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Study on Risk Management of Fundraising of LiYuan Refining

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Abstract: *The identification and management of financing risk is very important for enterprises to prevent and solve the financial risk.in the process of enterprise financing, to develop a financing plan in line with the development of the enterprise and a reasonable financing structure, timely identification of financing risks, and then to measure and control. this paper studies the financing risk of jilin liyuan precision manufacturing co., ltd.(liyuan refining for short), and then provides suggestions for liyuan refining to optimize the financing structure, manage the financing risk and get rid of the debt dilemma.[1]*

Keywords: *Financing, Financing Risk, Risk Management*

1. Research Background and Significance

LiYuan Refining (stock code "002501") was founded on November 13, 2001 with a registered capital of 12148355.58 million Yuan. It was officially listed on The Shenzhen Small and Medium Board on November 17, 2010.The company's main business is research and development[2], production, sales of various aluminum profile products, products applied in a wide range of fields.

In June 2015, The high-speed railway project of LiYuan Refining was officially launched by its wholly-owned subsidiary Shenyang LiYuan Refining. In 2016, LiYuan Refining raised 3 billion Yuan for the project through non-public offering of shares, with a total investment of 5.499 billion Yuan. Since 2017, the company was extremely short of funds, and the actual controller Wang Ming pledged the equity to private lending to obtain funds for the project. According to the plan, Li Yuan refining's investment in the project may reach 20 billion Yuan. By the first half of 2018, the company's operating income decreased by 40.08% compared with 2017, with a loss of 89,019,400 Yuan. In the financial report of 2018, Li Yuan Refining was issued an audit report that could not be expressed. The company's shares were given a delisting risk warning from May 6, 2019. On September 9 of the same year, the company's creditors applied to the court for bankruptcy reorganization of LiYuan Refining. On September 22, 2019, the five-year“14-coupon Bond”issued by LiYuan Refining on September 22, 2014 was also materially defaulted due to the inability to pay at maturity. According to the 2019 annual report, the total liabilities of the company amounted to 8.362 billion Yuan[3]. In order to improve the debt problem, the source of refined to take a series of measures, including bankruptcy restructuring, but because of the large scale of the company's debt, low solvency reasons, the company faces more financing risks.

2. The source of Refined Financing Risk Analysis

2.1 Existing Financing Structure

The change of asset-liability ratio of LiYuan Refining from 2016 to 2019 is shown in the following figure:

As can be seen from the figure, the asset-liability ratio of LiYuan Refining is as high as 284.87% in 2019, indicating that the main financing channel of this enterprise is debt financing. In most cases, the asset-liability ratio of enterprises is better in the range of 40%-60%, which is conducive to the balance of risks and returns. In 2019, the asset-liability ratio of Li Yuan Refined has exceeded 5 times of this indicator, indicating that the financial risk of the enterprise is high.

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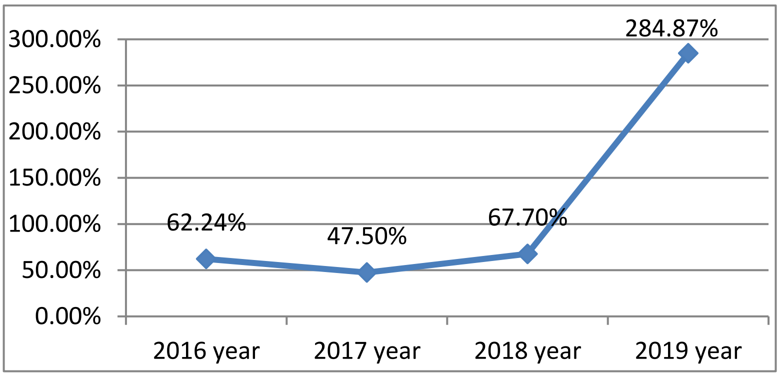

Figure. 1 LiYuan Refining from 2016 to 2019 asset-liability ratio changes

2.2 Structure and Scale of Liabilities

The debt scale of LiYuan Refining is expanding year by year. In 2018, the interest-bearing debt reached 7.738 billion, and in 2019, the interest-bearing debt reached 6.984 billion. The stock debt of the enterprise is high. In the year 2019, the current debt ratio was 80.34%. The company has great short-term debt repayment pressure, and the possibility of capital flow is high[4].

Profit source refined debt scale is larger, and debt structure is improper. The company's current liabilities are dominant, and the current liabilities are dominated by short-term borrowing, as well as private borrowing with high financing costs. The short maturity of these debts increases the pressure on the repayment of enterprises[5].

2.3 Overdue Debt

There are a lot of debt overdue problems in LiYuan Refinement. By the end of 2019, The short-term loan of LiYuan refinement is about 1.621 billion Yuan overdue, and the important overdue interest is about 238 million Yuan, among which the highest interest rate is 8.70%, and the highest overdue interest rate is 18.25%. It can be seen that the overdue debt has increased a lot of additional financial costs to the enterprise. Debt overdue financial expenses are increasing, not only to bring heavy debt repayment pressure to the company, but also make the company's reputation decline, affect the production and operation of enterprises, enterprises more debt, production and operation condition is not good, these problems have intensified the financing risk of enterprises[6].

3. The Source of Refined Financing Risk Measurement and Causes

3.1 Fundraising Risk Measurement

To measure the financing risk, to determine the impact of its risk on the enterprise, is conducive to better control of the financing risk. The financial leverage factor can be selected to measure the financing risk. Financial leverage factor refers to the common stock earnings per share change ratio is equivalent to EBIT change ratio multiple. Financial leverage has both positive and negative effects on the enterprise. When the enterprise is profitable, the greater the coefficient, the greater the positive effect brought to the enterprise and the enterprise can obtain more profits. On the contrary, when the enterprise loss, the greater the coefficient, the greater the negative effect it brings to the enterprise, this time the financing risk will increase [7]. Through the analysis of the financial leverage coefficient and its related data to determine the size of the company's financing risk. The financial leverage coefficient and related data of Li Yuan Refining from 2017 to 2019 are shown in the following table:

Table 1 Financial leverage coefficient and related data of LiYuan Refining from 2017 to 2019

	2017 year	2018 year	2019 year
EBIT (in million)	886.52	3329.23	8603.76
Debt interest (in million)	245.32	699.07	736.51
Net profit (in million)	523.00	4040.00	9392.00
DFL (%)	1.38	0.83	0.92

As can be seen from the table, the net profit of Li Yuan Refining in 2016 was 523 million Yuan, in

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2018 was -40.4 million Yuan, and in 2019 was -939 million Yuan. Since 2018, the net profit has been on a downward trend. In 2018, the net profit decreased by 45.63 million Yuan compared to the previous year, and in 2019, it decreased by 53.52 million Yuan compared to the previous year. It shows that the company is in the loss state in the past two years. The financial leverage coefficient is 1.38% in 2017, decreased to 0.83% in 2018, and rose to 0.92% in 2019. According to the theory, when the company loses money, the increase of the coefficient shows that the financing risk of the enterprise is greater.

3.2 Causes of Financing Risk

1) External causes

①Tighter policies and lower profitability

In recent years, China has introduced a number of policies to impose stricter emission requirements on the waste gas, waste water and solid waste of recycled aluminum enterprises, and to prohibit illegal new production capacity projects in the electrolytic aluminum industry. The profitability of China's aluminum processing industry is not as good as before. In 2019, the total profit of China's aluminum processing industry was 17.399 billion Yuan, down 31.50% compared with the previous year.The profit margin on sales also fell by more than 130 percent to 2.60 percent from 6.31 percent in 2015.

②Trade issues are frequent

China's aluminum industry is faced with the problem of trade friction constantly, due to the continuous development of aluminum industry in our country, the amount of aluminum processing products circulation in our country abroad are also rise year by year, so the United States began to implement trade protectionism to our country, a double negative survey, in 2019 China's exports of aluminum by European economic union, Argentina and many other countries such as the anti-dumping investigation.

China's aluminum processing industry is facing a series of problems, as aluminum processing industry refining profit is also affected by these problems, increase the source of refining profit financing risk.

2) Internal reasons

①Planning errors have led to a huge debt burden

LiYuan Refined Began its high-speed rail project in June 2015, covering an area of about 2,629.18 mu. For this early in 5.499 billion, due to large scale of the project, the construction cycle is long, during the period of construction, prototype manufacture process design and modify the slow progress, and part of the imported parts, custom parts is scattered procurement, upstream suppliers not energy production, delivery cycle is long, also delay the time limit for a project, make project always cannot reach completion profitable. According to the official website of the government, Li Yuan Refined planned to invest a total of 20 billion Yuan in this project, which was low in 2017. The verification data of the sponsor showed that the investment was close to 9.6 billion Yuan. Companies are spending huge amounts of money on long-term projects, leading to an expansion in debt.

②Unreasonable debt structure and maturity

The debt structure of Profit refining is improper. In 2019, the current debt ratio of profit refining was 80.34%, and the debt structure dominated by current liabilities is prone to the loss of capital flow. Secondly, for projects with a long cycle, the capital invested by LiYuan refining mainly comes from short-term liabilities, which leads to the problem of debt maturity structure mismatch, so that the capital chain is broken and the debt is overdue. Enterprises continue to borrow new debt to repay the old debt, increasing financial costs, resulting in heavy debt repayment pressure.

③The capital gap greatly affects the profitability of enterprises

Cash flow is the source of enterprise operation, only under the guarantee of sufficient funds, enterprises can sustainable development. Profit source refining serious lack of cash flow, resulting in enterprises can not purchase raw materials required for production, thus affecting the profitability of enterprises.

Debt scale and structural imbalance, low solvency, poor profitability and other problems have made the financing risk of enterprises become serious, so the source of refined financing risk management is

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an urgent matter to be solved.

4. To Enhance the Source of Refined Financing Risk Management Recommendations

4.1 Equity Financing Replaces Debt Financing

According to the theory of order financing, enterprises should first choose internal financing when conducting financing activities, and only choose external financing when this way can not be effectively implemented. The undistributed profit of Li Yuan Refining from 2016 to 2019 was negative, especially the undistributed profit in 2019 was -11.268 billion Yuan, and the enterprise was in a loss state, so internal financing method could not be adopted.

The order of external financing is: safe debt to risky debt. But the source of refined debt overdue, there are many assets are mortgaged, and the stock is implemented delisting risk warning, so the mortgage of senior debt, convertible bonds and other financing methods are not applicable. Secondly, the capital structure of the company based on current liabilities will aggravate the short-term debt repayment pressure of the enterprise, which is prone to capital chain fracture. Therefore, the financing structure of the enterprise based on short-term liabilities should be improved. In view of the current situation of profit source refining, equity financing is a more in line with the current situation of financing. Enterprises should try to introduce shareholders with strong financial strength to improve the debt problem of enterprises. Equity financing does not need to repay the principal, and does not need to bear fixed interest; its financing risk is low. This way of financing can relieve the pressure of the company's debt repayment.

4.2 A Reasonable Arrangement of the Financing Period

By the financing risk management theory can be known in the financing scale under certain conditions, can optimize the financing repayment period and financing, etc., to achieve the effect of decentralized financing risk. Raised according to the time limit can be divided into short-term financing and long-term financing, enterprises in the investment cycle longer project, select more reasonable long-term financing way, because of the long period of project construction, and during the construction period needs a steady stream of money supply, in the long after the construction completion can bring benefits to the enterprise. If the choice of short-term financing, then the enterprise will borrow the new account to pay the old account, not only to raise money to repay the early debt, but also to raise funds to maintain the project capital turnover, which not only increases the debt repayment pressure of the enterprise, but also increases the financing risk. For profit source refining, it is more suitable to use long-term debt financing or equity financing instead of short-term debt financing.

4.3 Expand Financing Channels

As far as the current source of refined situation is concerned, the enterprise is seriously short of funds, and can raise more funds by expanding financing channels.①Get a debt rollover, lower interest rates: the source of refined debt scale is big, there are still many overdue debt, short-term loans exceed the time limit of about 1.621 billion Yuan in 2019, the highest overdue interest rates are at 18.25%, enterprises should actively negotiate with creditors to communicate, to get term extension, should strive to negotiate the overdue debt, try to reduce overdue debt interest rates.②Introduce investors[7]. profit source refining is in financial difficulties, only by its own difficult to inject capital for the enterprise, at this time need to introduce new investors. Introduction of strategic investors: through the transfer of equity, let the strategic investors to inject funds into the enterprise; Set up a debt company: LiYuan Refining can set up a new company, the new company has the original company's high-quality resources, but does not assume the original debt, the new company will be easier to introduce investors, the capital input can repay the original debt.③Seek government help. LiYuan Refining has a large scale of operation and a large number of employees. Only by sustainable development can the enterprise protect the interests of its employees. Therefore, the enterprise should actively apply for government support and ask the government to give policy support or financial assistance[8].

4.4 Improve the Profitability of Enterprises

1) Control production cost

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LiYuan Refining belongs to the aluminum processing industry, in which the cost of raw materials accounts for a larger proportion of the production cost. In recent years, the global aluminum processing industry has shown a trend of increasing production cost. With the consumption of energy, some resources are becoming scarce, which leads to the increase of production costs of aluminum processing enterprises. The increase of production cost will reduce the profits of enterprises and weaken the profitability of enterprises, so enterprises should do a good job in cost management, strictly control the use of raw materials, strictly implement the quota allocation system, and prevent the waste of raw materials. Secondly, alternative materials can be found. Recycled aluminum is a material that consumes less energy, and it will become a trend to use this material to produce aluminum processed products[9]. The cost can also be reduced by improving production technology, which can reduce material waste and improve production efficiency. Production costs are controlled, the profitability of the enterprise will also be improved, which can reduce the financing risk.

2) Alliance with enterprises with leading technologies to achieve technology upgrade

Improving profitability can be achieved by controlling production cost and increasing product added value. Enterprises to improve the added value of products is conducive to their own better development, because it can improve the competitiveness of products in the market, but also it is the development trend of aluminum processing industry. However, to increase the added value of products needs to increase the r&d investment of the enterprise, and LiYuan Refining company cannot provide sufficient R&D funds at present. Therefore, LiYuan Refining Company can make alliances with the enterprises with leading technologies to share the R&D results and r&d investment[10]. In this way, r&d investment can be reduced, and r&d costs and risks can be dispersed. If the enterprise is upgraded in technology, then the profitability can also be improved, while also reducing the financing risk.

5. Improve the Governance Structure

Profit source refining has appeared debt overdue. Information disclosure is not timely and other problems, affecting the enterprise's reputation and corporate image. The opacity of information makes it difficult for investors to understand the development status of enterprises and reduces the investment willingness of investors. Therefore, LiYuan refining should first strengthen the quality of operators, improve the level of enterprise operation, establish a good corporate image of good faith, and then regularly provide the business status information, in order to improve the transparency of enterprise information, to avoid information disclosure is not timely and distortion. At the same time, enterprises should strengthen the management of risks, risks exist in the whole process of production and operation, any link problems will increase the risk of enterprises. The enterprise shall formulate a risk management system, establish a risk control organization, and monitor every link irregularly in the operation process of the enterprise, so that the risk prevention and control measures can be implemented in the whole process. In addition, staff training should be increased to improve their awareness of risk prevention.

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