

# Research on Financial Risk Prevention and Control of Small and Medium Listed Companies

## -- Take a Garden Stock Company as an Example

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### Abstract

**Good financial risk management and control is conducive to the better development of enterprises. This paper takes a garden stock company as an example to understand the financial situation of the company, and then analyzes its financial indicators from the aspects of cash flow, debt paying ability, operating ability, profitability and development ability, so as to explore the financial risks of a garden stock company, and put forward corresponding suggestions for these risks.**

### Keywords

**Financial Indicators; Financial Risk and Prevention; Control of a Garden Joint Stock Company.**

### 1. Introduction

Financial risk is an economic signal that reflects the overall operation and development of an enterprise. In a broad sense, financial risk refers to the problem of income deviation caused by various factors during the operation of an enterprise. This problem may involve many aspects of enterprise operation, including financing, investment and decision-making, and may also involve many departments of the enterprise. In a narrow sense, the financial risk is determined by the debt ratio of the whole enterprise, which is the financial crisis caused by the financing risk caused by the enterprise's borrowing or other forms, and the failure to fulfill the agreement at maturity. Financial risk can be divided into financing risk, investment risk and operation risk according to the enterprise's own finance and operation. If the financial risk of the enterprise is not taken seriously by the managers, the risk can not be identified and controlled in time, and the financial problems of the enterprise will become increasingly serious, even may suffer serious losses, and eventually inevitably face financial crisis.

With the coordinated operation of the four modules of technology, commerce, public welfare and large ecological platform, a garden joint-stock company has achieved a leading position in the ecological and environmental protection industry. After the company was successfully listed in 2009, it became the first stock in China's garden industry. In 2014, the state strongly encouraged the promotion of PPP mode. The company focused on development opportunities and actively responded to the adjustment of national policies. Relying on its own industrial advantages, it established environmental groups and ecological groups to vigorously develop the PPP market, which not only promoted the company's performance, but also enhanced its competitive advantages, and made it an excellent representative of Listed Companies in the ecological and environmental protection category. However, with the continuous growth and transformation of the company's business, the company's financial risk management and control should be placed in an important position, which is an important guarantee for the company's sustainable development. This paper takes the company as an example to analyze

the financial risk of the company, so as to improve the financial risk management of the enterprise and ensure the healthy development of the enterprise.

## 2. Financial Situation of a Garden Joint Stock Company

Changes in financial indicators

From table 1, It can be found that the total assets of a garden company have been on an upward trend from 2016 to 2020, while the current assets and non current assets have kept the same trend with the growth trend of the total assets, and are in a rising stage. The total assets increased from 21717302800 yuan to 45832911200 yuan. Among them, non current assets increased by 11230371800 yuan and current assets increased by 12885226500 yuan. At the same time, from 2016 to 2020, the total liabilities of Oriental garden were also in an upward trend. The total liabilities increased by 19229905100 yuan, achieving an increase of 13176904400 to 32406809500 yuan. Among them, current liabilities accounted for 13979197900 yuan, and non current liabilities accounted for 5250707200 yuan. Among the many factors that promote the overall increase of liabilities, the long project cycle, large investment and difficult collection are the main reasons. Although the cost of accounts payable and bills is relatively low in many financing methods, which can enable the company to solve the problem of insufficient funds in a short period of time, once the capital chain is broken, it will inevitably lead to higher financial risks for the company, even affect the reputation of the company, and hinder the sustainable development of the company in the form of negative impact.

**Table 1.** Changes in major financial indicators of a garden company from 2016 to 2020 (unit: 10000 yuan)

Project	2016	2017	2018	2019	2020
Current assets	1516369.56	2130733.37	2706733.34	2809519.02	2804892.21
Non current assets	655360.72	1065258.11	1544622.29	1615442.48	1778397.90
Total assets	2171730.28	3195991.48	4251355.63	4424961.50	4583291.12
Current liabilities	976412.45	1957251.73	2510713.55	2264640.18	2374332.24
Non current liabilities	341277.99	221107.18	149911.27	403171.80	866348.71
Total liabilities	1317690.44	2178358.91	2660624.82	2667811.98	3240680.95
Owner's equity	3489420.72	5374350.39	6911980.45	7092773.48	1342610.17
Operating income	624550.67	1137521.59	1342609.16	821453.20	881278.53
Operating cost	430994.27	791342.07	885200.36	579156.22	725095.16
Net profit	1307950.00	2199780.00	1611960.00	5241.90	-49406.17
Total profit	193556.40	346179.52	457408.80	242296.98	-56832.70

Data source: Financial report of a garden company

From 2016 to 2019, the owner's equity of the company increased from 34894207200 yuan to 1342610170 yuan. The owner's equity of the company has been rising, but it decreased significantly in 2020. From 2016 to 2018, the net profit of the enterprise increased year by year, and reached the peak in 2018. Since 2018, it has decreased year by year, and even appeared a loss in 2020. From 2015 to 2018, the total profit continued to increase, but in 2019, the profit

suddenly declined significantly, and by 2020, it was negative. The above phenomenon is mainly due to the impact of external epidemic on the company, but there are also many problems in internal management.

### 3. Analysis of Financial Indicators of a Garden Stock Company

#### 3.1. Cash Flow Analysis

The cash flow information of the company can indicate whether the enterprise is in good operating condition, whether the capital is tight, and the solvency of the enterprise. As long as the company has sufficient cash flow, it can complete the production and operation objectives, thus promoting the benign development of enterprise operation. Therefore, in-depth research and analysis of cash flow is the key task that enterprises must do.

**Table 2.** Cash flow statement of a garden company from 2016 to 2020

Particular year	Ratio of net operating cash flow to sales revenue	Cash flow ratio	Return on operating cash flow of assets
2016	11.66%	9.15%	4.16%
2017	17.36%	12.42%	7.53%
2018	0.38%	0.19%	0.12%
2019	-16.32%	-5.09%	-3.03%
2020	-27.00%	-3.17%	-1.67%

Data source: Financial report of a garden company

According to table 2, in 2017, the ratio of the net cash flow of the operation to the sales revenue was higher than that in 2016, but it began to decline year by year from 2018, and it was negative for the first time in 2019. The root cause is that the net cash flow of the company is lower than the rising rate of sales revenue during the whole operation process. In general, the company's cash income accounts for a relatively small proportion and its credit sales income is relatively high.

Since 2017, the company's cash flow ratio has been declining, and in 2019 and 2020, it has been directly negative growth, which has led to endless problems in the enterprise's operation. It can only be forced to introduce strategic investors, and even the shareholders have reshuffled their cards for better operation. This is closely related to the rapid expansion of the company and the adoption of credit sales, which reflects the company's weak short-term solvency.

The return rate of operating capital flow of the company's industry began to decline after reaching the peak in 2017, and only slightly recovered in 2020. The return rate of operating capital flow of an industry is the performance of the profitability of an enterprise in the process of operation. The larger the value, the higher the comprehensive level of assets managed by the enterprise. From the data, the company's asset management capability still has a lot of room for improvement.

#### 3.2. Solvency

The company's ability to repay long-term and short-term liabilities is collectively referred to as solvency. This standard is an important standard for judging whether the enterprise can continue to develop stably and whether the enterprise's capital chain is safe. People usually divide solvency into two types, namely, long-term solvency and short-term solvency.

From the perspective of solvency, the situation is becoming more stable after the change of PPP project policy. According to table 3, the company's current ratio reached the highest value of 1.55 in 2016, and has been floating around 1 since then, which is relatively stable. From 2016

to 2020, its quick ratio was normal, which reflected that the company's debt situation was good, the debt structure was significantly improved, the proportion of long-term debt was increased, and the short-term debt risk was controllable.

From 2016 to 2020, the company's asset liability ratio has been stable at about 60% - 71%, with an increasing trend, which reflects that although the company's debt paying ability is quite stable, there are also some financial risks. Debt financing is the mode of operation of the company. The characteristics of PPP project implementation are that a large amount of funds are required in the early stage, the project operation time is long, and the project income cycle is long, which makes the early stage operation of the company "short-term loan and long-term investment".

**Table 3.** Analysis of operating capacity indicators of a garden company from 2016 to 2020

Particular year	Current ratio	quick ratio	asset liability ratio
2016	1.55	0.82	60.67%
2017	1.09	0.56	67.62%
2018	0.86	0.38	69.33%
2019	1.07	0.45	71.04%
2020	1.18	0.48	70.71%

Data source: Financial report of a garden company

### 3.3. Operating Capacity

The ability of a company manager to manage enterprise assets and the efficiency of the company's asset utilization are reflected in its operating capacity.

**Table 4.** Analysis of operating capacity indicators of a garden company from 2016 to 2020  
(unit: Times)

Particular year	Total asset turnover	Turnover rate of accounts receivable	Inventory turnover rate	Turnover rate of current assets	Turnover rate of fixed assets
2016	0.32	1.45	0.73	0.54	9.87
2017	0.42	1.86	0.98	0.74	16.8
2018	0.39	1.43	0.76	0.61	9.88
2019	0.22	0.74	0.37	0.30	5.50
2020	0.20	0.96	0.87	0.31	7.07

Data source: Financial report of a garden company

According to table 4, from 2016 to 2018, the turnover rate of the company's total assets fluctuated between 0.32 and 0.42, generally showing an upward trend, which reflects the rapid growth of operating capital turnover in recent years, the better utilization of capital and the continuous enhancement of operating strength. However, the sudden decrease in the asset turnover rate in 2019 reflects the insufficient use of funds by enterprises.

The company's accounts receivable turnover rate showed an upward trend from 2016 to 2017, but it also showed a downward trend from 2017 to 2019, and the rate of decline was very fast. By 2018, the decline even reached 33%, and even reached 69% in 2019. This situation is mainly due to the serious credit sales of the company. In order to achieve the purpose of increasing operating income, its accounts receivable policy is particularly loose, which leads to the widening gap between the turnover rate of accounts receivable of the company and companies in the same industry.

From 2016 to 2017, the company's inventory turnover rate increased to a certain extent, which is mainly due to the improvement of the project management process. However, it gradually decreased in 2018. The fluctuation of the inventory turnover rate is mainly related to the relevant factors of industrial policies. Since the company was preparing for transformation, the sales volume was not high, and a large amount of inventory was accumulated, so the sales cost also increased a lot. Since 2017, the company's inventory turnover rate has improved, but there are still many backlog goods, which reflects the phenomenon of the company's inventory retention. Therefore, we need to optimize the storage management and try our best to achieve better results.

During the period from 2016 to 2018, the company did not change much in the turnover rate of current assets. However, in 2019 and 2020, due to the impact of the epidemic, the turnover rate of current assets fluctuated greatly, and the overall situation was declining. However, in the overall view, the fluctuation range of the turnover rate of its current assets is not very large, and it is relatively stable. Generally speaking, the liquidity of the company's current assets is relatively weak.

From 2016 to 2017, the turnover rate of the company's fixed assets increased from 9.87 to 16.8, and then showed a downward trend. Moreover, the floating range was relatively large, and there was a turnaround in 2020. In a word, the company must strengthen its management of fixed assets.

### 3.4. Profitability

The ability of an enterprise to obtain benefits in a certain period mainly depends on its profitability. Through a certain interpretation of profitability, it can not only reflect the overall performance of the company's operation, but also find out whether there are problems in the enterprise's operation and management. This is very helpful for managers to improve their operation efficiency.

According to table 5, the total asset profit rate of a garden company was at its peak in 2017, reaching 7.34%, and then began to decline gradually. From 2016 to 2019, the profit margin of its main business showed a downward trend, and in 2020, the profit margin dropped to -18.70%. Due to the outbreak of the epidemic in 2019 and 2020, the operation of many garden enterprises is not optimistic. From 2016 to 2017, the company's net profit margin on sales increased, but it began to decline after 2018. The decline of data in 2018 deserves the management's consideration and attention. On the whole, during the period from 2017 to 2019, the overall return on net assets of the company was not ideal, which gradually decreased from the peak of 19.53% in 2017 to -15.89% in 2020.

**Table 5.** Analysis of profitability indicators of a garden company from 2016 to 2020

Particular year	Profit rate of total assets	Profit margin of main business	Net profit rate on sales	Return on net assets
2016	4.89%	18.29%	12.88%	14.63%
2017	7.34%	17.19%	14.83%	19.53%
2018	3.47%	13.95%	7.61%	12.32%
2019	1.24%	0.89%	6.08%	0.35%
2020	-1.01%	-18.70%	2.59%	-15.89%

Data source: Financial report of a garden company

### 3.5. Development Capacity

In a specific period of time, the development ability of an enterprise and the ability of the company to expand its scale (including the growth of assets, etc.) are collectively referred to as

the development ability, also known as the growth ability. To a certain extent, the analysis of the growth ability of an enterprise is also an analysis of the enterprise's ability to expand its business. It is also a measure of the ability of an enterprise to obtain funds through various financing methods or to expand its business scale by using the annual increased income.

According to table 6, in terms of the growth rate of total assets, the development range of a garden company is not very large. Except for the peak period in 2017, the rest of the time is almost decreasing. This reflects that 2017 is a special year for the garden industry. In this year, the company's revenue and total assets increased most rapidly. The company's net profit growth rate in 2017 was the highest in the last five years, reaching 109.81%, and then began to decline. In 2018, it even exceeded the negative value. In 2020, the net profit growth rate was -1048.38%. The company's business situation is not optimistic. In addition to its own problems, the epidemic has the greatest impact on it. Faced with the precipitous data decline, the company must change its strategy and strengthen its management of the enterprise, especially in terms of performance management, because doing a good job of these is a necessary condition for promoting the benign and stable development of the enterprise.

**Table 6.** Analysis of development capacity indicators of a garden company from 2016 to 2020

Particular year	Growth rate of total assets	Net profit growth rate
2016	28.95%	34.52%
2017	47.16%	109.81%
2018	17.86%	-39.42%
2019	0.80%	-51.12%
2020	3.58%	-1048.38%

Data source: Financial report of a garden company

## 4. Financial Risks and Suggestions of a Garden Joint Stock Company

### 4.1. Financial Risk Analysis of a Garden Joint Stock Company

#### 4.1.1. Risk Analysis of Financing Activities

The financing risk mainly refers to the risk that the enterprise brings to the operation in order to repay the debt. Therefore, the financing risk analysis is closely related to the enterprise's debt paying ability. If the debt structure is unbalanced, it will cause liquidity risk to the company. As a capital intensive industry, a garden company has always maintained a high level of capital requirements. In order to fill the growing gap in capital demand, it has long used leveraged financing, which is the so-called borrowing new debt to repay old debt. However, it can be seen from the above that its short-term debt repayment ability is far from enough. Most of its liabilities are current liabilities, and the proportion of long-term liabilities is small, less than 10%. These loans are usually invested in relevant engineering projects. However, due to the long project cycle, new income cannot be generated in a short time, which leads to short-term loans and long-term investment. Under the general trend of deleveraging in 2018, the risk of imbalanced debt structure is undoubtedly exposed. As some short - and medium-term bonds are about to expire, the company caused an irreparable liquidity crisis in order to avoid default.

#### 4.1.2. Risk Analysis of Operating Activities

The financial objectives of the enterprise are achieved through a series of activities such as rational resource allocation and production materials. This activity is called operation activity, which represents the level and efficiency of the enterprise's asset management. The risks in the operation process mainly come from the losses caused to the enterprise due to the high expectations and the failure of activities, and most of the losses occur in the process of product

sales and fund recovery. According to the above analysis, the decisions taken by the company's management team in terms of operation and management need to be further improved. The most important thing is to improve its inventory turnover rate and reduce the possibility of inventory stagnation. Secondly, the company's credit sales situation is serious. In order to increase income, the policies related to accounts receivable are relatively loose, resulting in a significant gap between the turnover rate of accounts receivable and that of the same industry.

#### **4.1.3. Risk Analysis of Investment Activities**

A garden company has been on the road of transformation since 2015. From the beginning of contact with PPP business to the expansion of hazardous waste disposal business, it has been maintaining the pace of investment. However, from the perspective of expansion speed, the company chose a more radical path, laying hidden dangers for the subsequent financial crisis. From 2016 to 2020, the total amount of PPP projects that the company is actually in charge of is 52.431 billion yuan. With the total amount of EPC business reaching 73.232 billion yuan, the total recognized revenue is only 36.2 billion yuan, and the remaining part is unfinished orders. In order to undertake business and obtain income, the company first needs to invest in the establishment of SPV companies to become shareholders. With the increase of orders, the number of SPV companies has increased from 28 in 2016 to 92 in 2020, and the equity investment funds are nearly 8 billion. These investment funds will not be carried forward into income in the later period, and are a net expenditure. With the increase of PPP business, the company has gradually realized that the company is short of funds and started to develop businesses with good benefits such as sewage treatment and hazardous waste disposal. In 2017 and the first half of 2018, the company acquired 9 hazardous waste disposal companies and established 6 new ones. The amount of goodwill and projects under construction is increasing. The expansion of this part of business is a huge cash expenditure, which exacerbates the company's capital gap. It can be seen from this that the company's risk awareness in investment decision-making is not high, and the strategic planning is too short, resulting in investment risks.

### **4.2. Measures to Prevent Financial Risks of a Garden Company**

#### **4.2.1. Adjust Financing Activities and Prevent Risks of Financing Activities**

The company's main business needs a large amount of capital investment at the initial stage, and the accounts can be recovered gradually at the later stage, with a long period of capital recovery. Compared with long-term financing, the financing cost required for short-term financing is lower, and the policies adopted are generally more radical. Based on this situation, the proportion of short-term financing is very high, so the company does not need to bear excessive costs. However, if this short-term financing mode is selected, the company needs to continuously start financing to ensure the smooth progress of the project. From the perspective of risk, this financing mode increases the financing cost, increases the total cost, and increases the financial risk to a certain extent. Therefore, in order to alleviate the financing pressure and reduce the possibility of operating risk, the company should start to improve the financing policies related to it. If the market shows signs of depression, it is necessary to reduce investment in its projects as soon as possible, so as to make financing more stable, ensure that the proportion of short-term financing does not increase, and meet the demand for current assets by means of short-term financing; On the other hand, long-term financing can meet the long-term capital demand and gradually solve the problem of "short-term loan and long-term investment". However, long-term financing increases costs, but compared with short-term financing, it effectively reduces financial risks and is conducive to its business development on the right track.

#### 4.2.2. Improve the Operation Ability and Prevent the Risk of Operation Activities

First, improve the inventory turnover rate. At present, the main business of a garden company is a large-scale engineering project. In terms of fixed assets and inventory management, it is necessary to strengthen supervision and management. For the purchase, requisition, depreciation, scrap disposal and other links of fixed assets and inventories, it is necessary to focus on investigation and treatment, so as to improve the utilization efficiency of fixed assets and inventories. In addition, some idle assets and inventories of the company should be revitalized, so as to improve the turnover rate of current assets, help reduce the capital cost generated by the business activities of the enterprise, and effectively improve the performance of the enterprise.

Secondly, improve the management mechanism of accounts receivable. In order to effectively prevent some risks caused by accounts receivable, we should adhere to the principle of "reducing stock and curbing increment", improve order quality from the root, and establish a project library to collect and evaluate project orders in order to get better orders through bidding. The evaluation should judge the customer's capital status in terms of the customer's credit, capital, advance capital, margin and other dimensions. In addition, it is also necessary to conduct research on the customer's engineering risk and expected income, and select the target projects with low collection risk after comprehensive evaluation. In the process of project development, it is necessary to control the progress and recover the progress payment in time. Reasonable arrangement shall be made for the payment collection period of suppliers, so as to achieve early collection and late payment, thus greatly alleviating the capital pressure.

#### 4.2.3. Control Investment Activities and Prevent Investment Risks

Judging from the development history and crisis of a garden company, the company has always been radical in its investment decision, which is mainly manifested in the rapid expansion of PPP. However, the company did not realize that PPP is a double-edged sword when making decisions, and did not consider its own bearing capacity and capital risk. The rapid expansion led to the policy tightening in 2020, which resulted in a potential debt crisis, and the company's operation was seriously affected.

In order to avoid the recurrence of this phenomenon, the company should be fully aware of the risks of the current investment model, correctly weigh the pros and cons, slow down the investment pace, and find the investment scale suitable for its own situation. Control the investment scale by actively withdrawing from projects with poor payment conditions and introducing investment to avoid injecting self owned funds into SPV. At the same time, attention should be paid to the operation of PPP projects. Although the profits of the company are brought by the construction period, the subsequent operation period of the project is longer. The company should strictly control the risks according to the policies and specifications to avoid the failure of the project caused by the operation, thus affecting the long-term development of the company's investment.

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