# BASE METHODS FOR ASSESSING COMPANY'S INVESTMENT POTENTIAL

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**Abstract:** This article discusses the methods for assessing company's investment potential. Special attention is drawn to the pros and cons of using a particular method in the current economic environment. Based on the analysis, the authors conclude that the considered methods for assessing company's investment potential are to be used together to smooth out each other's shortcomings.

**Keywords:** Investment potential, investor, credit rating.

From the viewpoint of a company, which aims to be effective in today's dynamic economic environment a priority for sustainable development and improving its position on the market is to enhance investment processes[1]. A key element in this point is investment attractiveness, because the dynamic enterprises depend on their ability to meet the conditions of potential investors. Thereby, issues related to obtain fair and adequate evaluation of these conditions become more and more actual.

It is the goal to identify investment potential. In order to be objective in this issue, it is necessary to use certain techniques for assessment activities. In this article we will talk about three most popular methods to assess it.

The first and the simplest, in our opinion, method – is the method of expert estimates. It lies in the fact that some specialized agencies give enterprises different assessments, based on the company's specific data. According to these assessments you can judge about the company's attractiveness. The first appearance of such agencies in Russia was in 1994. Then review "The securities market participants rating" was first time published by the rating agency "AK&M"[2].

There are many different types of investment attractiveness rating. Their collection can be divided into credit ratings and corporate governance ratings. Credit rating involves a comprehensive assessment of the borrower based on the terms of its credit rating, which means, its willingness and ability to fulfill its financial obligations in time. This rating assumes the credit risk assessment, based on the evaluation of a number of indicators.

There are two scales for defining the credit ratings: international and national. International scale in contrast to the national also accounts a country risks. As a consequence, this scale can not always be objective.

Various indicators are used while assigning the credit rating, such as:
- The level of debt;
- The financial condition:
- Production activities and the state of the industry;
- Market position;
- Etc.

As for today, the method of assessment company's investment attractiveness in terms of the corporate governance quality becomes more and more popular[3]. The necessity for this assessment is explained by increasing interest to the corporate governance of the global economic community, awareness of its importance and role in the world economy is growing.

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[1] Прокофьев, 2010

[2] Аналитика малого бизнеса. Оценка инвестиционной привлекательности предприятия [Электронный ресурс]

[3] Деева, 2005

Corporate governance is a set of rules and principles of management and control that best reflect the interests of shareholders and a wide range of stakeholders. There are many indicators that define the quality of corporate governance, such as transparency of company's information to all stakeholders, compliance of the shareholders rights and interests, by law, to ensure an effective system of internal control and interaction with shareholders and potential investors.

For example, Agency "Standard & Poor's" assigns a rating of corporate governance to companies since 2000. The basis of ratings assigned by Standard & Poor's is the evaluation of the corporate governance quality, which consists of two parts: the evaluation of the company as a separate entity (the efficiency of interaction between management, directors, shareholders and other counterparties) and the analysis of country background (effective regulatory, legal, investment, information and market infrastructure in the country).

Also you can use integrated assessment of company's investment attractiveness, which is based on the indicative model. This methodology relies on indicators, which allow to estimate the investment attractiveness of the enterprise in a quality manner. Key indicator in this methodology is return on assets. The choice of this indicator due to the fact that the company's investment attractiveness to a greater extent is determined on the state of the assets, structure, composition, quality and quantity of material resources, their interchangeability and interoperability, as well as the conditions that are created to ensure that they are effectively used.

"The Seven factors model" is used while assessing the return on assets[4]. The choice of this model in the methodology due to the fact that this model fully reflects the factors that affect the return on assets. It contains the following indicators: profit on sales, sales revenue, current assets, receivables, short-term liabilities, accounts payable, debt capital, assets. These indicators are quite versatile and diverse, characterizing the degree of assets using and the degree of financial stability. It should be noted that as the period studied is taken the past experience of the firm and the dynamics of development over several periods is also considered.

In order to determine the company's investment attractiveness, it is necessary to calculate the aggregate index of investment attractiveness[5]. The aggregate index of the company's investment attractiveness is the sum of the integral indexes of each component of investment attractiveness. To define this index it is proposed to find the ratio, which takes into account the change of all factors (all components of The Seven factors model) in the dynamics of the enterprise and comparing the resulting ratio with similar data of other investment projects.

In addition to the previous methods of assessment of investment attractiveness, you can also use the analytical method. This method is based on the company's financial figures analysis. The source of information for this analysis is the financial reporting. The purpose of this analysis is to estimate the expected return on the invested funds, the timing of their return, as well as to identify the most significant financial impact on the investment risks.

The company's financial activity is estimated by analyzing the system of interconnected figures[6]. They characterize the efficiency of the financial activity from the point of its compliance with the tactical and strategic goals of the business, including investment. From this point of view, the investment result significantly affect the company's ability to pay short-term obligations of the current assets, preventing a possible bankruptcy, the optimal structure of financing current activities, the turnover rate of investment and profitability of invested capital. Therefore, while assessing the financial condition of the company, the following groups of financial ratios are used:
- Liquidity ratios;
- Indicators of financial stability;
- Indicators of business activity;
- Profitability.

A special group is the group of growth, showing the development of the company.

For the purpose of financial analysis within each group you can use a large number of factors, but the appraiser selects the most important, from his point of view, proportion of the assessment. And with these priorities the investment attractiveness picture of the project is composed.

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[4] Булгакова, 2004

[5] Кравченко, 2007

[6] Балдина, 2010

Considered methods for assessment of the company's investment attractiveness provide a multifaceted view of the investee. Each method has its advantages and disadvantages, but in order to get the most complete picture of all the methods should be used in conjunction.

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