



SPECIFIC ASPECTS OF JOINT STOCK COMPANIES INCREASING THE VOLUME OF FREE CASH FLOW

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| Article history: | Abstract: |
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| Received: 10 th December 2022 Accepted: 8 th January 2023 Published: 14 th February 2023 | This article presents the scientific and theoretical basis for increasing free cash flow of securities companies based on practical results. This process is carried out using the theories of domestic and foreign economists regarding the calculation of free cash flow. Based on the results of the study, important aspects of increasing a firm's free cash flow are highlighted. |

Keywords: free cash flow, net operating profit after taxes, net reinvestments, working capital, accounts receivable, accounts payable, depreciation allowances, liabilities

Today, one of the widely used indicators of joint-stock companies is free cash flow. This indicator is proving to be one of the most important financial indicators. A company's free cash flow index is the amount of cash left over for the business after deducting all taxes and capital investments from total income. It is also the cash flow used by corporations to increase their market value, assets and capital. In particular, if the free cash flow indicator of the joint-stock company has a positive value, the company's production of additional products and the production process will increase. At the same time, a joint stock company has the ability to pay more dividends to shareholders and purchase additional assets. As a result, the attractiveness of investing in the company's shares increases.

The free cash flow of corporations is used to forecast the cash flow of a business and to determine the value of the business by discounting the cash flow. In addition, to assess the value of a joint stock company, it is necessary to determine the free cash flow of capital. In which, the cash flow of a joint stock company determines the cash flow of equity and cash flow of borrowed capital. Today, in practice, free cash flow analysis is conducted to analyze the cash flow in the assets of the joint stock company, the cash flow in the capital and the cash flow in the creditors.

It should be noted that the creditor free cash flow indicator is very important for creditors. Free cash flow in capital is widely used to evaluate the effectiveness of the dividend policy for shareholders of joint-stock companies and also serves to analyze investment projects financed by shareholders.

ANALYSIS OF LITERATURE BASED ON THE TOPIC.

The free cash flow of corporations includes free cash flow from the company's creditors, preferred stockholders, common stockholders, convertible bonds, investors, etc. Specifically, a joint stock company's free cash flow represents the amount of money earned from attracting the company's business, after accounting for depreciation, tax, working capital, and investment expenses. The free cash flow of corporations shows the profitability of companies after all expenses and reinvestment. This is again one of many criteria to compare and analyze the financial situation of joint stock companies.

There are many studies and theories on the free cash flow of joint stock companies. Jensen's research, one of the foreign economists, showed that the large amount of free cash flows of joint-stock companies makes it difficult for the conflicts of interest between shareholders and financial managers in the payment policy. He believes that managers in industries with large free cash flows may direct funds to projects that have low profitability and even destroy value[1].

There are two types of research on joint stock corporations' free cash flows. The first set of researchers conducted empirical analyses based on the hypothesis in their research. Furthermore, all of these empirical analyses were carried out by computing particular free cash flow ratios. As a consequence of their research, the first set of researchers highlighted that there are constraints in the execution of empirical analysis of free cash flows.

Foreign economists Agrawal and Jayraman's research showed that dividends and debt of joint-stock companies are the main mechanisms for calculating and



controlling free cash flows. They found that the dividend payout ratio of joint stock companies is more important than controlling for the leverage ratio of companies. Overall, their data suggest that dividends and stockholders are a substitute mechanism for reducing agency costs in all joint-stock companies[2].

Foreign economists Hackel and others used two definitions of free cash flow in their researches and discussed the shortcomings in the estimation of free cash flows of joint stock companies. According to them, "free cash flow is net operating cash flow in excess of capital expenditures, and the second definition is equivalent to the first, but discretionary cash flows are added to net operating cash flow [3].

RESEARCH METHODOLOGY

According to Jaxon's experience, there are several ways to calculate the free cash flow of joint stock companies, in our opinion, the main methods used to determine the free cash flow of joint stock companies are net investment expenses, cost of capital, changes in working capital and if the calculation is carried out taking into account depreciation costs, it will be possible to determine the free cash flows of the company.

In determining the free cash flow of joint-stock companies, the company's EBIT, in particular, the indicator of income before paying percentages and taxes, free cash flows are used after taking into account operating income after taxes.

$$FCF = PT \times (1 - TAX RATES) + AA - CE - NVC$$

Here:

- FCF – the amount of free cash flows;
- PT – the amount of profit before tax;
- AA – the amount of changes in the amount of depreciation of assets;
- CE – the amount of change in capital expenditures;
- NVC – change in net working capital.

This is determined based on calculations as follows:

$$(I_1 + R_1 - P_1) - (I_0 + R_0 - P_0);$$

here:

- I – inventory;
- R – accounts receivable;
- P – accounts payable.

The index of indicators for the current year is i , and the indicators for the previous year are marked with index 0. These indicators are calculated using the financial indicators of joint-stock companies operating in our country..

ANALYSIS AND RESULTS

We will analyze the company's free cash flows using the financial indicators of the "Andijondonmahsulot" joint-stock company operating in our country from 2017 to 2021. Before analyzing the free cash flows of the selected joint-stock companies, it is necessary to analyze their balance sheet assets, liabilities and capital.

1-TABLE
Analysis of the balance sheet of "Andijondonkhusulot" JSC ¹

| Indicators | 2017 year. | 2018 year. | 2019 year. | 2020 year. | 2021 year. |
|---|---------------|---------------|---------------|---------------|---------------|
| "Andijondonkhusulot" JSC | | | | | |
| Long-term assets, bln. sum | 23,2 | 23,6 | 38,7 | 32,7 | 32,4 |
| Current assets, bln. sum | 139,5 | 101,6 | 133,2 | 188,6 | 175,8 |
| Total assets, bln. sum | 162,7 | 125,1 | 171,9 | 221,3 | 208,3 |
| Long-term liabilities, bln. sum | 1,0 | 8,6 | 6,6 | 4,0 | 1,8 |
| Current liabilities, bln. sum | 149,9 | 135,8 | 174,5 | 212,2 | 169,0 |
| Total liabilities and equity, bln. sum | 162,7 | 125,1 | 171,9 | 221,3 | 208,3 |

¹ <http://www.openinfo.uz/> prepared by the author based on his information.



According to the table, long-term assets of "Andijondonmahsulot" JSC amounted to 23.2 billion soums in 2017, and increased by 39.6% in 2021. Analyzing current assets, it shows that current assets are 6 times more than long-term assets in 2017. In 2021 and it indicates that it is more than 5.4 times. One of the main reasons for the increase of long-term assets of "Andijondonmahsulot" JSC year by year is that the balance sheet value of fixed assets has increased by almost 3.7 times. Also, the society's capital investments increased by almost 5.7 times in 2021 compared to 2017.

It can be seen that the main funds of "Andijondonmahsulot" JSC are being directed to the modernization of the company. In particular, it indicates that the funds are being spent on the renewal of fixed assets and expansion of production. Therefore, it shows that the total assets of the joint-stock company have

increased by 28% in the last five years. Also, the analysis of the company's obligations in 2017, it amounted to 149.9 billion soums, but this indicator reached 169.0 billion soums in 2021.

If you look at the ratio of the joint stock company's total assets to its liabilities, it shows that its assets are 22 percent more than its liabilities. This indicates that the possibilities of fulfilling the obligations of the joint-stock company are high. Also, in 2017, the company's capital was 11.8 billion. sum. However, this indicator will be 37.5 billion in 2021. amounted to soum. One of the factors that caused the growth of the capital is that the reserve capital of the society increased by almost 7 times in 2021 compared to 2017. Due to such an increase in the reserve capital of "Andijondonmahsulot" JSC, the joint-stock company operated with a loss of 19.3 billion soums in 2017.

2-TABLE
Net operating profit after taxes of "Andijondonkhusulot" JSC ²

| Indicators | 2017 year. | 2018 year. | 2019 year. | 2020 year. | 2021 year. |
|--|---------------|---------------|---------------|---------------|---------------|
| "Andijondonkhusulot" JSC | | | | | |
| Revenue from the sale of products, bln. sum | 91,6 | 102,5 | 128,9 | 201,4 | 249,8 |
| Earnings before interest and taxes (EBIT), bln. sum | 2,1 | (33,5) | 8,2 | 18,4 | 24,5 |
| Net operating profit after taxes, bln. sum | 1,9 | (33,5) | 6,6 | 15,5 | 20,1 |

The analysis of table data shows that the revenue of "Andijondonmahsulot" JSC from the sale of products in 2017 was 91.6 billion. amounted to 249.8 billion soums in 2021. amounted to sum. It can be seen that the company's sales volume is increasing year by year. The income of the joint-stock company before paying interest and taxes in 2017 was 2.1 bln sum, in 2021 it increased by almost 11.7 times. However, in 2018, the company's balance before paying interest and taxes was minus 33.5 bln. sums. One of the main reasons for this is that the joint-stock company's other operating expenses increased by 636 percent in 2018 compared to 2017. This means that more costs than the gross benefit of the society have been incurred.

Specifically, earnings before interest and taxes is the ratio between gross profit and net profit. It also shows the company's operating profit before taxes. This indicator is mainly used to determine the free cash flows of the society. In 2017, the indicator of net operating profit after taxes of "Andijondonmahsulot" JSC was 2.0 bln sum, in 2021 it reached 20,1 bln sum. The analysis shows that the amount of tax paid by the society is increasing. In particularly, the society paid 0,1 bln sum taxes, by 2021 this amount performed 4,4 bln sum. Also, the annual increase in the income before interest and taxes of the joint-stock company leads to an increase in the tax burden of the company.

² <http://www.openinfo.uz/> prepared by the author based on his information.



Before determining the free cash flows of the joint-stock company "Andijondonkhusulot", it is necessary to determine the net reinvested funds.

3-TABLE
Dynamics of net reinvestment of joint-stock companies,
bln sum³

| Indicators | 2017 year. | 2018 year. | 2019 year. | 2020 year. | 2021 year. |
|---|---------------|---------------|---------------|---------------|---------------|
| " Andijondonkhusulot " JSC | | | | | |
| Capital expenditure (C) | 0,03 | 0,03 | 0,1 | 0,5 | 3,6 |
| Changes in working capital (WC) | (36,2) | (54,8) | 44,6 | 90,8 | (8,1) |
| Changes in the depreciation of fixed assets (FD) | 0,3 | 3,3 | (0,8) | 2,3 | 6,4 |
| Net reinvestments (N) (C+WC-FD) | (35,9) | (51,5) | 43,9 | 89 | (1,9) |

The data of the table shows that in 2017 "Andijondonmahsulot" JSC capital expenditure was 0.03 bln sums, in 2021 increased to 3.6 bln. sum. The change in the working capital of the society decreased by 36.2 billion soums in 2017 compared to 2016, and by 2021 we can see that it has decreased to 8.1 bln sum. Also, the change in the depreciation of the main assets of the joint-stock company in 2017 was 0.3 bln. sum, it increased 21.3 times in 2021. This means that was

cause of decreasing to 35,9 bln sum in 2017 the amount of reinvestment of society. The reason for this in 2017 the working capital of the society decreased to 36,2 bln sum, due to decreasing the amount of reinvestment. In 2021, the net reinvestment of "Andijondonmahsulot" JSC decreased to 1.9 bln. sum, because the change in the working capital of the society decreased to 8.1 bln sum

4-TABLE
Working capital dynamics of joint-stock companies,
bln sum⁴

| Кўрсаткичлар | 2017 year. | 2018 year. | 2019 year. | 2020 year. | 2021 year. |
|--|---------------|---------------|---------------|---------------|---------------|
| " Andijondonkhusulot " JSC | | | | | |
| Inventory (I) | 85,1 | 50,4 | 69,1 | 122,5 | 130,8 |
| Accounts receivable (R) | 54,2 | 42,9 | 59,4 | 59,4 | 39,1 |
| Accounts Payable (P) | 49,1 | 58,0 | 48,5 | 11,2 | 7,2 |
| Working capital (WC) WK=I+R-P | 90,2 | 35,4 | 79,9 | 170,8 | 162,7 |

According to the analysis of table data, the inventory of "Andijondonmahsulot" JSC in 2017 amounted to 85.1 bln sum, in 2021, it increased by almost 1.5 times. In 2017, receivables was 54.2 bln. sum, this indicator decreased to 39,1 bln sum in 2021. A reduction in the company's receivables indicates a good state of the company. In addition, the creditor

debt amounted to 49,1 bln sum in 2017, and in 2021, it shows a decrease of almost 6.9 times. This, in turn, indicates that the debt obligation of the joint-stock company has decreased. Also, the increase in the working capital of "Andijondonmahsulot" JSC is the reason for the year-by-year decrease in the payables and the increase in inventory.

³ <http://www.openinfo.uz/> prepared by the author based on his information.

⁴ <http://www.openinfo.uz/> prepared by the author based on his information.



5-TABLE
Dynamics of free cash flows of joint-stock companies,
bln sum⁵

| Indicators | 2017 year. | 2018 year. | 2019 year. | 2020 year. | 2021 year. |
|--|---------------|---------------|---------------|---------------|---------------|
| "Andijondonkhusulot" JSC | | | | | |
| Net operating profit after taxes (NOPT) | 1,9 | (33,5) | 6,6 | 15,5 | 20,1 |
| Net investment (NI) | (35,9) | (51,5) | 43,9 | 89 | (1,9) |
| Free cash flow (FCF) FCF=NOPT-NI | (34,0) | (18,0) | (37,3) | (73,5) | 18,2 |

Table data analysis shows that, In 2017, the free cash flow of "Andijondonkhusulot" JSC was minus 34.0 bln. sum, in 2021 it shows 18,2 bln sum. A positive free cash flow is important for a joint stock company. The reason is that the development of a joint-stock company indicates the solvency and the availability of funds to pay dividends. Dynamic analysis shows that there is an increasing trend in the free cash flows of "Andijondonkhusulot" JSC, but we can see the downward dynamics in 2018-2019. The reason is that in these years, the debt to creditors in the structure of the working capital of the joint-stock company has increased sharply.

CONCLUSIONS AND SUGGESTIONS

In conclusion, it can be said that free cash flow is the real cash flow of a joint-stock company. It also shows the funds formed as a result of the activities of joint-stock companies. It also allows joint-stock companies to pay dividends. In particular, free cash flows of joint-stock companies show how efficiently working capital is used. If free cash flow decreases due to increase in working capital, it means that joint-stock companies are not using working capital effectively in purchasing low-yielding assets.

If the amount of free money and the amount of working capital of joint-stock companies also increase, it means that their assets are constantly growing, and as a result, cash flows are increasing. Therefore, the parallel increase of working capital and free cash flow serves to continuously increase the cash flow of the society. A sharp increase in other operating expenses and a sharp increase in the cost of products are the reasons for the sharp decrease in the income before interest and taxes of joint-stock companies. Therefore,

it is advisable to optimize other operating expenses to increase free cash flow. As a result of minimization of other operating costs, the opportunity to increase the free cash flows of the joint-stock company is created.

In our opinion, the compliance of the interdependence of the changes in the Basic capital (BC), working capital (WC) and depreciation expenses (DE) affecting the amount of reinvested funds of the joint-stock company should be strictly followed $BC > WC > DE$, by the standards of production and financial activity of the joint-stock company. by providing 2 times the volume of free cash flows. Also, when we analyzed the free cash flows of the joint-stock companies "Andijondonkhusulot", "Andijan Regional Electric Networks Enterprise" and "Ko'kan Mechanics Plant" selected in our research, we found that the changes in basic capital (B_c), working capital (W_c) and depreciation expenses (D_e) are interdependent. As a result of ensuring compliance with the requirements of $B_c > W_c > D_e$, joint stock companies strictly adhere to the norms of production and financial activity, it was observed that the free cash flows doubled.

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