Corporate Financing Strategies under the Deep Reform of Interest Rate Marketization

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Keywords: Interest Rate Marketization; LPR; Financing Strategies; Corporate Financing

Abstract: 2019 is an important year in the process of China's interest rate liberalization reform. On August 17, the central bank's No. 15 announcement reformed the pricing of new domestic loan interest rates, and the Loan Prime Rate (LPR) was officially launched. The purpose of this essay is to analyze the essential difference between LPR and The Benchmark Interest Rate For Loan in order to study whether the formal launch of LPR can substantially alleviate the problem of "financing difficulties and expensive financing" for enterprises; explore how different types of enterprises should implement financing strategies in the face of the new policy; analyze how to make good use of the obtained financing for later management and operation, so that the company continues to expand and develop. We collect extensive corporate financing success cases, combined with the latest policies, to discussion from the above three perspectives, finally put forward the in-depth reform of interest rate marketization. The uncertainty of interest rate will still bring different degrees of risk to enterprises. To a certain extent, the use of LPR for large-scale and stable enterprises will alleviate the problem of "expensive financing". But for enterprises in the early stages of development, there are many uncertainties in the enterprise itself, LPR may not help small, medium and micro private enterprises to alleviate the problem of "difficult financing, expensive financing".

1. Introduction

2019 is a weather-beating year for many companies. If you have to list the worst companies to be mixed, small, medium and micro enterprises will be at the top of the list. Companies need to learn from successful cases, no matter how large a listed company is, it is also growing from small to large companies step by step, such as, Alibaba, Xiaomi and JD etc. These companies have successfully raised their corporate capital through multiple rounds of financing, that is, leveraged market value. In response to the problems of "difficult financing and expensive financing", governments have recently introduced a number of related policies to provide a more comfortable investment environment to alleviate the financing difficulties of small, medium and micro enterprises. For example, the monetary policy has been changed from "Elastic moderate" Change to "Flexible Moderate". The further advancement of the interest rate marketization process will bring certain benefits to corporate financing, however will inevitably increase financing risks[1]. This article will discuss the interest rate marketization in conjunction with the current economy, policies, laws and regulations and new technologies to deploy financing strategies to cross the mountain of financing to lay the foundation for the future development of the company.

2. Compare the Benchmark Interest Rate For Loan with the Lpr

Under this loan interest rate, a dual interest rate system was created, that is, a combination of market interest rates that makes the personal or corporate loan interest rate to commercial banks more determined by policies[2]. In order to make the loan interest rate more market-oriented, the basic loan interest rate is proposed. The basic loan interest rate (LPR) = medium-term loan facility (MLF) + plus points, among them, the MLF is determined by the central bank, and the plus point is

determined by the commercial bank according to the investment profit and risk. The LPR pricing involves 18 different types and representative commercial banks. They give the plus point, and take the average after removing the highest and lowest prices.

Abandoning the basic interest rate (LPR) of the two-track interest rate loan system to make the loan interest rate more market-oriented can ease the financing difficulties of some enterprises, but due to the lack of stable development and management or technical deficiencies, banks may increase Mitigation of its own risk issues, Which is the reason that LPR is not very effective for small and medium enterprises[3].

3. The Correct Choice of Financing Channels

Case: On May 2, 2018, Jiancan Zhou, chairman of the venture listed company Jindun Co., Ltd., in order to maintain business operations, borrowed loan sharks to turn around, and ultimately committed debts of 10 billion and suicide.

A. Bank Loans

Bank loans are one of the effective means of financing. As long as lenders meet certain conditions, they can enjoy high-value, long-term and stable sources of loans. However, for small and medium-sized enterprises, it is inevitable that they will encounter difficulties such as high application thresholds, and listed companies will not be able to avoid lending slowly and other disadvantages. And this method of obtaining financing by borrowing from banks must be repaid. The uncertainty of the market will bring pressure and risk to the company. Further reform of the marketization of interest rates, the conversion of loan interest rates to the mode of LPR or MLF and the method of determining the points may solve certain financing difficulties for enterprises in special periods. For example, due to the impact of the New Coronavirus Pneumonia, the central bank lowered the one-year MLF interest rate by ten percentage points, and then decided that the one-year LPR in February 2020 would also be reduced by ten percent.

B. Equity Financing

Financing can be divided into equity financing and debt financing. The aforementioned bank loan is a typical debt financing. Although the LPR policy removes the dual interest rate system, the loan interest rate will still be subject to changes in national policies and bank profits. To a certain extent, it will increase the risk of bond financing[4]. Debt financing requires lenders to repay the loan with interest and interest within a certain period of time. The development of an enterprise is uncertain, and there may be the possibility that all funds borrowed from banks will be invested in the enterprise. Nevertheless, due to factors such as improper management, market depression in special periods, or difficult technical problems, it is still not possible to achieve the expected operating results, so it is impossible to repay the loan with working capital. Eventually, not only will the company face bankruptcy, but also may face legal sanctions. .

In order to solve the above problems as much as possible, a financing strategy using multiple methods of financing, that is, in addition to loans to banks, financiers can consider equity financing and use the company's equity as an exchange to attract more investors for financing.

C. Angel Investment, Venture Capital And Private Equity Funds (PE)

Angel investment, Venture Capital, and Private equity funds (PE) are investment funds targeted at different types of enterprises and different stages of development. Among them, angel funds which are relatively easy to be obtained are more inclined to companies in the early stages of entrepreneurship. From the perspective of investors, investors believe that in the early stage of entrepreneurship, companies should rather make mistakes than miss them. Venture capital generally targets companies with high and new technologies, but this does not mean that only these companies have the opportunity to obtain financing. Huiyuan Juice, Mengniu Dairy and Hanting Hotel companies in traditional industries have also received financing. Trying to break some conventions may give more possibilities for corporate financing strategies. PE are targeted at more

mature companies, Which usually have a clear development direction, specific development areas, strong innovation capabilities, good reputation, and a good management system.

D. Finance Lease

Financial leasing means that the company directly leases the required equipment to the financial leasing company on the basis of signing a long-term cooperation contract. Financing is not just financing funds, but sources. An enterprise does not necessarily have to obtain funds to purchase equipment. Financial leasing is also a good choice.

4. Staged and Continuous Financing

Corporate financing is phased and continuous. Even if the current corporate development is stable, sufficient funds must be continuously raised. On the one hand, the company's valuation can be increased to make the company more competitive in the market; on the other hand, the company's continuous expansion can motivate employees, retain technical backbones and attract new talents, so that the entire company is motivated and more promising.

Corporate financing is roughly divided into five phases. Phase one, the initial period of the entrepreneur's dream; phase two, the business plan is finalized, there are teams, business models and products; phase three, the company needs rapid expansion in the later stage, the company mass-produces to succeed, and it is necessary to quickly occupy the market; phase four is to prepare for listing; and phase five is that expand the development of the company continuously after the listing[5].

5. The Importance of Management and Operations After Financing

Case: Ou Chen, the founder of Jumei Youpin, started his business in 2009.In the early days of the venture, he received a total of 200 US dollars in financing from angel investor Xiaoping Xu. In 2012, Ou Chen relied on the ad phrase "I speak for myself". Bringing Jumei Youpin into the public's perspective, and then it was officially listed on the New York Stock Exchange on May 16, 2014, with an issue price of $ 22 per share. For investor Xiaoping Xu, this was a successful investment; for Ou Chen, this was a successful financing. However, on January 1, 2020, Jumei Youpin announced the delisting and was quoted at $ 7 per share.

Limited resources must be combined with efficient operations and management methods in order to maximize the benefits that financing brings to enterprises. Good leaders need to do the following four things: first, select and train professional management teams; second, uphold good business philosophy and corporate culture; third, possess core technology and provide continuous support for technological development; fourth, make necessary corporate reforms in line with the trend on the premise that the general direction remains unchanged.

Conclusion

Under the in-depth reform of interest rate marketization, the loan basic interest rate (LPR) can alleviate financing difficulties, but banks consider their own profit and risk issues, they will increase the point, so that LPR may not necessarily ease the financing of enterprises. The uncertainty of LPR may bring risks to corporate financing, but in some special periods, the government will support corporate financing through a downward adjustment and decrease points to help companies overcome difficulties. In order to better solve enterprises financing issues, First, the financing party needs to understand multiple financing channels and choose appropriate financing methods for different stages and types of enterprises; second, it must adhere to the concept of staged and continuous financing in the financing process; third, improve the management and operation level of the enterprise, so that management and operation capabilities can keep up with resource s, making the funds are used properly.

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