



EVALUATION OF EFFICIENCY OF INVESTMENT ACTIVITY IN INDUSTRIAL ENTERPRISES

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Article history:	Abstract:
Received: 1 st March 2023 Accepted: 30 March 2023 Published: 6 th May 2023	The article focuses on the attraction of funds by enterprises to financial projects, financing and increasing the attractiveness of investment activities, as well as the effectiveness of investment activities in industrial enterprises on the basis of the Dupont model.

Keywords: Investment, investment activity, financing of investment activity, efficiency of investment activity, ROA (return on assets), ROE (return on equity), ROS (return on sales), TAT (total asset turnover), EM (equity multiplier), DuPont model.

INTRODUCTION

The process of evaluating the effectiveness of investment activities of industrial enterprises is based on financial evaluation by calculating various financial indicators.

Financial evaluation consists of the evaluation of the efficiency of investment activities in industrial enterprises as a relative calculated value. A number of special financial indicators are used in the analysis of financial results of investment activities of enterprises on the basis of financial statements of industrial enterprises, which allow to assess the investment activities of industrial enterprises for different periods.

The main indicators that characterize the effectiveness of investment activities on the basis of financial evaluation are return on assets (ROA (return on assets)), return on equity (ROE (return on equity)), return on sales (ROS (return on sales)), interest coverage, asset turnover, liquidity are identified and performances of enterprises are evaluated by them. The advantage of determining financial indicators is that their use plays an important role in identifying factors that affect the efficiency of investment activities of industrial enterprises and in making the right investment decisions by the enterprise.

REVIEW OF LITERATURE

In international and national practices, various studies have been conducted on investment, financing and evaluation of the effectiveness of investment activities in industrial enterprises.

In particular, according to Z.Bodi, A.Kane, A.Marcus, "Investment is the current expenditure of money or other resources that can be profitable in the future" [1]. From this definition, it can be understood

that increasing the financial resources which are spent to make a profit in the future is the main goal of the investing process.

K.R.McConnell and S.L.Brewer describe investment as mentioned below: "Investment means the accumulation of production costs and fixed assets, as well as an increase in inventories" [2]. Here, investments are viewed as production costs and the accumulation of fixed assets.

V.V.Kovalev and I.A.Blank pointed to the need to take into account the time aspect of investment, the allocation of financial resources for entrepreneurial activity are based on such basic principles as risk and liquidity [3,4].

E.V.Gudel conducted a study on the effectiveness of investments aimed at financing the investment activities of industrial enterprises and their efficiency indicators [5].

In his research, N.I.Kenjaev developed scientific proposals and recommendations on improving the complex examination of investment projects [6]. F.R.Jumaniyazova has developed scientific, theoretical and practical recommendations on how to optimize financing in the light industry and ensure continuous financial stability [7].

In their research, a number of scientists focused on the financing of investment activities in industrial enterprises, the formation of the investment climate in industrial enterprises, the effectiveness of investments in industrial enterprises, management and mitigation of risks affecting investment activities of industrial enterprises [8,9,10,11,12,13].

RESEARCH METHODOLOGY



Many industrial enterprises are currently using the DuPont model to evaluate the effectiveness of investment activities. During the DuPont analysis, the indicators of enterprise return on capital (ROE), sales efficiency (ROS), and return on assets (ROA) are determined. In the process of analysis, the profit margin (EBIT) is taken as the profit indicator in determining the sales efficiency (ROS), and the net profit is obtained by determining the return on capital (ROE) and return on assets (ROA).

In addition, if a single indicator that is the basis for calculating a financial indicator is derived from a statement of financial performance of an enterprise, then it represents a particular period. The second component is taken from the balance sheet and reflects the financial condition of the enterprise at a given time, in which case the arithmetic mean of the balance sheet at the end of the year and the beginning of the year is usually calculated and this number is used as a denominator.

ANALYSIS AND RESULTS

In our article, the efficiency of the investment activities of "Takro" LLC was assessed using the Dupont model. At the same time, the effectiveness of the company's investment activities was assessed, with the financial performance of the limited liability company determined.

The ROA offers a management view of the efficiency of the enterprise's investment activities and determines how much profit the enterprise will make for each sum of its assets, and this indicator is defined as follows:

$$ROA = \frac{\text{Net profit}}{\text{Total assets}} \quad (1)$$

Analyzing the efficiency of investment activities of Takro LLC and determining the efficiency of the company's assets (ROA), we can see that the company's ability to turn assets into profit over the past three years, respectively, is 0.01, 0.06, and 0.01 (see Table 1). This is a very useful situation to compare the efficiency of the investment activities of industrial enterprises. The above figures show that for Takro LLC, the efficiency of investment activities of enterprises in the industrial sector, the above figures show that for Takro LLC is low. This is explained by the fact that the enterprise does not receive a sufficient return on its assets. If the company's assets do not bring enough net profit, i.e., the ROA is not high enough, the company may see a decrease in its own funds, which are the main source of financing investment projects, and the company may face problems in financing future investment projects. This means that the company needs to find an effective way to increase ROA.

Table 1
Analysis of financial performance of "Takro" LLC [14]

Indicators	2016	2017	2018	2019	2020
ROE	0.03	0.06	0.02	0.25	0.02
ROA	0.02	0.02	0.01	0.06	0.01
ROS	0.03	0.09	0.04	0.10	0.02

ROE is an indicator of how effectively industrial enterprises are using their funds. The ROE answers the question of whether an enterprise is raising its value to market value. In addition, this indicator measures the level of income that an enterprise receives from its own funds. This indicator is determined in the following order:

$$ROE = \frac{\text{Net profit}}{\text{Equity}} \quad (2)$$

As we can see from Table 1, the enterprise return on capital (ROE) for the last three years was 0.02, 0.25, and 0.02, respectively. We need to pay special attention to this indicator because the above figures are one of the most important ratios for investors. Each sum directed by the investor through the ROE indicator allows the investor to determine how much net profit the project brings.

In assessing the efficiency of investment activities of industrial enterprises, DuPont's analysis calculates the relevant variables using the report on the financial results and balance sheet of the enterprise to determine the return on investment (ROI) and return on investment of industrial enterprises. We can see that the ROE is fluctuating due to the investment activities of Takro LLC in the clothing market in 2016-2020. A small decrease in the asset turnover (TAT (total asset turnover)) indicates a decrease in the efficiency of assets. The company's debt increased due to bank loans, which led to the ratio of total assets to equity (EM (equity multiplier)) in 2019 being 4.12, i.e., the total amount of private capital amounted to 24.3% of total assets, In 2020, this figure was 2.69, resulting in a share of private capital in total assets of 37.2% (see Table 2).



Table 2
Analysis of financial performance of "Takro" LLC on the DuPont model [14]

Indicators	ROE	ROA	ROS	TAT	EM
Years					
2016	0.03	0.02	0.03	2.57	1.60
2017	0.06	0.02	0.09	1.67	3.80
2018	0.02	0.01	0.04	1.09	3.71
2019	0.25	0.06	0.10	0.73	4.12
2020	0.02	0.01	0.02	0.83	2.69
Average (2016-2020)	0.08	0.02	0.06	1.38	3.18

The analysis shows that in recent years, the company's investment projects have been financed through the use of loans from commercial banks, with which the company's management has solved the problems associated with financing investment projects. It is no secret that the main goal of business management is to get a higher net profit. At the same time, increasing the private capital of the enterprise is identified by managers as a main plan.

CONCLUSION

Regular analysis of the financial performance of the enterprise and the implementation of effective measures to stabilize them on the basis of changes in financial performance will play an important role in achieving the high economic efficiency of the enterprise in the future. The analysis shows that the company lacks its own funds to finance the investment activities of industrial enterprises. Underlying the poor financial performance of enterprises is the deterioration of their financial condition, as a result of which they face serious problems in financing their investment activities and feel the need for external sources of financing.

Using the Dupont model, the efficiency of the investment activities of Takro Limited Liability Company was assessed. Based on the Dupont model, it was found that the use of low-interest credit lines by commercial banks in financing investment activities by industrial enterprises in the example of Takro LLC leads to an increase in the ratio of private capital return (ROE) to the use of own funds.

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