

# Debt burden of Ukrainian public agricultural holdings during the systemic crisis

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## Abstract

The level of debt burden of Ukrainian public companies is explored. The negative impact of devaluation on equity amount and its positive impact on the EBITDA value is determined. The types of companies' debt strategies during the crisis economic growth periods are characterized.

*Keywords:* debt burden, systemic crisis, public agricultural holdings

## 1 Introduction

Agricultural products are export leaders, the industry is an important supplier of foreign currency cash inflows. Also, the industry is attractive for investments - the vast majority of Ukrainian IPO companies is agriculture companies. After the bankruptcy agricultural holding Mriya, technical default and debt restructuring reports, it is important to analyze the debt burden level of the companies in the industry.

## 2 Main part

The analysis was carried out on the sample of 9 public holdings during the period from 2009 till 2015 [2-10]. For the analyses was used the following indices and ratios: the total amount of debt, debt to equity ratio, the share of long-term and short-term debt, Net debt to EBITDA ratio.

The amount of total debt of sample holdings was rising from 1.9 billion USD to 3.9 billion USD during 2009-2013. It means that over the period the debt level has doubled. However, this period is characterized by the general trend of increasing capital for the considered companies. The amount of equity of analyzed companies tripled (from 1.5 billion USD to 4.9 billion USD).

However, during the crisis of 2014-2015 there was a reduction of the total debt amount to 3 billion USD. The amount of equity was reduced twice and it was 2.3 billion USD in 2015. This sharp decline caused by currency devaluation, which led to significant losses from exchange differences and directly affected the amount of retained earnings (loss), and thus the amount of equity.

Debt to equity ratio declined from 1.2 to 0.8 during 2009-2013, but increased to 1.3 during the crisis of 2013-2014. Despite the fact that the period of 2009-2013 is characterized by debt capital increasing, as mentioned above, the higher rates of equity capital increasing lead to the debt to equity ratio decreasing. The opposite trend

occurred during the next 2014-2015 years. Because of lower debt reduction rate in comparison with equity reduction, debt to equity ratio has risen sharply.

The share of long-term debt capital during the period varied slightly and share was 54% in average, the share of short-term loan capital was 46%. It should be noted that this percentage is generally unusual for Ukrainian agricultural companies. Thus, according to the State Statistics Service of Ukraine [1], the share of short-term liabilities for such companies was 71% during 2015.

The difference is explained by the fact that public companies have easier access to debt capital at lower interest rates, and therefore have higher chances for attracting long-term financing. Instead, because of the high financial risks cost of long-term debt capital cost for the most agricultural companies is very high.

Net debt to EBITDA ratio fluctuated slightly during the period and was 2.4 in average. The maximum ratio was in 2013 through the maximum total debt amount. In 2014 and 2015 the ratio lowered to 2.3. This reducing was due to debt reduction and EBITDA increasing. There was a positive influence of currency devaluation to EBITDA value. Because the almost all the analyzed companies are export oriented, the proceeds from the sale of products is received in foreign currency, while most of the components of production costs are denominated in local currency. Thus, due to shock currency and sticky price effects there was a relative cost reduction, which positively affected on EBITDA.

## 3 Conclusions

The results of the retrospective study based on empirical data of 9 agricultural holdings Ukraine led to the following conclusions:

- The level of Ukrainian agricultural holdings leverage, expressed through debt-to-equity ratio indicator, during the period before the crisis was reducing

despite the debt amount growth. This reduction is caused by equity growth.

- During the crisis of 2014-2015, and the currency shock debt burden has increased in nominal terms due to equity decreasing, despite the reduction in debt.
- Since net debt to EBITDA ratio remained stable, the effects of the crisis on domestic economic changes

were not significant, foreign exchange earnings of export-oriented agricultural holdings allowed to cover previously taken loans nominated in foreign currency.

- Determined the negative impact of devaluation on the amount of equity the company and its positive impact on the EBITDA value.

## References

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