Frontiers in Business, Economics and Management
ISSN: 2766-824X | Vol. 9, No. 3, 2023

Quality Analysis of Kweichow Moutai's Financial Situation

Ting Duan, Lunzhi Gan and Wenli Hu

Sichuan University of Science & Engineering, Zigong 643000, China

Abstract: Since the invention of liquor in Song Dynasty, with the synchronous development of society, a large-scale industrial cluster has gradually formed. According to statistics, in 2022, the sales revenue of liquor enterprises above designated size in China reached 662.645 billion yuan, a year-on-year increase of 9.64%. Kweichow Moutai is one of the most famous liquor brands in China, enjoying a high reputation and wide recognition. As the main leader in the field of liquor manufacturing in China, it achieved an operating income of 127.554 billion yuan in 2022, up by 16.53% year-on-year, accounting for about one-fifth of the national liquor revenue. It belongs to a typical monopoly enterprise in the mootai-flavor liquor product industry. This study analyzes and evaluates the efficiency level of enterprise financial activities from three aspects: the quality of capital structure, the quality of assets and the quality of cash flow in Kweichow Moutai, and discusses the management level, operational efficiency and enterprise competitiveness of the company according to the annual report of the enterprise.

Keywords: Quality of financial situation, Liquor enterprises, Kweichow Moutai.

1. Introduction

The quality of financial status can reflect the accuracy and reliability of an enterprise's financial statements and related information, as well as its true financial status. In China, the research on "financial quality" has just started. Different from the analysis of financial reports, it not only attaches importance to relevant financial indicators, but also uses both quantitative and qualitative methods, thus making a comprehensive evaluation of the company's financial quality. Qian Aimin (2011)[1], Zhang Xinmin (2019)[2] and other scholars (2021)[3]~[5] According to the internal and external environment faced by Chinese enterprises, the quality of enterprise assets and capital structure is analyzed, and the benefits they bring are also analyzed, from the quality of ownership structure, asset quality, income quality and cash flow quality. This study analyzes and evaluates the efficiency level of enterprise financial activities from three aspects: the quality of capital structure, the quality of assets and the quality of cash flow, and discusses the management level, operational efficiency and enterprise competitiveness of the company according to the company's annual report.

2. Quality Analysis of Capital Structure in Kweichow Moutai

2.1. Quality analysis of monetary funds

As can be seen from Table 1, in 2022, Kweichow Moutai had a monetary fund of 58.274 billion, of which cash on hand accounted for the least, and monetary funds mainly existed in the form of bank deposits, with 11% deposited in the central bank. The total amount of money placed abroad only accounts for 0.05% of the bank deposits. It can be seen that the scale of the monetary funds in Kweichow Moutai is huge and the form is single, which shows that the quality of the monetary funds in Kweichow Moutai is not high. Although there is no investment risk, the efficiency of the funds is low.

Table 1. List of Monetary Fund Balance in 2022 (Unit: 10,000 yuan)

project	closing balance	initial balance
cash on hand	1.27	0.95
bank deposit	5,827,430.60	5,181,023.41
In which: legal deposit reserve for the central bank.	641,876.59	638,100.46

2.2. Analysis of capital structure types

Kweichow Moutai adheres to the management-oriented development strategy. This kind of operating enterprise is characterized by a relatively high proportion of operating assets of group enterprises, and the parent company directly participates in product production and operation activities, thus maintaining a certain position and competitive advantage in the industry and maintaining the core competitiveness to the maximum extent. Kweichow Moutai mainly obtains assets through surplus accumulation, and the proportion of foreign investment and financial liabilities is very small. From Table 2, it can be seen that the main capital source of Kweichow Moutai is mainly retained earnings, which reduces the external dependence, financial risk and operating pressure of enterprise financing, and the profitability and competitiveness of the enterprise are strong, but it can also be seen that the business strategy and financing strategy of Maotai enterprise as a legal person are relatively conservative.

Table 2. Analysis Table of Capital Structure Types of Kweichow Moutai

project	2018	2019	2020	2021	2022
Proportion of operating liabilities to total assets	2.01%	2.16%	2.03%	2.23%	2.83%
Proportion of financial liabilities to total assets	8.49%	7.51%	6.24%	5.03%	6.13%
Proportion of paid-in capital (share capital) and capital reserve to total assets	1.65%	1.44%	1.23%	1.03%	1.03%
Ratio of retained earnings to total assets	68.46%	72.38%	73.93%	72.84%	76.20%

2.3. Profit growth analysis

As can be seen from Table 3, the gross profit margin of Kweichow Moutai is larger than that of Wuliangye, and the gross profit margin of Kweichow Moutai remains around 90%, which is relatively stable, indicating that the profitability of Kweichow Moutai is relatively stable, with strong cost control ability and great competitive advantage.

Table 3. Comparative Analysis of Gross Margin between Kweichow Moutai and Wuliangye

project	2018	2019	2020	2021	2022
Kweichow Moutai gross profit margin	91.14%	91.30%	91.41%	91.54%	91.87%
Wuliangye gross profit margin	73.80%	74.46%	74.16%	75.35%	75.42%

2.4. Core profit margin analysis

Core profit refers to the operating profit of an enterprise, indicating the relationship between the operating assets that generate core profit and the cash flow corresponding to core profit. Analyzing the corresponding relationship of these three can have an objective analysis of the profitability of enterprises. Core profit = operating income-operating costs-sales expenses-management expenses-research and development expenses-financial expenses-taxes and surcharges. As can be seen from Figure 1, Kweichow Moutai has a higher core profit rate than Wuliangye, but the gap is not big, and both enterprises are in the leading position in the liquor industry, and Kweichow Moutai is more competitive than the whole liquor industry.

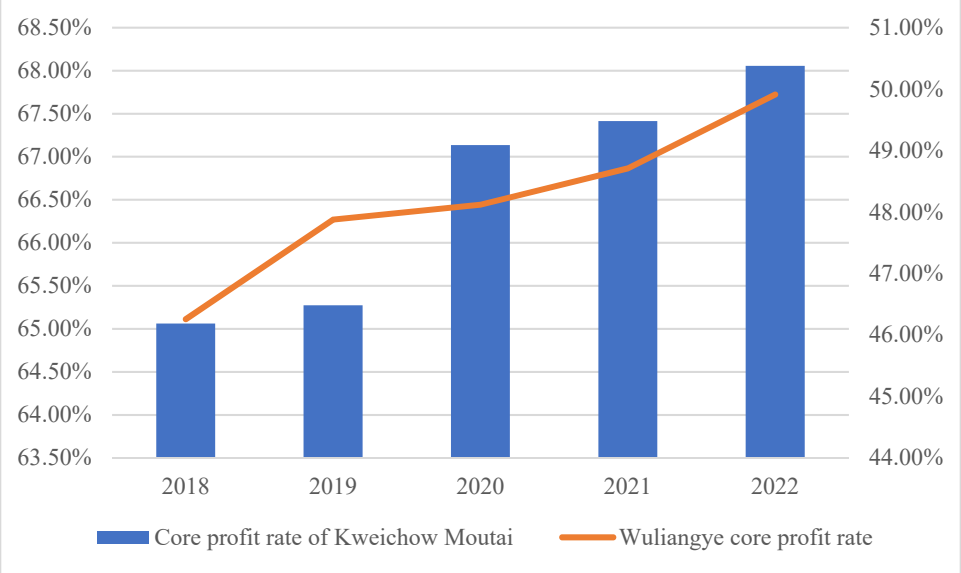


Figure 1. Comparison of Core Profit Rate between Kweichow Moutai and Wuliangye

3. Asset Quality Analysis

3.1. Accounts receivable analysis

The turnover rate of accounts receivable is the ratio of the net income of credit sales to the average balance of accounts receivable in a certain period. There are few accounts receivable in Kweichow Moutai, and the turnover rate is of little significance. In 2021, there are no accounts receivable in Kweichow Moutai, so the turnover rate of accounts receivable cannot be calculated. It also shows that the accounts receivable of Kweichow Moutai grow rapidly.

As can be seen from Table 4, among the ending balance of accounts receivable, accounts receivable of more than five years account for 100% of the total, which shows that the accounts receivable of Kweichow Moutai cannot be recovered in time in a short time, and there is a greater possibility of bad debts, and all the bad debt reserves have been withdrawn, and the accounts receivable are mainly over five years. It can be seen that the longer the account age, the greater the credit risk.

Table 4. Aging Table of Kweichow Moutai for More than Five Years in 2022 (Unit: 10,000 yuan)

Aging	Accounts receivable	bad-debt provision	Bad debt ratio
More than 5 years Aging More than 5 years	268.20	268.20	100%

Solvency is the ability of an enterprise to undertake or guarantee debts due, including the ability to repay short-term debts and long-term debts. From Table 5, it can be roughly seen that the overall solvency of Maotai is good, and it is in a stable state of improvement. However, it can also be seen from this that the capital utilization rate of Maotai is not high. Due to the relatively large amount of working capital retained, the income from the loss of more capital utilization deepens the opportunity cost.

Table 5. Analysis Table of Debt Solvency in 2018-2022

Project/year	2018	2019	2020	2021
Current assets (100 million yuan)	1379	1590	1857	2208
Current liabilities (100 million yuan)	424	411	457	579
liquidity ratio	3.25	3.87	4.07	3.81

3.2. Inventory quality analysis

From Table 6, Kweichow Moutai is only prepared to reduce the product price, because the raw materials and finished products for producing Moutai have been preserved for a long time, unlike the rapid upgrading of electronic products; The product has a long shelf life, and even with the passage of time, the quality and price will gradually improve; The gross profit margin of high-end liquor is high, and the input cost of inventory is much lower than the sales price. Therefore, no matter how the market price of products fluctuates, it is impossible to fall below the inventory cost, and the longer the market value of wine, the higher the value of Maotai.

Table 6. Inventory Preservation Analysis Table in 2022 (Unit: 10,000 yuan)

project	closing balance			initial balance		
	book balance	Depreciation reserve	book value	book balance	Depreciation reserve	book value
raw material	391746.02	-	391746.02	401953.08	-	401953.08
unfinished products	1731144.07	128.04	1731016.03	1431065.00	128.04	1430936.06
unfinished products	181411.01	-	181411.01	131935.03	-	131935.03
self-manufactured semifinished product	1578263.08	-	1578263.08	1374610.08	-	1374610.08
total	3882565.08	128.04	3882437.04	3339564.09	128.04	3339436.05

From the changes in the balance of inventory items in Table 7, the scale of raw materials has increased substantially, and the scale of products and self-made semi-finished products has increased, while the inventory goods have shown negative growth. Among them, the substantial increase in raw materials is due to the epidemic affecting the market price of raw materials, and hoarding raw materials reduces the cost of future products. The negative growth of inventory goods is due to the development of sales channels to direct sales, which leads to the decrease of inventory goods.

Table 7. Inventory Changes of Kweichow Moutai in 2021-2022

project	2021 (100 million yuan)	2022 (100 million yuan)	amplitude of variation
raw material	40.20	39.17	-2.54%
unfinished products	143.11	173.11	20.97%
commodity stocks	13.19	18.14	37.50%
self-manufactured semifinished product	137.46	157.83	14.82%
total	333.96	388.26	16.26%

As can be seen from Figure 2, the gross profit rate of Kweichow Moutai tends to be average and higher than the industry average in the past five years. It shows that Maotai has great competitiveness in the same industry, and it also shows that there has been no obvious adjustment in inventory pricing and inventory methods in the past five years, and the competitiveness of enterprises' products in the market is also at the leading level in the industry.

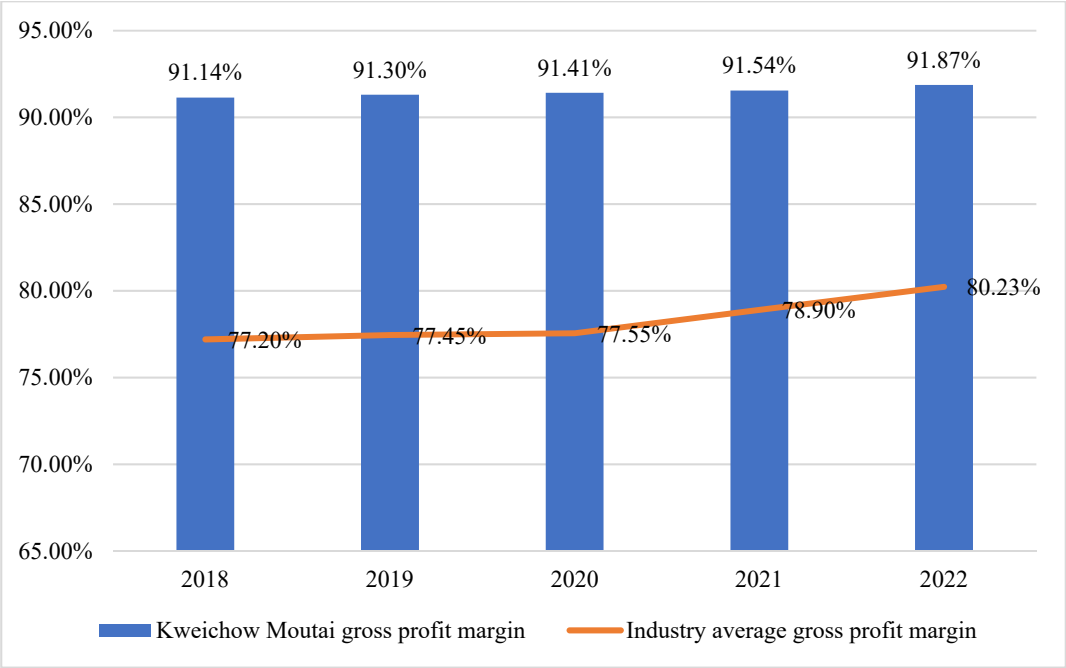


Figure 2. Kweichow Moutai and Industry Average Gross Margin

As can be seen from Figure 3, the change trend of inventory turnover rate in Kweichow Moutai in five years is relatively stable, but the data over the years are far lower than the industry average data, indicating that the inventory turnover level of Kweichow Moutai is low, and the inventory accounts for a large proportion of enterprise funds, which leads to an increase in business risks and a weak financial situation and ability to resist risks.

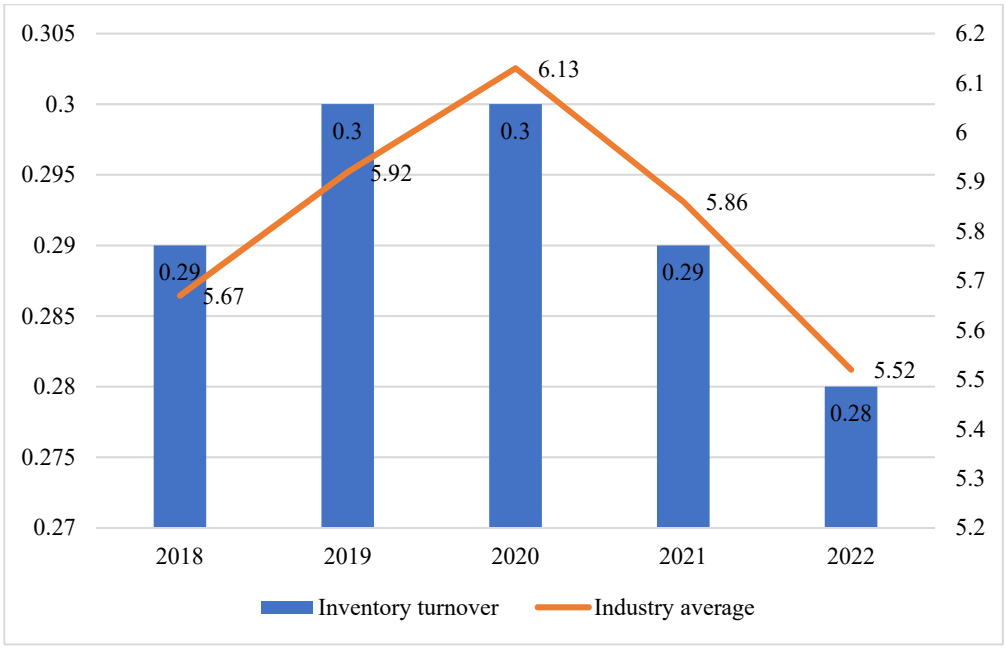


Figure 3. Kweichow Moutai and Industry Average Inventory Turnover Rate

3.3. Analysis of Long-term Equity Investment

The long-term equity investment of Kweichow Moutai is mainly in subsidiaries. The investment direction is consistent with the core business of the enterprise, and a stable relationship is established and maintained with the invested enterprise, which is in line with the upstream and downstream supply and marketing channels, which is conducive to improving the profitability of assets and reflecting the core competitiveness of the company. See Table 8 and Table 9 for the specific total investment and investment unit amount.

Table 8. Investment in subsidiaries from 2018 to 2022 (unit: 100 million yuan)

project	2018	2019	2020	2021	2022
Investment in subsidiaries	7.53	16.20	16.25	16.25	16.25

Table 9. Investment in subsidiaries from 2018 to 2022 (unit: 100 million yuan)

Invested unit	closing balance
Guizhou Moutai liquor sales co., ltd	950.00
Guizhou Moutai liquor import and export co., ltd	560.00
Kweichow Moutai group finance co., ltd	127500.00
Moutai liquor customized marketing (Guizhou) Co., Ltd.	1400.00
Beijing Friendship Messenger Trading Co., Ltd.	2250.07
Guizhou Moutai liquor Paris trading co., ltd	8072.08
Guizhou laimao liquor co., ltd	1720.00
Kweichow Moutai sauce JIU marketing co., ltd	20000.00
total	162453.06

3.4. Analysis of Long-term Equity Investment

From Table 10, it can be seen that the overall trend of fixed assets in Kweichow Moutai keeps pace with the trend of total assets, reflecting that Maotai enterprises have not blindly expanded their equipment scale, but have effectively and appropriately expanded the scale of fixed assets to meet market demand and keep pace with the strategic implementation and adjustment direction of enterprises.

Table 10. Proportion of Fixed Assets to Total Assets

project	2018	2019	2020	2021	2022
Fixed assets (100 million yuan)	152.49	151.44	162.25	174.72	197.43
Total assets (100 million yuan)	1598.47	1830.42	2133.96	2551.68	2543.65
Proportion of fixed assets to total assets	9.54%	8.27%	7.60%	6.85%	7.76%

It can be seen from Table 11 that the turnover rate of fixed assets in Kweichow Moutai has increased year by year, which shows that Kweichow Moutai has continuously improved its management level in recent years, with proper investment and reasonable structure, and can give full play to the efficiency of fixed assets in promoting operating income.

Table 11. Turnover Rate of Fixed Assets

project	2018	2019	2020	2021	2022
gross revenue	772	888.5	979.9	1094.64	1275.54
Average balance of fixed assets	151.96	151.97	156.85	168.49	186.07
turnover of fixed assets	5.08	5.85	6.25	6.50	6.86

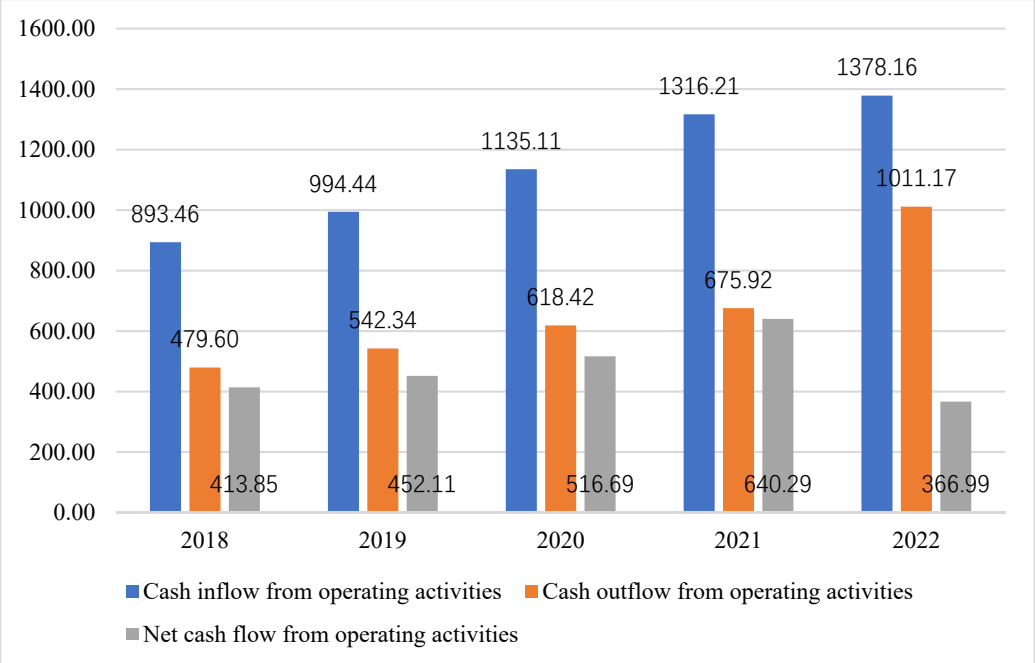


Figure 4. Cash flow from operating activities in 2018-2022 (unit: 100 million yuan)

4. Cash Flow Quality Analysis

4.1. Cash flow quality rationality analysis

From the matching analysis of cash inflow and outflow from operating activities, Figure 4 shows that the changes of cash inflow and outflow from operating activities of Kweichow Moutai from 2018 to 2022 are basically synchronized and coordinated, which shows that Maotai can reasonably and effectively arrange the matching of supply and other expenses with various cash inflows in terms of scale and time, and can maximize the cash utilization rate of each transaction.

As can be seen from Figure 5 the net cash flow generated by operating activities of Kweichow Moutai showed an increasing trend from 2018 to 2021, but it all declined in 2022. The reason is that the group company of Kweichow Moutai transferred the equity of its holding subsidiary and deposited it in the inter-bank time deposits that cannot be withdrawn in advance, which led to the decline of the company's deposits. However, the net cash flow generated by investment activities and financing activities was negative, and both increased year by year, indicating the hematopoiesis of Kweichow Moutai.

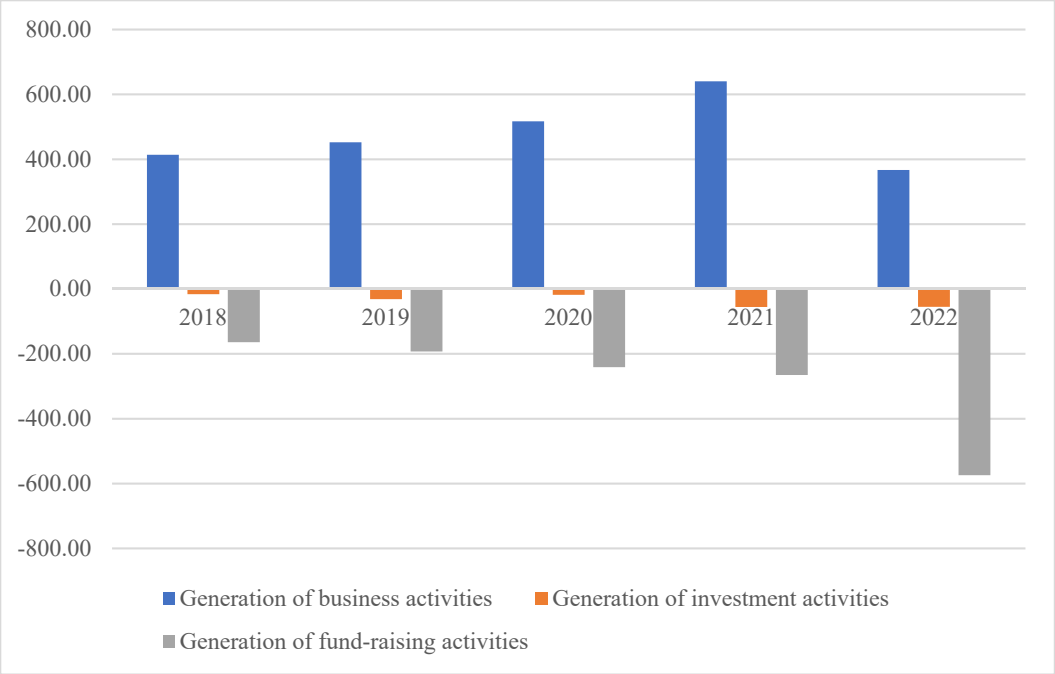


Figure 5. Net cash flow from 2018 to 2022 (unit: 100 million yuan)

From the analysis of the smoothness of cash inflow from operating activities, the main business of Kweichow Moutai is to sell alcoholic commodities, which is consistent with the statement in Table 12 that "cash received from selling commodities and providing services" is the main source of cash inflow from operating activities of Kweichow Moutai, indicating that the cash flow structure of Kweichow Moutai in operating activities is reasonable and conforms to the characteristics of Maotai's business model.

Table 12. Analysis Table of Rationality of Cash Inflow Structure in 2018-2022 (Unit: 100 million yuan)

project	2018	2019	2020	2021	2022
Cash received from selling goods and providing services	842.69	949.80	1070.24	1193.21	1406.92
Received other cash related to business activities.	6.22	12.34	2.21	16.44	27.59
Proportion of cash received from selling goods and providing services	99.27%	98.72%	99.79%	98.64%	98.08%
Percentage of cash received from other business activities	0.73%	1.28%	0.21%	1.36%	1.92%

4.2. Cash Flow Quality Stability Analysis

It can be seen from the line Figure 6 that the net cash flow of Kweichow Moutai in recent five years has maintained a relatively stable development except for a sharp decline in 2021.

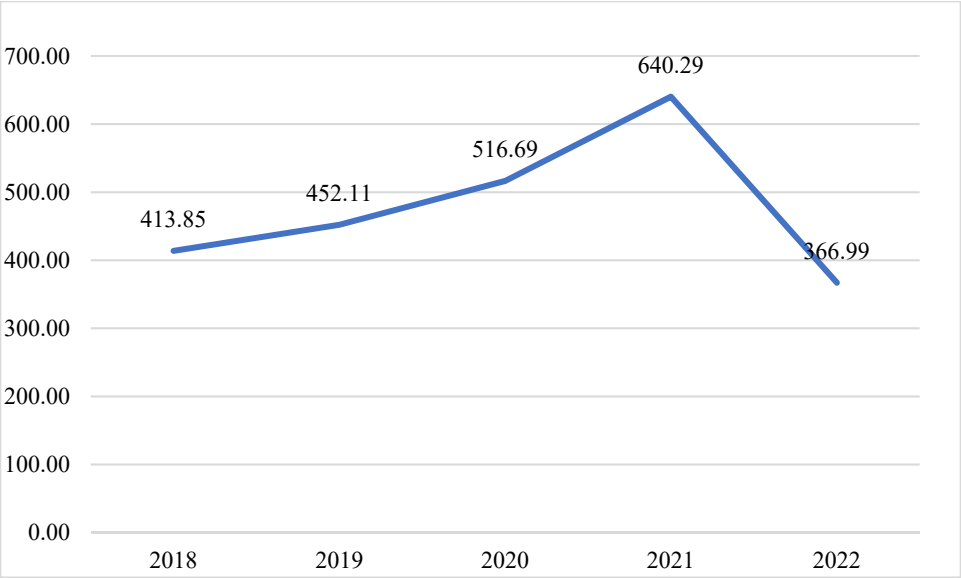


Figure 6. Changes in net cash flow from operating activities of Kweichow Moutai from 2018 to 2022 (unit: 100 million yuan)

4.3. Strategic Analysis of Cash Flow in Investment Activities

The strategic coincidence analysis of cash flow of investment activities shows that Kweichow Moutai is expanding its production scale, increasing its production output, further increasing its market share, enhancing its competitiveness in the industry, and demonstrating its determination to enhance its market share and competitiveness.

Table 13. Net cash flow from investment activities in 2018-2022 (unit: 10,000 yuan)

project	2018	2019	2020	2021	2022
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets	-	3.08	49.06	246.03	35.05
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	160675.00	314886.05	208976.09	340878.05	530654.06

4.4. Analysis of adaptability and appropriateness of cash flow in financing activities

Looking at the three indicators of operating activities, investment activities and fund-raising activities of Kweichow Moutai from 2018 to 2022, the sum of cash flows from operating activities and investment activities has always been greater than zero, indicating that the cash inflow received by Kweichow Moutai's normal business is positive. Need to reduce the cash idle balance. The cash flow direction of Kweichow Moutai's operating activities has always been positive, and the overall three indicators are positive, negative and negative, indicating that the enterprise is in good operating condition, and can continue to invest while repaying the debts it owed before, and the risk probability at the financial level is low.

5. Summary

From the analysis, the industrial structure of Kweichow Moutai is diversified, and its gross profit margin and inventory turnover rate are in a leading position in the overall level of the industry, and there are obvious competitive advantages among enterprises in the same industry. The sum of cash flows of operating activities and investment activities in Kweichow Moutai is greater than zero in the cash flow statement, which indicates that the normal operating cash inflow is positive, and its idle funds need to be reduced, and the scale and speed of fund-raising activities should be appropriately adjusted.

The financial situation of Kweichow Moutai is generally good, and it has accumulated more retained net assets. However, it is necessary to strengthen the collection of accounts receivable with a long accounting period and strengthen the supervision of accounts receivable in order to reduce the financial risks of enterprises and improve the use value of funds. This can enhance the ability of enterprises to resist future financial risks, and from the perspective of creditors, they can also obtain good credit evaluation. The financial policy of Kweichow Moutai is stable, which makes enterprises have better flexibility in dealing with risks. But at the same time, it also shows that enterprises have not made full use of financial leverage and failed to exert their capital potential to obtain more profits.

Acknowledgment

Research Center for Sichuan Liquor Industry Development (CJY22-08).

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