Analysis of the Debt-paying Ability of Listed Companies: A Case Study Using BYD Company as a Sample

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Abstract. This paper gives a complete knowledge of BYD's financial performance through a thorough examination of its financial statements and related indicators. First, the history and development of BYD company are reviewed, and its main business scope and operating conditions are summarized to provide comprehensive background information for the subsequent solvency analysis. Second, this study uses the theoretical framework of solvency to define the important elements that influence solvency, as well as to introduce the generally used solvency evaluation indicators. Finally, in light of the research findings, a number of improvement solutions are offered, including asset structure adjustments and capital structure optimization, to improve BYD's solvency. The study's findings seek to provide investors, management, and researchers with a thorough grasp of BYD's financial status, as well as practical ideas for future development.

1 Introduction

BYD Company, as one of China's top makers of new energy vehicles, has undoubtedly drawn substantial attention in both domestic and international markets [1-2]. Given the rapid growth of the new energy vehicle market, BYD has steadily increased its market share in recent years while actively diversifying into new business areas such as batteries, electric buses, and solar energy, among others [3-4]. Nevertheless, the corporation is encountering more intricate financial obstacles as a result of the ongoing increase of its business scale and the resulting intensity of market competitiveness. Specifically, the company's capacity to repay its debts could be severely hindered, which could affect its steady growth in the future.

Stability of one's financial situation is directly related to one's capacity to repay debt [5-6]. It significantly affects the company's credit rating and financing expenses and is directly tied to the enterprise's ability to repay its debts in a timely and full way. The practical significance of examining BYD's debt repayment capabilities is so high. Investors, creditors, and other stakeholders can benefit greatly from insightful information gleaned from a thorough grasp of this component, which will enable them to make rational financing and investment decisions. In addition, the management of BYD can benefit greatly from evaluating the company's capacity to repay its debt since it provides crucial references for developing effective financial strategies and plans for managing risk. Management can assure the financial stability and steady growth of the firm by conducting extensive analyses of its financial state and debt repayment capability. This allows them to promptly detect potential financial risks and difficulties and take appropriate measures to resolve them. Finally, through the study of BYD's debt repayment ability, new ideas and methods can be provided for related academic research. The new energy vehicle industry is still in its early stages, thus its financial features and problems are very different from those of more established businesses. Studying its ability to pay back debt is, thus, unquestionably cutting-edge and futuristic, offering fresh perspectives on this dynamic sector. Through the case study of BYD Company, it can provide reference for other companies in similar industries and promote the further development and improvement of relevant theories.

In most companies in my country, the qualitative analysis of the nature of debt is often neglected, and some people do not even understand the meaning and importance of qualitative analysis. Although sometimes companies may conduct debt-paying ability analysis without clearly determining the nature of the debt, this practice is not advisable. Although there may be occasional situations that are consistent with a certain nature, such coincidences are not common. Therefore, when conducting debt-paying ability analysis, companies should establish a correct qualitative awareness, first accurately judge the nature of the debt, and then conduct in-depth research and analysis. Therefore, this study adopts the means of qualitative analysis to comprehensively and deeply analyze the debt-paying ability of BYD listed companies.

2 Profile of BYD Company

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2.1 History and Development of BYD

Shenzhen is home to BYD Company, a major player in China's new energy car and battery production sectors. The company's primary emphasis upon its 1995 founding was the battery manufacturing sector. A turning point in BYD's history came in 2008, when the company introduced its first fully electric vehicle. This was in response to dramatic shifts in consumer demand and the company's overall strategy, which led to its 2003 entry into the automobile manufacturing business [7]-[8]. Since then, BYD has achieved tremendous success in the business world and in the realm of new energy vehicles, releasing new electric car products on a regular basis and penetrating new domestic and international markets. To promote and sell its electric car products on a global scale, the company has, in fact, been steadily implementing its international development strategy, setting up production bases and research and development centers all over the globe. Beyond its traditional focus on vehicle production, BYD has expanded into several industries, including, but not limited to, lighting goods, new energy batteries, and solar power generation. Through diversified industrial layout, it has continuously expanded its business areas and achieved sustainable development in multiple fields. Promoting the growth of clean energy cars through constant innovation and advancement is undoubtedly a top priority for BYD Company, one of China's leading manufacturers of new energy vehicles and batteries. In reality, the firm has shown its commitment to a more sustainable future by making constructive contributions to environmental preservation and sustainable development.

Over the last several years, BYD has accomplished a great deal via collaboration and teamwork. In 2000, BYD was the first Chinese company to supply lithium-ion batteries to Motorola, and in 2002, they did the same for Nokia. Buffett lauded BYD founder Mr. Wang Chuanfu's leadership and subscribed for 10% of the business's shares for HK$1.8 billion in 2008. Buffett considered BYD to be the only Chinese company in which he invested. Launched at the 2019 Guangzhou Auto Show, the Denza X is the latest model from BYD's Denza brand, which was established in 2010 through a joint venture with Daimler Group. Beyond that, BYD and Toyota formed BYD Toyota Electric Vehicle Technology Co., Ltd. in April 2020, with each company owning 50% of the shares. The goal of the joint venture is to develop electric automobiles and related companies together. Concurrently, BYD and Hino inked a strategic agreement to work together on R&D and production of fully electric commercial vehicles. These partnerships and accomplishments set the stage for BYD's future growth and show the company's global impact and competitive might. Above all else, BYD Co., Ltd.'s AAA corporate credit rating was upheld by China Chengxin International, which has a stable outlook..

2.2 Overview of the Company's Financial Status

BYD's capital structure is relatively stable. The company has raised funds through various means in the past few years, including equity financing, debt financing and own funds. An important assurance for the growth of the business in the future and a reduction in financial risks are both provided by a prudent distribution of capital.

In addition, BYD Company pays attention to the reasonable distribution and reinvestment of profits. The company uses a certain proportion of profits for shareholder dividends and stock repurchases, and also uses part of the profits for R&D investment and business expansion. This profit distribution strategy is conducive to safeguarding shareholder interests, enhancing company value and maintaining long-term stable development. BYD's financial situation reflects its operating strength and market competitive advantages to a certain extent.

3 Theoretical Framework of Debt Repayment ability

3.1 Definition of Debt Repayment Ability

Particularly important for gauging financial health from the standpoint of debt-paying capacity, the assessment indicators largely comprise the interest earned times and the sales interest rate. The company uses a certain proportion of profits for shareholder dividends and stock repurchases, and also uses part of the profits for R&D investment and business expansion. This profit distribution strategy is conducive to safeguarding shareholder interests, enhancing company value and maintaining long-term stable development. BYD's financial situation reflects its operating strength and market competitive advantages to a certain extent.

The sales of the automobile industry are seasonal and cyclical, and sales may fluctuate in different quarters or years. The quality of liquidity will directly affect BYD's ability to cope with sales fluctuations, including the need for funds to cope with sales troughs and the management of funds to cope with sales peaks. Strong liquidity can ensure that Mercedes-Benz has sufficient working capital to cope with various operating needs when the operating cycle fluctuates, thereby maintaining the company's debt repayment ability. Having a healthy cash flow is crucial for Mercedes-Benz to meet its operational needs, particularly when the business cycle is unpredictable. Being able to respond quickly to financial obligations and unexpected expenses is crucial for a company's capacity to repay its debt. Having strong liquidity allows the company to weather market fluctuations without compromising its financial security. The evaluation of BYD's capacity to repay its debts also heavily relies on liquidity. When BYD has enough cash on hand, it can better weather operational storms like supply chain interruptions and changes in customer demand. To ensure it pays its obligations quickly and efficiently, BYD can improve its capacity to repay its debt by keeping its liquidity position strong. In addition to reassuring creditors and investors, this financial flexibility protects the business from possible disasters. At the end of the day, both businesses need to be in a solid financial position so they can keep running and take advantage of growth prospects. This will also help them stay stable when they face competition.

3.2 Factors Related to Debt Ability

3.2.1 Financial Structure

There is no denying the importance of financial structure to a company's day-to-day operations and the impact it has on the capacity to repay debt. When planning their asset structure, businesses should make sure their assets have enough cash on hand and are valuable enough to cover their loan payments. It is also critical to properly align the payback time of obligations with these assets. Maintaining financial stability and promoting long-term growth, this alignment is crucial to guarantee the firm has enough cash on hand and financial backing to pay back its loans.

3.2.2 Operating Efficiency

The ability of a business to repay its debts is directly impacted by its operational efficiency, making it an essential performance indicator. The capacity to satisfy financial commitments is positively affected by a company's operational efficiency level since it suggests the organization can produce a steady stream of cash. Nevertheless, operational efficiency can be greatly affected by a number of variables, including changes in industry rules, changes in competitive dynamics, and variations in market demand. If a company isn't doing well, it could lead to bad cash flow, which makes it harder for them to pay back their loan.

3.2.3 External Economic Factors

Undoubtedly, monetary policy, macroeconomic policies, and the state of the global economy are all examples of external economic factors that can considerably affect a company's capacity to repay its debt. A number of external factors can affect the company's ability to pay its bills, including economic downturns, inflation, and changes in interest rates. As an example, if the company's profitability drops during a recession, it will be unable to repay its debts. Furthermore, McDonald's capital structure and fundraising initiatives are susceptible to market swings. The company's ability to repay its debts could be affected by a number of factors, such as changes in interest rates, which could increase the cost of borrowing money, or by swings in the stock market, which could have a negative effect on the company's stock price and its ability to secure financing.

3.2.4 Management Level and Risk Management Ability

There is little doubt that a company's operational efficiency and risk tolerance are directly related to its management level and risk management capacity. The organization's capacity to repay debt and increase profits can be greatly improved with competent management and good risk management procedures. For example, a company's ability to repay debt and make a profit can take a hit if its management isn't up to snuff, leading to inefficient operations. Concurrently, the enterprise's capacity to satisfy debt commitments could be affected if its risk management capabilities are inadequate, which could expose the firm to additional dangers.

3.2.5 Liquidity

Strong liquidity means that enterprises can mobilize funds at any time to meet the needs of debt repayment, thereby improving debt repayment ability. For example, Mercedes-Benz is a world-renowned automobile manufacturer. The sales of the automobile industry are seasonal and cyclical, and sales may fluctuate in different quarters or years. Whether or not Mercedes-Benz can weather sales storms depends heavily on the strength of its liquidity. This covers the costs associated with sales peaks and valleys as well as the resources that need to be managed efficiently during these times. In reality, regardless of the ups and downs of the business cycle, Mercedes-Benz is able to meet its varied operational needs because to its robust liquidity. The capacity of the corporation to repay its debts is bolstered by this. When assessing this skill, liquidity is also very important. Mercedes-Benz can better handle a range of operational issues with high liquidity levels. This improves the company's ability to repay its debt and guarantees steady growth in the long run.

4 Analysis of BYD's Debt Repayment ability

You can actually evaluate BYD's capacity to repay its debts by looking at its financial statistics, namely metrics like turnover, gross profit, attributable profit, and net profit margin. It is possible that BYD's capacity to service its debt would be impacted by the fall in net profit margin and turnover compared to the previous year. Unfortunately, the company's capacity to repay debt may deteriorate and the pressure to satisfy commitments may rise as a result of the drop in turnover. The changes in BYD's operating conditions and profitability are reflected in its financial data. The company's dropping turnover and decreased net profit margin are problems, but the fact that the gross profit margin is reasonably consistent shows that they are good at controlling costs. To improve the company's financial stability and ability to repay debt, it is crucial to take appropriate action after carefully considering a number of criteria. Dealing with operational hazards and market rivalry requires this.

Also, BYD's profitability has been on the upswing and shareholders' equity has been growing at a steady clip recently. A plan for expanding internationally has been progressively put into action by the organization. As part of its global marketing and sales strategy for electric car goods, the company has set up production bases and research and development facilities all over the globe. In addition to producing automobiles, BYD has expanded into new areas, like as solar power generating, lighting goods, and new energy batteries. It has expanded its business areas consistently and achieved sustainable development across numerous sectors through a diversified industrial layout. Clean energy vehicle development is a top priority for BYD Company, a prominent Chinese maker of new energy vehicles and batteries. Contributions to sustainable development and environmental protection have resulted from this dedication. As a result of the company's expanded investment and operational activities, BYD's current and non-current assets have been growing at a rate of one percent per quarter. The development of the company's activities and its increase in long-term debt have undoubtedly contributed to the concurrent increase in both its current and non-current liabilities, which have seen quarterly growth as well. Enhanced profitability and shareholder value may be indicated by the quarterly rise in shareholders' equity. A year's worth of financial data from BYD's balance sheet shows the company's health and its capacity to pay off debt. The company's assets and liabilities have been on the rise, so it's important to keep an eye on how its financial situation and ability to repay debt are changing.

The company uses a certain proportion of profits for shareholder dividends and stock repurchases, and also uses part of the profits for R&D investment and business expansion. This profit distribution strategy is conducive to safeguarding shareholder interests, enhancing company value and maintaining long-term stable development. An indicator of BYD's operational strength and competitive advantages in the market is the company's financial status. If you want to know how well a company can pay its short-term debts, go no further than the current ratio, which compares its current assets to its current liabilities. In the meanwhile, after accounting for inventory, the quick ratio shows a company's ability to pay its short-term debts by comparing its current assets to its current liabilities. When it comes to paying off its debt, BYD has some problems both now and in the future. This bodes poorly for the company's ability to pay back its loans in the near future. Consequently, efficient management of debt and capital operations are priorities.

Among both local and international markets, BYD's prominence as a leading Chinese manufacturer of new energy vehicles has undoubtedly garnered considerable interest. As the market for new energy vehicles has grown rapidly, BYD has been aggressively seeking new opportunities and increasing its market share. Nevertheless, the corporation faces more intricate financial obstacles as the business expands and competition in the market heats up. The company's capacity to repay its debt is under increasing scrutiny, which might significantly affect its steady growth.

5 Conclusion

In this article, I first identified what debt-paying ability is. Specifically, I tried to understand and explain BYD's financial changes. In doing so, I have a certain understanding of its financial performance. This article also explores in depth the factors that affect BYD's debt-paying ability. This includes the need for enterprises to deal with possible financial and debt problems through their own management efforts and good financial planning. Solving financial and debt problems is important for the company's survival and development. By actively responding to these challenges and leveraging their own advantages, BYD can improve its debt-paying ability and enhance its financial flexibility. Finally, I also tried to use my expertise to provide advice for BYD to improve its debt-paying ability. These include that enterprises can optimize their financial structure. Enterprises can strengthen market construction to improve their profitability. Enterprises can improve operational efficiency to reduce the threat of debt.

All things considered, the results of this BYD Co., Ltd. credit research are very instructive on the future of the firm and its financial standing. To better comprehend BYD's financial situation and its potential for long-term success in a dynamic global market, this study examines different financial indicators, analyzes affecting factors, and offers improvement recommendations.

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