ANALYSIS OF THE CREDITWORTHINESS OF COMPANIES AND IMPROVING THE PRACTICE OF ITS ASSESSMENT

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Abstract. This article is devoted to the consideration of issues related to the analysis of the creditworthiness of companies and current practice of their assessment. In addition, the article reveals advantages of using specialized software "Scoring Model for Creditworthiness Analysis" developed on the basis of integration of peculiarities of foreign experience and domestic practice.

Key words. Creditworthiness, assessment criteria, coefficient method, credit risk, reduction of credit risk, perspective analysis, financial indicators, non-financial indicators, scoring model, electronic software.

Introduction. The reforms which are being implemented in our republic are considered to be one of the important factors in the development of the national economy. In particular, extensive reforms carried out in all sectors of the economy have created a basis for sustainable development in the future. The adoption of laws, decrees and resolutions aimed on further improvement of the banking system which is the locomotive of our economy, is a practical expression of the current development of this sphere.

Nowadays comprehensive reforms are being implemented in our country in compliance with the "Action Strategy for the five main priorities of the development of the Republic of Uzbekistan for 2017-2021" approved by the Decree of the President of the Republic of Uzbekistan PD №

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4947 as of February 7, 2017. In particular, the strategy focuses on "reforming the banking system, enhancing the capitalization of the banks' deposit base and strengthening its financial stability and reliability, further promoting investment projects and lending to small businesses and entrepreneurship" in priority areas of the economic development and liberalization.

Sustainable development of this sector as a result of a particular attention paid to the banking system in the economy of the Republic of Uzbekistan provides timely reimbursement of financial resources at enterprises. By the due date compliance with the necessity for financial resources in the economic entities will lead to sustainable future development.

The fact that increasing demand of commercial banks for financial resources due to the bank loans is growing every year which, in turn, justifies the importance of this industry development.
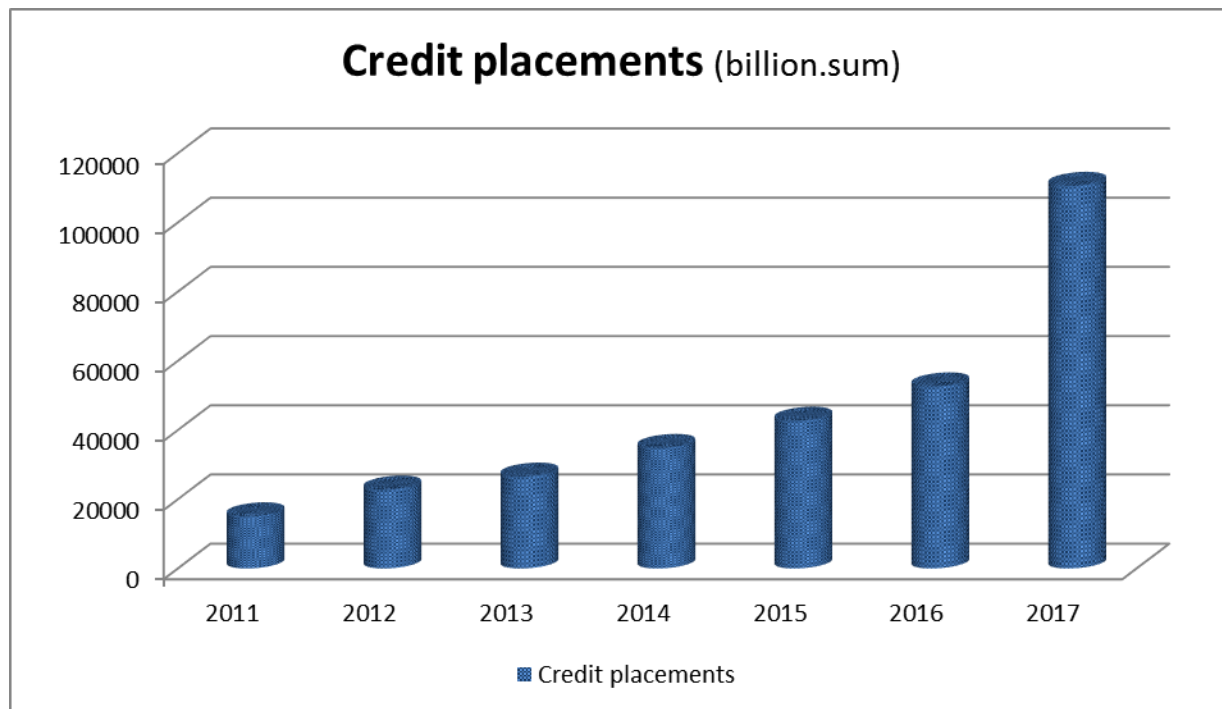

Figure 1. Dynamics of change of the loans allocated to the enterprises by commercial banks (www.cbu.uz, 2018).

We can see that the volume of credit placements allocated by commercial banks to the enterprises is growing year by year.

Increase in the volume of credit placements necessitates the selection of the most profitable borrowers in commercial banks who are considered to be the least risky for non-repayment of

loans. One of the most important aspects of reducing credit risk is accurate and comprehensive assessment of the creditworthiness of the enterprises and this fact has become one of the most topical issues.

Literature review. Different authors expressed various opinions on the research topic. The theoretical issues of the analysis and assessment of the creditworthiness of enterprises have been revealed in scientific papers of Yendovitskiy and Bocharova (2005), analysis of the creditworthiness of enterpriseshas been considered by Yendovitskiy and others (2016), assessment of the borrower's creditworthiness has been investigated by Naumchenkova (2016), financial analysis of the enterprise has been researched by Liferenko (2005). In addition, the issues related to the research topic have been considered by domestic scientists – economists in such scientific works as "Banking" by Abdullayeva (2017), "Banking" (Azizov and other, 2016), analysis of the financial condition of the economic entities – by Rakhimov (2015), and ways of improving the practice of assessment of the creditworthiness of commercial banks' customers have been investigated by Mamatov and others (2016). All above-mentioned scientific papers are devoted to the overall consideration of the research topic with the account of domestic practice and foreign experience, however, they do not provide any practical solution to this problem. Alimardanov (2017) in his scientific article proposes the ways to improve the practice of assessing creditworthiness of small businesses, in particular, the method of 8 coefficients. The coefficient method mainly evaluates financial aspects of the company. This method assesses creditworthiness on the basis of the indicators for the period paid, however, loans are extended for the future period. Thus the following aspects are to be considered in this article:

- creditworthiness is assessed based on financial indicators, i.e. 8 coefficients do not enable to carry out comprehensive of the financial condition of the enterprise;

- non-financial indicators are not taken into account while assessing creditworthiness;

- perspective analysis hasn't been carried out for the creditworthiness assessment;

- improved programme enabling to make prompt calculations of coefficients hasn't been developed yet.

While analyzing the banks' practice it is possible to formulate a general conclusion.

Table 1

Comparative analysis of the methods used to assess creditworthiness of companies

Main aspects	Моделлар					
	PARTS	**CAMPARI**	**E. Reed model**	**"C-1-6" rules**	**FICO scoring points**	**Coefficient method**
	In English banks	In banks of Europe and America	In practice of American banks	In western countries	In America and Europe	In the domestic bank practice
Indicators studied	**Purpose**- aim of the loan **Amount** – amount of loan **Repayment** - paying the debt **Term** - term **Security** – loan provision	**Character** – reputation, customer's character **Ability** – ability to repay a loan **Margin** – margin, profitability **Purpose** – targeted allocation of loans **Amount** – loan amount **Repayment** – conditions of loan repayment **Insurance** – provision, insurance of risk against non-repayment of loan	Liquidity ratio Turnover ratio Ratio of attracting funds Profitability and yield ratios	**C1-character**- lender reputation in the market, determining its condition **C2-capacity**- accomplishing the borrower's activity, ownership of the appropriate income as well as ability to repay loans received **C3-capital**- capital adequacy of the borrower **C4-conditions**- business development conditions **C5-collateral**- collateral **C6-control**- supervision	Payment history - 35% Current liabilities - 30% Credit history (term) - 15% Variety of using borrowings - 10% Accounts available at banks and types of loans - 10%	Coverage coefficient, liquidity coefficient, superiority coefficient

Main weaknesses	1.Not based on financial indicators. 2. The criterion itself is not sufficient to assess the company.	1. Partially based on financial indicators of the company.	1. Non-financial indicators are not considered as the main criterion. 2.Financial indicators themselves are not sufficient.	1. Partially based on financial indicators of the company. 2.Constantly monitors business activity of the company.	1. Financial indicators are studied in the restricted sense. 2. Only cash flow is considered to be the main indicator. 3.Financial condition of the company and other important economic indicators are not taken into account.	1. Applied criteria are not sufficient to assess creditworthiness of the company. 2. There are serious weaknesses in this calculation method. 3. Non-financial indicators are not structurally ordered.
Result	Does not enable to assess creditworthiness of the company completely.	Does not enable to assess creditworthiness of the company completely.	Does not enable to assess creditworthiness of the company completely	Does not enable to assess creditworthiness of the company completely	Does not enable to assess creditworthiness of the company completely	Does not enable to assess creditworthiness of the company completely

It is obvious that each method has disadvantages and points which deserve a particular attention.

Research methodology

This research is focused on the measures aimed at improving analysis of creditworthiness of companies. Such research methods as comparative analysis of the practical data, statistic tables and other relevant data have been widely used in the research. Basing on the research results appropriate proposals and recommendations have been developed.

Analysis and results

From the moment when market economy emerged till present time credit relations have been steadily improving and developing, and this process is intended to expand in future because credit relations are considered to be an important financial factor in the economy required for continuous implementation and expansion of many business entities.

What are the criteria and regulations for attracting bank loans and borrowings? In this regard it is crucial to analyze their creditworthiness and improve the practice of credit relations assessment between the enterprise and commercial banks. Every single commercial bank is carrying out its own credit relations with its customers. However, all of them need to focus on one important aspect, namely, the company's creditworthiness.

Commercial banks of the republic use different methods to analyze and evaluate the creditworthiness of enterprises. It should be noted that in the practice of banks analysis and assessment of enterprises' creditworthiness are used in three types: coefficients of coverage, liquidity and sovereignty. Based on these coefficients, the creditworthiness of enterprises is assessed on the basis of the classification of three classes.

Table 2

Criteria used by banks to assess creditworthiness

Indicators	I class	II class	III class
1. Coverage coefficient.(CC)	CC > 2	2>CC>1	1> CC
2. Liquidity coefficient. (LC)	LC > 1,5	1,5>LC>1	1> LC
3.Sovereignty coefficient. (SC)	SC > 60%	60%>SC>30%	30%> SC

  These creditworthiness criteria include the following elimination deficiencies and general aspects that need to be improved:

-        faults in the coefficients calculation;

-        unavailability of a full assessment of the enterprise's financial condition on the basis of these coefficients;

-        international experience isn't taken into consideration.

These shortcomings are of an analytical nature and are to be considered as it follows:

1.   The coverage coefficient in practice of banks is calculated by dividing current assets (line 390) into current liabilities (line 600). At the same time, particular assets belonging to current assets can not be used as a source for loan repayment. In particular, the finished products (goods) include the part of "not demanded finished products (goods)", the expenses for the next period (190 line), the delayed expenses (200 line), the receivable debts (211 line), remuneration to employees (250 lines), taxes and other compulsory payments to the state budget (270 line), payments to the targeted public funds and insurance contributions (280 line), debt to the authorized capital of founders (290 line) and some other current assets cannot be used as funds for loan repayments. Such kinds of shortcomings exist in all coefficients stated above.

2.   Financial position of the enterprise can not be entirely assessed by three coefficients. With this aim it is necessary to use a number of indicators that reveal the company's financial position.

Such cases do not enable companies to carry out a comprehensive assessment of creditworthiness.

It is important to eliminate the above mentioned shortcomings in order to improve the creditworthiness of the enterprise being implemented in the banking sector of the Republic in compliance with the requirements of the present time. The aim for this is a complete, accurate and comprehensive study of the creditworthiness of the borrower's enterprises. This will enable to select the most suitable credit facilities which, as a result, will lead to a significant reduction in credit risk.

An improved electronic program called "Scoring Model for Creditworthiness Analysis" was developed and implemented by the Agency for Intellectual Property of the Republic of Uzbekistan (№ DGU 05087 as of March 5, 2018) for the efficient implementation of this work.

"Scoring Model for Creditworthiness Analysis" electronic program assesses creditworthiness of the enterprise by dividing 2 main aspects into 5 categories:

1.   Evaluation on the basis of financial indicators (liquidity indicators, balance sheet liquidity, turnover indicators, performance indicators, stability indicators and Altman model);

2.   Evaluation on the basis of non-financial indicators (general credit history, loan security, reality of the project, level of the competitiveness of goods, business reputation).

The enterprise's creditworthiness is assessed at 100 points based on financial indicators and 100 points based on non-financial indicators. Total number of points accounts for 200.

"Scoring Model for Creditworthiness Analysis" electronic program enables to study creditworthiness by dividing into 5 categories in the range of from 0 to 200 points.

Table 3

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Category	Brief description	Total (points)
Category 1	Enterprises of this category have high creditworthiness capacity. These enterprises can be extended loans on a preferential basis under general terms.	156-200
Category 2	Enterprises of this category have the ability to repay loans. These enterprises can be extended loans under general terms.	120-155
Category 3	Enterprises of this category do not have any ability to repay loans in some cases it is possible to extend loans at high interest rates.	82-119
Category 4	The financial position of the company is unstable. The credit risk of these enterprises is very high.	to 81
Category 5	It is impossible to extend loans to this category of enterprises.	0

"Scoring Model for Creditworthiness Analysis" has the following benefits:

1.   This model provides a precise, accurate and comprehensive assessment of the enterprise's creditworthiness.

2.   Unlike the practice of current assessment, the creditworthiness is examined basing on 5 categories. This will increase the banks' ability to select businesses according to their creditworthiness.

Table 4

Comparative analysis of the current practice

Existing practice		Improved practice	
Category	*Condition of extending a loan*		*Condition of extending a loan*
Category 1	Loan is extended	Category 1	Loan can be extended on the preference basis
Category 2	Loan can be extended under certain conditions	Category 2	Loan is extended under general conditions
Category 3	Loan is not extended	Category 3	Loan can be extended at high interest rates
		Category 4	Credit risk is very high
		Category 5	Loan is not extended

3.   Calculation methods of the criteria of creditworthiness assessment have been improved, i.e. the level of accuracy has increased.

4.   Calculation methods of the criteria of creditworthiness assessment have been improved, i.e. the level of ensuring accuracy has increased.

5.   The advanced foreign practice has been taken into account.

6.   Conclusion

In the domestic practice of the banks the coefficients are widely used in the assessment of creditworthiness of enterprises.Herein the main attention is paid to the financial indicators. The coefficients can not be fully disclosed by these three coefficients. Moreover, the shortcomings of these coefficients in the calculation method illustrate a high uncertainty of this method. Another shortcoming of the coefficients' method is to estimate the loan in the forthcoming period with the account of the periodicity data. Forecasting future performance is considered to be one of the most important tasks. Currently the banks do not thoroughly take into account non-financial indicators, however, these indicators are considered crucial to assess creditworthiness because non-financial indicators are important factors for a sustainable development of enterprises. Taking into consideration above-mentioned statements the "Scoring Model for Creditworthiness Analysis" has been worked out. This software enables to perform comprehensive analysis of the creditworthiness of enterprises and significantly reduce the risk.

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