Discussion on Corporate Solvency Taking Gree Electric Appliance as an Example
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Abstract. The analysis of solvency is an important part of corporate financial analysis. It is of great significance for improving the solvency of enterprises and promoting the healthy development of enterprises. This article takes Gree Electric Appliance Co., Ltd. as an example. From the important indicators of measuring the solvency of enterprises, the paper analyzes the ratios of current ratio, quick ratio, cash ratio, asset-liability ratio, equity ratio, interest guarantee multiple and other indicators. Short-term solvency and long-term solvency, and make reasonable recommendations.

Introduction

The strength of solvency is related to the ability of enterprises to withstand financial risks. It is related to the number of investment opportunities and the level of profitability of enterprises. It is related to whether the principal and interest can be recovered on schedule. The short-term solvency of listed companies is the most important for creditors, especially banks and other financial institutions or other non-financial institutions, which largely determines whether the funds they lend can be recovered on time and receive expected returns.

This paper takes Green's solvency analysis as an example. Firstly, it analyzes the definition of solvency, the related concepts of solvency indicators and the influencing factors of solvency. Secondly, it starts from the important indicators to measure the solvency of enterprises. By calculating the current ratio, quick ratio, cash ratio, asset-liability ratio, equity ratio, interest guarantee multiple and other indicators, the short-term solvency and long-term solvency of the enterprise are analyzed.

The Main Factors Affecting the Solvency

The Liquidity of Assets

In the analysis of short-term solvency, financial analysts generally calculate the ratio of the current assets to the current liabilities of the enterprise, and use this data as the basis for the short-term solvency of the enterprise. The liquidity refers to the conversion of corporate assets into cash. The ability to include whether it can be converted into cash without loss and the time required for conversion is a material guarantee for repaying current liabilities, so it fundamentally determines the ability of the company to repay current liabilities. In addition, it is related to the size and structure of current assets. In terms of the liquidity of liquid assets, generally speaking, the more liquid assets, the stronger the short-term solvency of enterprises; they are usually divided into two parts: quick assets and inventory assets. The liquidity of accounts receivable and inventory is an important factor affecting the liquidity of liquid assets

The Scale and Structure of Current Liabilities

The scale of liabilities is an important factor affecting the short-term solvency of enterprises. The larger the short-term liabilities, the heavier the debt burden of short-term enterprises. The structure of current liabilities also directly affects the short-term solvency of enterprises, such as cash repayment.
It is also the term structure of the current liabilities that are repaid by labor; the current liabilities also have quality problems. Therefore, the degree of compulsory and urgency of debt repayment is also a factor.

The following chart shows the Gree asset liability ratio, the blue color represents Gree, the red represents Gree, and the green represents the industry average.

![Figure 1. The Gree Asset Liability Ratio.](image)

**The Level of Operating Cash Flow of the Enterprise**

Cash flow is an important factor in determining a company's solvency. Many short-term debts in an enterprise need to be repaid with the most liquid cash, so the amount of cash inflows and outflows will directly affect the short-term solvency of the company.

**Capital Structure**

The capital structure is the value composition and proportional relationship of various capitals of enterprises, and is the result of the fundraising portfolio of enterprises in a certain period of time. [3] The cost of capital and financial risk vary according to different sources of funds. The liability must be repaid at maturity and interest needs to be paid. If the debt is not able to repay the debt principal and interest, it may face a financial crisis. The owner's equity does not need to be repaid, and the risk is small. It is the guarantee of the stability and solvency of the enterprise, but the required remuneration is usually higher than the debt interest, so the cost is higher. In the capital structure of an enterprise, the higher the proportion of liabilities, the greater the risk, and the greater the possibility that the principal and interest cannot be repaid. The capital structure of the enterprise will affect the long-term solvency of the enterprise.

**Long-term Profitability**

For a normally operating enterprise, the repayment of long-term liabilities is mainly to repay interest and principal with the income generated by the investment. Whether an enterprise has sufficient cash inflows to repay long-term liabilities depends to a large extent on the profitability of the company. Generally speaking, the higher the profitability of a company, the stronger its long-term solvency.

**The Quality of Management**

A good management is the company's most valuable asset because their decisions and actions can generate substantial cash flow. High-quality managers can guide the company to move in the right direction and add value to the company. Both theoretical research and empirical research have proven that shareholder structure is critical to a company's profitability and solvency.
Gree Electric Appliance Solvency Analysis

Founded in 1991, Zhuhai Gree Electric Appliance Co., Ltd. (hereinafter referred to as “Gree”) is the world's largest professional air-conditioning enterprise integrating R&D, production, sales and service. It has been listed on Fortune Magazine for eight consecutive years. “Top 100 listed companies in China”. Gree Electric's "Gree" brand air conditioner is the only "world famous brand" product in China's air conditioner industry, with operations in more than 90 countries and regions around the world.

Table 1. Gree Appliance's Performance Analysis Index for the Past Three Years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Flow ratio</th>
<th>Speed ratio</th>
<th>Cash ratio</th>
<th>Interest guaranteed multiples</th>
<th>Shareholder equity ratio</th>
<th>Asset liability ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.0978</td>
<td>0.8651</td>
<td>30.5307</td>
<td>15.37</td>
<td>21.3579</td>
<td>78.6421</td>
</tr>
<tr>
<td>2016</td>
<td>1.1178</td>
<td>0.8451</td>
<td>24.9884</td>
<td>12.98</td>
<td>21.5665</td>
<td>78.4335</td>
</tr>
<tr>
<td>2017</td>
<td>1.0794</td>
<td>0.8607</td>
<td>36.7167</td>
<td>17.99</td>
<td>25.64</td>
<td>74.36</td>
</tr>
<tr>
<td>2018</td>
<td>1.05</td>
<td>0.952</td>
<td>46.1204</td>
<td>67.57</td>
<td>24.8316</td>
<td>75.1484</td>
</tr>
</tbody>
</table>

Source: Sina Finance(2018.10)

1. Current ratio. Current ratio = current assets / current liabilities. The higher the current ratio, the stronger the ability of the enterprise to repay the current liabilities and the greater the protection of the current liabilities. However, an excessively high current ratio is not a good phenomenon. Because the current ratio is too high, it may be that the company has too much money to stay on the current assets, and it cannot be effectively utilized, which may affect the profitability of the enterprise.

The current ratio is about 2:1. Gree Electric Co., Ltd. has a current ratio of 1.0978, 1.1178, 1.0794, and 1.05 in the first three quarters of 2018. This value represents the current liabilities per dollar and how many yuan of current assets are used. Guarantee. From the previous data, we can also know that Gree's current ratio is relatively stable, between 1.0 and 1.13, but at a low level. This data indicates that Gree's short-term solvency is relatively poor. This phenomenon may have an inextricable relationship with Gree's investment activities in recent years, such as the rapid expansion of Gree storefront, the construction of logistics network, investment in financial institutions and wealth management products.

2. Quick ratio. Quick ratio = quick assets / current liabilities = current assets - inventory) / current liabilities. From the previous analysis, it can be seen that the current ratio has certain limitations when evaluating the short-term solvency of the enterprise, and it seems that the short-term solvency of the enterprise is better by the quick ratio, because it has a poor ability to liquidate. Inventory. The higher the quick ratio, the stronger the short-term solvency of the company.

It is generally considered that the quick ratio is 1:1. The current flow ratio of Gree Electric Appliance Co., Ltd. in the first three quarters of 2018 was 0.8651, 0.8451, 0.8607, 0.952 respectively. From the past experience, the quick ratio of the home appliance industry is more suitable at 0.9, although it can be from the previous data. I know that the quick ratios in these years are not very stable, and the solvency and profitability are in a relatively balanced state.

3. Cash ratio. Cash ratio = (cash + cash equivalents) / current liabilities. The cash ratio can directly reflect the direct solvency of the enterprise, because cash is the ultimate means for the enterprise to repay the debt. If the company has a lack of cash, it may cause payment difficulties, and correspondingly it will face a financial crisis. Therefore, the high cash ratio indicates that the company has a good ability to pay and is guaranteed to pay debts. However, if this ratio is too high,
it may mean that the company has too many cash-based assets with low profitability, and the assets of the company are not effectively used.

**Optimize Capital Structure**

Through the above analysis, Gree's solvency can be roughly understood. From the current ratio and the asset-liability ratio, Gree's short-term solvency and long-term solvency are weak, indicating that the funds are not idle. Other indicators can also be seen, Gree's solvency and profitability are in a relatively balanced state, and has a strong ability to pay in time, a higher cash ratio can meet the cash flow required for Gree's expansion in recent years, the enterprise The ability to pay interest charges is strong, and creditors do not have to worry too much about interest returns.

![Diagram of Gree's Solvency Structure]

**Optimize Capital Structure**

The capital structure of an enterprise is the core issue of enterprise financing decision-making. The optimal capital structure means that the enterprise has the lowest expected comprehensive capital cost rate under the condition of moderate financial risk. The capital structure of Qunfeng Machinery Manufacturing Co., Ltd. is very unreasonable. Excessive borrowing by enterprises will result in high debts and idle funds of enterprises. It is necessary to strengthen the awareness of capital structure of enterprises. First, the government should optimize the market economy environment, handle the relationship between the government and the market, and ensure that the economic activities of the company develop healthily and well under the guidance of the market. Second, the government should develop the bond market, simplify the bond issuance process, and reduce the restrictions on issuance. Vigorously develop the bond circulation market. Enterprises should learn from foreign quantitative indicators and comprehensively collate and analyze the data affecting the capital structure, so as to find a relatively reasonable quantitative standard for optimizing the capital structure and guide enterprises to improve long-term solvency.

**Formulate a Reasonable Debt Repayment Plan**

Repayment of debt is an important economic activity of the enterprise. If it is not handled well, it will affect the image and reputation of the enterprise, and it will also affect the financing and business activities of the enterprise in the later stage. Therefore, the formulation of a reasonable debt repayment plan is a problem that every enterprise cannot ignore. In real life, there are often some enterprises that fail in bankruptcy because they have not made reasonable arrangements for assets and cannot repay their debts in time. Therefore, the company should formulate a reasonable debt repayment plan, based on the repayment time as the benchmark, combined with the balance sheet data, various debt contracts, repayment time in the contract, repayment amount and additional conditions, etc. Budget, business situation, financial budget, capital income, sales budget, etc. are taken into consideration. To make the company's production and operation plan debt repayment plan fund chain cooperate with each other, try to make the company's limited funds pass the reasonable arrangement of time and conversion, to meet the daily operation and the needs of each debt repayment point.
Improve Profitability

Enterprise management is to survive and develop, and ultimately to achieve profitability. How to maximize profits and increase the profitability of enterprises is the goal that every enterprise wants to achieve. The following are some suggestions for improving profitability: First, what kind of business model is adopted, which is related to the growth of business quality and business capability; second, the development and progress of technology and the competition of enterprises is still the competition of products. Without the advancement of science and technology, the development of enterprises lacks a solid foundation; the third is the cultivation and use of talents. The profitability of enterprises is determined by talents. Talents are the most important supporting link in the industrial chain of enterprises, so it is necessary to pay attention to talents to cultivate.

Conclusion

In today's developed network information, once a company's debt repayment problems or even scandals, all investors and creditors who may be related to it soon know that there may be a phenomenon of divestment and early repayment of debts. More serious, the future financing channels of enterprises will be narrowed, and the financing capacity will be reduced, which will inevitably affect the sustainable development of enterprises, and the profitability will be naturally damaged. On the other hand, some enterprises have solvency and lack of debt repayment consciousness. Responsible for the rational psychology, can drag and drop, can rely on. The bad debt repayment will naturally affect the image of the company. The business development and product sales of the enterprise will also be hindered, and the profitability will be reduced. The most serious possibility is that the company has to go bankrupt because of solvency problems. Therefore, enterprises must strengthen their sense of debt repayment and attach importance to maintaining a certain level of debt repayment, not only to maintain a good capital chain, but also to enhance the image of the company, enhance profitability, and promote the sustainable and stable development of the company.

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