

Evaluation of the Market Value of Claim Rights for Russian Companies Which are Exposed to Bankruptcy

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https://doi.org/10.29124/kjeas.1549.20

Abstract

This research sheds light on the significance of claim rights for Russian companies, particularly during times of financial crises and bankruptcy. The relevance of this research the emergence of numerous challenges during times of crises is a notable phenomenon the value of money that the debtors can ensure and apply the process of moratorium in case of bankruptcy. The procedures of bankruptcy in Russian markets in addition to the types of overdue dets in companies will be summarized in this research, the time periods which are needed to sell the equity of debtors and repay back the values of claims for creditors also will be explained in this study. Besides, the weighted average interest rates on ruble and discount factor will be calculated and the cash flows will be discounted according to the time periods and discount factor.

The purpose of this study is to find a mechanism for assessing value at risk to assist companies in bankruptcy proceedings. The data was collected from Russian companies facing bankruptcy from 2016 to 2022. The results show that debtors at risk of insolvency will generate lower cash inflows than other debtors, which will reduce the funds recovered from creditors and affect the bankruptcy process.

Key words: claims, cash flow method, bankruptcy, debtors, creditors, moratorium, rights.

Introduction.

The volume of overdue debts in the Russian debt market increases according to increasing the financial crisis not only in Russia but also internationally. This is absolutely will increase the cases of bankruptcy in Russian market and push the whole companies to find solutions to repay back the whole claims from debtors in case of bankruptcy. In Russia, The acknowledgment of bankruptcy occurs through specific procedures conducted by the arbitration court, but the problem comes from the fact that many companies cannot know what are the resources that they depend on to make the debtors pay their claims in case of their bankruptcy, and how they can evaluate the real value of these resources in order to be able to know the real amount that they can repay back from the debtors. This research will answer to this question and introduce a solution to this problem throughout selling the properties of debtors and using the discount factors to know exactly what are the real amounts of claims that the debtors can pay back them to the creditors. The research will be divided into different parts, the first part will be an introductions and them the problem of study will be introduced with research importance, research question and research objectives, after that the previous literature reviews will be explained to show what are the disadvantages in previous studies that will be solved in this research, the data and the methodology that will be used in this research will be explained, and then the main part will be discussed with more explanation how to calculated the values of claims and what the effect of bankruptcy on this process. The conclusion will be introduced with some suggestions to increase the efficiency of bankruptcy.

Research problem: The primary challenge associated with the acquisition of claim rights is in the complexity of adequately considering all adverse events that may impact the ability to repay debt. The temporal aspect regarding the ability of debtors to liquidate their assets and fulfill their financial commitments to creditors in the event of bankruptcy remains rather ambiguous. On the other side, it will be beneficial for the buyers of equity's debtors In order to acquire property at a substantially reduced cost, one may employ the strategy of prolonging the bidding process, this will delay the process of collecting and reduce the value the claim rights in case of bankruptcy.

Research importance: The Russian market has been suffered from different crises in recent years and it is important for many companies to find a mechanism for estimating the real values of debtor's equity and know which amount of cash inflows will be repaid back for creditors in case of bankruptcy. From here comes the importance of research that can help to solve the whole problems mentioned above.

Research question. What is the prevailing market value of claim rights during periods of financial crises in the Russian market within the context of bankruptcy?

Research objectives. This analysis aims to assess the market worth of claim rights, considering the presence of a moratorium on bankruptcy, and thereafter compare it to the valuation obtained in the absence of such a moratorium.

Literature review. Different authors explained the concepts that are connected with the process of bankruptcy and the value of claims. In his research, (Mamiy: 2022) mentioned to the right to claims and identified them as the rights In order to obtain a monetary amount from the individual who owes the debt, it is necessary to consider a designated timeframe and factor in the applicable interest rate. In his research (Gustap: 2019) assessed the values of claims under the circumstances of bankruptcy, but he did not mention in more details how to fix the problems if the debtors cannot ensure the required amount of their claims. The federal law in Russian federation specified the obligations that should be paid to creditors as a certain amount of money should be paid from debtors to creditors In accordance with a civil law agreement and other legal provisions outlined in the Civil Code of the Russian Federation. The Russian law in this way tried to arrange the process of bankruptcy and simplify its procedures, but it did not take under considerations the changing of the value of money from one year to another and how that will effect on the ability of debtors to repay back their obligations in case of bankruptcy.

In spite of the importance of previous studies in solving the problem of claim rights in case of bankruptcy but they could not introduce enough solutions for the problems bankruptcy and what are the exactly amount that can be ensured from debtors taking under consideration the time value of money and the real values of the properties of debtors.

Data and Methodology

In this research, the overdue debts on loans to legal entities in the Russian Federation from 2013 to 2022 according to the type of economic activity were used to evaluate the cash

proceeds from the sale of the debtor's property and calculate the market value of claim rights in case of Bankruptcy. The predominant method for evaluating the legitimacy of claims in various scenarios continues to be the income approach, which involves analyzing the potential capacity to fulfill debt obligations. The determination of market prices for claims can be achieved through the application of the discounted cash flow method, which is a component of the income approach. This involves calculating the present value of anticipated future cash flows from the debtor, encompassing proceeds from the sale of collateral and other assets, while considering factors such as collection terms, sale conditions, and associated expenses.(Metel'skaya:2018:2218)

The assessment of the assertions begins with a thorough examination of the company's past performance, present financial status, and the industry it operates in, aiming to forecast its future endeavors. In addition, during the evaluation of a corporation in the context of bankruptcy proceedings, a thorough analysis of its assets is conducted. Subsequently, the valuation of the debtor's property is determined. Subsequently, the costs borne by the creditor are subtracted from the selling price of the debtor's property. Following this, a discount is used to determine the net present worth of the property, so enabling an assessment of which claims can be reimbursed (Sergienko: 2016:118).

The formula for estimating the net present values for properties will be:



Where:

n - The time span over which financial flows will be received to repay the obligation.

The Central Bank of the Russian Federation reports a significant rise in the volume of overdue debt from loans extended to legal entities, now totaling 861.362 million rubles in 2013 to 2916571 mln rub. in 2022 with 3,4 times. Figure 1 shows the amount of overdue debts on loans and how they go upward from 2013 to 2022 according to the political situation and continuous crisis in Russian Federation.





Established by author on the base of Osina N., 2019

To gain insights into the distribution of delinquent debt across various economic sectors, an examination of the composition of delinquent debt categorized by kind of economic activity is conducted, as depicted in Table 1 and Figure 2.

Table 1. On October 1, 2022, we examine the distribution of overdue debts on loans to legal entities categorized by their economic activities."

	01.04.2022	
Sector	2 916 570	100,00%
Mining	44 059	1,51%
The manufacturing sector	433 349	14,86%
production and distribution of water, gas, and electricity	19 754	0,68%
farming, fishing, and forestry	128 804	4,42%

	233 613	8,01%
Construction	38 122	1,31%
Communications and transportation	385 632	13,22%
Operations with real estate, rent and provision of services	482 622	16,55%
Other activities	1 135 008	38,92%
To complete the calculations	15 607	0,54%
Source: Prepared by the authors (2023)		



As of October 1, 2022, Figure 2 shows the breakdown of past-due debt on loans to legal companies by kind of economic activity.Source: Prepared by the authors (2023)

The figure above shows that most sectors in Russian Federation were affected and have problems in overdue loans, this is logically was expected according to the financial crisis and the political situation that can lead to these results.

Before evaluation the market value of properties that will be used to cover the claim rights in case of bankruptcy, it is important to mention to the factors that will effect on the value of claims (Aktionova: 2019: 73):

- the amount of debt at the time of assessment;
- Ensuring the right to claim;
- incidental costs;
- Conditions of sale of the debtor's property;
- Legal Risk.

The case of Russia is more complicated because the increase in the supply and demand of credit is independent of the increase in the real income of the population (Bunch, 2000, 2245). An important factor behind the increase in The economic crisis stemming from the epidemic situation in 2020-2021 and the geopolitical scenario in 2022 has resulted in the emergence of delayed payments and the accumulation of debts. The government has implemented novel rules in 2020 with the aim of safeguarding firms and economic sectors, as well as facilitating their recuperation .One company (debtor) operates in construction industry has been declared bankrupt, and bankruptcy proceedings have already applied.(Volkov & Nikulin: 2012: 24)

Selling of the company's property for distribution the income between creditors was important, but before that many steps have been applied.

Classification for creditors' claims firstly has been prepared (table 2).

NO.	The heading	Value
1	superior-ranking creditors	0
2	Second-tier lenders of creditors	0
3	third-class debtors	1 000 000

Table 2 Creditor claims are calculated in rubles.

3.1	Regarding lenders' objections	800 000
3.2	A request made by a financial institution	200 000
	Overall	2 000 000

Source: Developed by the authors (2023)

Prior to establishing the duration of debt collection, an examination of the regulatory conditions pertaining to the various stages of bankruptcy was conducted. The findings are displayed in Table 3.

Table 3. Regulatory terms of bankruptcy stages

Ν	Stage of debt settlement	Duratio
		n
1	Days required for the Arbitration Court to consider the issue and adopt a ruling	180
2	days added to the period for considering the case	270
3	days of the monitoring process	210
4	procedures for receivership (bankruptcy administration, days	180
5	overall, days	840
6	overall, days	2.30

Authors' preparations, from 2023. Typically, the entire process requires a duration of approximately two to three years for regulation. However, the extent of the debtor's liability mostly hinges on the nature of the properties possessed. If necessary, the duration for obtaining proceeds may be extended.

The precise date of the debtor's bankruptcy procedure being unknown, the duration of the debt collection period is determined based on the aforementioned legislative requirements. The termination of the bankruptcy moratorium is scheduled for October 1, 2022. Table 4 displays the computation of the debt collection time, encompassing both scenarios with and without the inclusion of a moratorium.

	Including mora	atorium		Excluding mo	ratorium
No	The heading	Value	No	Title	Value
1	beginning of the auditing procedure	17.06.2021	1	beginning of the auditing procedure	17.06.2021
2	Duration , days	210	2	Duration, days	210
3	The tracking process has ended	13.01.2022	3	The tracking process has ended	13.01.2022
4	beginningofguardianship(bankruptcymanagement)	13.01.2022	4	beginning of guardianship (bankruptcy management))	13.01.2022
5	Continuity, daily	180	5	Continuity, daily	180
6	Conclusi on of bankruptcy administration or receivership proceedings	12.07.2022	6	End of receivership proceedings (bankruptcy administratio n) forecast	12.07.2022

Table 4. Calculation of debt collection period

7	End of the moratorium on filing bankruptcy cases	1.10.2022	7	0.49
8	TimeframefortheDebtor'sProperty Sale	180		
9	finalization of the debtor's property transfer	30.03.2023		
10	Forecasting the Conclusion of Receivership Proceedings (Bankruptcy Administration	441		
11	Duration of Debt Collection, in years	1.21		

Source: the writers' own preparation (2023)

The underlying assumption of the model posits that the aggregate worth of the debtor's assets amounts to 500,000 rubles. The distribution of cash profits from the sale of the debtor's property occurs among tertiary creditors, following the payment of charges associated with the bankruptcy procedures, such as taxes and bankruptcy trustee fees. Table 5 illustrates the calculation of revenues generated from the sale of the debtor's assets, which are utilized to satisfy the bank's claims. It's worth noting that neither first-tier nor second-tier creditors are involved in this distribution. Additionally, a critical factor in this calculation is the discount rate, defined as the anticipated rate of return on capital investments in similarly risky ventures. In simpler terms, it represents the expected return on alternative investment opportunities with a similar level of risk as of the valuation date. Utilizing the risk-free rate as the discount rate is one strategy. That nonetheless doesn't

mean that one faces no risk at all. A risk-free return means relatively no risk.(Aqbal & Kume:2014:268) Due to the risks inherent in trade receivables, this discount rate is taken into account when it is necessary to determine the probability of debt settlement. By employing this approach, The risk-free rate should be determined by selecting the instrument with the lowest degree of risk. The following tools are [Menon: 2018:71] is accessible. Bonds issued by the Russian Federation in foreign currencies (Eurobonds) with a yield to maturity:

Rates on deposits in banks with the greatest level of dependability; Yield to maturity of ruble bonds. In this case, the maximum and minimum amount of funds that can be placed at a given interest rate should be considered. »

- The weighted average ruble rate of credit institutions is used according to the risk-free rate calculation method described in the evaluation company report. It shows that for the latest maturities available, the interest rate is 14.88% for maturities up to 1 year and 12.71% for maturities between 1 and 3 years.
- These debts, which formed the basis for the initiation of insolvency proceedings, are considered past due, according to the appraisal company's report. Litigation is understood as the completion of a voluntary settlement of a debt and, therefore, there will be third parties involved in debt collection in the future. «Debt collection costs include the following .

• Expenses for hiring attorneys, consultants, and other professionals; • Costs associated with other debt collection efforts.

	Ν	The heading	Valu
0.			e
	1	revenue from the sale of the debtor's additional property	500 000
	2	(-)lenders with the top and second places	0
	3	(-)Costs associated with the bankruptcy process (company real estate tax, insolvency administrator charge)	20 000
	4	money received from the selling of the debtor's possessions	480 000

Table 5. Rubble-denominated funds received from the disposal of debtor's assets

	5	Debt as a whole	1 000 000
1	5.	Total debt% Other creditors' claims	80,0%
2	5.	A financial institution's assertion	20,0%
	6	Sales proceeds from the debtor's assets will be used to pay back d	lebt.
1	6.	other bondholders' claim	384 000
2	6.	A claim by a financial institution.	96 000

Source: written by the writers in 2023

According to the appraising firm, the average range of these costs is between 5% and 10% of the book value of debt. In the realm of financial computations, it is observed that the mean proportion of expenses linked to the settlement of debt amounts to approximately 7.5% of the total loan value. Table 6 displays the computation of the transaction value associated with the claim right.

Table 1. Assessment of the market worth of claimed rights Bankruptcy

Including moratorium			Excluding moratorium		
No	The heading	The word value	Volum e	The heading	Volume
1	Debt collection period, years	1.21	1	Debt collection period, years	0.49
2	The bank's debt in the amount of tha.\$ was satisfied using	96000	2	The proceeds from the sale of the debtor's assets were used to	96000

	the revenues from the sale of the debtor's assets.			settle the bank's obligation in the amount of th.\$	
3	Bill collection expenses (-7.5%)	7200	3	The expenses of obtaining debts (- 7.5%)	7200
4	Assets owned by the debtor were sold for a profit of \$.	88800	4	Assets owned by the debtor were sold for a profit of \$.	88800
5	proportional reduction	12.7%	5	Discount rate, %	14.9%
6	reduced amount	0.87	6	reduced amount	0.93
7	Value at the time of selling of the debtor's assets in dollars	76848	7	Value at the time of selling of the debtor's assets in dollars	82928
8	The percent of penetration	38.42%		The percent of penetration	41.46%

Source: Prepared by the authors (2023)

Depending on what mentioned above, in case of moratorium, the number of years which are needed to collect the debt were 1,21 and this is with 0,72 higher than the period to collect the debt without moratorium on bankruptcy. On the other side, there is also a difference between the market values of properties that the bank can sell them to cover the debt in case of existing moratorium on bankruptcy and without it. The market value in case of moratorium on bankruptcy is 76 848 thousand rubles, and this cover nearly 38,42% of the debt, and in case of no moratorium on bankruptcy the market value of properties The amount in question is 82,928 thousand rubles, which represents 41.46% of the debt coverage. Therefore, it is crucial to consider the potential risk associated with the extension of the debt collection period resulting from the implementation of a bankruptcy moratorium, as this might significantly impact the accurate evaluation of the claim against the debtor.

Conclusions. A model of impending bankruptcy for corporate borrowers is created in this study. The bankruptcy moratorium condition is included in the computation for the first scenario in the model, whereas it is not for the second. From the standpoint of creditors, a moratorium on bankruptcy does not help them since it lessens their ability to get money and settle obligations by selling the debtor's real estate.

Suggestion. In times of crisis, it is imperative for creditors to explore novel procedures that might safeguard the value of claims and mitigate their potential depreciation. In order to address this issue, corporations and borrowers have the opportunity to engage in the purchase of option contracts pertaining to certain financial assets prior to the onset of a crisis, and their real estate value will fall, and when the problem occurs, the crisis will not occur according to the hedging strategy adopted by the debtor. This has greatly affected their real estate values.

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