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On the Comparison and Choice of Fund-Raising Methods of Enterprises

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Abstract: With the deepening of economic system reform, there are more and more financing methods for Chinese enterprises. But at present, the choice of financing mode of Chinese enterprises still relies on the indirect financing of banks with bank loan as the core to a large extent. The current indirect financing mode in China is actually the result of many factors such as the social and economic system environment, historical and cultural habits, economic development stage and economic development goal, economic growth mode and ownership structure. Because our country is still a big country that mainly relies on domestic savings to develop economy at the present stage, the recent transition mode of our country's enterprise financing can take the bank financing as the main financing mode, and at the same time moderately develop and improve the direct financing. On this basis, will gradually transition to a diversified financing model. In the market economy system, it is necessary to establish a variety of financing ways coexist financing system and financing structure, form an all-round, multi-level financing new system.

1. Introduction

The enterprise financing means that the enterprise uses what form to obtain funds, namely the specific form of the enterprise to obtain funds. Enterprises can use different ways to raise money for different channels, even if it is the same channel of funds can also choose different ways of financing. The choice of enterprise financing method directly affects the capital structure of the enterprise, affects the choice of enterprise business model and major business decision, so the enterprise must choose the appropriate financing method in combination with the actual situation. According to China's current laws, enterprises can use state investment, unit fund-raising or issuing shares and other ways to raise funds.

2. Comparison and Choice of Fund-Raising Methods

2.1 Comparison of Basic Characteristics of Fund-Raising Methods

2.1.1 Equity Financing

A. Scope of application:

1)No repayment of principal and no fixed dividend financing method

2)It is applicable to companies with large debt ratio and high risk in the company's capital structure

3)When the financial risk of the company is large and the profit level is low, the financing method to avoid the side effect of financial leverage (both rights offering and additional offering are applicable)

B. Advantages:

Permanent, no maturity date, no need to return, financing risk is small, to provide protection for the creditor's rights to help enhance the borrowing capacity of enterprises; Large amount of financing, less restrictions, no fixed dividend burden, small risk capital popularization, risk diversification; Improve the stock liquidity capacity; Improve the company's visibility; Easy to confirm the value of the company. (Rights Offerings and Additional Offerings are also applicable)

C. Disadvantages:

1)High capital cost,

2)It's easy to disperse control

3)Affect shareholders' net earnings per share and stock price

2.1.2 Debt Financing

A. Scope of application

1)When the company issues new shares, in order to avoid dilution of original earnings per share and stock price, the original shareholders are allocated a certain number of certified equity to make up for the loss

2)As an award to the management personnel of the company

3)As a financing tool, when issued together with corporate bonds, it is used to attract investors to buy long-term bonds with a coupon rate lower than the market requirement

B. Advantages:

The interest rate on the corresponding bond can be reduced, and the potential equity dilution is exchanged for a lower interest rate.

C. disadvantages

Less flexibility and higher risk; The stock price exceeds the strike price and the original shareholders suffer a great loss. Underwriting fees are higher than debt financing.

2.1.3 Borrowing Financing

(1) Long-term bank loans

A. Scope of application

1)Enterprises with market products, efficient production and operation, not crowding out embezzlement of credit funds and abiding by credit

2)The company has a good operating condition, strong ability to pay debts in time, and a small proportion of debt in the capital structure

B. advantages

The financing speed is fast, the financing cost is low, the procedure is simple, the borrowing elasticity is good, does not have to disclose the enterprise operation condition, has the leverage effect.

C. disadvantages

The financial risk is bigger, the restriction clause is more, the financing amount is limited

2.1.4 Commercial Credit

A. Scope of application

1)Credit in the form of commodities

2)The creditors and debtors of commercial credit are enterprises

3)The ups and downs of commercial credit coincide with changes in the economic cycle

4)It is suitable for enterprises that account for a large proportion in short-term debt financing

B. advantages

1)Easy to obtain, a continuous form of credit, and no formalities;

2)The financing cost is low. If there is no cash discount and the enterprise does not give up the cash discount, the enterprise adopts commercial credit financing without actual cost;

3)Less restrictions and more options

C. disadvantages

The term is short and the cost of giving up the cash discount is high

2.1.5 Financing of Lease

A. Scope of application

Financial leasing is applicable to all kinds of enterprises; At the same time, for enterprises that need to purchase new equipment but do not have enough funds or purchase equipment, financial leasing can bring more profits to the enterprises

B. advantages

1)For tax saving purposes: The effective tax rates of the two parties are different, so tax reduction can be achieved through leasing.

2)Reduce transaction costs: The difference in transaction costs is the main reason for the existence of short-term leases

3)Reduce uncertainty; The lessee of a short-term lease does not bear the main risk of the leased assets, which is less than the risk of purchasing the assets by himself. The lessor of a long-term lease, who retains all rights to the assets until the rent is collected, is less risky than lending directly

4)Fast financing speed, conducive to the preservation of corporate debt capacity, equipment elimination risk is small, can obtain tax benefits

C. disadvantages

1)Leasing costs are high and there is risk of interest rate changes.

2)In difficult financial times, paying the fixed rent is a heavy burden on the tenant

3)If the equipment salvage value cannot be enjoyed, it is the opportunity loss of the lessee.

2.2 How to Choose Various Financing Methods

The choice of modern enterprise financing way is a very complicated problem, different comparison standard, must make different evaluation. And because the characteristics of different ways of financing are not the same, so the enterprise in the choice of a certain way of financing, should be based on the needs of production and management to reasonably choose, in the choice should be combined with the following factors:

2.2.1 Lowest Financing Cost

The cost of financing is an important basis for choosing the source of funds. Enterprise financing should strive to seek the lowest financing cost of financing program. Fundraising cost includes capital to raise charge and capital to take up charge two parts, generally, the capital that the bank borrows money to raise charge is very few, the bank interest rate that expresses capital to take up charge is lower also, because this the capital that the bank borrows money is not usually lowest. Issuance of bonds will incur certain financing costs, and the interest rate is slightly higher than that of bank borrowings. The capital cost of corporate bonds is slightly higher than that of bank borrowings. Issue a stock to want to produce very big fund raising cost not only, be like: advertising cost, publicity cost, asset appraisal cost, issue poundage, printing cost, and the investor still asks the dividend that pays should be higher than or the income that is equivalent to bank deposit, so stock fund raising cost is highest.

It can be seen that the cost of capital of different ways of financing is not the same, in practice, if the enterprise can make a choice in loans, bonds and stocks and other ways of financing, the financing cost of various ways should be compared to determine which one of the lowest financing cost.

If the enterprise fund-raising is composed of a variety of fund-raising methods, the proportion of various fund-raising methods in the whole fund-raising amount should be weighted, and the comprehensive average cost of capital under the structure of different fund-raising ratios should be analyzed and calculated to determine which scheme has the lowest fund-raising cost and the best fund-raising scheme. At the same time, enterprises must also pay attention to when financing:

the impact of tax system on financing costs. Because the bank borrows money and the interest that issue company bond and pays according to the regulation of enterprise income tax law, can be paid in pre-tax income, the deduction project that already regarded as net profit when calculating tax paying income amount, pay one part income tax less thereby. Dividends paid by companies through shares must be paid in after-tax net profits, not tax credits. For the same amount of capital raised by an enterprise, choosing the form of debt rather than equity can reduce the tax burden of the enterprise to some extent.

2.2.2 Financing Structure Tends to Be Reasonable

When raising funds, enterprises should make a balance between financial leverage benefits and financial risks. According to the specific situation of the enterprise, the correct arrangement of equity funds and debt funds ratio.

When the enterprise's sales level is high and steadily rising, and the profit rate of capital exceeds the borrowing rate, the borrowed funds increase, the capital decreases, and the earnings per share increases. Therefore, from the point of view of profitability, shareholders like a high debt-equity ratio. However, with the increase of the debt, the financial risk will also increase, once the production and operation is not good, can not timely repay the principal and interest will appear financial difficulties, or even bankruptcy.

As the ratio of debt to equity increases, the difficulty in debt financing will increase the overall cost of capital ratio of the enterprise. Therefore, it is necessary to find out the most appropriate debt-equity structure. At this point, the average cost of capital of the enterprise comprehensive is the lowest.

2.2.3 Avoid or Reduce Financing Risks

Debt repayment pressure is different with different financing methods. Equity capital belongs to the funds occupied by enterprises for a long time. There is no pressure of debt repayment and no burden of debt. And the debt fund must repay the principal and interest when it matures, it and the enterprise manages good or bad, has nothing to do with the ability to pay. This shows that the risk of different ways of financing is not the same.

Reducing the financial risk of enterprises should be considered from the following aspects:

1)Strictly control the proportion of debt financing within a certain range and implement prudent financial policies. Generally, the ratio of debt capital to equity capital is 2:1 in the international market. In some large and medium-sized projects, the ideal ratio is 1:1. Of course, when enterprises are financing, they should also be based on their own asset structure and the degree of risk of investment projects. Since the principal and interest of maturing debt must be paid in cash, and today's ability to pay not only depends on the profitability of the enterprise but also depends on the asset liquidity and cash flow of the enterprise, therefore, the enterprise with a large proportion of easily realizable assets, the debt ratio can be relatively large; On the contrary, if the enterprise is not easy to realize the proportion of fixed assets, such as large debt ratio should not be too high; Under the same conditions, if the investment project management risk is larger, and the profit is not stable, the debt ratio should not be too high.

2)Arrange and use the debt funds of the corresponding maturity according to the duration of the assets. For example, the equipment is expected to have a service life of five years, so the funding requirements should be financed with long-term debt of five years; Where commodity inventories are expected to be liquidated within one month, short-term liabilities of one month are raised to meet their needs. In this way, the enterprise can repay the principal and interest of the debt that is due. On the contrary, if the demand for equipment money is met with a one-year loan, the cash flow (profit -- depreciation) after the operation of the equipment will not be enough to repay the due debt on the due date, and the enterprise will face a greater risk of payment.

3. Conclusion

Enterprises should pay attention to the fund-raising benefits of enterprises when raising funds. The selection of financing procedures, can be summarized as the following points: (1) clear investment needs, to develop financing plans. (2) analyze to find financing channels, clear sources of funding. (2) calculate the financing cost of each financing channel, that is, calculate the financing expense ratio -- each 10,000 yuan of capital required financing cost. (4) Analyze the existing debt structure of enterprises and clarify the period of debt repayment risk. (5) Analyze the future cash flow of enterprises, and clarify the ability to repay debts in different periods in the future. (6) Compared with the calculation of debt repayment risk period, on the basis of optimizing debt institutions, choose to arrange new debt. Weighing debt repayment risks and financing costs, drawing up financing programs. The choice of financing program, in the debt repayment risk can bear the limit, as far as possible to choose the financing channel with low financing cost to obtain funds.

Enterprises should make full use of favorable financing conditions, comprehensive consideration of financing cost, financing risk, financing structure, capital market conditions, from the source of capital and capital structure of the enterprise, in different stages of the choice of different financing methods, in order to meet the needs of its healthy development. At the same time, with the continuous improvement of various laws and regulations, the choice of financing methods of enterprises will become increasingly rational, and the financing structure will continue to develop in the direction of low risk and high stability. If an enterprise wants to survive and develop, it must broaden its thinking, renew its ideas, strengthen its management and enhance its international competitiveness.

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