Status Quo of Capital Structure of Listed Companies in China and Measures for Optimization--Take Y Corporation as an Example

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Abstract: In recent years, with the rapid development of China's securities market and the fierce competition in the external market environment, equity financing has had an impact on enterprises, and the appropriateness of capital structure has become a decisive factor for enterprises. This paper selects Y Co., Ltd. in the home appliance industry as an example, and through a comprehensive analysis of Y Co., Ltd. identifies the problems existing in the current capital structure of the enterprise, and finally proposes corresponding ways to optimize and upgrade the management of capital.

1. Introduction

Domestic appliances are durable and their consumption has been severely affected by the epidemic. However, with the development of household appliances, the promotion of new technologies and the implementation of policies to improve consumption, the market potential has been further developed. In the household appliance sector, the 14th Five-Year Plan will see a rapid renewal of the consumer structure and a general expansion of the rural market.

Secondly, the capital structure is the ratio of equity to share capital of all sources of capital of the enterprise. The capital structure of a state-owned enterprise is considered reasonable and it will influence the further improvement of the capital control of the enterprise and will determine not only the future of the state-owned enterprise, but also the success or failure of the reform of China's market economy system. Therefore, it is particularly important for companies to optimize their capital management structure in order to better facilitate their development so that they can achieve their financial goals and allow the company to develop in a better direction in general.

2. The Concept of Capital Structure and Related Optimization Methods

2.1 Capital Structure

The capital structure, also known as the financing structure of a business, is the debt/capital ratio. The capital of a business over a certain period of time can be divided into debt capital and equity capital, or into short-term and long-term capital. Capital structure is an important indicator of the financial position of a business[1].

Under the MM theorem, the problem of capital structure has been studied and the central idea is that, under certain assumptions, the capital structure and the mode of financing adopted by the firm's value have no relationship to the firm's value. The reason for this is that the assumptions of the MM theorem are so far removed from reality that its conclusions can explain in detail the behavior of the choice of capital structure of a firm in reality[2].

2.2 Optimization Methods of Capital Structure

Firstly, static analysis methods such as a company's gearing ratio are applied by analysis changes in the external environment and the development of the industry. Secondly, dynamic analysis is carried out based on the company's own operating conditions, the growth rate of its operating income and the implementation of new tax laws in recent years. Finally, the capital structure is adjusted within the optimal limits[3]. The new capital structure theory is based on information asymmetry and includes agency theory, control theory, signalling theory and optimal sequence theory. The main reason for this study is that the data were analysed in the context of information asymmetry in order to analyse the impact of capital structure on governance and its effect on firm value.

3. Current Capital Structure of y Co.

Y Ltd. was founded in 1958 as an iron and steel factory. It was the most representative plant among the 156 key projects of China's First Five-Year Plan, and the original net assets were selected for 105,664,600 national shares in September 1975 when the shareholding system was prepared. After three public offerings between December 1975 and March 1976 and an allocation to individual shareholders in December 1992, the total share capital in 1993 was US$1,818.25 million. The company's stock source code is 600500 and has a paid-up registered capital of $461,624,000. The company is mainly engaged in the sale of automotive parts, household appliances, lighting equipment, communication equipment, household products, electronic medical products, metal products, commodities and electronic components, monitoring of digital, sports and cultural products and cultural products and rental of premises and equipment, development, sale and service development of new products, new businesses, import and export trade, real estate consultancy and management services, investment in high-tech projects and many other The company also continues to deepen its institutional reforms. The company also continues to deepen its institutional reforms and proactively promotes a significant restructuring of the organization's business processes and systems to ensure smooth and efficient operations and enhance its brand[4].

The article reflects the operating conditions of Company Y from 2017 to 2020 by examining data on Company Y's gearing ratio, debt structure and equity structure.

Table 1 Key Financial Data on the Operating Position of Company y

Asset Projects	Indicators	Time			
		2017	2018	2019	2020
Asset size	Total assets (million)	6542269	7150494	7398921	7858764
Operating income	Operating income (RMB million)	7763248	8338526	8879290	9444817
Growth	Growth rate of revenue from main business (%)	15.57	7.41	6.49	6.37
Profitability	Return on net assets (%)	0.85	0.79	0.38	0.25
Solvency	Current ratio (%)	1.16	1.05	1.06	1.03
	Gearing ratio (%)	68.12	70.04	71.43	73.03
	Shareholder equity ratio (%)	31.88	29.96	28.57	26.97
Operating capacity	Accounts receivable turnover ratio (times)	9.79	10.11	10.55	11.07

Note: Data from NetEase Economics

As can be seen from the data in Table 1, firstly, Company Y's gearing ratio has been below 75% and relatively stable in recent years, but is relatively high compared to other companies in the industry. An important indicator of the company's capital structure and debt size is then the gearing ratio. Secondly, the current ratio is volatile and does not remain between 1.5 and 2.0, reflecting the great variability of Y's liquidity and the instability of its short-term debt servicing capacity. However, the overall upward trend from 9.79 points in 2017 to 11.07 points in 2020 indicates a gradual increase in the asset liquidity ratio and a gradual improvement in solvency[5].

Through data collection and analysis, this renowned company's sales in the domestic household appliances sector peaked in 2019. Whether it is in the white domestic appliances, black domestic appliances or other domestic appliances region, Company Y is located in a leading position in terms of sales. This shows that the company should expand sales by controlling production costs. Compared to the previous year, the main revenues from production and products grew in 2019. Economic growth and profitability increased by 6.49% and 0.38% respectively, but key production costs were higher and output margins declined. At the same time, shareholders suffered losses in the past year, indicating that increasing sales do not necessarily increase profits. It was therefore concluded that the company's management must be rigorous and understanding in controlling production costs and developing detailed plans for future production.

4. Analysis of Capital Structure Problems of y Co.

4.1 High Gearing Ratio

Table 2 Gearing Ratio

Gearing ratio (%)	2017	2018	2019	2020
Company Y	68.12	70.04	71.43	73.03

Note: Data from NetEase Economics

Every business has its own assets and liabilities, and the levels of these two indicators can often be converted into a ratio, known as the gearing ratio, with the gearing formula = (total liabilities ÷ total assets) x 100%. Generally speaking, the most reasonable leverage ratio for a company is between 40% and 60%, with a leverage ratio of 70%, also known as the alert level. A high debt/asset ratio is often due to a high level of total debt or a reduction in the total assets of a business, which determines the effective interest rate of the debt/GDP ratio. High leverage is often determined by shareholders or operators; high leverage implies financial risk and that the company may fail.

As can be seen from the Table 2, Company Y's gearing ratio is significantly higher than the 70% of companies in the same industry and higher than the 70% of companies in the same industry. This suggests that the relatively high potential financial risk of Company Y could lead to a cash flow shortfall and a gold rush to settle debts in a timely manner, leading to the company's insolvency. High debt ratios would lead to further increases in the cost of financing that banks and investors would have to comply with. Both banks and investors have certain requirements for gearing ratios. This not only limits Y's poor ability to operate future cash flows and puts significant bearing pressure on the company's growth, but also poses financial and operational risks.

4.2 Poor Shareholding Structure

Currently, the shareholders of Company Y are state-owned, and while they can secure the company, its development is not adequately regulated by the market and its effectiveness is not fully utilized, hindering its further development. In the dominant environment, the board of directors, the supervisory board, and the venture capital firm are ineffective, the company's internal control problems are serious, and the “dogmatic” and paternalistic management model has a profound effect on the company itself. Due to the lack of control and control systems, the number of errors in the decision-making process may increase with the use of size and diversification procedures, and the risks taken by the company will increase with the strength of the company. This greater concentration of equity will increase the proportion of corporate bonds and adversely affect the capital structure of the firm. Since Enterprise Y was converted from a state-owned enterprise to a public company, its top shareholder, state-owned assets, is prone to ignore the interests of small and medium-sized shareholders, resulting in a serious lack of binding power for the company's management.

4.3 Unreasonable Financing Methods

Firstly, Company Y chooses to maximize its returns in terms of financing, thereby reducing the cost of financing. The cost of financing is mainly determined by the interest paid over a specified period and the cost of issuance. In general, it makes sense for a company to choose debt financing as the main form of external financing, which Company Y opposes. Furthermore, the correct wording is that inadequate financing decisions by Company Y's management could lead to an inadequate or ineffective capital structure, which could result in excessive financing costs or a debt crisis. Financing is the financial activity of a business that provides funds to external entities or persons, as well as to the business itself, in order to meet production or management funding needs. However, financing must also be limited to a certain amount and chosen in the most appropriate way so as not to create risks for the business. Secondly, from the point of view of internal financing, the situation of Company Y is not satisfactory. The current tax system does not give the company any tax advantages. Depreciation costs are too low to meet the need to renew and convert the value of fixed assets; and their own sources of finance are not sufficient to sustain the rapid growth of the business. Thirdly, Y's apparent financial preference has had a strong impact on the company's long-term growth, highlighting information asymmetries that have led to inadequate internal accumulation, poor performance and low levels of maintenance. Finally, due to the lack of a greater degree of market access for firms to the financial system, their lack of initiative and the lack of highly qualified financial staff, their unfamiliarity with financial market financing instruments and their unfamiliarity with how to build and promote financial constraints on their image whether it is possible to develop an access to their financing.

5. Measures to Optimize the Capital Structure of y Co.

Based on the analysis of the debt structure and short-term problems of Y Co. High debt, low liquidity, large corporate debt, etc. and the fact that the company regularly borrows from banks to reduce its long-term debt and improve its structure, the following measures are proposed.

5.1 Establishing a Reasonable Debt Structure

The main concerns of creditors are the security of the various funding methods and the possibility of recovering capital and interest within a specified period of time. It is to the detriment of the creditors that the company's risk is borne primarily by the creditors if the shareholders represent only a small proportion of the company's total assets. Indeed, it is desirable that the interest rate applied to the debt/asset ratio is as low as possible so that the company can ensure that the funds to service its debts and loans do not pose too high a potential risk. The question for investors is whether the profitability of the total capital is likely to exceed the interest rate on the loan capital, i.e. the interest rate on the loan funds. If the total profitability of the capital is higher than the interest rate, the profit will increase, on the contrary, if the investor borrows funds at a lower interest rate for all capital income and profit, this will reduce the profit, which has a negative impact. Since the excessive advantage of borrowed capital should be distributed to investors, etc., as long as the profitability of the total equity exceeds the capital rate, investors want the debt ratio to be as high as possible, otherwise positive; for the operator, if the debt is very high and exceeds the psychological capacity of the creditors, the company will not be able to finance itself. The more money that is borrowed, the more dynamic the company becomes. The result is that operators want to increase their share of equity, increase their output, develop their markets, enhance the dynamism of their businesses and earn higher profits from their borrowing operations.

It would appear that, firstly, the greater the total sales capacity of Company Y, the faster the turnover of total assets. the activity turnover of Company Y is the average figure for the industry and further steps need to be taken to accelerate activity turnover and increase profits. Secondly, the shorter the claim turnover, the faster the recovery of the claim. If it is relatively slow, this means that the business has too much money and credit is frozen, which affects the ability to obtain funding. Given the low replacement rate of the business, credit management should be strengthened and accelerated. Thirdly, the turnover rate and days of stock reflect their ability to be converted into money or credit. The faster the rotation, the lower the stock level, the stronger the processing capacity and the lower the company's relatively low stock turnover. In short, a company's profitability and solvency are generally significantly modified and improved.

5.2 Improving the Distribution of the Company's Shareholding

The ownership structure is crucial to the governance structure of a company, which in turn is a specific form of managing the ownership structure. Different asset structures determine different organizational structures of the company, and thus different governance structures, which ultimately determine the behavior and results of the company.

Optimizing shareholder involvement is a fundamental feature of corporate control. Firstly, due to the relatively fragmented shareholding structure of Y, managers can mitigate the adverse consequences of fragmented corporate ownership by optimizing the internal controls of the company, developing a strict internal control system and formulating a financial strategy policy that is in line with the growth of the industry. The growth of the enterprise can be regulated in a fierce market environment. Secondly, Company Y optimizes and adjusts its investment structure to introduce other quality investment capital and advanced technology to better promote the development of the company and open up new ideas and markets. Finally, the restructuring of the company through reasonable regulation will lead to a low-diversified capital structure, i.e. a capital structure with effective anti-shareholder power, which is conducive to promoting effective corporate governance.

5.3 Optimizing Financing Methods

Enterprises should first engage in self-accumulation, enhance their own internal development and improve their ability to disclose information. One, when financing, should fully consider the risks that financing may bring; two, should also comprehensively assess the role and impact of various financing channels in financial accounting, whether they can offset the tax base and optimize the annual financial plan; three, the scale of financing should be appropriate, so that the scale of financing is compatible with the capital needs of the enterprise. A large amount of capital brings with it a large amount of financing costs. Explore new ways of financing to significantly increase access to diversified sources of finance and actively use capital market financing. Secondly, rational optimization of the financing sequence and strict regulation of financing practices are conducive to bringing more benefits to the enterprise, and improving basic competitiveness is a good basis for the long-term development of the enterprise. Finally, enhancing the financing capacity and establishing a modern enterprise management system, all in the light of the actual situation of the company.

Firstly, Y Corporation should achieve internal development through its own accumulation, enhance itself by exiting the legal surplus reserve and arbitrary surplus reserve, reserve more undistributed profits, increase retained earnings and enhance endogenous financing ability. Secondly, under the guidance of the government, equity financing companies tend to be reasonable and avoid excessive financing. China should increase the types of bonds, relax interest rate restrictions, and appropriately shorten bond maturities by conducting corporate credit assessments, timely publication of companies' credit notes; some tax incentives strengthen the creation of a secondary market for bonds, including those related to overseas experience. The current chaotic situation in the public company stock market requires strict regulation. Strict rules should be established due to the confusing distribution of equity capital in public utilities. y The financing practices of joint stock companies strengthen the regulation of corporate bond issuance and placement financing. Is the corporate financing plan reasonable? Are the funds being used properly? How is the project progressing? Is the project proceeding strictly according to the initial projections? Are the benefits of this project in line with expectations? Once and for all, early monitoring should be conducted and resolved issues should be identified in a timely manner. This strengthens the monitoring of the use of corporate funds, improves the efficiency of financing, limits the possibility of "over-investment" and effectively regulates the short-term behavior of companies.

5.4 Strengthen Corporate Governance and Enhance Profitability

Home appliances are in strong demand for society at large and in recent years, China's home appliance industry has maintained rapid growth, driven by various policies, consumer upgrades and market demand, due to the increased demand for home appliance markets in emerging economies. In the wake of the 5G era, which is accelerating the smart transformation of the entire household appliance industry, Y should seize this opportunity. Survival, development and, ultimately, viability. And being and the global financial crisis is spreading, the average profit margin of the industry will continue to fall and the opportunities and development potential of companies will be fewer and fewer, so companies will have to find new percentages of economic growth, build their own profit models and improve profitability. Competition between companies is, after all, the product we are talking about, and without technological progress, there is no solid foundation for development; ultimately, the profitability of a company, or the role of talent, having a good profitability model, but no executive talent, are empty words. Talent is the most important link in a company's production chain and must be given high priority.

First of all, we need to strengthen the supervision of managers, and then improve the managerial remuneration system; actively and rationally construct the corporate governance structure, actively implement the optimization of corporate checks and balances mechanism, change the way of operation and improve the core competitiveness; focus on the people-oriented employment concept, enhance the cohesion of the enterprise, combine the actual situation of the company, learn and promote the most advanced and successful international and domestic management theories and means, and effectively strengthen the management of the company.

6. Conclusion

By reasonably combining the current policies implemented by the specific national regulation of China's home appliance industry at the same time, this paper analyses the capital structure of a joint stock company and proposes an optimization method with Company Y as the object of study.

In summary, the capital structure of a business tends to become more rational in order to achieve these objectives. Strategic management of enterprises that require an optimal capital structure puts them in balance. The success or failure of enterprise reform is the basis for a modern enterprise system based on clear property rights, responsibilities and scientific management, optimized corporate governance structures and the formation of clear property rights. It also helps to maximize the value of enterprises in the same sector and is essential for the development and improvement of the capital markets we have just begun.

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