



P R E S S R E L E A S E

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AGRO SECTOR - THE MAJOR PRESSURE ON LIQUIDITIES AMPLIFIES THE INSOLVENCY RISK

- **Decreasing sales and profits for the companies operating in the grain, leguminous plants and oilseed plants growing sector**
- **The local companies operating in this sector are in the worst position in terms of financial indicators compared to the average registered in Central and Eastern Europe (CEE)**
- **The reengineering investments are required in order to increase productivity**
- **The increase of the short-term debts, cumulated with the liquidities decrease, amplifies the insolvency risk**

According to the financial statements published by the Ministry of Finance, the companies whose main scope of business is the "Growing of cereals (except rice), leguminous and oil seeds crops", NACE code 0111, generated in 2013 a **total turnover of 15.3 BRON**, by 7% lower compared to the previous year.

Out of the total of 6,510 active companies of this sector, only 555 have an annual turnover higher than 1 MEUR and generate approximately 72% of the revenues registered at the level of the entire sector. The rest of the companies either have a very small value contribution to the total turnover or simply do not perform any activity at all.

Half of the companies operating in this sector showed a **decrease of the net result** throughout 2013 compared to the previous year, 20% of them switching from profit to loss.

Thus, the operational margin decreased from the level registered in 2012, i.e. 13%, to 9.1% for 2013. Even under these circumstances, the CEE average for the analyzed sector was of only 6.5%, Romania being outpaced only by Bulgaria and the Czech Republic in this respect.

In this context, **the consolidated net result** at sectorial level showed declining dynamics, being of only 6% compared to the 9% reported for the previous year. This value places Romania on the fourth place in terms of losses, compared to the region average (after Croatia, Slovenia and Slovakia).

This dynamic is generated by the very large debts contracted by the local companies, which reached a **total indebtedness degree** of 66%, compared to the regional average of only 45%. Thus, Romanian companies show the highest indebtedness degree on the regional level.

How did investments evolve in the analyzed sector?

The Romanian companies showed the highest level of investment in fixed assets and lands, their weight in the total fixed assets being of 25%, twice the regional average.

The average productivity of Romanian agriculture is three times lower than the EU average. Therefore, the very high dynamics of the investments are justified by the need to reengineer and optimize this sector.

How the analyzed companies did financed themselves?

In spite of the massive investment, the obtained results (decreasing profits and sales), as well as the unsustainable financing method of these investments generate major pressure on the liquidities of these companies, amplifying the insolvency risk.

The companies of the analyzed sector operating at local level show the slowest pace of debt collection, i.e. 150 days, by more than 50 days longer than the regional average. Thus, only Romanian companies, together with the Croatian and Slovenian ones, show a negative cash conversion cycle, confirming the fact that they pay their suppliers later than the average time of debt collection and stock rotation.

The unsustainable investment financing method is reflected on the very poor liquidity situation, as Romanian companies operating in this sector report a short-term debt coverage degree via treasury of only 9%, twice lower than the regional average.

The risk assessments performed by Coface Romania on a locally representative sample indicate the fact that Romania shows the largest share of high and above average insolvency risk among companies (75% compared to the CEE average of -54%) as well as of companies with delayed payments (38%).

“The fact that Romania has the highest share of active population involved in agriculture at European level, i.e. 30%, yet at the same time the average productivity of the sector is three times lower, confirms the need to invest in reengineering Romania has a huge potential in this sector, having one of the largest agricultural land surfaces, but it is not fully exploited because of the low number capital means. During the past few years we noticed an increase, way above the regional average, of the investments in this sector, yet due to the unsustainable financing method it doesn’t have a visible impact on the performance of the companies, as their incomes and profits are decreasing. Moreover, the increase of the debt collecting time cumulated with an increase of the short term debts and the decrease of the available liquidity amplifies the insolvency risk in the analyzed sector. All this places the local companies activating in this sector in the top of the list of companies with the worst financial indicators compared to the CEE average.”, declared Constantin Coman, Country Manager, Coface Romania.



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About Coface

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