. This is due to the level of skills of staff, extensive experience on the leasing market (35-45 years) and the ability of financing their clients on affordable terms.

German leasing companies, such as "Siemens-Leasing", "Volkswagen-Leasing" and "Deutsche-Leasing Vostok", have been successfully doing business in Russia for many years, providing a wide range of leasing equipment, trucks, trailers, semi-trailers and other vehicles from German manufacturers.

For Russian lessor and the lessee, establishing business contacts with leasing companies in other countries is of considerable interest. This can be useful in terms of sharing vast experience in a way how to organize leasing business as well as signing contracts of international leasing and subleasing.

German companies play a huge role in Russian economy, both as investors and as suppliers of goods and services. For instance, within 9 months of 2014 the company RMB-Leasing has signed contracts directly with German manufactures, such as Hamm AG, Liebherr-Hydraulikbagger GmbH, AMAZONE H. Dreyer GmbH & Co. KG, Terex GmbH and others in the amount of € 3.4 million. This is more than 50% of

all contracts of RMB-Leasing, signed with European partners (RMB-Leasing Memorandum, 2006).

Leaseurope press release (2013) reveals that the volume of Russian leasing market has risen by 8,3 percent, while on European leasing market it could be observed just a slight increase. According to the conducted survey, in 2013 the new leasing business in Europe has increased only by 1,9 percent.

As a result, the position of Russia as a leasing market has increased in ranking of Leaseurope association. Among European countries, Russian leasing market took 4th place in 2013 in terms of new business, rising 1 position up, and left behind only the developed leasing markets such as: Germany, the UK and France. Russia's share in common European contracts has increased and amounted to roughly 7.7%. In 2013, the rate of growth of Russian leasing market was higher in contrast to the growth rate of common European market, which has increased by slightly more than 1%. According to Leaseurope, the amount of new business has increased from €252.6 billion to €255.16 billion.

In addition, Russian leasing company OJSC VEB Leasing entered the top ten largest leasing companies in Europe. The volume of new business equals to €4,154,869 thousand (Ranking of Top European Leasing Companies in 2013, Leaseurope report, 2013)

Segment of equipment on European and Russian markets showed similar trends. New business in Europe had upturn of 2.31%, in Russia - 2.4%. In 2013, segment of vehicles on Russian market grew by 31%, compared to 16.6% in Europe. (Leaseurope and United Leasing Association of Russia, 2013)

However, severe economic spring in 2014, applied sanctions, limited funding of both, financial market participants and their customers - all these factors have led to the fact that summer 2014 was unprecedentedly difficult for almost all companies. Unfortunately, forecasts for 2015 are also far from optimistic. In the 1st half of 2014, Russian leasing market has decreased by 8.2% that is comparable to the overall growth in 2013 - 8.3% (Leaseurope, 2013). Finally, currency fluctuations also affected the customers of leasing companies.

As I have mentioned earlier, Russia is interested in expanding the international profile of its leasing industry. In my opinion, the management of Russian leasing companies should be sent abroad to participate in leasing conferences, to establish and to expand business contacts between all parties, involved in leasing transactions - suppliers, lessors, financial and credit institutions, insurers and other companies.

To attract interest of the world community to the leasing market in Russia, it is necessary both for Russian business and government to adhere the following principles:

- Develop business relationships with lessors across Europe to get a better understanding of the advanced methods of leasing
- Maintain a close relationship with Leaseurope
- Implement International Financial Reporting Standards
- Reduce the obstacles in terms of taxation and customs regime

3 METHODOLOGY

3.1 Choice and Justification and Applying of Data Acquisition Methods

Since financial analysis of a single case study basically requires a large array of historical data, this information must be gathered from relevant sources in order to represent an objective and reliable information. The case study method is best applied when research addresses descriptive or explanatory questions and aims to produce a first-hand understanding of the situation (Yin, 2004). Therefore, for this thesis primary research was chosen. Such approach was chosen in order to fulfil the research objective and answer research questions.

The method of numerical data analysis and time-series technique was seen to be the most appropriate for this research as the main findings were based on the company's financial statements, which are essential in terms of research project as further proposals for company's actions in the market would be fully dependent on the results, obtained from the analysis based on this data. Access to internal documents allows to get first-hand information collected over a long period of time, which makes the data informative and relevant for analysis in addition allows to see how the situation has been changing throughout the years.

Another advantage of this method is that gathering primary data allows to conduct, as a further step, a comparative analysis. The importance of this benefit corresponds to one of the research object: comparison of the performance of the firm within considered period of time. The first-hand financial data allows not only relevantly compare the firm's position on the market but also be aware of a true picture of the company's performance. The most and major financial information was provided to me by head of corporate statistics department of «RMB-Leasing» during my internship there. Besides, I was allowed to get acquainted with the company's invoices, internal contracts and management accounts. Here comes the last but not the least point of using primary data acquisition - because all the data was collected from the official reports, it makes the acquired data valuable and trusted.

3.2 Choice, Justification and Applying of Data Analysis Methods

Since this research also includes qualitative methods of data collection which requires diligent evaluation and assessment, not all the sources can be trusted, therefore the acquired data was evaluated according:

- to the type of source (preferred one was the information coming from official or in a certain extent reliable sources, such as Reuters agency)
- to the relevance and to the date of publication (to exclude old-dated data)
- to the level of applicability to industry (information must be suitable for specific issues of chosen leasing industry, i.e. relevant)

The main criteria for the data assessment was that it had to be relevant and valid. The acquired data was mostly quantitative data, so the method of quantitative data analysis included such analytic technique as time-series analysis. Despite it comes without any formulas, statistical calculations can be part of it (Yin, 2004). Data analysis included such steps as calculation of liquidity and profitability indicators; applying bankruptcy models for gathered information, structuring of factors which influence on company's performance, and final summarization of analytical information into visual graphics. The aforesaid calculations supported the further long-term analysis defined in the timeframe of 3 years, namely helped to trace the dynamics of changes in company's main performance indicators, such as Sales, EBITDA Margin and Net Profit; to determine the firm's financial status not only by indicators but also by commonly used models of companies' assessments, selected and adjusted to relevant advanced formulas of the financial industry; and, finally on the basis of extensive numerical data analysis together with qualitative research of methods of risk-management and strategy of financing, to summarize a concise and understandable conclusion for the end-user of the conducted work.

4 DESCRIPTION OF LLC «RMB-LEASING»

The leasing company "RMB-Leasing" is one of Russia's largest privately owned leasing company. In the leasing industry rating it takes 42th place by the volume of the leasing portfolio. "RMB-Leasing" was created by Russian International Bank in 1997, in the same year the company received a permanent license from the Ministry of Economy of Russia № 0550.1 with the right to perform leasing operations. The very first deal happened in April 1998. It was financing the supply of equipment for the modernization of one of the largest theaters of Moscow "Orion" in the amount of \$230.000 USA ("RMB-Leasing" Memorandum, 2006).

After years of work, company has gained extensive experience with diverse transactions on financing of vehicles, equipment and real estate. At present, "RMB-Leasing" is one of the leading universal leasing companies that has a competitive position in all segments of the leasing market. Diversifying its activities, the company is making substantial investments in various sectors of the economy, such as:

- Mining and processing of coal
- Metallurgy
- Construction
- Food industry
- Entertainment
- Forestry and woodworking industry
- Transportation
- And many others

The portfolio of the company has accumulated a lot of transactions, for an implementation of which, custom and original approach was required. For instance, the leasing of equipment for broadcasting, film production and film distribution. Among the company's clients are: the coal company "Russian coal", "West-Siberian Metallurgical Plant", broadcasting station "Russian Radio" and many others. Financial and organizational conditions of the offered services withstand tough competition in the leasing market and take into account all the needs and capabilities of clients. This is confirmed by the steady increase in the customer base of the company, as well as the dy-

dynamic growth of all the main indicators of its work ("RMB-Leasing" Memorandum, 2006).

Important competitive advantages of "RMB-Leasing" are:

- Own resource base, which allows to make decisions on the financing of major projects without a long negotiation with banks the lenders
- Optimal financing conditions
- Prompt in decision-making
- Individual approach to each lessee
- Long-term cooperation with major equipment suppliers
- Significant experience in the development and implementation of investment projects

"RMB-Leasing" is a member of the Chamber of Commerce of the Russian Federation in leasing services, as well as a member of the Joint Leasing Association. Successful realization of many projects became recognition of an excellent reputation and reliability of the company, both for the partners - financial institutions, as well as for customers. RMB-Leasing stably holds positions in rankings of independent expert agencies. The company was awarded a diploma "For the high and stable performance of leasing activity in the field of metallurgical industry of the Russian Federation" ("RMB-Leasing" Memorandum, 2006).

4.1 Company Structure

"RMB-Leasing" has a large network in Russia, consisting of 12 branches, which provides it with more than 70% of new business. The company is headquartered in Moscow. Number of employees on September 2014 was 95 people, including regional offices - 29 people. "RMB-Leasing" is also actively developing its agent network – company's agencies work in almost all Russian regions.

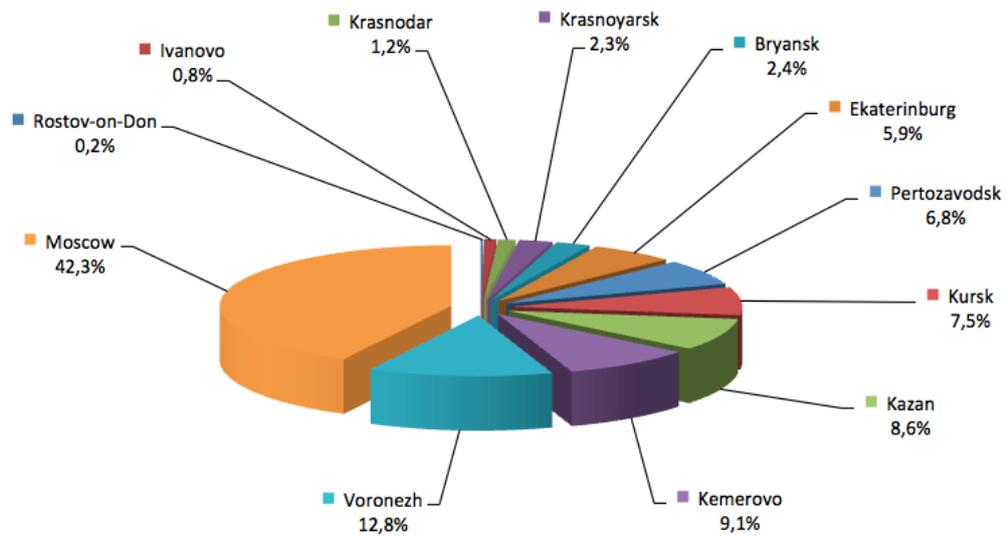


Figure 1. Structure of financed leasing deals by sales offices. RMB-Leasing Memorandum

4.2 Structure of the Leasing Portfolio

The main feature of "RMB-Leasing" business is its universality. It works with most types of leasing objects and all categories of lessees. The strongest positions of the company are in the following segments: leasing of cars and trucks, road construction machinery, industrial and process equipment, real estate and others.

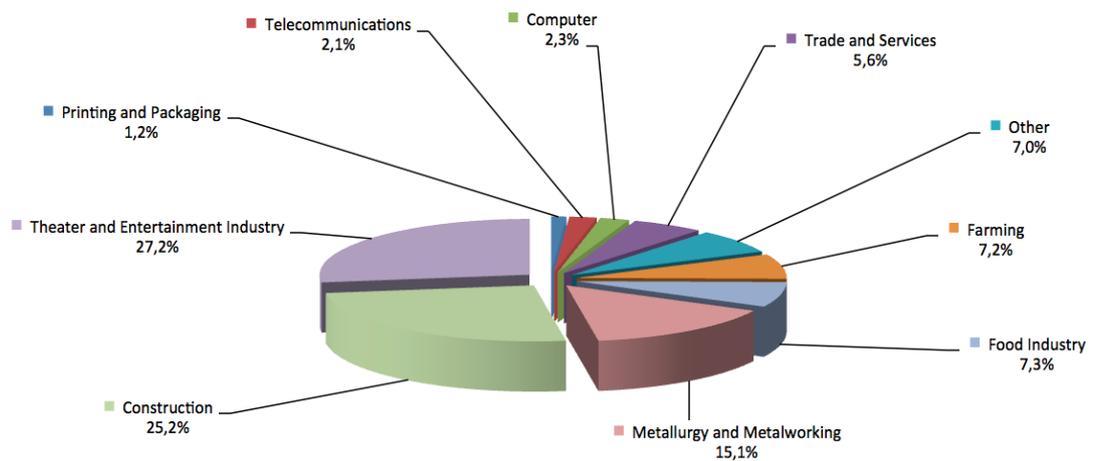


Figure 2. Structure of leasing portfolio (equipment) by industries. RMB-Leasing Memorandum

The share of the most liquid objects - construction, metallurgy and cinema industry - is about 67%. These objects of leasing at present are mostly in demand on the market, which increases the quality of the leasing portfolio.

Nevertheless, "RMB-Leasing" strives to maintain balanced portfolio structure, and the dominance of any single product is not included in the strategic plans of the company.

Company development strategy is aimed both at increasing the volume of investments in the most attractive industries and financing new lines of business of the company.

4.3 Regional Structure of the Leasing Portfolio

"RMB-Leasing" provides lease financing of machinery, equipment and vehicles practically without limits on the whole territory of the Russian Federation. The dynamic growth of the company's sales is due to the large-scale expansion of leasing operations in all major areas: contracts with large customers as well as with small and medium-sized businesses across the country.

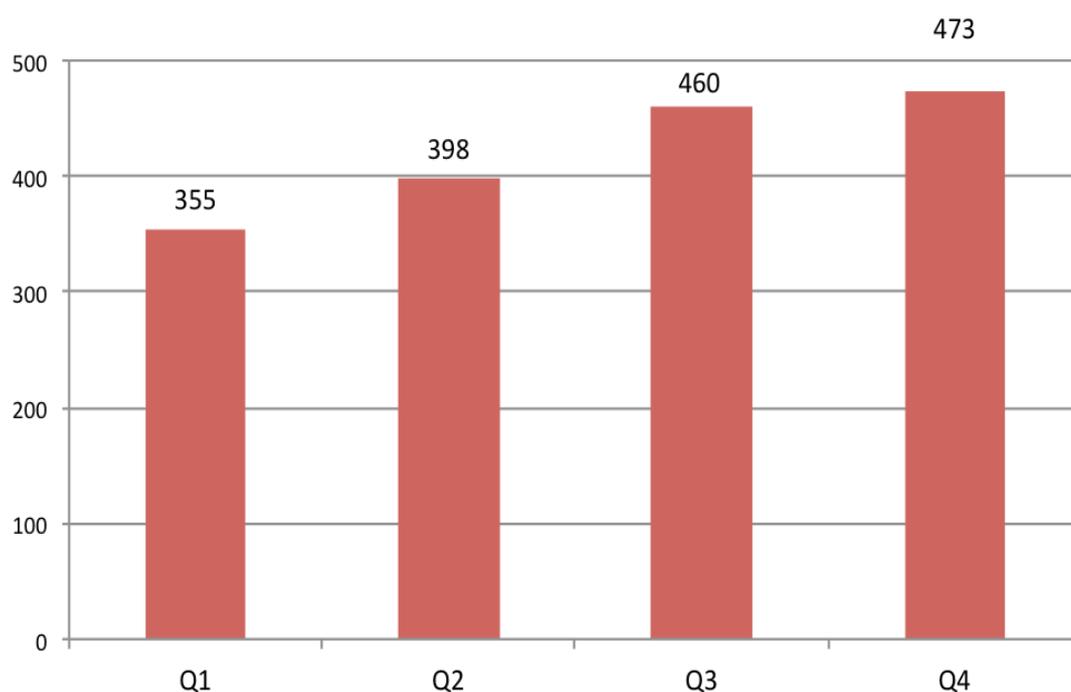


Figure 3. Customers Dynamics in 2014. RMB-Leasing Memorandum

Lessees of the firm primary are located in Moscow region and central Russia. Besides, "RMB-Leasing" also deals with customers from St. Petersburg, Ural area, and western Siberia and south regions of Russia, such as Rostov region.

- Moscow and Moscow region - 25%;
- Central Russia (excluding Moscow region) - 15%;
- St. Petersburg - 8%;
- Volga - 8%;
- Ural - 8%;
- Western Siberia - 8%;
- Rostov region - 7%;

- Karelia - 3%
- Arkhangelsk - 3%;
- Komi Republic - 3%;
- The North Caucasus - 3%;
- Novosibirsk region - 2%;
- Etc. - 7%.

The company's strategy is aimed at further strengthening the "regional" course and geographical diversification of business.

4.4 Core Activities and Typical Operations

In 2013 and Q1 of 2014, the company has actively implemented leasing and related financial transactions, including the use of bills of exchange; has attracted and given out loans. Apart from revenues, generated from leasing activities, "RMB-Leasing" has other sources of income in the form of sales, primarily from the sale of luxurious passenger cars, interest from loans, sale of the leased property, early redemption of lease contracts, revenue from brokering, marketing and other financial services.

However, these operations, despite their permanent and considerable amount of turnover, company does not relate to transactions related to the core activities. These operations company refers to the non-operating due to the fact that they are not the subjects of the company's activities and profit from their implementation is negligible.

Different sources of income allow the company to minimize the seasonality of leasing activity.

4.5 Scheme of Executing the Leasing Deal

The main sources of funding for the leasing company are long-term loans from non-credit institutions, bank loans, loans of insurance companies, as well as other third-party not affiliated legal entities and individuals.

- Conducting a preliminary agreement with the lessee, receiving from it a written application and information about himself and about the transaction.

Selection of supplier of the leased property (usually made by the lessee), the conclusion of a leasing agreement;

- The conclusion of the loan contract (credit), receiving the borrowed funds;
- Signing of a contract for the purchase of the leased property, payment and receipt of property (usually by the lessee);
- Installation of property (if required) and then putting it into the operation by the lessee;
- Insurance of the leased asset;
- Receiving of lease payments, of which principal debt and the interest on loans (credits) are paid off;
- Transfer of property to the lessor upon termination of the contract.

The margin for the leasing contracts at the end of September 2014 was 2.8% («RMB-Leasing» Management Accounting Reports, 2014).

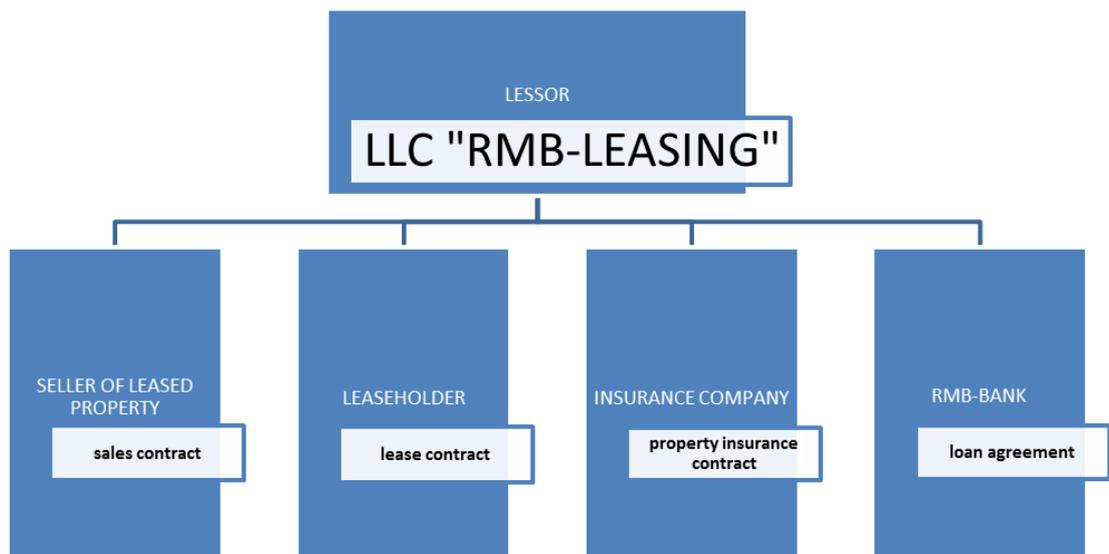


Figure 4. Scheme of execution lease transactions. Management Accounts

5 THE RESULTS OF OPERATIONS

For valuation and analysis of the financial condition of the leasing company, accounting statements have been provided for the period from 1 January 2012 by 30 September 2014.

5.1 Analysis of the Balance Sheet

Directly from the balance sheet statement (Appendix 1), it can be observed the most important characteristics of the company's financial condition on the 30 September 2014:

- Total book value of assets – € 104.550.000
- The cost of non-current assets - € 49.167.000
- The cost of working assets - € 55.383.000
- The value of equity capital - € 5.514.000
- The value of debt capital - € 99.036.000

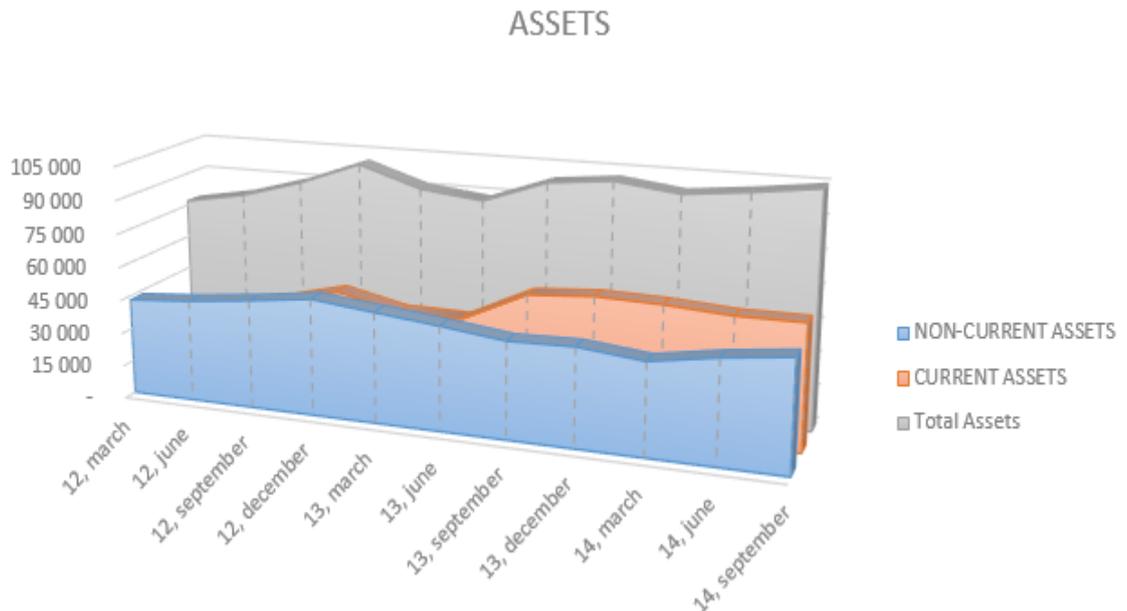


Figure 5. Dynamics of Assets

LIABILITIES

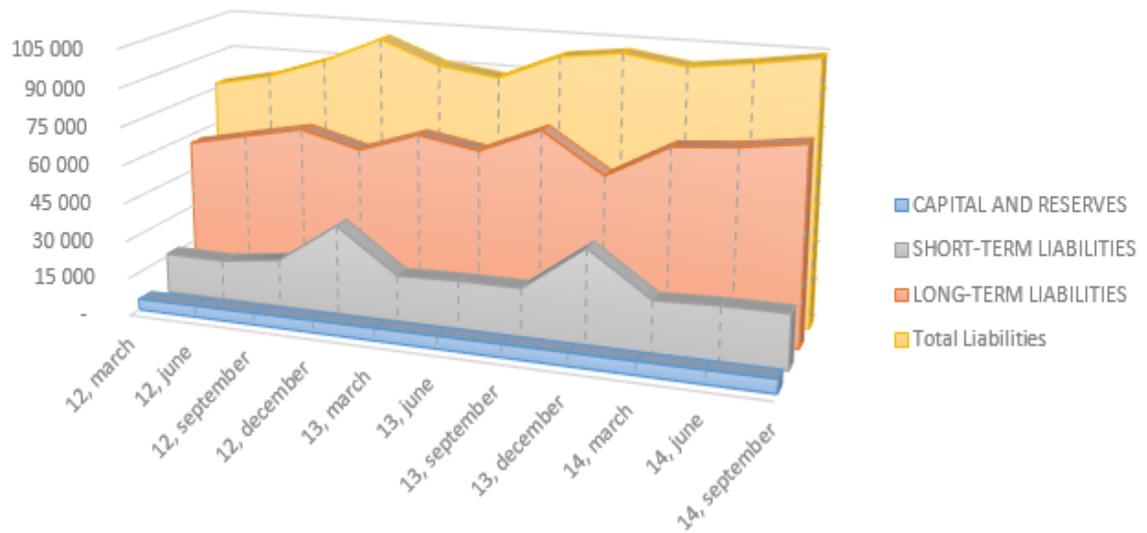


Figure 6. Dynamics of Liabilities

The dynamics of the company's development can be traced not only by sales growth, but also with balance sheet figures. From Q1 of 2014, balance value of the company has increased by 36%. Growth of assets caused by the implementation of the investment policy and the increased number of leasing deals.

However, in Q1 of 2014, a decrease is observed in the balance value, characterizing a reduction in the activity of company. I think that reasons for the slowdown of activity are associated with the tightening the conditions on financial and credit markets, restricting an access to the capital markets. This may lead in perspective to some deterioration in the financial position of the leasing company.

Rapidly changing conditions of the world economy and applied sanctions against Russia will inevitably create problems for small and medium businesses, what will lead to reduced demand for leasing services.

Consequently, I would expect a further decline in business activity during the whole year, and also the growth of overdue debt on financial transactions to the RMB Leasing entity.

The vertical analysis of the balance on 30 September 2014 is represented in:

- Assets

Non-current assets constitute 47% of balance value, of which 95% are investments in financial lease.

Current assets represent 53% of total assets, of which: 48% of receivables, 34% of short-term investments, 1.5% cash.

- Liabilities

Equity capital comprises 5% of the balance value.

Long-term liabilities are 74% of the balance value, consist of 99% of long-term loans.

Short-term liabilities represent 21% of the balance value, of which 58% are short-term payables.

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RMB-Leasing LLC

| ASSETS | % share of total sum | | |
|---|----------------------|--------------|--------------------|
| | 2012 | 2013 | 2014, september |
| NON-CURRENT ASSETS | | | |
| <i>Intangible Assets</i> | 0,2 | 0,2 | 0,2 |
| <i>Property, Plant & Equipment</i> | 2,8 | 1,4 | 0,9 |
| <i>Investment in Finance Lease</i> | 44,4 | 40,1 | 44,5 |
| <i>Long-term Financial Investments</i> | 0,3 | 0,0 | 0,0 |
| <i>Other non-current Assets</i> | 4,1 | 1,4 | 1,4 |
| Total Non-Current Assets | 51,9 | 43,2 | 47,0 |
| CURRENT ASSETS | | | |
| <i>Inventories</i> | 13,0 | 5,5 | 4,4 |
| <i>VAT on Acquired Assets</i> | 0,4 | 0,2 | 1,9 |
| <i>Accounts Receivable</i> | 26,8 | 30,4 | 25,2 |
| <i>Short-term Financial Investments</i> | 3,8 | 15,2 | 18,1 |
| <i>Cash & Cash Equivalents</i> | 2,4 | 2,4 | 0,8 |
| <i>Other Current Assets</i> | 1,7 | 3,1 | 2,6 |
| Total Current Assets | 48,1 | 56,8 | 53,0 |
| Total Assets | 100,0 | 100,0 | 100,0 |
| LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| <i>Authorized Capital</i> | 1,3 | 1,3 | 1,3 |
| <i>Retained Earnings (Accumulated Losses)</i> | 3,5 | 3,8 | 4,0 |
| Total Capital | 4,8 | 5,1 | 5,3 |
| LONG-TERM LIABILITIES | | | |
| <i>Borrowed Funds</i> | 59,0 | 56,1 | 73,1 |
| <i>Other Liabilities</i> | 0,9 | 1,9 | 1,1 |
| Total Long-Term Liabilities | 59,9 | 58,0 | 74,2 |
| SHORT-TERM LIABILITIES | | | |
| <i>Borrowed Funds</i> | 22,5 | 19,6 | 5,6 |
| <i>Accounts Payable</i> | 11,0 | 13,3 | 11,8 |
| <i>Other Liabilities</i> | 1,8 | 4,0 | 3,1 |
| Total Short-Term Liabilities | 35,3 | 36,9 | 20,5 |
| Total Liabilities | 100,0 | 100,0 | 100,0 |

Figure 7. Vertical Structure of Balance Sheet

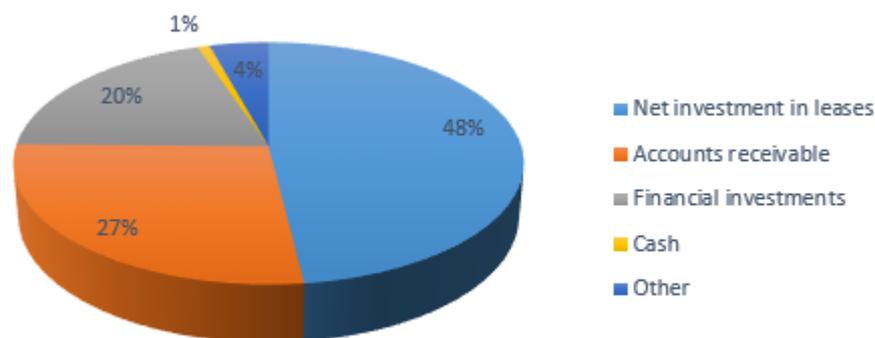


Figure 8. Structure of Assets on 30th September 2014

The structure of company's assets reflects the types of its operations and has remained essentially constant for three years. The most important and largest share of non-current assets of the company (over 94.7%) consists of the investments in leasing.

RMB-Leasing LLC

| | 2012 / 2013 | | 2013 / Sep. 2014 | |
|--|--------------------------|--------------|--------------------------|--------------|
| | Absolute thousands, € | Relative, % | Absolute thousands, € | Relative, % |
| ASSETS | | | | |
| NON-CURRENT ASSETS | -8 372 | -16,1 | 5 429 | 12,4 |
| <i>Investment in Finance Lease</i> | -3 911 | -8,8 | 5 804 | 14,3 |
| <i>Other non-current Assets</i> | -4 461 | -59,3 | -375 | -12,3 |
| CURRENT ASSETS | 9 334 | 19,3 | -2 237 | -3,9 |
| <i>Accounts Receivable</i> | 3 908 | 14,5 | -4 456 | -14,5 |
| <i>Cash & Short-term Financial Investments</i> | 11 548 | 183,4 | 1 911 | 10,7 |
| <i>Other Current Assets</i> | -6 122 | -40,5 | 308 | 3,4 |
| Total Assets | 962 | 1,0 | 3 192 | 3,1 |
| LIABILITIES | | | | |
| CAPITAL AND RESERVES | 401 | 8,4 | 322 | 6,2 |
| LONG-TERM LIABILITIES | -1 307 | -2,2 | 18 806 | 32,0 |
| <i>Borrowed Funds</i> | -2 404 | -4,1 | 19 613 | 34,5 |
| <i>Other Liabilities</i> | 1 097 | 125,7 | -807 | -41,0 |
| SHORT-TERM LIABILITIES | 1 868 | 5,3 | -15 936 | -42,7 |
| <i>Borrowed Funds</i> | -2 739 | -12,1 | -14 081 | -70,9 |
| <i>Accounts Payable</i> | 2 415 | 21,8 | -1 098 | -8,1 |
| <i>Other Liabilities</i> | 2 192 | 120,4 | -757 | -18,9 |
| Total Liabilities | 962 | 1,0 | 3 192 | 3,1 |

Figure 9. Horizontal Analysis of Aggregated Balance

According to the results of the first 9 months in 2014, long-term liabilities have increased by 32% - there is a tendency in reducing of short-term liabilities in the balance sheet structure (-42.7% in comparison to 2013). This fact has a positive impact on liquidity indicators.

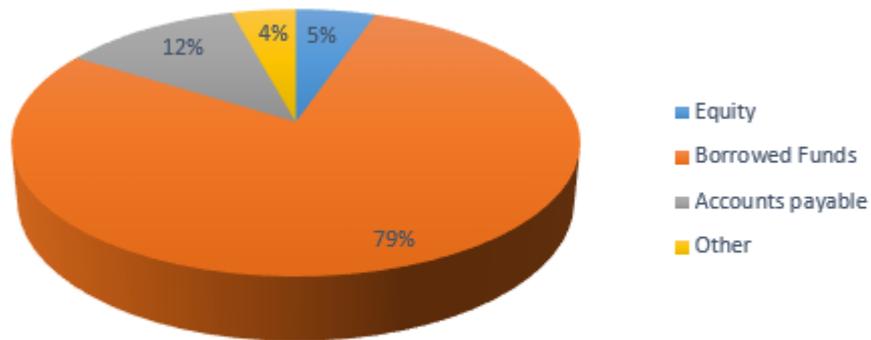


Figure 10. Structure of Liabilities on 30th September 2014

5.2 Analysis of the Profit & Loss Statement

Volumes of revenue, received by the company from leasing operations, data about its expenditures and other operating transactions are presented in “Profit and Loss Account”(Appendix 2).

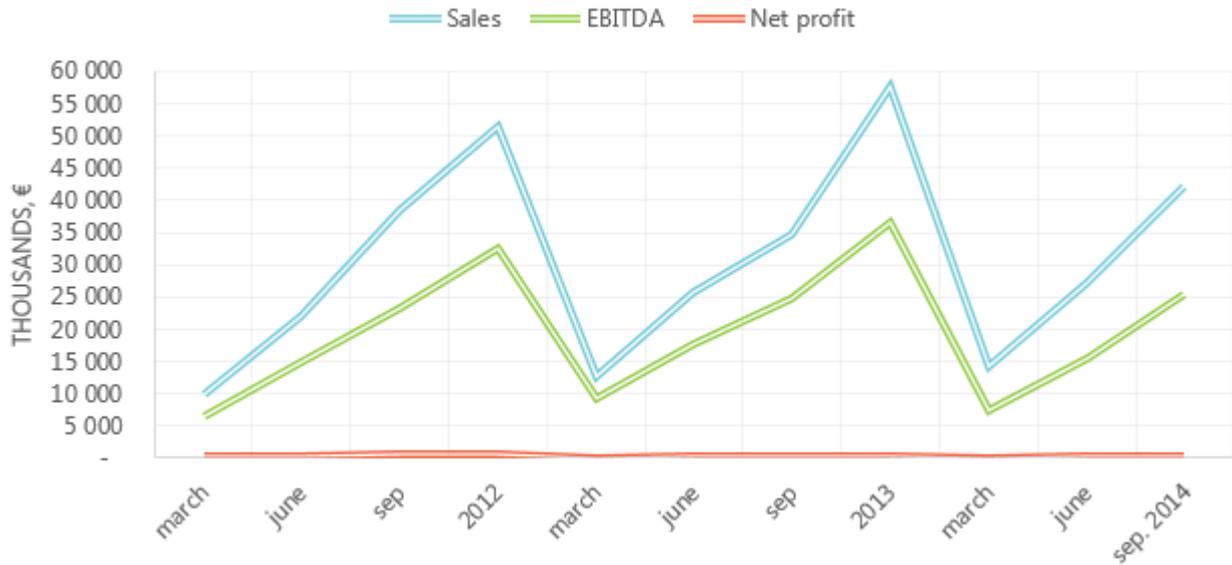


Figure 11. Sales Dynamics

The company has a positive trend in revenue and in profit. Within 9 months of 2014, revenue level has increased in a comparison with the same period of 2013 by 21%.

RMB-Leasing LLC

| | Sep. 2012 / Sep. 2013 | | Sep. 2013 / Sep. 2014 | |
|--------------------------|--------------------------|---------------|--------------------------|---------------|
| | Absolute thousands, € | Relative % | Absolute thousands, € | Relative % |
| Sales | -3 672 | -9,5 | 7 294 | 21,0 |
| COGS | 4 490 | 52,6 | 2 358 | 18,1 |
| Gross profit | -8 162 | -27,3 | 4 936 | 22,7 |
| SG&A | -38 | -5,3 | 25 | 3,7 |
| Other operating income | 4 482 | 78,6 | 6 681 | 65,6 |
| Other operating expenses | -5 311 | -45,2 | 11 010 | 170,7 |
| EBITDA | 1 669 | 7,2 | 582 | 2,3 |
| D&A | 556 | 2,9 | -531 | -2,7 |
| EBIT | 1 113 | 26,7 | 1 113 | 21,1 |
| Interest incomes | -45 | -7,2 | 1 169 | 202,6 |
| Interest expenses | 1 265 | 30,2 | 2 292 | 42,1 |
| Profit before tax | -197 | -32,3 | -10 | -2,4 |
| Expenses on profit tax | -39 | -32,3 | -2 | -2,4 |
| Net profit | -158 | -32,3 | -8 | -2,4 |

Figure 12. Horizontal Analysis of P&L Account

In September 2014, sales growth has outpaced the growth rate of COGS, and as a result, leads to the growth in Gross Profit by 22.7% in a comparison to the previous year. Also, I would like to note a significant increase in other operating expenses (€ 11.010.000 or +170.7%). I assume that the ground for this were negative exchange rate differences, which were caused by the devaluation of the national currency - Ruble - against foreign currencies. FX differences have significantly influenced on the value of net profit (-2.4% in 2014), i.e. depreciation of Russian currency has eaten all the income in the reporting period.

6 ANALYSIS OF THE FINANCIAL POSITION OF THE COMPANY

6.1 The Calculation of Liquidity Ratios

Liquidity of balance is the ability of assets to take the form of money and its equivalent at a cost no less than it was recorded in the balance sheet. (Scott, 2003)

Table 2. Liquidity Valuation by Balance Model

| Assets | | <i>(in thousands, €)</i> | | |
|------------------------------------|----|--------------------------|---------|---------|
| | | 2012 | 2013 | 09.2014 |
| Most liquid assets | A1 | 6 296 | 17 844 | 19 755 |
| - cash | | | | |
| - short-term financial investments | | | | |
| Quick-sold assets | A2 | 26 892 | 30 800 | 26 344 |
| - accounts receivable | | | | |
| Slow-sold assets | A3 | 15 098 | 8 976 | 9 284 |
| - inventories | | | | |
| - VAT | | | | |
| - other current assets | | | | |
| Hardly-sold assets | A4 | 52 110 | 43 738 | 49 167 |
| - non-current assets | | | | |
| Balance | | 100 396 | 101 358 | 104 550 |

| Liabilities | | <i>(in thousands, €)</i> | | |
|----------------------------------|----|--------------------------|---------|---------|
| | | 2012 | 2013 | 09.2014 |
| Mostly time-critical liabilities | L1 | 12 881 | 17 488 | 12 377 |
| - accounts payable | | | | |
| Short-term liabilities | L2 | 22 596 | 19 857 | 9 032 |
| - short-term loans | | | | |
| Long-term liabilities | L3 | 60 128 | 58 821 | 77 627 |
| - long-term loans | | | | |
| Constant liabilities | L4 | 4 791 | 5 192 | 5 514 |
| - company's own funds | | | | |
| Balance | | 100 396 | 101 358 | 104 550 |

| Redundancy (+) / deficit (-) of assets for liabilities coverage | <i>(in thousands, €)</i> | | |
|---|--------------------------|---------|---------|
| | 2012 | 2013 | 09.2014 |
| A1-L1 | - 6 585 | 356 | 7 378 |
| A2-L2 | 4 296 | 10 943 | 17 312 |
| A3-L3 | -45 030 | -49 845 | -68 343 |
| A4-L4 | 47 319 | 38 546 | 43 653 |

| | | | |
|---------------------------------|----|---|----|
| Absolute balance liquidity, if: | A1 | ≥ | L1 |
| | A2 | ≥ | L2 |
| | A3 | ≥ | L3 |
| | L4 | ≥ | A4 |

The absolute balance liquidity cannot be stated because the last two conditions ($A3 \geq L3$; $L4 \geq A4$) have not met the above requirements, i.e. company does not have sufficient current funds to repay long-term debts. This challenge may characterize the firm as a financial unstable. At the same time, lack of working capital is offset by an excess of non-current assets. Therein lies the particularity of the company and the nature of its core business – financial leasing.

Comparison of liquid assets and liabilities allows us to calculate following indicators:

- Current Liquidity Ratio, which shows how the company is capable to pay back its short-term obligations (debts and payables over the next 12 months) with short-term assets (cash, inventory, receivables). If the ratio is lower than 1, it suggests that the company would be unable to pay off its obligations when they came due.

$$\text{Current Liquidity Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- Quick Ratio refines Current Ratio in terms of excluding the inventories, which are more difficult to be converted into cash. The exact formula is as follows:

$$\text{Quick Ratio} = \frac{\text{Cash \& Equivalents} + \text{Short term Investments} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

- Cash Ratio

$$\text{Cash Ratio} = \frac{\text{Cash \& Equivalents} + \text{Invested Funds}}{\text{Current Liabilities}}$$

Table 3. Liquidity Indicators

| Ratios | Interval of optimal values | 2012 | 2013 | 09.2014 |
|-------------------------|----------------------------|------|------|---------|
| Current Liquidity Ratio | $\geq 1 - 2$ | 1,36 | 1,54 | 2,58 |
| Quick Ratio | ≥ 1 | 0,94 | 1,30 | 2,15 |
| Cash Ratio | $\geq 0,2 - 0,5$ | 0,18 | 0,48 | 0,92 |

The dynamics of coefficients is positive. Almost all liquidity indicators, considered in defined timeframe, lay in the normal interval of optimal values. This fact allows to characterize the financial state of company as a liquid one, i.e. company is able to repay current short-term liabilities.

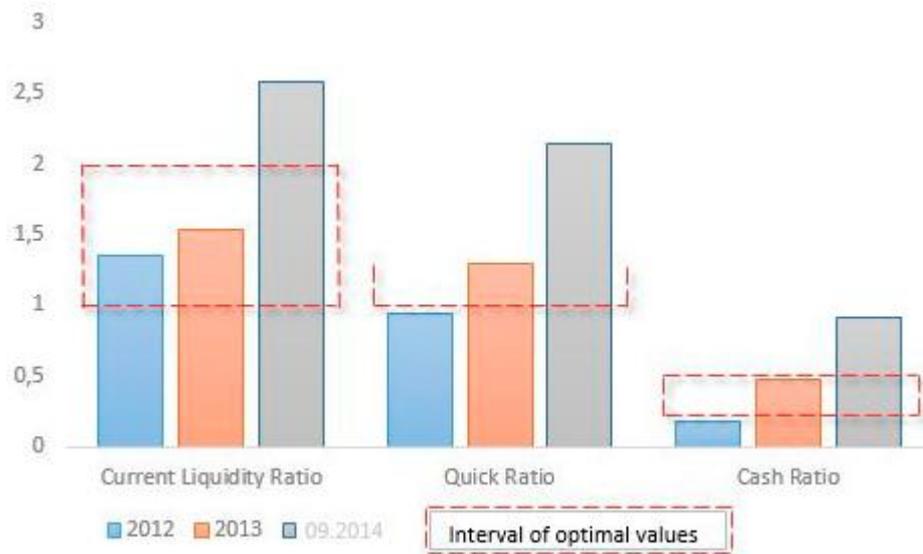


Figure 13. Chart of Liquidity Indicators

However, it should be taken into account that in 2014 current liquidity coverage ratio was higher than the range of optimal values. It points out an irrational use of capital and the turnover of funds. As a consequence, it became a reason for the changes in a structure of liabilities in 2014 – an adjustment has happened, which resulted in an increase of long-term liabilities' share – in comparison to 2013.

Finally, it has significantly influenced on a rise of all indicators of liquidity ratio during 9 months of 2014.

6.2 The Calculation of Profitability Indicators

Indicators of profitability provide interested party with understanding of how company disposes available resources to make profit and to increase shareholders' equity.

Table 4. Indicators of profitability

| <i>Indicators of profitability, %</i> | <i>2012</i> | <i>2013</i> | <i>09.2014</i> |
|---|-------------|-------------|----------------|
| ROA – Return on Total Invested Assets $ROA = \frac{Net\ Profit}{Total\ Assets} * 100\%$ | 0,63 | 0,39 | 0,41 |
| ROE – Return on Equity $ROE = \frac{Net\ Profit}{Shareholder's\ Equity} * 100\%$ | 13,37 | 7,71 | 7,79 |
| EBITDA Margin $EBITDA\ Margin = \frac{EBITDA}{Total\ Sales} * 100\%$ | 62,89 | 63,11 | 60,35 |
| EBIT Margin $EBIT\ Margin = \frac{EBIT}{Total\ Sales} * 100\%$ | 11,59 | 11,99 | 15,19 |

Within 9 months of 2014, ROE was 7.79%, i.e. every shareholders' Euro has earned 7 cents of profit. Reducing the value of the indicator was due to a decrease in profits in respect of capital and reserves of the company during stated time period of 2014 compared with the same time period of 2013. This is a poor performance in comparison with a leader in the Russian market - VEB-Leasing - that had ROE of 16.82% for 9 months of 2014 (VEB-Leasing Q3 Report, 2014, 51)

Notwithstanding, it seems difficult to conduct an objective comparison of indicators of competitive companies on the Russian leasing market due to only two public companies, the financial data of which are available for a review. These two are «OJSC VEB-Leasing» and «OJSC State Transport Leasing Company». The last mentioned one - STLC - in its turn had a ROE of 0.9% for 9 months of 2014 that is much less than figures of «RMB-Leasing» or «VEB-Leasing» for the same reported period.

In its turn, if we take and consider the indicators of the same companies for 2013 financial year, it can be found that they are very close to each other. For «RMB-

Leasing» - 7.71%, for «STLC» - 7,59% and for a leader of the market «VEB-Leasing» as a benchmark – 7.84%.

From the aforesaid follows that in an economic stable 2013 year, the return on equity of selected leasing companies was quite similar, without any significant deviation. Nonetheless, in September 2014 due to the spread in the same indicators, the comparison of «RMB-Leasing» with legal entities on the market became irrelevant. Whilst the reasons for this substantial scatter were impossible to determine on the basis of quarter and year reports of competitive companies, it must be mentioned that «RMB-Leasing» had hasteless although a slight increase in ROE from 7.71pc to 7.79pc. Meanwhile, «VEB-Leasing» doubled its ROE indicator from 7.84% in 2013 up to 16.82% in crisis September 2014. ROE indicator of «STLC» contrariwise dropped from 5.7% right up to 0.9% in September 2014.

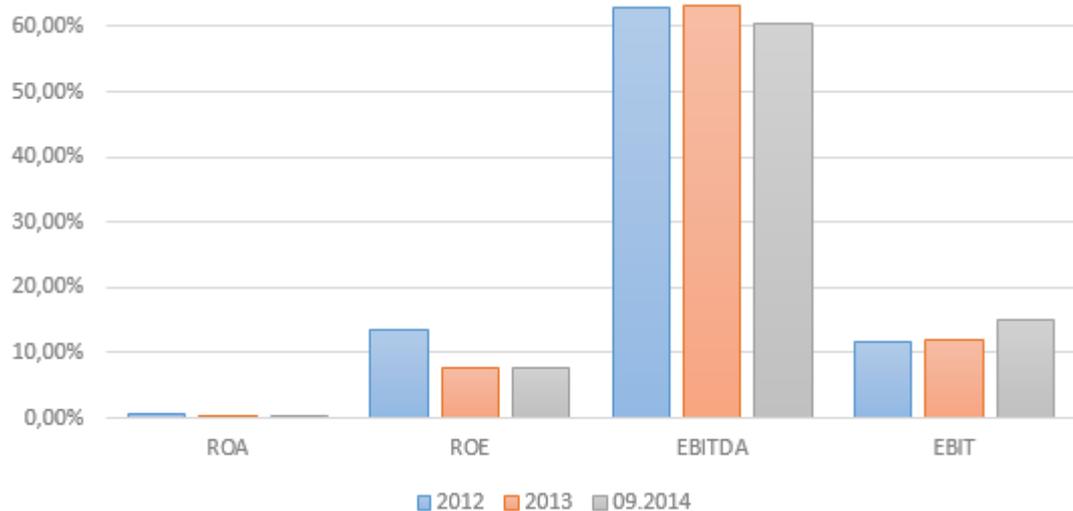


Figure 14. Indicators of profitability

6.3 DuPont Analysis

As considered company's ROE is unsatisfactory in a comparison with competitors in the same industry, it is proposed to use DuPont Model to find out the part of the business that is underperforming. To analyze ROE and effectiveness of managers as well as having clearer view on this issue, the five-variable model will be applied.

Table 5. DuPont Analysis of «RMB-Leasing». Source: Company's Financial Statements

| <i>DuPont Model of «RMB-Leasing»</i> | | <i>2012</i> | <i>2013</i> | <i>09.2014</i> |
|--|----------------------------------|-------------|---------------|----------------|
| <i>Tax burden</i> | Net Profit/Profit before Tax | 0,8000 | 0,8000 | 0,8000 |
| <i>Interest burden</i> | Profit before Tax/EBIT | 0,1340 | <u>0,0723</u> | <u>0,6300</u> |
| <i>Operating in-come margin</i> | EBIT/Sales | 0,1160 | 0,1199 | 0,1520 |
| <i>Asset turnover</i> | Sales/Total Assets | 0,5135 | <u>0,5702</u> | <u>0,5368</u> |
| <i>Equity multiplier</i> | Total Assets/Shareholders Equity | 20,95 | 19,52 | 18,96 |
| <i>ROE = (Tax Burden)x(Interest Burden)x(Operating Margin)x (Asset Turnover)x(Equity Multiplier)</i> | | 13,37% | 7,71% | 7,79% |

Market interest rates on loans of “RMB-Leasing” have been dramatically increased by almost 9 times. For the same period the interest rates of “VEB-Leasing” have been increased by only 1.5 times. This indicates that company has raised huge amount of debt funds prior or during economy recession by signing new credit contracts.

As a company which provides financial services, «RMB-Leasing» has to attract amount of loans. However, these considerable loans and the possibility that interest rates on them will be increased should be hedged with financial instruments.

Another factor to be pointed out is Asset Turnover Ratio, which shows that the usage of company's assets for the generation of turnover has slightly decreased.

Table 6. DuPont Analysis of «VEB-Leasing». Source: Company's Financial Statements

| <i>DuPont Model of «VEB-Leasing»</i> | | <i>2012</i> | <i>2013</i> | <i>09.2014</i> |
|--|----------------------------------|-------------|---------------|----------------|
| <i>Tax burden</i> | Net Profit/Profit before Tax | 0,7799 | <u>0,8745</u> | <u>0,9883</u> |
| <i>Interest burden</i> | Profit before Tax/EBIT | 0,3724 | <u>0,1926</u> | <u>0,3067</u> |
| <i>Operating in-come margin</i> | EBIT/Sales | 0,2267 | 0,1854 | 0,2109 |
| <i>Asset turnover</i> | Sales/Total Assets | 0,1558 | 0,1557 | 0,1673 |
| <i>Equity multiplier</i> | Total Assets/Shareholders Equity | 15,90 | <u>20,15</u> | <u>20,96</u> |
| <i>ROE = (Tax Burden)x(Interest Burden)x(Operating Margin)x (Asset Turnover)x(Equity Multiplier)</i> | | 13,44% | 9,80% | 22,42% |

6.4 Altman's Bankruptcy Model

Since «RMB-Leasing» is a privately held company, there are no any ratings available on it. Therefore, to evaluate the firm's expectation of corporate default, I suggest to use Altman's Z-score Plus - a model that predicts a probability of a situation that firm goes bankrupt within two years. Due to the type of business organization and non-manufacturing specific of company's business, it was selected this advanced version of model. Generally, it expresses the company's financial health and is used to detect excessive credit risk. It is worth to be noted that the Z-score is not intended to predict when a firm will actually declare a legal bankruptcy. It is instead a measure of how closely a firm resembles other firms that have filed for bankruptcy, i.e. it tries to assess the likelihood of economic bankruptcy (Business Insider, 2011).

Table 7. Altman's Model

| <i>Altman's Model</i> | | <i>2012</i> | <i>2013</i> | <i>09.2014</i> |
|---------------------------------------|---|-------------|-------------|----------------|
| A | (Current Assets – Current Liabilities) / Total Assets | 0,1275 | 0,2000 | 0,3249 |
| B | Retained Earnings / Total Assets | 0,0347 | 0,383 | 0,0402 |
| C | Earnings Before Interest and Taxes / Total Assets | 0,0595 | 0,0683 | 0,0611 |
| D | Book Value of Equity / Total Debt | 0,0143 | 0,0142 | 0,0138 |
| $Z'' = 6,56A + 3,26B + 6,72C + 1,05D$ | | 1,3644 | 3,0345 | 2,6875 |

According to Altman's Z-Score FAQ, traditional Z-Series Score Bands are:

- $Z > 2.6$ -“Safe” Zone
- $1.1 < Z < 2.6$ -“Grey” Zone
- $Z < 1.1$ -“Distress” Zone

From the range of admissible values, it can be observed that in 2012, one year after economic crisis in Russia, company was in a situation close to dangerous one, then had a significant growth. Recently, due to economic recession after currency fluctuations, and difficulty with financing as well as collecting receivables, again had a downturn which no doubt will continue because of a) rapidly-increased foreign exchange rates from the end of September 2014 and b) continuing instability on finan-

cial markets. Nevertheless, company is far from bankruptcy levels and, on this basis, it can be asserted that the firm is relatively stable with negative outlook.

6.5 Conclusions on the Results of the Financial Analysis

In the reporting period the financial condition can be described as:

Based on 9-months results of 2014, the company RMB-Leasing received a net profit of 322.4 thousand euros. However, net profit is the least informative indicator. Different competitive companies may be of the same net income, but they will have different financial condition of a firm, results of business operations, and consequently different market value.

EBITDA profit has a dynamic of growth for the considered period. However, it should be noted that in September 2014, EBITDA margin has been reduced by 15.3%. This decrease can be explained by the increase in operating expenses (+170.7%). Hence the focus needs to be done not only on increasing the volume of revenues, but also the control of costs should be implemented.

The company shows a sustainable development:

- Compared to the same period of 2013, in September of 2014 sales have increased. However, due to a fall in 2013 (-9.5%), there is no positive dynamics of revenue growth
- Sales rate (+21%) has outpaced the growth of COGS (+18.1%) and, as a consequence, growth of gross profit as well
- Gross profit margin is high. It shows the possibility for managers to earn, as well as to manage and control the main costs
- Since the growth dynamics of the leasing company is determined by the ability to raise sufficient funds on the financial market, the increase in company's debt is a positive aspect (+7.2%)
- Liquidity ratios lie in the interval of optimum values that indicates a high solvency of the company's short-term liabilities. However, in 2014 all ratios are beyond the boundaries of the optimal interval. It shows inefficient use of current assets. Nevertheless, lenders prefer to see higher rates as a sign of a stable financial position of the company

- Ratio of payables and receivables (0.48) is located in the normal range (<1), i.e. receivables exceed payables
- Growth of volumes of new leasing business has increased within 9 months of 2014 by 15.6%

There is a tendency of net profit reduction for the reported period. The largest decrease occurred within 9 months of 2013 (-32.3% compared to the same period of 2012). The deterioration of the financial result was caused by the increase in interest on loans and borrowings.

The consideration of negative externalities starts with still-unresolved debt issues and ongoing consequences of the global crisis and continues by currently applied economic sanctions. It all has reflected in the sharp deficit of borrowing funds. The possibility of company's growth directly depends on the ability to attract sufficient funds in the financial market that nowadays has become an obstacle.

Financial indicators are strongly affected by abrupt changes in foreign exchange rates. Some of company's liabilities are denominated in foreign currencies, such as loans from foreign banks, for instance Latvian Rietumu Bank.

6.6 Currency Fluctuations

Since 30th September 2013 the Euro exchange rate to the Russian Ruble has increased from 43,824 to 49,7653. Since company receives all transactions in national currency, the burden of company's external debts and signed contracts has increased by +13,557% at the time of the 30th September 2014.



Figure 15. EUR/RUB exchange rate for the period 30.09.13-30.09.14. Source: ECB Statistics

Negative factors, that exert pressure on the Ruble, primarily are decline in oil prices, anti-Russian sanctions and high inflation in the country – 11.4% (Federal State Statistics Service, 2014).

Within the same period, the growth of USD/RUB pair was equal to +21,25%. Apart from the contracts in Euro, the company also has contracts in US Dollars, therefore the firm is under a high dependence on exchange rates. To insure itself against currency risks, company should apply the policy of hedging.



Figure 16. USD/RUB exchange rate for the period 30.09.13-30.09.14. Source: Bank of Russia

7 ANTI-CRISIS MEASURES AND PROPOSALS TO COST REDUCTION

The sudden economic downturn may have in perspective a significant amount of pressure on lending, growth in the number of transactions and quality of company's leasing portfolio.

In order to implement anti-crisis measures, the following suggestions based on the findings and conducted analysis are proposed by the researcher.

7.1 Currency Exchange Risk Hedging

The fall of national currency exchange rates by more than 13% for US Dollar and 21% for Euro has increased the ruble equivalent of payments on foreign currency loans. Therefore, the company loses its revenues while costs are rising. It leads to a decrease in profitability and the possibility of company's default. To avoid such a dramatic fluctuations in foreign currency, risk insurance approach will be considered in practice.

Foreign exchange risk is faced by:

- exporting companies who receive income in foreign currency and sell foreign currency earnings to finance expenditures, denominated in Russian rubles;
- companies with revenues in Russian rubles which import goods and services in foreign currency as part of their manufacturing process;
- companies with revenues and / or expenses in Russian rubles and borrowings in foreign currency on the international capital markets to finance their business activities – considered firm «RMB-Leasing» refers to this type.

In modern conditions the absence of currency risks insurance practices in a company's risk management system can lead to a significant deterioration in the financial performance of the company in case of unfavorable exchange rate dynamics (Savings Bank of Russia, n.d.).

Forex dictionary (2014) defines hedging as a neutralizing exposure to future changes in asset prices by carrying out certain financial transactions. Hedging allows companies, exposed to currency risk:

- to avoid financial losses in case of unfavorable changes in exchange rates in the future;
- to make it easier for companies to plan major financial indicators of their economic activity due to the opportunity to fix the future value of the exchange rate.

Hedging will help to eliminate or significantly limit leasing firm to cover currency risks that seems minor in terms of their major (commercial) activities, but quite significant in terms of financial results of this activity.

The main financial instruments to hedge currency fluctuations are:

1. Futures contracts on the US Dollar and Euro for Russian rubles on the Moscow Interbank Currency Exchange (MICEX) - standardized forward contracts is a tool without delivery (settlement);
2. Option - the purchase of right to buy ("call") / sell ("put") a certain amount of one currency for another (including the Russian ruble) at any particular rate at a specified future date (European option) or at any time prior to its occurrence (American option).

7.2 Exotic Sources of Funding

A difficult political situation, implemented sanctions against Russia, termination of access to cheap Western long-term borrowings and a sharp drop in the ruble exchange rate have extremely complicated situation for Russian leasing companies. Orientation on new capital markets is the possibility for RMB-Leasing to obtain necessary funds. Such opportunities exist, however they are very limited.

Russian International Bank acting as a parent body has lost access to Western sources of financing that made it much more difficult to provide its subsidiary – RMB-Leasing (however the company is legally independent organization) with long-term loans on affordable terms. So that RMB-Leasing began to experience serious difficulties with balance liquidity. An increase in interest rates on loans means nothing more than the value of money for the leasing company has increased as well. After the Central Bank of Russia has increased its auction repo rate i.e. interest rate for commercial banks from 8% to 17%, borrowing rates on the local market for firms of business sector

(which are not included in the official ‘rescue plan’ of the Russian government) consequently have increased roughly to 20% (Reuters, 2015). Companies will have either to revise their contracts or to incur losses.

Step 1. One of the solutions of financial issues is expansion into new lending markets. For instance, the rapid reorientation to the Asian market can be an option. However, it is not so easy, because the Asian market itself is rapidly growing and the need for capital there is significant. Thus, Asia is also highly dependent on borrowings i.e. controllable by the more powerful creditors - the US and Europe. In addition, Chinese companies want to avoid the risks associated with the financing of Russian firms in time of economy recession.

Step 2. Another possibility to attract financial resources is to use financial instruments, such as the issuance of corporate / exchange-traded bonds or promissory notes. However, in the current economic situation it will be difficult to find a decent demand from financial institutions or private investors with a sufficient amount of cash. Moreover, since the considered company is privately held, it also creates an obstacle for small and medium private investors, whose portfolios are not well-diversified, to purchase “RMB-Leasing” securities because it will affect their portfolio beta i.e. risk (Damodaran, 2012, 926).

Despite schemes of promissory notes issuance together with corporate bonds itself are quite exotic financial instruments for the Russian leasing market, they seem promising tools to attract financing on Moscow Exchange. According to a list of securities admitted to trading on "Moscow Stock Exchange" (2015) many of top ten leasing companies already have used such way of funding. The most popular security among them is exchange-traded bond due to the absence of the state fee for registration of the bond issue, no need for the state registration of the bond issue and the prospect standards of exchange bonds are much more liberal compared to corporate bonds. Though option with attracting funds by exchange-traded bonds can be problematic. According to Russian law (MICEX, 2008), only those companies, whose stocks are already traded, are allowed to list these bonds. Notwithstanding, even without listing on the stock exchange, the potential issuer may pass this procedure at any time by presenting a set of documents, which almost does not differ from the set required for placement of corpo-

rate bonds, and then continue with issuing the stock bonds (MOEX - Moscow Exchange, 2015).

7.3 SME Relationships

In case of either positive or negative scenario, experts of national rating agency forecast that the Russian leasing market in 2015 will fall (Expert RA, 2015).

Step 1. Tightening of bank lending makes market participants to raise requirements for lessees. “RMB-Leasing” should focus on the partner work relationships primarily with customers, who have established themselves as reliable partners and customers who have demonstrated a good payment history.

However, nowadays when demand for lease services has reduced, companies also need to be loyal, to try to understand and negotiate with the potential long-term partners. Providing self-insurance in the situation with problem clients can be achieved by increasing the advance payment or taking additional collateral.

Step 2. “RMB-Leasing” should execute due diligence not only within the framework of the creditworthiness of customers, but also the liquidity of equipment – especially, cost and timing of its implementation, if the client is not able to repay the lease. Those types of machinery, whose liquidity is in doubt, the company should refuse. Today the firm needs to concentrate on purchasing and financing of enough liquid equipment that also is in demand on the secondary market, in order to avoid the risk of uncovered losses incurred by possibility of customers’ default.

Under the conditions of falling oil prices, rising inflation and the devaluation of the national currency, most of lessees have taken a wait. In the context of economic uncertainty, many customers prefer to postpone the decision of fixed assets replacement and continue to work on existing machineries. Those clients, who have enough funds, have already invested in the purchase of the necessary equipment, those who do not have enough capital, decided to wait until better times.

Nonetheless, many entrepreneurs and individuals are now turning to leasing instead of obtaining bank loans because of raised borrowing rates. The most significant trend, which was noticed from the beginning of 2015, is preference of car leasing to con-

sumer loan. It means that consumers who needed new automotive equipment for business decided not to postpone its acquisition so that they purchased it with the help of leasing.

Thereby, on the one hand economic instability caused the decline in demand from regular customers, on the other made it possible to find new ones.

Step 3. It seems necessary to establish new business partnerships and run deals with small and medium-sized businesses in 2015. Under condition of the volatility of the ruble and growth rates on credit resources, “RMB-Leasing” should give preference to short-term lease of SMEs with smaller amount of funding. However it should be taken into account that not wholesale i.e. retail segment will not be able to keep the company from the further decline in economy and related with it long-term challenges.

7.4 Development of Regional Policy

The World Cup in 2018, which will be held in Russia, should increase economic activity of small and medium-sized companies. The designated budget of \$20 billion will be spent on: design and construction of 12 stadiums, broadcasting and media centers, modernization of airports and transport infrastructure¹ i.e. areas of activity where “RMB-Leasing” has experience in financing industrial developers. A major project that involves many regional construction firms aimed at participation in it, and includes a creation of variety of infrastructure with the background of government subsidy programs should become the driver for the regional activity and ensure the growth of transactions i.e. opportunity for leasing deals, since only a few regional companies have their own park of construction equipment.

However, leasing company can expect the effect from the program of preparation for the World Cup only in 2016-2018. Experts warn that keeping the volume of transactions can be reached only if the state will maintain funding levels for developers under condition of existing federal and regional programs (Expert RA, 2015).

¹ Russia trade and export guide 2014, available at:
<https://www.gov.uk/government/publications/exporting-to-russia/exporting-to-russia>

7.5 Internet Marketing and "Express leasing"

In some industries, which are of interest to small and medium-sized businesses (e.g. transportation vehicles and special machinery), business situation is not so bad so that growth, albeit small, remains. This may be the basis for consideration on special market products, ensuring quick and easy conclusion of a deal.

Step 1. I suggest express leasing. It represents a set of solutions of the leasing company, allowing to quickly make a decision on the deal on the basis of standard conditions. This will minimize the period from the moment of client's appeal to transferring the leased asset to the customer. Banks and insurance companies use in its essence a similar model, offering commercial products on express loans and express insurance.

Express leasing will eventually allow the leasing company to minimize the time of decision and consideration of the documents within two or three days from date of receipt of client's application to the moment of financing and leased asset release. In addition to a quick decision on the financing and rapid entry into the deal, customers also receive a real convenience in the form of a simplified system of document circulation.

However, there may be an obstacle for implementing of such type of leasing service. Express leasing is more risky type of financing, so the preference should be given to highly liquid assets. It can be leasing of cars and commercial vehicles.

Step 2: In my opinion, it is necessary to change the home page of corporate website. It must provide ready-to-use suggestions for user's requests. This means that at least for each line of leasing company business must be created an informative but easy-to-read "landing-page". Internet marketing in leasing companies has a great potential to be developed. The experts noted that competition in the segment is low, and demand is still remains significant (Expert RA, 2015). Therefore, the information of affordable and competitive services of "RMB-Leasing" should be well positioned duly advertised.

7.6 Orientation to the Domestic Equipment

After the introduction of Western sanctions, the Russian economy has received a powerful incentive for the creation of import-substituting production. A leasing of domestic equipment can play a significant role in its development.

Deterioration of the foreign policy situation and economic sanctions against a number of strategically important sectors of Russia made everyone pay special attention to one of the main problems of the domestic economy – its high dependence on imports. According to the management reports of “RMB-Leasing”, the share of imported equipment in the new business of the company for 9 months in 2014 was equal to 50% (previous year even to 60%). A high proportion of imported equipment is noted in assets, such as construction and road-building machinery, cars, equipment for the food industry and telecommunications equipment.

The creation and implementation of government programs, aimed at stimulating the development of import-substituting production, will help to change the situation. Many of them are actively discussed now, and some are already implemented primarily in the areas of the military-industrial and agro-industrial complex. Among them, for instance, there is the "State program of agricultural development and regulation of agricultural products, raw materials and food for 2013-2020", which includes subsidies of the part of the first payment for leasing of agricultural machinery. It is obvious that primarily state support will be focused on the development of domestic industries in the strategic sectors.

There are several obstacles to the expansion of import substitution programs:

1. Lessees have actively used foreign equipment for the last 20 years.
2. Production of domestic manufacturers usually inferior in quality, efficiency, and even is more expensive.
3. Lack of decent alternatives of foreign equipment in Russia. The advantages of foreign products and high level of service are always mentioned by Russian customers. With rare exceptions, it is not typical for Russian suppliers.

However, there are factors that may be crucial: customers are encouraged to purchase leasing of domestic equipment due to the rise in foreign exchange rates.

7.7 The Operating Marginality

Profit becomes not manageable if cost control is not set to the proper level. Each item on the liability side of the balance should be analyzed and minimized. Rise in price of liabilities and a decrease in the quality of assets puts pressure on margins in the company, reducing the profitability of the business. In this regard, I propose to optimize costs.

A systematic approach to reduce costs:

Step 1. Collect data on historical, current and foreground company's costs

Step 2. Analyze data on those expenditures that have been significantly increased in recent years. Management of a company has to understand how those costs are formed and with which business processes they are linked. It is worth paying attention to the influence of various external and internal factors on costs. Costs with opportunity of reduction will be those articles that are manageable

Step 3. Further development of cost-cutting measures that means transition to a strategy of efficiency with reduced costs and further improvement of financial indicators, in particular ROA and operating margin

Step 4. Set competitive prices by stabilizing the leasing margin due to a tough competition in regions of Russian Federation – target local markets where the most leasing deals have been operated. As Moscow market provides with 42% of financed deals, this policy should also be applied here to retain in business and keep a market share of non-crisis period

Step 5: Create and approve the financial plan for 2015. Its implementation and strict adherence ensures discipline and accounting of financial flows.

Step 6. Appoint persons, responsible for the regime of economy and terms of implementation of the plan.

Step 7. Reduce administrative costs, cost of the managerial staff and general reduction in staff.

An extreme measure to reduce costs is reduction of employees, however often such measure is necessary. Almost every company has several employees who are not needed, but the cost of their salaries are quite high. They must be cut, as it will not affect the effectiveness of the company, but it definitely will affect on costs reduction.

The remuneration system can also be changed, whereby employees' salaries are not fixed but depend on revenue in extent of certain percentage. It will allow to develop a new progressive system of motivation. In this case, each employee in the firm will seek to ensure that the company has received enough revenues that will increase profits, and therefore lower the costs.

On the other hand, if the wage is lowered, it can potentially give a new problem: dissatisfaction and mass dismissal. Serious problems can not be solved without qualified personnel. Therefore, reducing labor costs needs complex and weighted approach, for instance - compensating in decrease in salary can be found in non-monetary methods, such as providing employees an extra day off.

7.8 Investments in Working Capital, Cost of Debt and Growth of Sales

Step 1. Reducing the amount of idle cash

Step 2. Monitor the ratio of receivables and payables, seek to match the turnover of receivables and payables and try to negotiate with partner companies about reducing the payment terms of receivables

Step 3. Focus on optimal capital structure, attracting long-term loans

Step 4. Negotiate with creditors on prolongation of terms of loan repayment, not rising the interest rates on already signed borrowings and possibility of debt restructuring

Step 5. Apply the policy of optimal debt burden

Step 6. Pursue a balanced financial and investment policies that reduce risks and increase the profitability of leasing operations

Step 7. Use economies of scale in sales, i.e. improve the efficiency along with an increase in company size, number of branches and regional offices. Consider entering the markets of the Eurasian Economic Union (EEU) where company will have an opportunity to promote its competitive financial services and to seek sources of funding

Step 8. Negotiate with lessees and their guarantors about restructuring of lease obligations and the possibility of early redemption of the property

8 CONCLUSION

8.1 Summary of the Findings

Since a major question of the research was to answer the question of “How to develop the operating activities of RMB-Leasing during the crisis?”, the issues about the prospects of obtaining financing and currency risk-management arise as the most important factors that will determine the leasing operations of the analyzed company the next few years. Applied economic sanctions, resulted in a significant deterioration of conditions in the financial markets of Russia have reduced the possibility for leasing companies to raise their financial funds from banks and credit institutions. For instance, many SME-companies that do not have strong support from the shareholders, will be forced to reduce the rate of growth of the business, losing the customer base. The issue with raising funds will be sharply for the company RMB-Leasing too, due to insufficient capital of its parent company – Russian Mezhdunarodny (i.e. International) Bank – where «RMB-Leasing» as an independent entity obtains loans on privileged conditions. Moreover, incipient economic downturn and the adverse environment, both on domestic and international financial markets does not allow neither any major Russian companies with a strong shareholders’ equity (e.g. financial institutions), nor small businesses to build positive forecasts for the near future. A shortage of capital in Russian banks is one of the main reasons for the decline in business activity in the industry as a whole and in «RMB-Leasing», in particular. In addition, the economic downturn will lead to a reduction in a demand for leasing services. Following chart indicates that in Q4 of 2014 the number of completed firm’s contracts exceeds the number of new deals.

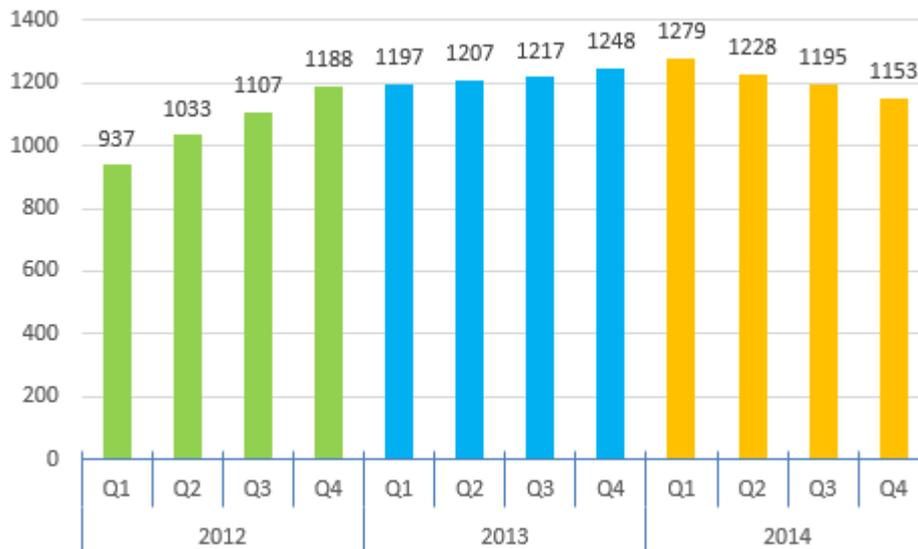


Figure 17. Number of operating lease agreements. Source: Management Accounting

There is another very serious problem - nonpayment of the existing contracts. According to the head of the Department of Statistics of RMB-Leasing, the deterioration of mutual settlements between the parties and an increase in overdue on contracts is declared since the beginning of 2014.

Overdue payments were amounted to no less than 4% in 2014 (previous year - roughly 2.5%). Therefore, further deterioration of the situation in the country can significantly affect the growth of non-payments, pointing to a possible loss of a significant portion of future payments.

The worst outcome in such situation can be that “RMB-Leasing” will exit the market or sale its portfolio. To prevent such scenario, nowadays it is considered the possibility of consolidation of leased assets within the local leasing market in 2015.

In general, the Russian leasing companies, which have experienced more than one crisis, have not yet considered and assessed the situation as critical. However, in case of further adverse developments the consequences can be quite severe.

8.2 Concrete Implications for the Commissioner

As the result of the thesis commissioner will obtain diligent review on the considered company, based on quantitative analysis of internal data for the last 3 financial years. Proposed measures for the cost optimization include in itself also suggestions on anti-

crisis measures and risk-management of the firm. RMB-Leasing will get a response to the questions that framed this research, namely:

1. As the study revealed, there can be several realistic ways to obtain affordable funds. It may be either corporate or stock bond issuance on Moscow Stock Exchange, entering new markets of the Eurasian Economic Union, working with regional companies involved in large-scale projects that will provide stable cash flows to the firm, and thus create the potential for investment in leasing, i.e. in the company's activities or the most critical option – mass dismissal.
2. Commissioner should monitor the ratio of receivables and payables, pursuit to match the turnover of receivables and payables and trials to negotiate with partner companies about reducing the payment terms of receivables, in a sense of the coming crisis will prevent the company from undesired losses.
3. The company should reconsider its customer portfolio and refocus signing the deals not only with big corporate clients but also with small businesses, and even with not legal entities i.e. individuals or sole-entrepreneurs.
4. Unpredictable movements of currency exchange rates force the company to take appropriate measures of hedging strategies to protect itself from these risky fluctuations. These strategies may include usage of futures contracts on foreign currencies or options (European as well as American ones).

Findings of new and the most relevant information, based on acquisition and analysis of external secondary data on the market is another outcome of the conducted research.

- Russian leasing market is relatively young and risky, however it has a potential for a rapid development that is proved by its growth of vehicles segment on Russian market by 31%, compared to 16.6% in Europe. Nevertheless, this growth only occurs in favorable conditions while in a period of crisis it is usually observed a decline.
- Findings have shown, currently the company is in “safe” zone i.e. far from bankruptcy level, however due to national currency exchange rates continue to fall, very soon with a certain degree of confidence it can be said that the company will find itself in “grey” zone”.

8.3 Further R&D Suggestions

The chosen topic of this thesis work is a perspective and challenging field of further research. Therefore, my recommendations regarding continuing of research are to investigate deeper the issues why there is such a huge difference in Russian leasing market and the European one, how to cover this difference and what are the possible obstacles that could arise on the way of fulfilling this gap.

Another interesting issue which can be chosen by next researches is leasing not of the equipment but of employees of other firms or companies specializing in providing staff lease service - professional employer organization (PEO). For a company, staff leasing is a quick, easy and flexible way to obtain skilled manpower for short- or long-term personnel needs. The reason for such research is an article of Alexei Mironov - Russian Head of Marketing and Business Development Coleman Services (Moscow) – who claims that development of personnel leasing in Russia is hampered due to imperfect legislation, financial opacity of the vast majority of companies, as well as the instability of demand for highly skilled professionals if they are temporarily attracted (HR-Portal, 2007).

Concerning the chosen firm, for managers or consultancy firms dealing as experts on the Russian leasing market, there could be a perspective topic of valuing a firm for selling to a private or institutional investor. According to the insider information, the owners of the firms have received an offer from their Indian partners to sell the company. On the basis of that, it seems worthwhile to value diligently and in advance the fair price of «RMB-Leasing» from a sell-side.

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«RMB-Leasing» Balance Sheet Statement

| (thousands, €) | 2012 | | | | | | 2013 | | | 2014 | | |
|--|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|---------------|----------------|----------------|--|
| | 12, march | 12, June | 12, september | 12, december | 13, march | 13, June | 13, september | 13, december | 14, march | 14, June | 14, september | |
| RMB-Leasing LLC | | | | | | | | | | | | |
| ASSETS | | | | | | | | | | | | |
| NON-CURRENT ASSETS | | | | | | | | | | | | |
| Intangible Assets | 223 | 223 | 223 | 223 | 231 | 232 | 234 | 234 | 248 | 259 | 259 | |
| Property, Plant & Equipment | 12 888 | 3 300 | 3 081 | 2 860 | 1 847 | 1 711 | 1 570 | 1 421 | 1 267 | 1 133 | 952 | |
| Investment in Finance Lease | 25 485 | 36 848 | 42 971 | 44 593 | 45 880 | 42 527 | 39 707 | 40 682 | 34 934 | 39 390 | 46 486 | |
| Long-term Financial Investments | 913 | 913 | 913 | 295 | 280 | 280 | - | - | - | - | - | |
| Other non-current Assets | 3 685 | 4 086 | 1 340 | 4 139 | 950 | 1 593 | 1 457 | 1 401 | 4 379 | 4 865 | 1 470 | |
| Total Non-Current Assets | 43 194 | 45 370 | 48 528 | 52 110 | 49 198 | 46 343 | 42 968 | 43 738 | 40 828 | 45 647 | 49 167 | |
| CURRENT ASSETS | | | | | | | | | | | | |
| Inventories | 12 341 | 12 007 | 11 830 | 13 023 | 4 472 | 5 518 | 5 343 | 5 592 | 4 554 | 4 243 | 4 631 | |
| VAT on Acquired Assets | 676 | 979 | 241 | 397 | 178 | 293 | 282 | 244 | 772 | 883 | 1 981 | |
| Accounts Receivable | 14 780 | 18 615 | 21 028 | 26 892 | 29 107 | 27 857 | 30 771 | 30 800 | 30 855 | 28 336 | 26 344 | |
| Short-term Financial Investments | 1 706 | 2 187 | 2 744 | 3 840 | 3 373 | 3 775 | 15 173 | 15 443 | 17 238 | 17 401 | 18 890 | |
| Cash & Cash Equivalents | 2 221 | 928 | 3 241 | 2 456 | 2 627 | 1 978 | 1 511 | 2 401 | 1 109 | 1 823 | 865 | |
| Other Current Assets | 1 945 | 1 801 | 2 273 | 1 678 | 2 382 | 2 433 | 2 376 | 3 140 | 2 467 | 2 510 | 2 672 | |
| Total Current Assets | 33 669 | 36 517 | 41 357 | 48 286 | 42 139 | 41 854 | 55 456 | 57 620 | 56 995 | 55 196 | 55 383 | |
| Total Assets | 76 863 | 81 887 | 89 885 | 100 396 | 91 337 | 88 197 | 98 424 | 101 358 | 97 823 | 100 843 | 104 550 | |
| LIABILITIES | | | | | | | | | | | | |
| CAPITAL AND RESERVES | | | | | | | | | | | | |
| Authorized Capital | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | 1 302 | |
| Retained Earnings (Accumulated Losses) | 3 056 | 3 244 | 3 336 | 3 489 | 3 599 | 3 757 | 3 819 | 3 890 | 3 963 | 4 086 | 4 212 | |
| Total Capital | 4 358 | 4 546 | 4 638 | 4 791 | 4 901 | 5 059 | 5 121 | 5 192 | 5 265 | 5 388 | 5 514 | |
| LONG-TERM LIABILITIES | | | | | | | | | | | | |
| Borrowed Funds | 55 547 | 60 795 | 65 542 | 59 255 | 66 824 | 62 942 | 72 940 | 56 851 | 71 039 | 72 975 | 76 464 | |
| Other Liabilities | 1 021 | 764 | 810 | 873 | 1 399 | 1 163 | 1 292 | 1 970 | 1 155 | 1 180 | 1 163 | |
| Total Long-Term Liabilities | 56 568 | 61 559 | 66 352 | 60 128 | 68 223 | 64 105 | 74 232 | 58 821 | 72 194 | 74 155 | 77 627 | |
| SHORT-TERM LIABILITIES | | | | | | | | | | | | |
| Borrowed Funds | 2 664 | 3 213 | 3 288 | 22 596 | 3 595 | 5 325 | 5 233 | 19 857 | 5 562 | 5 420 | 5 776 | |
| Accounts Payable | 12 598 | 11 213 | 14 327 | 11 060 | 10 827 | 10 070 | 9 883 | 13 475 | 10 877 | 12 455 | 12 377 | |
| Other Liabilities | 675 | 1 356 | 1 280 | 1 821 | 3 791 | 3 638 | 3 955 | 4 013 | 3 925 | 3 425 | 3 256 | |
| Total Short-Term Liabilities | 15 937 | 15 782 | 18 895 | 35 477 | 18 213 | 19 033 | 19 071 | 37 345 | 20 364 | 21 300 | 21 409 | |
| Total Liabilities | 76 863 | 81 887 | 89 885 | 100 396 | 91 337 | 88 197 | 98 424 | 101 358 | 97 823 | 100 843 | 104 550 | |

«RMB-Leasing» Profit and Loss Account

| | 2012 | | | | 2013 | | | | 2014 | | | |
|--------------------------|---------|----------|-----------|----------|---------|----------|-----------|----------|---------|----------|-----------|----------|
| | March | June | September | December | March | June | September | December | March | June | September | December |
| Sales | 10 028 | 21 983 | 38 473 | 51 555 | 12 580 | 25 792 | 34 801 | 57 798 | 14 320 | 27 433 | 42 095 | 57 798 |
| COGS | (2 665) | (6 482) | (8 537) | (12 861) | (3 862) | (7 184) | (13 027) | (24 022) | (6 061) | (11 249) | (15 385) | (24 022) |
| Gross profit | 7 363 | 15 501 | 29 936 | 38 694 | 8 718 | 18 608 | 21 774 | 33 776 | 8 259 | 16 184 | 26 710 | 33 776 |
| SG&A | (244) | (491) | (721) | (1 012) | (208) | (425) | (683) | (975) | (239) | (500) | (708) | (975) |
| Other operating income | 2 916 | 7 391 | 5 702 | 9 859 | 2 730 | 3 744 | 10 184 | 13 205 | 2 501 | 5 071 | 16 865 | 13 205 |
| Other operating expenses | (3 660) | (7 405) | (11 761) | (15 117) | (1 948) | (4 302) | (6 450) | (9 528) | (3 053) | (5 207) | (17 460) | (9 528) |
| EBITDA | 6 375 | 14 996 | 23 156 | 32 424 | 9 292 | 17 625 | 24 825 | 36 478 | 7 468 | 15 548 | 25 407 | 36 478 |
| D&A | (5 025) | (12 220) | (18 984) | (26 446) | (7 544) | (14 031) | (19 540) | (29 548) | (6 003) | (11 141) | (19 009) | (29 548) |
| EBIT | 1 350 | 2 776 | 4 172 | 5 978 | 1 748 | 3 594 | 5 285 | 6 930 | 1 465 | 4 407 | 6 398 | 6 930 |
| Interest incomes | 188 | 390 | 622 | 583 | 130 | 253 | 577 | 1 022 | 655 | 1 188 | 1 746 | 1 022 |
| Interest expenses | (1 278) | (2 671) | (4 184) | (5 760) | (1 740) | (3 512) | (5 449) | (7 451) | (2 029) | (5 350) | (7 741) | (7 451) |
| Profit before tax | 260 | 495 | 610 | 801 | 138 | 335 | 413 | 501 | 91 | 245 | 403 | 501 |
| Expenses on profit tax | (52) | (99) | (122) | (160) | (28) | (67) | (83) | (100) | (18) | (49) | (81) | (100) |
| Net profit | 208 | 396 | 488 | 641 | 110 | 268 | 330 | 401 | 73 | 196 | 322 | 401 |

RMB-Leasing LLC