

PROBLEMS AND COUNTERMEASURES OF CAPITAL STRUCTURE OF GUCHENG DAIRY

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Abstract: With the rapid development of the national economy, the income of the people is increasing, and their dietary structure is also improving. Therefore, the demand for dairy products is also increasing. Therefore, the pattern of the domestic dairy industry is also changing. The competition in the dairy industry is becoming increasingly fierce. By optimizing the company's capital structure, it can reduce the company's capital cost, reduce financial risks, and increase the company's market value. This article takes the capital structure of Gucheng Dairy as an example for analysis, collects financial information related to Gucheng Dairy, and consults relevant literature to conduct research and analysis on its capital structure. By observing the trend of Gucheng Dairy's asset liability ratio, shareholder return ratio, and other data in recent years, as well as comparing it with the industry average level, it is found that Gucheng Dairy has a low asset liability ratio. The debt structure industry is not reasonable, and according to these problems, the paper puts forward feasible suggestions that are conducive to improving the internal capital structure of the ancient city dairy industry, thus promoting the market value of enterprises, in order to play a certain role in the development of the capital structure of the ancient city dairy enterprises.

Keywords: Dairy Industry, Capital Structure, Debt Paying Ability

Introduction

In recent years, with the rapid development of my country's economy, people's income has increased day by day, and people's living conditions and consumption levels have also greatly improved. At the same time, the consumption structure has also shown a trend of diversification. At the same time, people's requirements for health and nutritional quality are also constantly improving. Under this premise, my country's dairy industry has developed rapidly, the number of dairy companies has continued to increase, and the competitive pressure in the dairy industry has continued to increase. Dairy companies are facing great market pressure and survival pressure. Therefore, for dairy companies, in order to adapt to the development of the market and society, optimizing the capital structure of the company has become an important way to enable its healthy development. It is

a key factor in the development of the company and has a very significant impact on the core competitiveness of the company.

Capital structure refers to the value composition and proportion of various capitals of an enterprise. It largely determines the debt repayment and refinancing capabilities of an enterprise, determines the future profitability of an enterprise, and is an important indicator of the financial status of an enterprise. A reasonable financing structure can reduce financing costs, play the regulatory role of financial leverage, and enable enterprises to obtain a greater rate of return on their own funds. It is conducive to improving the debt repayment ability of enterprises, optimizing debt structure, controlling operating costs of enterprises, reducing potential financial risks of enterprises, and thus improving the level of business activities, in order to enhance the competitiveness and survival ability of Shanxi Gucheng Dairy in the industry, and provide reference for enterprise development.

Research Objectives

This paper reads relevant literature and collects capital structure data and information of Gucheng Dairy Company. It uses the knowledge of financial management and intends to adopt a research approach of raising questions, analyzing problems and solving problems. It aims to understand the value composition and proportional relationship of various capitals of the company, obtain the results of the company's financing combination during this period, analyze the problems existing in the company's capital structure, and propose effective solutions to provide decision-making basis and reference for the optimization of the company's capital structure and the improvement of corporate value.

Literature Review

Chinese Research Status

Ling (2019) suggested that the adjustment of capital structure should match the financial development situation. Financial development can reduce corporate financing restrictions and reduce the cost of optimizing corporate capital structure, thereby improving the efficiency of capital structure adjustment. Therefore, for companies with capital constraints, the impact of financial development on the company's capital structure is more significant.

Su & Jiang (2021) believed that in the current capital structure, the proportion of long-term debt should be increased to improve and upgrade the debt structure. If the scale of debt capital does not exceed a certain limit, the increase in debt capital is conducive to the improvement of corporate value. For unreasonable debt structure, timely adjustment can enable enterprises to avoid financial crises caused by excessive debt pressure. If a company establishes long-term debt, it can better reduce the company's average cost of funds, improve the company's financing efficiency, and give play to the

company's financial leverage. The repayment period of long-term liabilities is relatively long, and the pressure on repayment of principal and interest is relatively small. It can better use funds, and it can also reflect the company's strong debt repayment ability from the side, and convey information such as the company's good operating conditions to external information users of the company.

Zhang & Yang (2021) studied the capital structure optimization of dairy companies and believed that by optimizing the debt structure of enterprises, improving business strategies, improving profitability, and increasing the utilization rate of funds, problems such as high debt scale and insufficient working capital can be effectively solved.

Zhao (2021) based on the changes in financing demand and the slow growth of profits in the retail industry. It is believed that the dairy industry should reduce the current debt ratio, increase the long-term debt ratio, enhance debt repayment ability, expand financing channels, and maintain a reasonable equity concentration.

Shi and Zhao (2021) studied the status of enterprises under economic policy changes during the epidemic. The results show that the impact of economic policy uncertainty on the capital structure of companies is mainly through increasing or reducing debt, rather than increasing or reducing shareholders' equity. Among them, companies that exceed the capital structure target are more affected than companies with lower impact.

Sang (2022) analyzed the impact of external factors such as national macroeconomic policies, tax rates, interest rates, and internal factors such as corporate factors and asset factors on capital structure, and believed that optimizing the current debt ratio, flexibly adjusting the asset-liability ratio leverage, and improving profitability can effectively improve the capital structure and help form the optimal capital structure.

International Research Status

Douglas (2022) investigated the impact of financial distress on capital structure, considering bank performance variables and the economic environment. The analysis is based on a balanced panel data of listed banks in Brazil, using quarterly accounting and non-accounting information from September 2009 to December 2016. This study reveals evidence that the impact of financial distress on capital structure depends on the environment.

Methodology

Literature review method: read a lot of professional books on capital structure, search for materials and journals published in China and abroad in the CNKI database, and deeply understand the meaning of capital structure, influencing factors, and some countermeasures on how to optimize and upgrade. Quantitative analysis method: collect and review comprehensive indicators such as the annual reports of Gucheng Dairy in the past four years and conduct in-depth research and analysis on

the capital structure and influencing factors of Gucheng Dairy.

Horizontal and vertical comparison method: list the relevant indicators of the capital structure of Gucheng Dairy in recent years one by one, compare the specific data of each year vertically, and derive its development trend; and compare horizontally with the leading companies in the industry to analyze its situation in the industry

Results

1. Enterprise Capital Structure

By analyzing the relevant indicators of the balance sheet of the enterprise in recent years (as shown in Table 1), the asset-liability ratio has increased year by year in the past four years, which shows that the liabilities of Gucheng Dairy have increased, which means that the financial risk of the enterprise has increased, while the fixed assets of Gucheng Dairy have not increased significantly, which means that not only the financial risk of the enterprise has increased, but also a large amount of cash will be retained at the end of each period. From this point, it can be seen that the capital utilization rate of Gucheng Dairy is relatively low. Analyzing the cash dividends of the company in the past four years, it can be found that a large amount of funds have been used for dividends, and these funds have not been effectively managed and used. The main reason is that the capital structure of Gucheng Dairy Co., Ltd. is not reasonable enough.

Table 1: Gucheng Dairy 2018-2021 Balance Sheet (Unit: RMB 10,000)

Projects \ Years	2018	2019	2020	2021
Assets	55228.18	67846.27	76803.96	77548.56
Assets Current assets	16568.45	18503.56	23631.92	29080.74
Non-current assets	38659.73	49342.71	53172.04	48467.82
Liabilities	22643.54	28495.49	36870.87	40325.26
Liabilities: Long-term liabilities	787.23	932.85	9253.94	9440.61
Short-term liabilities	21856.31	27562.64	27616.93	30884.55

Source: Gucheng Dairy's annual report for 2018-2021.

Table 2: Gucheng Dairy 2018-2021 Shareholder Equity Table (Unit: RMB 10,000)

Projects \ Years	2018	2019	2020	2021
Shareholder Equity	32585.02	39351.41	39933.10	37223.35
Shareholders' equity ratio	59%	58.16%	51.99%	48.07%

Source: Gucheng Dairy's annual report for 2018-2021.

According to the survey and research on the equity ratio of Gucheng Dairy in recent years (as shown in Table 2), the equity ratio of Gucheng Dairy has decreased year by year from 2018 to 2021.

The equity ratio in 2018 was 59%, the equity ratio in 2019 was 58.16%, the equity ratio in 2020 was 51.99%, and the equity ratio in 2021 was 48.07%. From the perspective of debt repayment ability, this is a manifestation of the company's reduced debt repayment ability. With the same total asset size, the company has relatively more liabilities, and the company's debt leverage has increased. However, the profit margin of Gucheng Dairy has not changed significantly, and the profit before interest and taxes will not change much, so the higher the debt, the greater the repayment pressure.

2. Problems in the capital structure of Gucheng Dairy

2.1 Inefficient use of funds and low debt-to-asset ratio

After understanding and being familiar with the relevant theories of capital structure to a certain extent, we know that enterprises can use their specific circumstances as a basis to provide a more effective way to use financial leverage, so that it can better exert its functions, minimize capital costs, and reduce financial risks, so as to maximize its market value. According to the indicators of debt-to-asset ratio, we can understand the debt situation of the enterprise and judge the enterprise's management ability. It plays an important role in the market value of the enterprise.

Table 3: Gucheng Dairy and Mengniu Dairy 2018-2021 debt-to-asset ratio table

Years	2018	2019	2020	2021
Gucheng Dair (%)	41.2497	41.8654	45.6351	51.9783
Mengniu Dair (%)	56.5135	59.5754	61.9876	61.1839

Source: Gucheng Dairy and Mengniu Dairy 2018-2021 Annual Report

For an enterprise, its reasonable debt-to-asset ratio should be controlled within the range of 50%-60%. Although the standards of various industries are different, the dairy industry is more suitable according to this standard. By observing the balance sheets of Gucheng Dairy and Mengniu Dairy in recent years (as shown in Table 3), it can be seen that Mengniu Dairy, as a representative enterprise in the industry, has a debt-to-asset ratio that basically meets the normal value. The debt-to-asset ratio of Gucheng Dairy was 41.2497% in 2018, 41.8654% in 2019, 45.6351% in 2020, and 51.9783% in 2021. Although the debt-to-asset ratio has increased in recent years, it is still at a relatively low level in the entire industry. Due to the unreasonable use of corporate financial leverage and the lack of reasonable use of external funds, there will be certain financial risks. In my country, many listed dairy companies also have this situation. If we want to improve this situation, managers must use corporate funds reasonably and appropriately to reduce the weighted average cost of funds, so as to better realize the market value of the company.

2.2 The current debt ratio is high, and the debt structure needs to be adjusted

The debt structure is an important part of the capital structure of an enterprise. By observing and comparing the debt structures of Gucheng Dairy (as shown in Table 4) and Mengniu Dairy (as

shown in Table 5), it can be found that in the four years from 2018 to 2021, the proportion of short-term debt and current liabilities of Gucheng Dairy was relatively high. The proportion of long-term debt is too low. In comparison, the debt structure of Mengniu Dairy is more balanced.

Table 4: Gucheng Dairy Debt Structure Table (Unit: RMB 10,000)

Years	2018	2019	2020	2021
Projects				
Current liabilities	21856.31	27562.64	27616.93	30884.55
Non-current liabilities	787.23	932.85	9253.94	9440.61
Total Liabilities	22643.54	28495.49	36870.87	40325.26
Current liabilities ratio	96.53%	96.69%	74.92%	76.61%
Non-current liabilities ratio	3.47%	3.31%	25.08%	23.39%
Total debt ratio	100.00%	100.00%	100.00%	100.00%

Source: Gucheng Dairy's annual report for 2018-2021.

For enterprises, although there are more restrictions on long-term borrowing, their financing speed is fast, and its flexibility is relatively large. At the same time, compared with short-term borrowing, the charges for long-term borrowing are more stable and less volatile. In the past few years, the proportion of current liabilities of Gucheng Dairy has been relatively high, and these liabilities have changed to a certain extent, which shows that Gucheng Dairy uses more short-term funds when using debt funds. However, in recent years, the asset liquidity of Gucheng Dairy has decreased, which will increase the debt repayment pressure of the enterprise and require greater financial risks. As far as the dairy industry is concerned, the milk source is greatly affected by seasonal and climate changes, and the demand for capital stability is high. Therefore, if the supply of funds cannot be in place normally, it will reduce the economic benefits of the enterprise and affect the normal operation of the enterprise. All in all, Gucheng Dairy's financial risks have increased.

Table 5: Mengniu Dairy Debt Structure Table (Unit: RMB 100 million)

Years	2018	2019	2020	2021
Projects				
Current liabilities	251.09	317.34	261.44	290.72
Non-current liabilities	108.84	134.56	167.54	270.30
Total Liabilities	359.93	451.90	428.98	561.02
Current liabilities ratio	69.76	70.22	60.94	51.82
Non-current liabilities ratio	30.24	29.78	39.06	48.18
Total debt ratio	100.00	100.00	100.00	100.00%

Source: Mengniu Dairy's annual report for 2018-2021.

2.2 Insufficient working capital

Working capital refers to the difference between current assets and current liabilities, which

can be directly included in current assets. Through the above research and analysis of the debt structure of Gucheng Dairy, it can be seen that although the overall asset-liability ratio of the enterprise is low and the liabilities are relatively small, the proportion of its current liabilities is very high, resulting in insufficient working capital. In fact, Gucheng Dairy's working capital has been negating for the past four years (as shown in Table 6). Comparing it with Mengniu Dairy's working capital in recent years (as shown in Table 7) can more intuitively reflect the gap in working capital of Gucheng Dairy. Mengniu Dairy's working capital in 2018.

The operating capital in 2020 was 5.363 billion yuan, the operating capital in 2019 was 2.967 billion yuan, the operating capital in 2020 was 1.948 billion yuan, and the operating capital in 2021 was 2.446 billion yuan. Although it has declined slightly in recent years, there are still billions of operating capitals every year, and there is a certain upward trend in 2021. The highest year for this indicator of Gucheng Dairy was only -18.0382 million yuan, which is still a negative value.

This shows that the company's net working capital has been in short supply in recent years, which is likely to lead to a decline in the company's operating capacity, which will further aggravate the company's financial risks. The risk of the company being unable to repay its debts is very high. And it will have a negative impact on the capital structure of the company.

Table 6: Gucheng Dairy Working Capital Data Table (Unit: RMB 10,000)

Projects \ Years	2018	2019	2020	2021
Current assets	16568.43	18503.58	23631.96	29080.73
Current liabilities	21856.35	27562.67	27616.94	30884.55
Working capital	-5287.92	-9059.09	-3984.98	-1803.82

Source: Gucheng Dairy's annual report for 2018-2021.

Table 7: Mengniu Dairy Working Capital Data Table (Unit: RMB 10,000)

Projects \ Years	2018	2019	2020	2021
Current assets	315.07	305.63	310.20	319.89
Current liabilities	261.44	275.96	290.72	295.43
Working capital	53.63	29.67	19.48	24.46

Source: Gucheng Dairy's annual report for 2018-2021.

Discussion

The discussion and relayed strategies for optimizing the capital structure of Gucheng Dairy Group were provide as the following:

The design plan for Gucheng Dairy's financing must be based on theory, and make reasonable analysis based on the company's actual operating conditions, propose targeted adjustment measures,

and formulate a more reasonable financing plan for Gucheng Dairy. According to the analysis of Gucheng Dairy's debt situation from 2018 to 2021, it can be concluded that Gucheng Dairy's decision makers did not play a good role in debt financing. What is more worthy of reflection by the company is that the management of Gucheng Dairy did not fully realize the necessity and importance of debt financing, because the money obtained from the company's credit activities is not just debt, it is also a part of the company's assets. A good business management model requires corporate managers to have a long-term strategic vision and should not be too conservative. They think that the funds obtained by borrowing are a burden on the company. They should abandon this backward and conservative thinking, because debt financing is as important as equity financing and other financing methods. Corporate managers should fully realize the advantages of debt financing and properly use the funds raised by borrowing to inject strong impetus into the development of the company.

Gucheng Dairy Enterprises also need to conduct regular self-inspections to discover and correct loopholes in their operations and make up for their own shortcomings, such as ensuring high-precision disclosure of relevant information of the enterprise, reducing the difficulty for banks to fully understand the company's situation, increasing transparency, winning the favor of banks, and enhancing their confidence in the company's prospects in order to obtain credit.

The debt ratio of Gucheng Dairy should be combined with the development of Gucheng Dairy to launch a corresponding borrowing plan. By adjusting the debt structure to achieve the company's long-term strategic development goals, in other words, the company can effectively combine current liabilities and non-current liabilities to maximize their advantages, while also reducing the risk of corporate loans.

Through the above analysis of the debt structure of Gucheng Dairy, it can be seen that its debt structure is extremely unreasonable, with a large proportion of short-term liabilities and a relative shortage of long-term liabilities. Based on this situation, the company can appropriately increase long-term loans and replace current liabilities with long-term loans.

In addition, it is also possible to establish and improve the debt management system, divide the powers and responsibilities of debt management, and improve the debt management report, so as to timely and effectively discover the loopholes in debt management and improve the efficiency of long-term debt use.

Combined with the relevant data indicators of Gucheng Dairy Group's assets and liabilities, based on the fact that its asset-liability ratio is low and the proportion of current liabilities to total liabilities is too high, first of all, it should reduce current liabilities by adjusting the liability structure and convert excessive short-term liabilities into long-term liabilities; secondly, according to its balance sheet, the proportion of the company's current assets to total assets is low. Based on this situation, it can also reduce unnecessary fixed asset investment and appropriately increase its current

assets. Increase operating costs by adjusting current assets and current liabilities.

Conclusions

This paper selects Gucheng Dairy as a sample enterprise. Through the changes in the relevant indicators of the enterprise in recent years and the comparison with the leading enterprises in the same industry, it is found that the enterprise has many problems. For example, the debt structure is unreasonable, the asset-liability ratio is low, the equity concentration is low, the working capital is insufficient, etc., indicating that Gucheng Dairy is in urgent need of improving its capital structure. First of all, the above problems are analyzed, solutions are proposed, and the capital structure that is most conducive to the development of the enterprise is found. Secondly, through in-depth analysis, it is concluded that the optimization and upgrading of the capital structure of the enterprise is conducive to the creation of a modern enterprise system with clear property rights, clear rights and responsibilities, and advanced management, which is of great significance to the success or failure of the enterprise.

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