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Analysis on Debt-paying Ability of Shagang Group

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Abstract: In recent years, the overall performance of steel market can be described as "hot", which has far exceeded expectations. The supply of steel industry is less than the demand. The continuous implementation of environmental protection measures has led to the continuous increase of steel price, which has reached its peak in recent years. The steel industry, which has already obtained a lot of profits, further develops the market and obtains more profits. However, with the good performance of the economy in recent years, the management's business philosophy and management awareness are also being updated, and the debt paying ability is also increasingly valued by the operators, investors and creditors. Whether it is a small company, a listed company or any other organization, the solvency is more and more valued and treated as the same level as the future sustainable operation of the company. Shagang Group, as a very large private iron and steel enterprise in China, is mainly engaged in: iron and steel smelting, steel rolling, and has been the number one single steel mill in the country in steel export for many years. However, with the continuous increase in revenue, many problems have also been brought about. The debt scale of the company has grown rapidly, among which the short-term debt is large in scope and large in proportion. When there is a shortage of daily capital requirements, a single borrowing channel cannot obtain sufficient funds in time. Under such a background, it is of great significance to explore ways to improve the debt paying ability of Shagang Group and put forward reasonable improvement measures to realize the strategic objectives of Shagang Group in the next ten years.

Keywords: Shagang Group; Solvency; Debt Structure; Capital Utilization.

1. Introduction

After the implementation of market economy in our country, various trades and industries have mushroomed, but the external and internal environment faced by enterprises is becoming more and more complicated. When enterprises are short of funds, obtaining funds from debts becomes an indispensable choice. Through debt, the enterprise can obtain both capital and risk. Therefore, how to get the maximum profit while bearing less risk has become a problem that enterprises have to think about. We should not only make effective use of capital, but also keep the asset-liability ratio and debt structure reasonable. Therefore, if an enterprise wants to obtain long-term development, its debt-paying ability is also an aspect that should be paid attention to in the future, which relates to whether the enterprise has the ability to repay the loan, and debt-paying ability is a crucial factor for the health of an enterprise.

2. Company Profile

Shagang Group, one of the largest private iron and steel enterprises in China, currently has total assets of 290 billion yuan, more than 40,000 employees and an annual steel output of more than 40 million tons, ranking sixth among global iron and steel enterprises. Among them, Jiangsu Shagang Group Co., Ltd. is the largest iron and steel enterprise in China and the largest production base of electric furnace steel in the country. At the same time, Shagang Group has developed into an enterprise that mainly relies on steel for profit. The range of products it produces is also relatively wide, including resources and energy, metal products, financial futures, trade logistics, venture capital, big data and other sectors. For 11 consecutive years, Shagang Group has ranked among the world's top 500. At present, Shagang Group mainly produces various kinds of products of ordinary steel, excellent steel and special steel, forming more than 150 characteristic series, more than 14,000 varieties and more than 6,000 specifications. Taking advantage of its existing resources, Shagang Group is prepared to conduct future operations in a diversified manner. The continuous maturity of the non-steel industry segment of Shagang Group has increased more channels for Shagang Group to obtain benefits and formed an industrial chain other than the steel industry. The implementation of various measures has strengthened the business competitiveness and financial strength of Shagang Group, enabling the steel industry and the non-steel industry to promote and develop with each other.

3. Analysis on Debt-paying Ability of Shagang Group

(1) Short-term solvency analysis. Short-term solvency refers to whether an enterprise has the ability to repay current debts with current assets under the existing conditions. It specifically reflects whether an enterprise has the ability to repay debts when they fall due. This paper analyzes the short-term solvency from three aspects: current ratio, quick ratio and cash ratio. (Table 1)

Table 1. Summary of Short-term Solvency Indicators of Shagang Group

age	2015	2016	2017	2018	2019
liquidity ratio	1.08	1.22	1.60	1.85	1.77
quick ratio	0.74	0.58	1.12	1.40	1.35
currency ratio	0.29	0.11	0.12	0.09	0.05

1. Current ratio analysis. Generally speaking, it is better for the current ratio to be around 1.5 ~ 2. The higher the current ratio, the stronger the enterprise's ability to make use of cash and the better its short-term solvency. According to the data in the financial statements of Shagang Group in the last five years in Table 1, the current ratio of Shagang Group continues to increase, mostly above 1.5, indicating that Shagang Group has a good solvency.

The total assets of Shagang Group have been continuously increasing in the past five years, and the current ratio has also been gradually increasing from 2015 to 2018. The proportion of current assets in the total assets has been continuously increasing. It can be seen that the short-term solvency of the enterprise has been continuously improving. The current ratio in 2019 was slightly lower than that in 2018, but on the whole, it remained at a normal level. This indicates that the enterprise attaches importance to the capital holdings for short-term debt repayment and has taken certain measures to improve the short-term solvency.

2. Quick ratio analysis. The quick ratio is the quick assets divided by the total current liabilities. The quick assets are the current assets minus inventories of the enterprise. It perfects the defects of the current ratio and reveals the composition of the current assets. The high quick ratio indicates that the enterprise has more current assets that can be realized immediately to repay the liabilities, and the value of quick ratio of about 1 is more appropriate.

Over the past five years, the quick ratio of Shagang Group was less than 1 from 2015 to 2016, indicating that Shagang Group had a large inventory in these two years, which resulted in a small value of quick assets. From 2017 to 2019, the three-year rapid-action ratio reached the normal range, with 2018 reaching the highest value in five years. This shows that the inventories of Shagang Group from 2017 to 2019 were relatively small, because Shagang Group realized that the inventory reserves had a negative effect on the solvency of the enterprise, and took timely measures to reduce the inventories, and achieved the effect in 2017, with the quick ratio rising above the standard value. After 2017, Shagang Group has maintained a good short-term solvency.

3. Analysis of cash ratio. The cash ratio is the daily cash divided by the total current liabilities of an enterprise. It excludes not only inventories but also potentially risky funds such as accounts receivable. Therefore, it is safest to measure the short-term solvency with this ratio. Since cash is the most direct way for an enterprise to repay its debts, the cash ratio reflects the enterprise's ability to pay directly. The higher the cash ratio, the stronger the solvency of the enterprise and the stronger the debt repayment ability. According to the data analysis in Table 1, the cash ratio of Shagang Group in the past five years is below 1, with an average value of 0.13, indicating that the cash flow of Shagang Group is tight and has a downward trend since 2015, indicating that the enterprise's ability to pay current liabilities is gradually decreasing.

However, the higher the cash ratio is, the better. Too high a cash ratio may mean that the enterprise has too much idle funds that are not used rationally. Generally, it is considered that a cash ratio of around 20% is the most appropriate, but the cash ratio of Shagang Group in the past five years was only above 20% in 2015, and was lower than 20% in the remaining years, twice lower than the normal value. Therefore, Shagang Group has the problem of low idle funds. The low reserve of these idle funds may cause the Company to miss the development opportunity and be overtaken by the following enterprises to narrow the gap.

(2) Analysis of long-term solvency. Long-term solvency is an enterprise's ability to repay long-term debt. Investors of an enterprise can judge the safety of investment by this. Operators can improve the operating conditions of the company according to the strength of the company's solvency. The analysis of a company's long-term solvency can start from the aspects of asset-liability ratio, equity multiplier and property right ratio. (Table 2)

Table 2. List of long-term solvency indicators of Shagang Group

age	2015	2016	2017	2018	2019
Asset-liability ratio (%)	38.11	38.48	36.32	34.64	34.72
Equity multiplier	1.62	1.63	1.57	1.53	1.53
Property ratio	0.62	0.63	0.57	0.53	0.53

1. Asset-liability ratio analysis. The asset-liability ratio reflects how much of an enterprise's total assets is derived from debt. The lower the ratio, the stronger the enterprise's ability to repay debt and the less financial risk it has. According to the data in Table 2, the asset-liability ratio of Shagang Group in the past five years is about 35%, indicating that the asset-liability ratio of Shagang Group is low and the Company has sufficient assets to repay the debts.

The lower the asset-liability ratio is, the better. From the perspective of corporate shareholders, the lower the asset-liability ratio indicates that the enterprise has not yet given full play to its ability to borrow. The enterprise is too cautious in its operation and needs to improve its ability to operate with creditor's capital. The asset-liability ratio of Shagang Group is too low. The main reason is that its debt is small and the proportion of non-current debt is very low. This is not a good phenomenon in the eyes of relevant investors. In recent years, the steel industry has experienced many changes and the industry is highly competitive. Being content with the status quo may lead to a decline in the industry status and affect investors' confidence in the company.

2. Equity multiplier analysis. The equity multiplier is the ratio of total assets to owner's equity. The larger the equity multiplier, the smaller the proportion of owners, the higher the debt level of the enterprise and the greater the financial risk of the enterprise. As can be seen from Table 2, the equity multiplier of Shagang Group has been stable at about 1.5 in the past five years, with a low value, the enterprise's debt level is also low, and the financial risk is low. In 2015-2016, the total assets of Shagang Group were relatively large, which was higher than the total assets of the remaining three years, mainly manifested in three aspects: monetary fund, receivables financing and other receivables.

3. Property right ratio analysis. The equity ratio is the total debt divided by the total owner's equity. The lower the equity ratio, the lower the total debt, the stronger the long-term solvency of the enterprise, and the less risk the creditors will bear. At the same time, this indicator also reflects whether the financial structure of the enterprise is sound enough. According to Table 2, Shagang Group's property right ratio is low, all below 1. The Company is facing low risk and has strong debt paying ability. Through the analysis of the balance sheet of Shagang Group in the past five years, the company's debt level is low and its long-term borrowings are small; The owner's equity of the company is almost twice as much as the debt, which results in Shagang Group's low equity ratio and strong debt paying ability.

4. Problems and Countermeasures of Shagang Group

(1) the existing problems

1. Weak short-term solvency performance. Through the analysis of the short-term debt repayment index of Shagang Group, it is found that the short-term debt repayment ability

of the Company is relatively weak. One of the points is that the Company does not have a specific debt repayment plan as a backup option, which in turn enables the Company to use the old, single channel to repay the funds. Once an emergency occurs, the Company will be short of funds; In addition, the structure of corporate debt repayment is not reasonable. When the repayment date is concentrated, the liquidity will be difficult.

The company should start with the internal structure, strengthen the control of inventories on a daily basis, so that the production and sales aspects are closely linked, reduce the overstock of raw materials as much as possible while carrying out normal production and operation, and increase the sales of finished products. Due to the low liquidity of inventories, which takes up too much capital, the enterprise has no capital to repay its debts due to the decrease of capital turnover. In addition, relevant departments are urged to pay attention to the collection of accounts receivable from customers to prevent the accumulation of excessive accounts receivable.

2. It has good long-term solvency and its debt structure needs to be optimized. With the company's profit continuously increasing, the company's debt scale is also continuously expanding. By the end of 2018, the company's debt scale reached 58.375 billion yuan, among which the company's short-term borrowings, bonds and long-term borrowings totaled 43.2-billion-yuan, accounting for about 60% of the total public debt, among which the amount of other receivables was relatively large; The proportion of undistributed profit in owner's equity is the largest, resulting in weak stability of equity. Shagang's over-reliance on bank borrowings could also lead to future debt repayment problems. The iron and steel industry has had good years, and some have not. Once the bank loans cannot be repaid on time and in accordance with the amount, the company's debts will become more and more and the pressure on debt repayment will become more and more severe, which will lead to financial crisis and affect the company's social image. In addition, insufficient repayment of bank principal and interest by the company will increase the bank's risk. Therefore, the bank will raise the loan standard when lending to the company, which will not only increase the difficulty of the loan, but also limit the amount of the loan.

3. The degree of dependence on banks in financing borrowings is large. The vast majority of the loans of Shagang Group are bank loans, and interest expenses will be incurred if there is any loan. When the company has a large capital demand at ordinary times, the capital turnover is not flexible. In addition, the bank interest needs to be repaid, so the capital retained in the enterprise will be less and less. In addition, if the company has a large number of loans, the company's debt ratio will be too high. In order to protect their own interests from losses, the banks will either reduce their borrowings or raise interest rates in future borrowings. Finally, there will be a fixed date for repayment of principal and interest on bank loans. When the loan expires, a large part of the fund will have to be paid. If the company's capital turnover does not open at this time, the bank's credit will be greatly reduced.

(2) Relevant recommendations

1.to strengthen the management of enterprises, improve the utilization rate of enterprise funds. Competition in the market economy environment is becoming more and more fierce. Enterprises must make maximum use of idle funds to ensure normal operation. Shagang Group can improve the utilization rate of funds from the following aspects: 1. Strengthen the management of inventories and accounts receivable. Establish a complete inventory check system, standardize procurement, warehouse storage, product sales, and check each link afterwards, so that every sum of money is not wasted. Regular stocktaking of inventories that may be overstocked, sales at reduced prices, bundling of sales. We will pay a return visit to the customer enterprises that owe money on credit, improve the accounts receivable system, and regularly check and collect the accounts receivable. II. Ensure that enterprises actively participate in various investments in financial markets and actively carry out business activities when their capital requirements are at a minimum. In specific cases, a series of measures, such as capital turnover rate, accounts receivable turnover rate and diversified investment portfolio, can be applied to obtain more benefits as much as possible.

2. Improve product quality and optimize debt repayment index. Among various debt repayment indicators, we can start with current ratio and quick ratio to optimize the short-term debt repayment index and improve the debt repayment ability of the company. Because in the denominator of the current ratio, the current liabilities contain advance receipts, which are non-monetary assets and cannot be regarded as part of the current liabilities. This will result in the low value of the quick ratio and make the operators underestimate the short-term solvency of the enterprise. Therefore, in order to truly reflect the real situation of the quick ratio, the advance receipts should be deducted. The prepaid expenses in the quick ratio are not easy or even realizable. In order to make the quick ratio truer and more accurate, the prepaid expenses should not be calculated as part of the quick assets and should be deducted.

3. Establish good financing channels. At present, Shagang Group mainly relies on bank financing for financing. In addition, the development of other financing channels will further strengthen the company's debt repayment ability. The specific financing methods are as follows: First, creditor's rights financing: creditor's rights financing is the most direct and fastest way for an enterprise to invest, which can solve the shortage of funds in the short term. II. Equity financing: Equity financing refers to a financing method in which shareholders of an enterprise are willing to transfer part of their equity to attract more new shareholders in order to obtain capital. III. Project financing: Project financing is a financing method adopted by many enterprises at present. It usually borrows money under the title of a project, which is more diversified and flexible.

When a company raises funds, it should not only obtain funds for development, but also consider possible risks. Most companies consider the financing incompletely and ignore the possible risks. Successful financing behavior is to balance the benefits and risks as much as possible. In addition, financing is not as much as possible, but based on the actual situation of the company. Financing is related to cost. If financing is increased, financing cost will be increased, which will lead to excessive liabilities of the enterprise and increase its own risk. On the contrary, if the financing is insufficient, the normal operating activities of the company will be affected. Therefore, the company should find a suitable financing scale according to its own situation.

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