

Analysis of economic environment and financial capability of traditional Chinese medicine industry—take a long-established Chinese medicine company as an example

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Abstract: *The economic environment of the industry includes political environment, economic environment, social environment, cultural environment and other aspects. Financial capability analysis is based on certain financial indicators, such as operating capacity, solvency, profitability, etc. Let's take a Chinese medicine company as an example for financial analysis. The enterprise has a high market position in the traditional Chinese medicine industry. By analyzing the economic environment of the Chinese medicine industry and selecting a Chinese medicine company for financial capability analysis, this paper provides a deeper understanding of the development of the Chinese medicine industry and financial information.*

Keywords: *Traditional Chinese medicine industry; Economic environment; Financial analysis*

1. Introduction

China has usually attached great importance to the development of the traditional Chinese medicine industry, and its 14th Five-Year Plan highlights the vigorous development of the traditional Chinese medicine industry. While promoting the development of the traditional Chinese medicine industry, the state has also promoted the health of the masses, forced pharmaceutical enterprises to innovate, so as to develop new products and promote the benign development of the entire pharmaceutical industry[1].

2. Analysis of the economic environment of the traditional Chinese medicine industry

2.1 Political environment

China's 14th Five-Year Plan proposed to "adhere to the equal importance of Chinese and Western medicine, and vigorously develop the cause of traditional Chinese medicine". A series of policies and measures have been introduced one after another, further clarifying the important strategic position and development guidelines of traditional Chinese medicine. This has brought new opportunities for the development of the traditional Chinese medicine industry and related enterprises.

2.2 Economic environment

China's economy will maintain high growth in the future, and GDP will continue to increase, reaching 1143669 in 2021700 million yuan. People are living more and more affluently. The state will also spend more and more on health insurance. The affluent elderly consumer class will continue to increase the consumption of high-end and precious Chinese medicine, as shown in Figure 1.

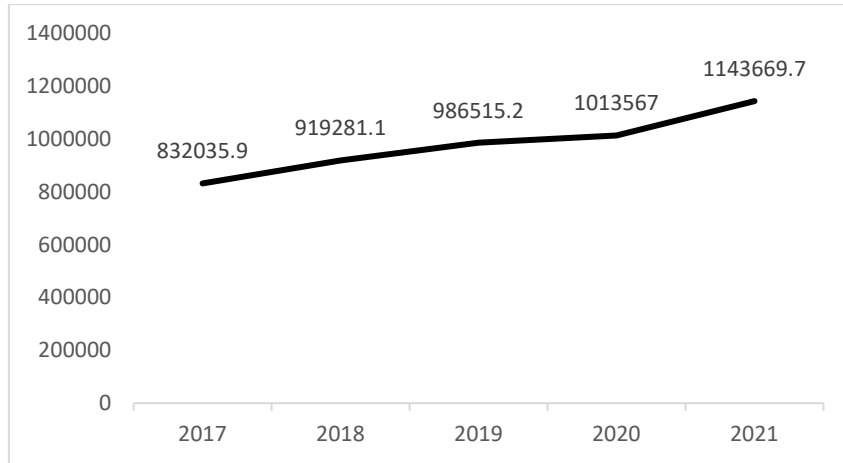


Figure 1: Gross domestic product (in billions of yuan) from 2017 to 2021

2.3 Social environment

In 1953, the total population of Chinese mainland was 582 million. In 2022, the youngest age of these 582 million people is 69 years old, and these people have become elderly.

1962, the first year of China's fertility peak, gave birth to about 24 million people, who will retire in 2022. In 1963, the birth population reached the highest level since the founding of New China, nearly 30 million. Starting in 2022, China's retirement boom has begun, with about 24 million people retiring each year. This trend will continue for nearly 20 years (from 1962 to 1983, the annual birth population in China was about 24 million), and the dividend of aging Chinese is coming. It is foreseeable that in the future, medical care and pension will become a huge market, and the medical track will be a very large track, and the industry will continue to grow for at least 20 years[2].

2.4 Technical environment

Traditional Chinese medicine is China's excellent national cultural heritage, its formula has been verified for hundreds of thousands of years, the future does not need too much investment in product research and development, but scarce medicinal materials, ancient formulas, exclusive formulas have become the unique advantages of products, in the development of technology has a certain stability and monopoly. Traditional Chinese medicine is an industry that the world cannot change.

3. Financial Analysis-Take a company as an example

3.1 Solvency analysis

3.1.1 Comparative analysis of assets and liabilities

Table 1: Indicators of the company's assets, liabilities and shareholders' equity

enterprise	2021	2020	2019	2018	2017
liquid asset	106.3	82.96	73.52	52.3	42.18
fixed asset	2.641	2.607	2.296	2.314	2.439
Total assets	125	102.1	88.11	66.58	56.48
liability	23.59	19.49	18.41	13.5	12.23
Shareholders' equity	101.4	82.57	69.7	53.08	44.25

Source: Corporate Financial Reports 2017-2021

Current assets of company A in 2021 were 106 300 million yuan, with 82 in 2020 years Compared with 9.6 billion yuan, this is an increase of 28 13%; And the monetary funds for 2021 were 70 9.7 billion yuan, accounting for 66% of the company's existing current assets 7%; The monetary funding in 2020 was 51 \$6.8 billion, accounting for 62.0% of the Company's existing current assets 3%. Compared with 2021 years, the company's monetary funds have increased, and the liquidity of the company's funds Up, as shown in Table 1. Through the above analysis and summary, Company A's

current assets have increased, and the company has excellent liquidity ability. The company can use current assets to repay current liabilities. This situation is not problematic, and the company has adjusted the structure of internal assets accordingly, improving the efficiency of the company's use of funds[3] , as shown in Table 2.

Table 2: Company's assets, liabilities and shareholders' equity and percentages

enterprise	project	2018 compared to 2017		2019 compared to 2018		2020 compared to 2019		2021 compared to 2020	
		Increase or decrease (billion yuan)	percentage	Increase or decrease (100 million yuan).	percentage	Increase or decrease (100 million yuan).	percentage	Increase or decrease (100 million yuan).	percentage
Company A	liquid asset	10.12	23.99%	21.22	40.57%	9.44	12.84%	23.34	28.13%
	fixed asset	-0.125	-5.13%	-0.018	-0.78%	0.311	13.55%	0.034	1.30%
	Total assets	10.1	17.88%	21.53	32.34%	13.99	15.88%	22.9	22.43%
	liability	1.27	10.38%	4.91	36.37%	1.08	5.87%	4.1	21.04%
	Shareholders' equity	8.83	19.95%	16.62	31.31%	12.87	18.46%	18.83	22.80%

3.1.2 Analysis of short-term solvency

Table 3: Indicators of short-term solvency analysis

index	2021	2020	2019	2018	2017
liquidity ratio	4.976	4.608	4.209	4.055	3.663
Quick ratio	3.835	3.391	3.008	2.762	2.584
Cash ratio	0.216	0.815	-0.503	0.475	0.588

Source: Oriental Fortune Network

"In crisis situations, cash is king". It can be seen that liquidity is crucial to the survival and daily operation of enterprises. Short-term solvency is an indispensable indicator for many companies to measure liquidity, as shown in Table 3.

Company A's current liabilities for 2021 were 21.37 billion yuan, an increase of 1.8 billion compared with current liabilities of 1.8 billion yuan in 2020. The current ratio of enterprises in 2021 was 4.976, 2020 years current ratio of 4.608, up nearly 8 percentage points. The company's quick ratio for 2021 was 3.835, 3 in 2020 391, an increase of 13.1%; Company A's cash ratio in 2021 was 0.216, up from 0.0 in 2020 815, which has decreased, indicating an increase in the profitability of the company.

In the past five years, the company's current ratio and current ratio have shown an upward trend, indicating that the company's solvency has been increasing; However, the cash-to-income ratio is less than 1, indicating that the payment received by the enterprise for the sale of goods may be lower than the sales, and part of the income is not cashed, but becomes accounts receivable. Attention should be paid to the management of accounts receivable.

3.1.3 Analysis of long-term debt capacity and capital structure

Table 4: Long-term debt capacity and capital structure analysis indicators

year index	2021	2020	2019	2018	2017
Gearing ratio (%)	18.88	19.1	20.9	20.28	21.65
Equity multiplier	1.233	1.236	1.264	1.254	1.276
Equity ratio	0.243	0.248	0.278	0.269	0.296

In 2021, Company A's equity ratio decreased by 2% compared to 2020, reflecting Company A's ability to repay long-term debt with less risk. The gearing ratio in 2021 was 1.2% lower than in 2020,

reflecting the reduction of debt burden, the overall strong solvency, and the increase in creditors' equity. If we want to assess in detail the long-term solvency of a company, we need to analyze the financial risks that are closely related to it. By analyzing the company's asset-liability ratio, we can find that its company's indicators have remained at a low level of about 20% in the past three years. From this analysis, it is concluded that enterprises have less volatility and better long-term solvency, as shown in Table 4.

From the perspective of enterprises and shareholders, we can find that enterprises do not make full use of the advantages of low capital costs and tax shields. The lower the equity ratio of an enterprise, the better its long-term solvency can be predicted, in line with its trend of low asset-liability ratio.

3.2 Comparative analysis of operational capabilities

3.2.1 Asset efficiency analysis

Table 5: Asset Efficiency Analysis Metrics

index	2021	2020	2019	2018	2017
Total asset turnover	0.707	0.685	0.74	0.775	0.695
Fixed asset turnover rate (times).	30.57	26.56	24.82	20.06	15.14
Inventory turnover rate (times)	1.708	1.665	1.695	1.886	1.779
Inventory turnover days	210.8	216.2	212.4	190.9	202.4

Data source: Oriental Wealth Network, corporate financial reports

The total asset turnover rate of Company A in 2021 was 0.707, and the total asset turnover rate was relatively high, indicating that its assets were better in operation, the turnover speed of current assets was accelerated, funds were saved, and profitability was enhanced, as shown in Table 5. Under normal operating conditions, Company A's inventory turnover rate is high, indicating that the company's inventory occupancy level is low, liquidity is strong, sales capacity is strong, and the company's inventory is quickly converted into cash or accounts receivable; The use of less liquidity in inventory indicates that Company A's assets are liquid and capital utilization is high[4].

3.2.2 Profitability analysis

Table 6: Profitability Analysis Metrics

index	2021	2020	2019	2018	2017
Sales gross margin (%)	50.72	45.16	44.24	42.42	43.26
Net profit margin on sales (%)	30.72	25.95	24.24	23.68	21.01
Return on equity (%)	27.68	23.07	23.64	24.98	21.16
Cost and expense margin (%)	55.51	42.62	40.04	37.80	33.25

In 2021, the operating income profit was 2.874 billion yuan, the operating income was 8.022 billion

yuan, and the operating income profit margin was 36%. In 2020, the operating profit was 1.977 billion yuan, and the operating income profit margin was 30.3%. Therefore, by comparing its 2020 indicators, the company's raw material costs (musk, bezoar, snake gall, Panax not ginseng, etc.) are increasing. The company's operating income is also growing accordingly, and the increase in its operating income is greater than the increase in its operating costs. As a result, the company's total operating margin is also rising, as shown in Table 6.

The company's net profit margin on sales in 2021 was 30.72%, an increase of 4.77 percentage points over 2020. Company A's cost profit margin in 2021 increased by 12.89% compared with 2020: comparative Compared to 2019, it increased by 15.47%. In summary, the company's ability to control costs and management level have improved, saving the company's own expenses. In general, Company A's operating conditions are good, and its own profitability is strong, and its own development is rapid. Due to the company's sufficient profits, Company A was able to become one of the leading stocks in the TCM sector.

3.2.3 Remuneration investment ability analysis

Table 7: Indicators of the analysis of the ability to invest in returns

index	2021	2020	2019	2018	2017
ROA	21.71%	17.77%	17.93%	18.34%	14.61%
ROE	27.68%	23.07%	23.64%	24.98%	21.16%
Net income per common share	4.03	2.77	2.28	1.89	1.34
Net assets per share	16.09	13.03	10.99	8.31	6.86

Company A's ROA for 2021 has reached 21 71%, with an ROA of 17 in 2020 77%, ROA in 2021 compared to 2020 is up 3% year-on-year. 94 percentage points. Overall, the yield in 2020 was similar to that in 2019, mainly as a result of the combined result of earnings before interest and taxes (EBIT), total asset turnover and sales. Due to the small difference between the total asset turnover ratio in 2020 and 2019, the net profit before interest and taxes in 2020 was slightly lower than in 2019, resulting in the company's 2019 ROA has declined in years, as shown in Table 7.

In summary, the asset utilization efficiency of Company A needs to be further improved. Enterprises should improve their management level, make full use of their financial leverage, and adjust their capital structure. Under the appropriate ratio of creditor's rights, control the risk within the appropriate range, make full use of financial leverage, and use the debt tax shield to help enterprises obtain higher returns.

3.3 Comparative analysis of cash flow

3.3.1 Structural analysis

Table 8: Structural Analysis Indicators

project	Cash flow	2021	2020	2019	2018	2017
Business activities	Cash inflow	8.836 billion	7.228 billion	6.452 billion	5.251 billion	4.697 billion
	Cash outflow	8.374 billion	5.761 billion	7.331 billion	4.639 billion	4.020 billion
	Net cash flow	462 million	1.467 billion	-879 million	612 million	677 million
Investment activities	Cash inflow	180 million	153 million	134 million	198 million	133 million
	Cash outflow	102 million	435 million	66,397,900	133 million	70,131,400
	Net cash flow	78,286,100	-282 million	67,838,800	65,082,100	63,128,100
Fund-raising activities	Cash inflow	1.426 billion	1.076 billion	1.874 billion	837 million	583 million
	Cash outflow	1.966 billion	1.613 billion	1.469 billion	953 million	999 million
	Net cash flow	-540 million	-537 million	405 million	-116 million	-416 million

Data source: Sina Finance Network

(1) Business activities

Company A's cash inflow from operating activities in 2021 was RMB8.836 billion, an increase of RMB1.608 billion from RMB7.228 billion in 2020, a year-on-year increase of 22.25%. According to the analysis of cash outflow from operating activities, the cash outflow from operating activities was 8.374 billion yuan in 2021 and 5.761 billion yuan in 2020. Comparing the cash outflow of Company A's operating activities in 2021 with 2020, we can find that its indicators increased by 2.613 billion yuan, an increase of 45.3%, as shown in Table 8.

Based on the above analysis, we can conclude that Company A's operating conditions in 2021 are better, and the company's ability to generate cash in business activities is strong. The company's most important financial resources are cash from operating activities, and the continuous inflow of cash from operating activities enhances the company's solvency, maturity and risk resistance, which is beneficial to the company Long-term stable development.

(2) Investment activities

Cash inflows from Company A's investment activities increased by 0. In 2021, cash inflows from investment activities increased by 0. 2.7 billion yuan. Compared with 2020, the cash inflow of investment activities increased in 2021. The main reason for its growth was the amount of investment received from creditors and shareholders, and its indicators showed that Company A's foreign investment income was considerable. Cash outflows from investing activities decreased by 3%. 3.3 billion yuan, a decrease of 76.6% compared with 2020.

The main reason is that the technology of the enterprise is relatively mature, the production process is standardized, and the cash outflow from the purchase and construction of fixed assets and intangible assets is greatly reduced.

3.3.2 Profit quality analysis

Table 9: Earnings quality analysis indicator values and year-on-year growth rates

index	2021	2020	2019	2018	2017
Operating income	8.022 billion	6.511 billion	5.722 billion	4.766 billion	3.714 billion
Operating income increased year-over-year	0.232	0.1378	0.2006	0.2833	0.6085
Net profit	24.31	16.72	13.74	11.43	8.07
Net income increased year-on-year	0.4546	0.2162	0.2025	0.4162	0.5053
Earnings-to-cash ratio	0.190168655	0.877392344	-0.640029112	0.535695538	0.838785626
Reinvestment ratio	-14.5	-1.7	-33.3	-6.3	-7.2

Data source: Sina Finance Network

Under the combined effect of expanding sales scale and improving product competitiveness, product profits have improved. While the product profit increases, the cost growth is controllable, and the growth quality is high. Company A's business grew rapidly, with an operating income of 8.022 billion yuan, an increase of 1.511 billion yuan over 2020, and sales revenue grew rapidly; The net profit in 2021 was 2.431 billion yuan, an increase of 7.0% over 2020 5.9 billion yuan, net profit rapid growth, as shown in Table 9.

The earnings-to-cash ratio of the enterprise is lower in 2021 than in 2020 years and is less than 1. Generally speaking, there are generally three reasons for the net cash ratio to be less than 1: first, the company's accounts receivable is more; Second, the main profit composition comes from investment activities; Third, a large number of raw materials were purchased, resulting in more inventory.

4. Conclusion

Through the analysis of the economic environment of the traditional Chinese medicine industry and the analysis of the financial capabilities of an enterprise, it can be concluded that the traditional Chinese medicine industry will have greater room for development in the future, and enterprises should

seize the opportunity, enhance their core competitiveness, and strengthen operation and management to better grasp the market opportunities.

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