

# panorama

coface

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## STUDY CONCERNING THE SITUATION OF INSOLVENCIES IN ROMANIA IN 2013 - 1<sup>st</sup> Quarter



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## 1. SUMMARY

Based on the final data published by BPI, in 2012 the insolvency procedure was initiated for an overall number of **25,842** companies, by approximately **20%** higher than during the last year. The final figures are slightly above the estimates announced by Coface in January this year, namely **25,314** insolvent companies for the entire year 2012. It should be noted that the boom of insolvencies registered in 2012 is the highest one registered during the last 5 years, and was mainly caused by an increased number of micro-enterprise insolvencies, with a weight of 85% of the overall 2012 insolvencies.

The first quarter of the current year started with a contraction of insolvent companies' number by **10%**<sup>1</sup> compared to the same period of time of the previous year. Such dynamics becomes irrelevant, whereas the insolvencies registered during the first quarter of the current year with respect to companies with a turnover that exceeds 1 M EUR is by 2.5 times higher than the level registered during the same term of the previous year.

In the context of the financing restrictions that persisted for the last 3-4 years, and which were more acute for the SMEs, the large and very large companies progressively played a more and more significant "commercial bank" role for their customers, by preferring to accept extended collection terms. Thus, during the last years the SMEs transferred a significant part of the banking credit to the commercial one (supplier's credit), this being able to intensify the relations between private companies, which started to show a significant financial form, not a merely commercial one. Based on these structural economy changes, the effect of contagion and propagation of negative shocks is much faster nowadays. Furthermore, the initiation of insolvency proceedings by an increasing number of large and very large companies might have a negative impact of amplification of the systemic risk.

The analyzed data show that this wave will continue to further propagate, with negative effects on the financiers:

- Risks for the banking sector concerning the identification of increasing bad loans for medium, large and very large companies
- The limited capacity of large companies to support the commercial lending of small companies, which face limited prospects of alternative financing.

Thus, a loop with continuous negative propagation effect is created. One of the solutions may consist of the replacement of insolvent companies by newly set up companies, with a higher productivity. Unfortunately, the premises based on this perspective are low, the number of companies newly set up in 2012 (except certified individuals - CI) registering an increase by 2%, ten times lower than the increase of insolvencies registered during the same analyzed term. The companies which become insolvent register an average term of business of 7-8 years, and the financial and social gap left behind can only be replaced by the newly set up companies after 3-4 years of business. The relations between private companies became highly complex, and the commercial/ financial relations will simplify in time, in the context of an extremely hard regeneration process of the economy.

The data centralized by the NBR concerning unsettled payments instruments and reported to CIP support these signals, the amounts refused for payment with debit instruments during the first 4 months

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<sup>1</sup> Final figures, according to BPI

of the current year amounting to an aggregate value of 3 B RON, by 18% higher than during the same term of the previous year. While the number of payment incidents during the same analyzed term decreased by 5%, the average value of payment incidents increased by 25%. Thus, the average payment incidents registered between January-April, 2013 amounted to 53.2 K RON, compared to the level registered during the same term of the previous year, namely 43 K RON.

By analyzing the financial statements for the last four financial years of the companies that became insolvent, we notice mainly balance-related issues than issues related to the profit and loss account. The increase of indebtedness degree up to unsustainable levels, the scarce support from shareholders in the context of a generally negative capitalization, the inappropriate turnover of current assets (higher increases of inventories and in particular of receivables in the context of a stabilized turnover), the decrease of the investment degree of long-term capitals and the persistence of certain losses for 4 consecutive years, uncovered by means of additional capital increases, are few of the structural reasons that "rushed" the road to insolvency of the analyzed companies. Even worse than this is that approximately **90% of the newly initiated insolvency proceedings complete within less than 18 months**<sup>2</sup>, the potential reasons of such dynamics being as follows:

1. In case of proceedings initiated by the creditor party - the debtors' failure to submit the accounting records; failure to submit certain reorganization plans or the submission of such plans that prove to be non-viable; the lack of assets to liquidate during the bankruptcy procedure
2. In case of proceedings initiated by the debtor party - the absence of the intention to be reorganized; the lack of assets required for the liquidation procedure.

In line with the extension of the period for collecting receivables from economy, the trend may indicate a deterioration of the payment behavior regarding the observance of debit instruments, which might cause the companies to require the partial or full payment in advance in order to protect themselves against the commercial credit risk.

## 2. SECTORAL AND TEMPORAL DISTRIBUTION OF INSOLVENT COMPANIES

Coface Romania has conducted a new study on the evolution of the number of insolvencies in Romania, this time taking into consideration the new cases registered with the Insolvency Procedures Bulletin (BPI) between January-March, 2013<sup>3</sup>.

### Insolvencies 2012 – final figures

Taking into consideration the delays related to the registration of insolvency procedures with BPI, which might vary between one and four weeks, as well as the retroactive changes operated in the BPI system, in January 2013 Coface announced that, based on the preliminary data available at that moment, 23,665 insolvencies were registered during 2012, which means an increase by approximately 10% compared to the previous year. At the same moment, Coface estimated that the potential number of total insolvency cases initiated during 2012 could amount to approximately 25,314, which would represent an increase by

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<sup>2</sup> This computation is performed based on all insolvency proceedings initiated during year 2009-2010, where we can notice that 90% of these are completed within an average term of 18 months.

<sup>3</sup> See Methodological remarks at page 18

18% compared to the previous year. In this survey, based on the final data published by BPI, we can calculate the actual number of new insolvencies initiated during 2012, namely 25,842 insolvent companies, representing an increase by approximately 20% compared to the previous year.

**Table 1. Monthly evolution of insolvencies newly initiated during the last 3 years**

Month	2010	2011	2012 - Preliminary data (*)	2012 - Coface estimates (**)	Final Data 2012 (***)
January	1897	1709	2136	2136	2159
February	1903	1849	2398	2398	2420
March	1887	2160	2530	2530	2560
April	1506	1847	2367	2367	2340
May	1544	2097	2431	2431	2396
June	1880	2127	2381	2381	2343
July	852	811	1353	1353	1322
August	575	658	1004	1004	1007
September	2021	2061	2404	2404	2444
October	1932	2202	2479	2635	2724
November	2222	2379	1777	1933	2504
December	1431	1599	405	1742	1623
<b>TOTAL</b>	<b>19650</b>	<b>21499</b>	<b>23665</b>	<b>25314</b>	<b>25842</b>
			<b>10.07%</b>	<b>17.75%</b>	<b>20.20%</b>

\*based on the preliminary data available at BPI at the beginning of January 2013

\*\*Coface estimate in January, 2013, for the overall level of insolvencies initiated during 2012

\*\*\* Final data - the actual number of insolvencies initiated during 2012

Source: BPI, Data processed by Coface

According to the final data published by BPI and based on Coface methodology, during the first quarter of the current year 6,381 new insolvencies were initiated, by approximately 10% less than during the same term of the previous year, when 7,139 new insolvencies were initiated.

Month	Q1_2010	Q1_2011	Q1_2012	Q1_2013
January	1897	1709	2159	2025
February	1903	1849	2420	2278
March	1887	2160	2560	2078
<b>Total Q1</b>	<b>5687</b>	<b>5718</b>	<b>7139</b>	<b>6381</b>
<b>Annual deviation</b>		<b>0.55%</b>	<b>24.85%</b>	<b>-10.62%</b>

Source: BPI, Data processed by Coface

Hereinafter we will correlate the data provided by BPI with the financial statements submitted by the companies which became insolvent with MFP in order to understand the structural elements which caused the cease of these companies' activity.

By comparing the data provided by BPI with the ones published by MFP we can notice a gradual increase of the transparency degree recorded by the companies which became insolvent. Thus, while less than 40% of the companies which became insolvent in 2010 and 2011, respectively, submitted their financial statements with MFP, this indicator increased to approximately 47% for the companies which became insolvent in 2012 and to 49% for the first quarter of the current year. Thus, we can appreciate that, in average, one of two companies that became insolvent submits the financial statements during the year prior to the insolvency initiation.

**Table 2. Insolvent companies – financial statements**

Total insolvencies 2013 (Quarter I)	6,382
of which submitted statements with MFP	3,104
Percentage	48.63%
Total insolvencies 2012 (current figures)	25,842
of which submitted statements with MFP	12,021
Percentage	46.52%
Total insolvencies 2011	21,499
of which submitted statements with MFP	8,153
Percentage	37.92%
Total insolvencies 2010	19,650
of which submitted statements with MFP	7,902
Percentage	40.21%

*Source: MFP, BPI*

Based on the financial statements submitted during the year prior to the insolvency initiation and depending on the main scope of business set out by CAEN code, Coface distributed the companies that became insolvent to the 23 most important business sectors, the figures being shown in the following table.

Table 3. Sector distribution of insolvencies for the last two years

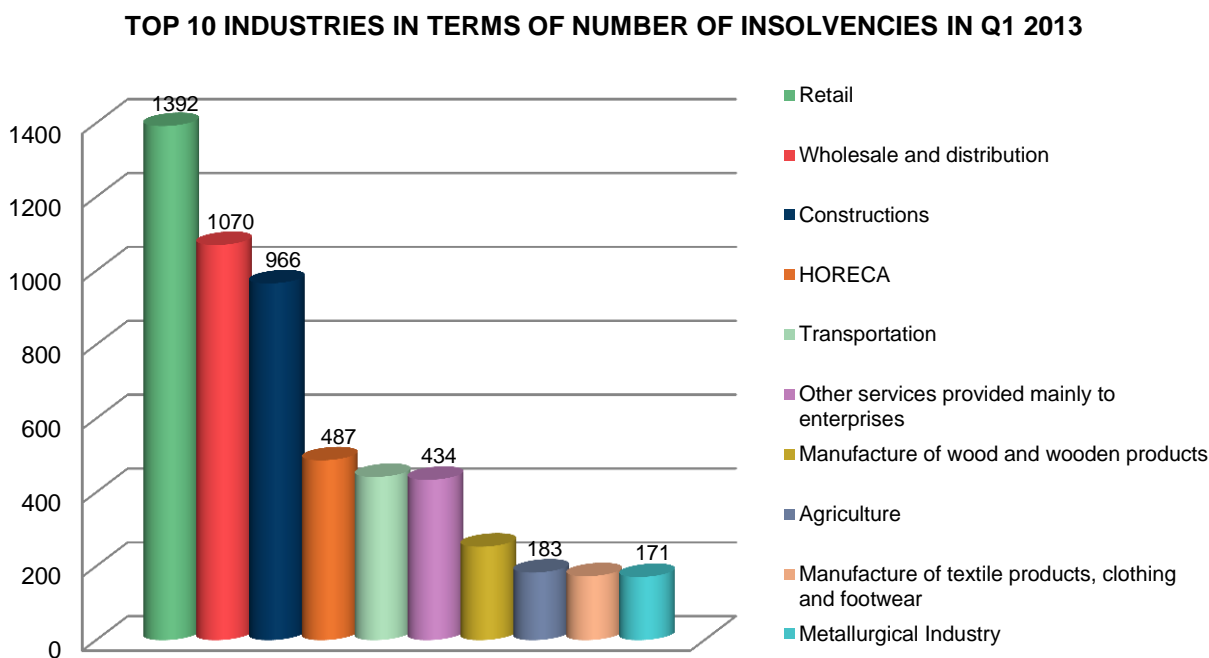
Sector of activity	Insolvencies 2013_Q1	2013_Q1_%	Insolvencies 2012	2012_%
Retail trade	1392	21.81%	5890	22.79%
Wholesale and distribution	1070	16.77%	4178	16.17%
Constructions	966	15.14%	3716	14.38%
Hotels and restaurants	487	7.63%	1837	7.11%
Transportation	442	6.93%	1676	6.49%
Other services, provided mainly to enterprises	434	6.80%	1889	7.31%
Manufacture of wood and wooden products	253	3.96%	973	3.77%
Agriculture	183	2.87%	686	2.65%
Manufacture of textile products, clothing and footwear	173	2.71%	837	3.24%
Metallurgical industry	171	2.68%	578	2.24%
Food and beverage industry	160	2.51%	665	2.57%
Real estate transactions	115	1.80%	543	2.10%
Other personal services	113	1.77%	416	1.61%
Recreational, cultural and sports activities	68	1.07%	270	1.04%
Manufacture of machinery and equipment	58	0.91%	308	1.19%
Manufacture of chemical substances and products	55	0.86%	223	0.86%
IT	55	0.86%	322	1.25%
Financial brokering	51	0.80%	291	1.13%
Post and telecommunications	39	0.61%	96	0.37%
Extractive industry	33	0.52%	103	0.40%
Sewage and waste disposal, sanitation and similar activities	31	0.49%	190	0.74%
Health care and social security	18	0.28%	110	0.43%
Manufacture and provision of electrical and thermal energy, water and gas	14	0.22%	45	0.17%
<b>Total</b>	<b>6381</b>	<b>100.00%</b>	<b>25842</b>	<b>100.00%</b>

\*Through linear extrapolation of the companies that submitted the financial statements with MFP on the year prior to the insolvency initiation

Source: BPI, MFP

Even if we do not possess the information regarding the main activity for all the companies which became insolvent during the analyzed period<sup>4</sup>, there are two reasons based on which we estimate that the sector distribution at the level of the entire portfolio is similar to the one analyzed for the sample above namely:

- The weight of the sample is significant from a statistical point of view for both years
- The weights of the sector distribution within the sample record values similar to the weights of the distribution at the level of the entire portfolio recorded in the studies conducted by Coface for the last three years.



Source: BPI, MFP, Data processed by Coface

For the third consecutive year, the first 10 sectors which report the highest number of insolvent companies are unchanged, as the only modifications relate to the order in the standings, but with variations of one, maximum two positions.

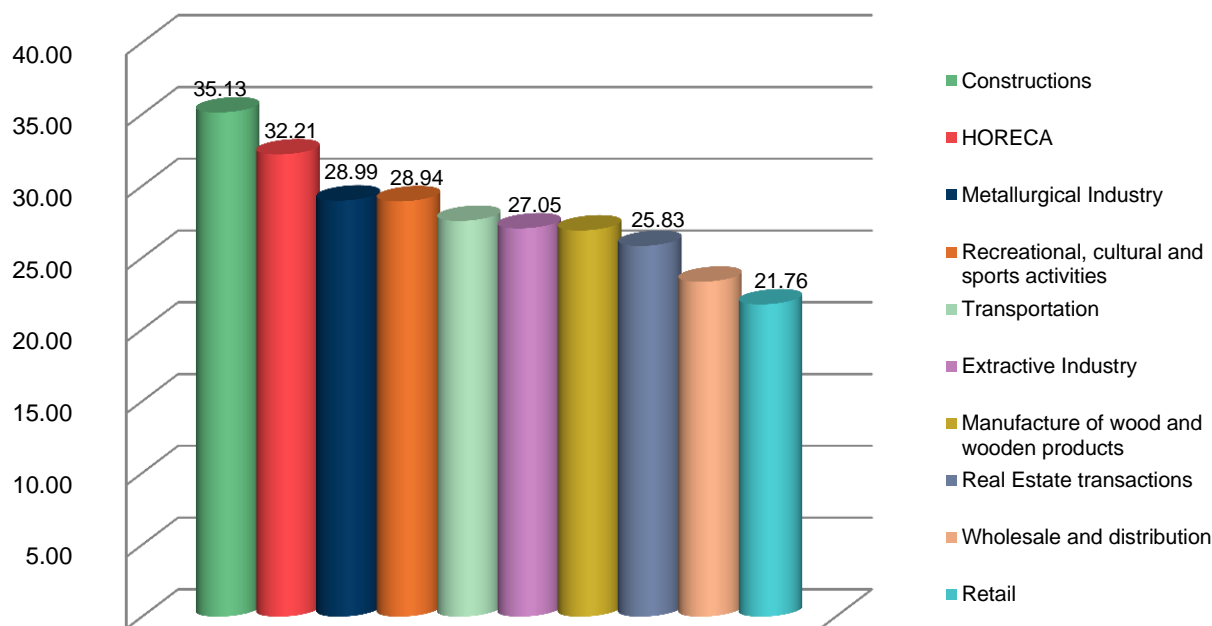
By analyzing the evolution of the insolvency cases over the last 5 years, we notice a tendency of consolidating the degree of concentration of volumes in the first 3, respectively 5 sectors. Thus, the weight of the first 3 sectors which reported the highest number of pending insolvency files in absolute numbers varies in the last 5 years between 50% and 54%, and the first 5 sectors between 65% and 70%. These weights are not random and are determined by structural factors, such as the sectoral distribution of all active companies at national level. Thus, the first 5 sectors that register the highest number of insolvencies cover a similar weight from the point of view of total active companies. Taking into consideration this structural factor, it is important to analyze the number of insolvencies based on

<sup>4</sup> Such data can be computed for approximately half of the insolvent companies



the number of total active companies<sup>5</sup> in the relevant sector. Thus, the first ten sectors that register the highest values related to this indicator are mentioned in the following chart. Constructions, hotels and restaurants and the metallurgical industry are the sectors with the highest level of insolvencies initiated during the first quarter of the current year, based on the number of active companies. It should be noted that the same sectors were also included in the top 5 sectors with the highest value of this indicator in 2012, which shows the persistence of certain systemic structural issues.

**TOP 10 INDUSTRIES IN TERMS OF NUMBER OF INSOLVENCIES IN Q1 2013**  
related to the total no. of active companies



Source: BPI, MFP, Data processed by Coface

### 3. FINANCIAL AND SOCIAL DIMENSION OF INSOLVENT COMPANIES

In this section we analyzed the companies for which the insolvency procedure was opened during the first quarter of the last four years, based on the financial statements submitted with MFP one year before the initiation of insolvencies<sup>6</sup>. The classification of enterprises by size categories was performed in compliance with the provisions of Law no. 346/2004 on the encouragement of the setting up and development of small and medium enterprises, as subsequently amended and supplemented, which sets forth the criteria of including the companies in these categories.

<sup>5</sup> The "Active companies" category only included the companies with a registered turnover > 1,000 EUR/ month during 2011

<sup>6</sup> For instance, the companies for which the procedure was opened during the first quarter of 2013 were analyzed based on the financial statements submitted with MFP for the activity carried out in 2011.



Thus:

- **Micro-enterprises** - have up to 9 employees and make a net annual turnover or own total assets of up to 2 M EUR, lei equivalent
- **Small enterprises** - have between 10 and 49 employees and make a net annual turnover or own total assets of up to 10 M EUR, lei equivalent
- **Medium enterprises** - have between 50 and 249 employees and make a net annual turnover of up to 50 M EUR, lei equivalent or own total assets which do not exceed the lei equivalent of 43 M EUR
- **Large enterprises** - have between 250 and 999 employees
- **Very large enterprises** - have over 1000 employees

For the companies which have maximum 249 employees, exceeding one of the inclusion criteria triggers the registration of the company in the next category of size.

Thus, the most important financial indicators for companies that became insolvent during the analyzed periods of time are computed in the table below.

**Table 4. Financial indicators for the insolvent companies in Q1 during the last four years**

Indicator	Insolvencies Q1_2013	Insolvencies Q1_2012	Insolvencies Q1_2011	Insolvencies Q1_2010
Average (RON)	2,952,201	930,828	1,411,619	1,655,051
Average Number of Employees	9.51	6.90	9.32	10.41
Net Profit/ Loss	-7.60%	-55.10%	-9.55%	-25.14%
Indebtedness level	98.63%	132.85%	94.16%	98.53%
Debts/ Turnover	98.80%	240.94%	121.33%	142.58%
DSO (number of days)	112.08	164.42	144.04	168.05

*Source: Data processed by Coface*

Based on the financial information submitted with MFP for the activity carried out during the year prior to the insolvency initiation, we can notice as follows:

- The average value of the turnover obtained by the companies which became insolvent during the first quarter of 2013, further to the activity carried out in the year prior to the one in which the company became insolvent, is 3 times higher than the one of the companies which became insolvent during the same period of time of the previous year.
- The social dimension of the companies which became insolvent during the first quarter of 2013 is significantly higher than that of the insolvent companies of the previous year, these registering an average of 9.51 employees
- At the same time, average debts registered by insolvent companies during the first quarter of 2013 amounted to 2.9 M RON/ company, an ascending trend compared to the level registered by companies which became insolvent during similar period of time of the previous years (1.7 M RON/ company in Q1 2011 and 2.2 M RON/company in Q1 2012, respectively)

- Even if from a numerical point of view the weight of medium, large and very large enterprises accounted for only 3% - 4% of the total number of companies which became insolvent during the first quarter of the last 3 years, the weight of the turnover recorded by them in the total turnover rose significantly, from 18% in 2011 and 55% in 2012 to 66% in 2013.
- The same trend can be noticed also for the weight of debts depending on the size category of insolvent companies. Thus, the weight of debts recorded by medium, large and very large enterprises rose constantly in the last three years, from 16% in 2011 to 44% in 2012, 59% respectively in 2013

As we can see in the table above, most financial indicators related to the companies which became insolvent during the first quarter of 2013 are better than those computed for the companies which became insolvent during the same period of time of the last 4 years. This can be caused by the increasing weight of large and very large insolvent companies, because these already reached maturity in the context of an extended term of business (the average term of operation of these companies exceeds 10 years). Thus, we can notice a significant increase of the financial scale of the companies which became insolvent during the first quarter of the current year compared to the same period of the previous year, which generated the increase of the turnover and debts of insolvent companies, but at the same time the average decrease of the loss and indebtedness ratio and of the duration of receivables collection.

Taking in consideration the significant impact of large and very large companies on the consolidated financial indicators for the analyzed sample, it is important to determine these indicators solely for SMEs (including micro-enterprises). The related figures are computed again in the table below, and are able to confirm the above mentioned structural issue, namely that more and more large companies become insolvent. This applies to all size categories and can signal an increasing systemic risk.

**Table 5. Financial indicators for the insolvent SMEs\* in Q1 during the last four years**

Indicator	Insolvencies Q1_2013	Insolvencies Q1_2012	Insolvencies Q1_2011	Insolvencies Q1_2010
Average (RON)	1,741,935.28	610,128.87	1,483,396.54	1,524,640.05
Average Number of Employees	7.30	4.58	10.37	8.49
Net Profit/ Loss	-5.22%	-49.38%	-10.01%	-21.12%
Indebtedness level	93.47%	134.83%	90.88%	100.40%
Debts/ Turnover	101.16%	287.38%	123.82%	140.06%
DSO (number of days)	137.21	200.66	135.65	173.85

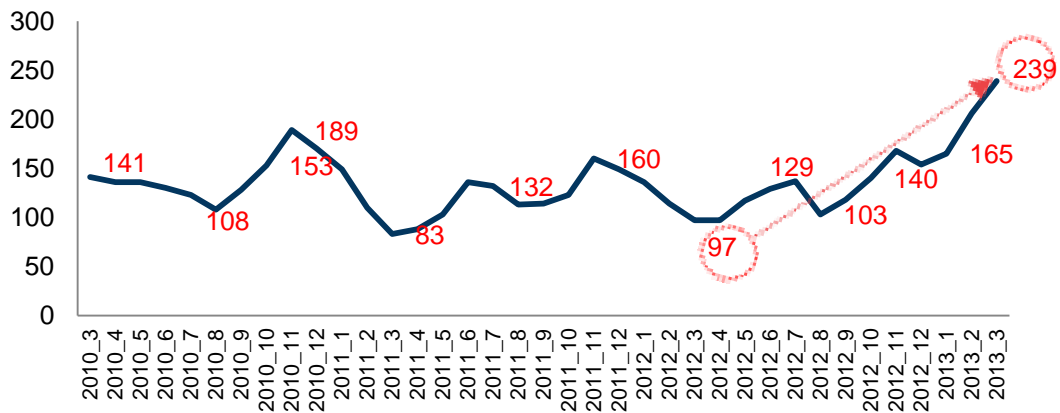
\*Including Micro-enterprises

In the context of the financing restrictions that persisted for the last 3-4 years, and which were more acute for the SMEs, the large and very large companies progressively played a more and more significant "commercial bank" role for their customers, by preferring to accept extended collection terms. Thus, during the last years the SMEs transferred a significant part of the banking credit to the commercial one (supplier's credit), this being able to intensify the relations between private companies, which started to show a significant financial form, not a merely commercial one. Based on these structural economy changes, the effect of contagion and propagation of negative shocks is much faster

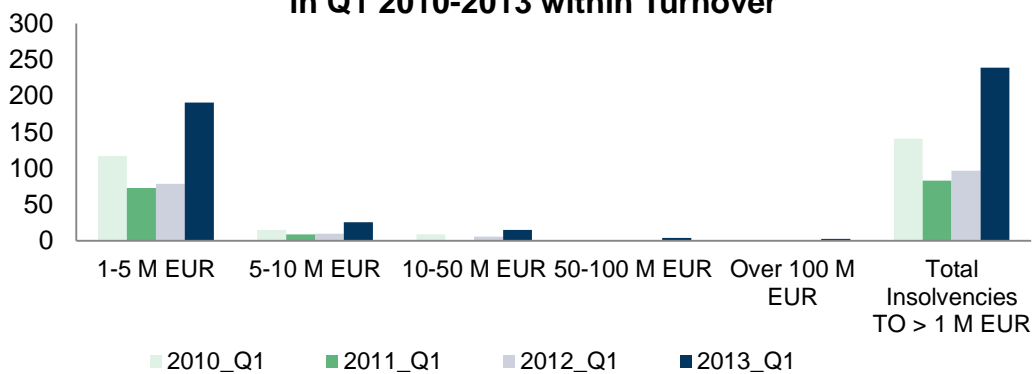
nowadays. Furthermore, the initiation of insolvency proceedings by an increasing number of large and very large companies might have a negative impact of amplification of the systemic risk.

In a survey performed at the beginning of this year, Coface raised a warning signal concerning the multiple problems faced in the SME sector in general, and in the micro-enterprises sector, in particular. We consider that this risk propagated to the economy with a negative effect on large and very large companies. Based on the erosion of sustainability and self-financing capacity, as a consequence of the effects of the financial crisis of the last three years, as well as on the degradation of payment discipline at the entire economy level, the large and very large companies start to show a higher sensitivity to external or internal shocks, where the liquidity-related pressure is increasing. This can be noticed in the graphic displays below, where one can notice that the number of companies with a turnover higher than 1 M EUR, which became insolvent during the first quarter of the current year, is of 239 companies, 2.5 times higher than the one registered during the same period of the previous year.

**Number of insolvent companies with TO > 1 M EUR (mobile amount for 3 months)**



**Distribution of insolvent companies in Q1 2010-2013 within Turnover**



Source: BPI, Data processed by Coface

**Table 6. Companies which became insolvent in Quarter 1 during 2010 - 2013**

Turnover Category	2010_Q1	2011_Q1	2012_Q1	2013_Q1
1-5 M EUR	117	73	79	191
5-10 M EUR	15	9	10	26
10-50 M EUR	9	1	6	15
50-100 M EUR			1	4
More than 100 M EUR			1	3
Total Insolvencies TO > 1 M EUR	141	83	97	239

Source: BPI, Data processed by Coface

### The impact of structural changes concerning interrelations of the private environment on the banking sector

Here we consider the existence of two scenarios

A. Whereas the large and very large companies did not commercially credit (by means of extended terms of payment) the SMEs segment based on own sources (equity, reserves or working capital in excess), but actually used financing lines attracted from the banking sector, these dynamics will have a final negative impact on the sustainability of the banking sector, due to increased bad loans. Thus, the banking sector "covertly" credited the SMEs sector by means of financing lines granted to large and very large companies which, at their turn, used such sources in order to commercially credit the micro-enterprises, small and medium companies. The amplitude and speed of the impact will be determined by the financing option of large and very large companies, as well as by the structure of capital. Thus:

- The short-term financing lines contracted by large and very large companies and mainly used for commercial purposes (to credit the customers, grant discounts for payment in advance) may amplify the negative impact on the banking sector. The banks with the highest degree of exposure are those which financed the large and very large companies affected by this circumstance, with insufficient precaution actions (recently assessed securities and higher degree of liquidity)
- The long-term financing lines contracted by large and very large companies, mainly used for desirable investment purposes and also supported by an appropriate capitalization (at least one third of the working capital, which ensures a long-term liquidity buffer) may decrease the negative impact on the banking sector.

B. Where the large and very large companies commercially credited the SMEs segment based on own sources (working capital in excess, reinvested profits, working capital high enough to cover the short-term financing demand), one can raise the question concerning the sustainability of these measures: until when will the large and very large companies accept / manage to play the role of "commercial banks" for their customers?

The conclusions obtained from the analysis of the sample of companies which became insolvent during the current year are confirmed by the tendencies noticed at national level. The increased number of medium, large and very large companies which became insolvent determined the increase of the average value of payment incidents reported to CIP, based on an increased value of incidents and a decreased number of payment refusals (the large and very large companies may register a lower number of transactions, but with an average value higher than the rest of the companies).

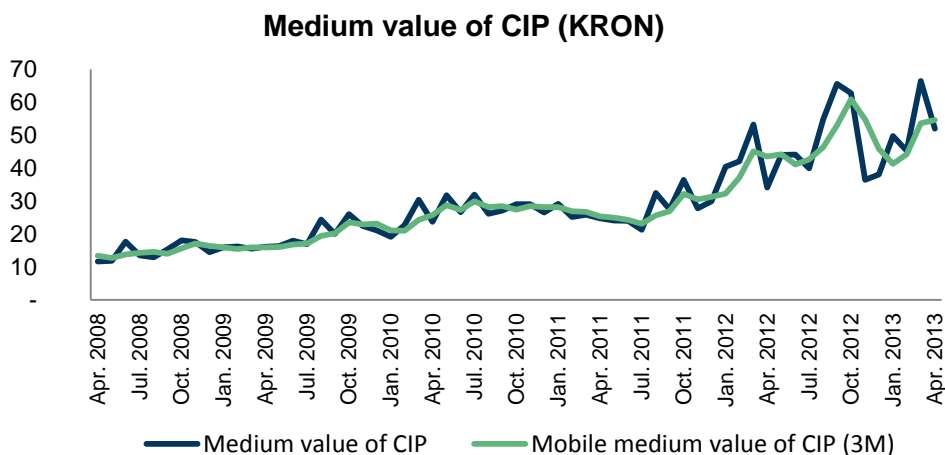
Also, according to the data published by CIP<sup>7</sup>, the amounts refused for payment with debit instruments during the first 4 months of the current year had a total worth of 3 B RON, rising by 18% compared to the same period of the previous year. While the number of payment incidents during the same analyzed term decreased by 5%, the average value of payment incidents increased by 25%. Thus, the average payment incidents registered between January-April, 2013 amounted to 53.2 K RON, compared to the level registered during the same term of the previous year, namely 43 K RON.

**Table 7. Evolution of payment incidents reported by NBR**

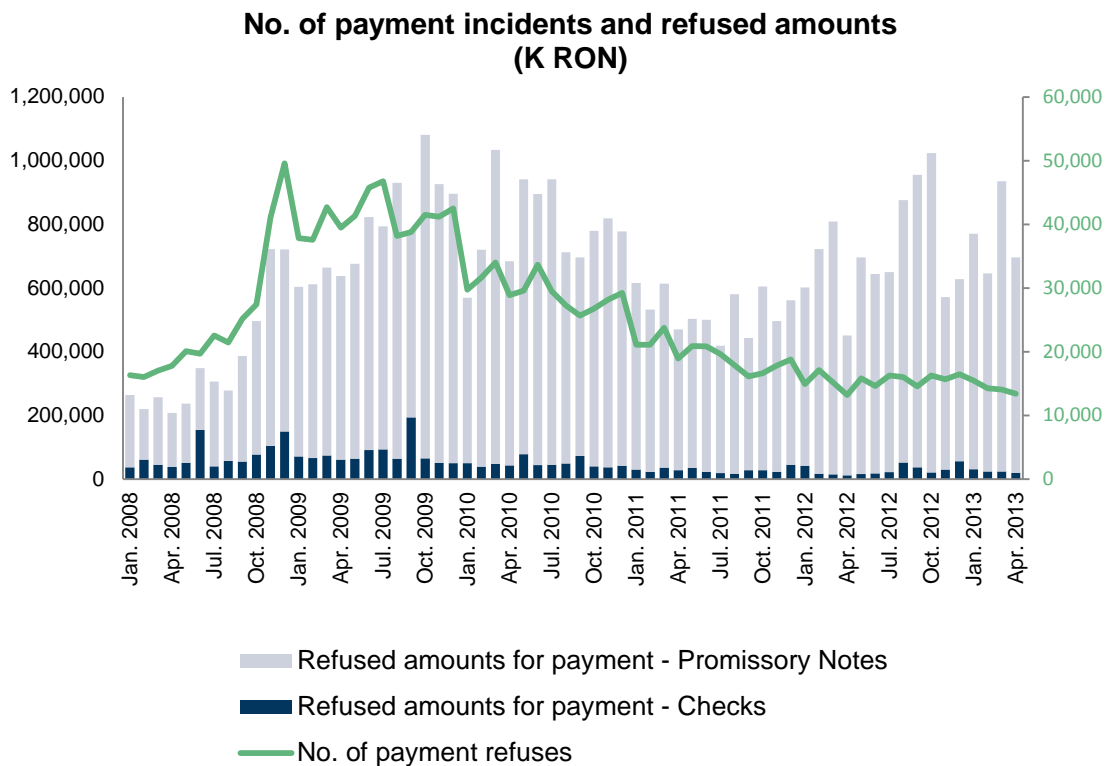
Total January -April	Total amounts refused for payment	Number of incidents	Average value per incident
2013	3,047,834	57,176	53.31
2012	2,584,458	60,437	42.76
2011	2,232,488	84,894	26.30
2010	3,007,809	124,260	24.21
2009	2,517,870	124,260	20.26

Source: NBR (CIP), The amounts are expressed in K RON

In line with the extension of the period for collecting receivables from economy, the trend may indicate a deterioration of the payment behavior regarding the observance of debit instruments, which might cause the companies to require the partial or full payment in advance in order to protect themselves against the commercial credit risk.



<sup>7</sup> Payments Incidents Register



Source: BNR, Data processed by Coface

#### 4. EVOLUTION IN TIME OF INSOLVENT COMPANIES

In this section we analyzed the consolidated financial statements for the last four full financial years related to the companies which became insolvent during the first quarter of 2012. Thus, of all companies which became insolvent during the first quarter of the current year, 2,327 companies submitted their financial statements in the last 4 years<sup>8</sup>, these accounting for 75% as numerical and value (turnover) weight. In order to determine the impact of large and very large companies on the consolidated indicators, the computation was performed for the entire analyzed sample, as well as for the SMEs segment (by eliminating the large and very large companies). The results are synthesized in the following two tables.

<sup>8</sup> With respect to the activity carried out in 2008, 2009, 2010, 2011

**Table 8. Financial indicators of the insolvent companies in Q1 2013 for the activity carried out during the last four years**

Indicator	2011	2010	2009	2008
Average (RON)	2,952,201	2,849,013	2,528,237	3,012,741
Average Number of Employees	9.51	9.91	13.09	12.89
Net Profit/ Loss	-7.60%	-8.92%	-6.31%	-5.03%
Indebtedness level	98.63%	91.02%	87.12%	80.79%
Debts/ Turnover	98.80%	103.08%	100.79%	75.50%
DSO (number of days)	112.08	116.05	99.16	78.37

**Table 9. Financial indicators of the insolvent companies in Q1 2013 for the activity carried out during the last four years – solely SMEs (the large and very large companies were eliminated)**

Indicator	2011	2010	2009	2008
Average (RON)	1,741,935	1,751,673	1,727,888	1,830,127
Average Number of Employees	7.30	7.78	10.91	10.24
Net Profit/ Loss	-5.22%	-9.01%	-3.34%	-2.38%
Indebtedness level	93.47%	86.73%	78.03%	73.44%
Debts/ Turnover	101.16%	97.52%	93.01%	77.63%
DSO (number of days)	137.21	124.96	108.03	95.60

Analyzing the evolution of the financial indicators of the last four years, we notice some structural causes which led to pressures on liquidities and payment default for the analyzed companies.

Thus:

- We can notice similar evolutions for the SMEs segment, as well as for the entire sample of analyzed companies. Thus, the impact of large and very large companies cannot affect the trend of consolidated indicators for the last 4 years
  - **The profit and loss account part** – shows no reason for significant concerns. The average value of the turnover remained relatively constant and the loss recorded by such companies during the last 4 years was a single-digit one (unless the loss worsened in 2012, financial year regarding which we currently do not have the related financial information for all analyzed companies). The financial and operational leverage also remained unchanged during the analyzed period.
  - **The balance sheet part** – here we can identify some structural issues that "rushed" the company's road towards insolvency:
    - The inappropriate turnover of current assets: whereas the turnover remained relatively constant, the inventories registered a slight increase (+10%), while receivables increased by +30%. Such dynamics, corroborated with the decrease of deferred revenues (which would have represented additional liquidities), show a degradation of the quality of



revenues, based on the faster increase of the non-monetary basis. Thus, the average collection term of receivables registered a constant increase during the analyzed term, with insolvent SMEs collecting receivables more hardly (average DSO of 137 days registered in 2011, with a potential additional increase in 2012)

- The increased of indebtedness degree up to non-sustainable levels. Thus, for the entire analyzed sample the indebtedness degree<sup>9</sup> increased from 80% in 2008 to 98% in 2011, and for the SMEs segment, from 73% in 2008 to 93% in 2011. Obviously, such dynamics were registered based on the corresponding decrease of the capitalization degree, which shows that the shareholders failed to cover the losses accrued during the last 3-4 years by means of appropriate capital increases.
- It seems that the additional capital provided by creditors was not directed towards investments, whereas the long-term capital investment degree<sup>10</sup> registered a decrease from 55% (level registered in 2008) to approximately 40% (level registered in 2011). Thus, the immobilized assets only represented 50% of the overall debts accrued by the companies which became insolvent during the first three months of the current year. The descending trend of the weight of immobilized assets in the overall assets could be a sign of:
  - Investments related to the gross form of (CAPEX), which were not sufficient to compensate the depreciation of assets
  - The descending trend of the revaluation of fixed assets' value, based on an inappropriate capitalization of past expenses, or even based on certain depreciation methods meant to boost the net profits from the past (increase of the life cycle or overestimated residual value)
- The decrease of the average number of employees could show a potential restructuring attempt in order to balance the budget related to these companies, but which failed to be sufficient in order to cover the burden of the increasing financial leverage and impaired operational efficiency.

## 5. TERRITORIAL DISTRIBUTION OF INSOLVENT COMPANIES

The territorial distribution of insolvency cases registered during the first quarter of the current year did not register significant changes compared to the circumstances of the same period of the previous year. Thus, the most affected three regions based on the number of insolvencies registered during the current year were S-E, S and N-W, respectively, which concentrate almost half of the overall insolvencies registered during the analyzed term.

The only regions where the number of insolvencies registered during the first quarter of the current year increased, compared to the same period of the previous year, are the Center, N-E and S-E.

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<sup>9</sup> Overall debts (short-term + long-term) compared to overall assets

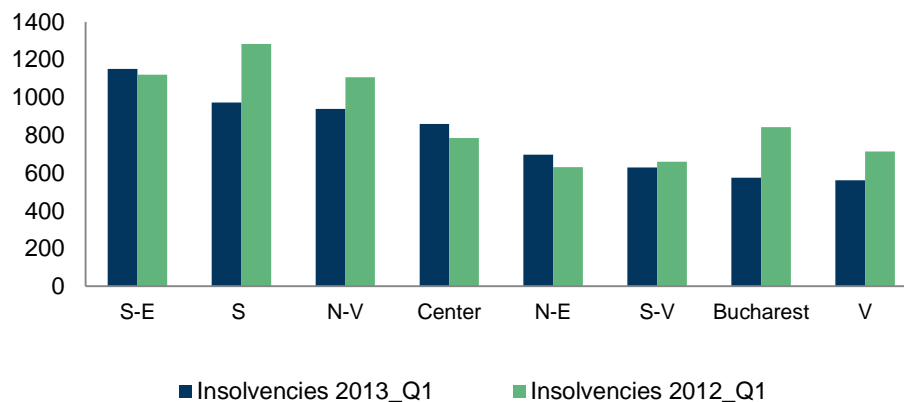
<sup>10</sup> Approximated based on the weight of immobilized assets in the overall assets

Table 10. Regional distribution of insolvent companies

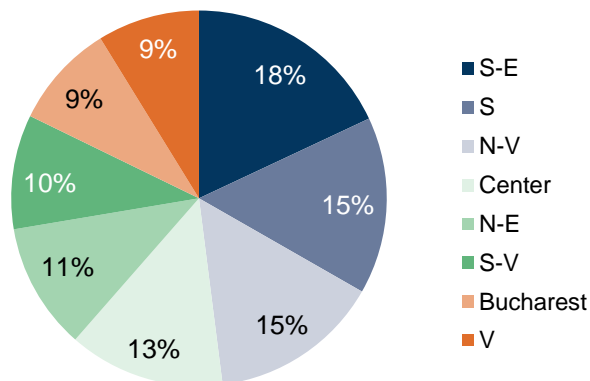
Region	Insolvencies 2013_Q1	Weight Q1_2013	Insolvencies 2012_Q1	Deviation 2013-2012
S-E	1150	18.02%	1119	2.77%
S	973	15.25%	1282	-24.10%
N-W	939	14.72%	1107	-15.18%
Center	859	13.46%	785	9.43%
N-E	696	10.91%	630	10.48%
S-W	629	9.86%	659	-4.55%
Bucharest	574	9.00%	843	-31.91%
W	561	8.79%	714	-21.43%
Total	6381	100.00%	7139	-10.62%

Source: BPI, Data processed by Coface

Geographical distribution of insolvent companies within Q1 2013



Insolvencies 2013\_Q1



Source: BPI, Data processed by Coface

## 6. METHODOLOGICAL REMARKS

In this study we took into account the insolvencies newly initiated in each of the analyzed periods (quarter 1 for the past 4 years), based on the data published by BPI (Bulletin of Insolvency Procedures). For instance, all companies with insolvency procedures initiated between January - March, 2013 (according to BPI) and which are not registered as operating on May 31, 2013<sup>11</sup> (according to ONRC) were considered as insolvencies newly initiated during the first quarter of the current year.

The analysis of financial indicators for the companies taken into account was exclusively based upon the financial statements submitted with MFP in the analyzed period, based on the data processed by Coface.

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<sup>11</sup> We only took into account the companies subject to Law 85/2006 whose status is *bankrupt, insolvent or deregistered* (according to ONRC). We did not take into account the companies subject to Law 359/2004 or 31/1990, nor the companies which were still undergoing reorganization on May 31, 2013.

## Note

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The logo for coface, featuring the word "coface" in a lowercase, sans-serif font. The "co" is in a dark blue color, and the "face" is in a lighter blue color. The "o" in "co" is stylized with a green-to-blue gradient.