

# Research on the Solvency of Tibetan Pharmaceutical Companies in the New Era

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**Abstract:** Medical care is a livelihood needs, and the solvency directly affects the survival and development of pharmaceutical companies. Therefore, it is important to study the solvency of pharmaceutical companies. This article selects six listed Tibetan pharmaceutical companies as research cases, adopts a comparative analysis method to analyze their solvency, and explores the advantages and disadvantages of the solvency of Tibetan pharmaceutical companies in order to enhance the solvency of Tibetan pharmaceutical companies for reference.

**Keywords:** Tibet Pharmaceuticals listed company; Solvency; Financial indicators

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## 1 Introduction

In the new era, General Secretary Xi Jinping has emphasized the importance of Tibet's development in many meetings. As we are comprehensively building a well-off society today, the development of listed companies in Tibet is particularly important for driving the overall development of Tibet. Due to its special geographical environment, resource distribution, history, culture, policies and other factors, the economic development of Tibet has always been relatively lagging. The overall number of listed companies in Tibet is relatively small,

and the level of operating performance is generally low, showing a weak strength in driving regional economic development. Currently, the total number of listed companies in Tibet is 19, of which 6 are pharmaceutical technology companies, accounting for 31.57% of the total number of listed companies. Therefore, the development of listed companies of Tibetan medicine, a livelihood needs, has attracted much attention. Solvency is one of the four major financial capabilities that the company's stakeholders are most concerned about, and it directly affects the company's survival and development. This paper uses six listed Tibetan pharmaceutical companies as research cases, selects the annual financial data from 2014 to 2018 and the relevant financial data of Yunnan Baiyao Group Co., Ltd., an established pharmaceutical listed company in China. Comparative analysis was carried out at two levels of short-term and long-term solvency to explore the advantages and disadvantages of listed Tibetan pharmaceutical companies in terms of solvency, which will serve to provide references for Tibetan pharmaceutical companies to enhance their solvency.

## 2 Analysis on the Short-term Solvency of Tibetan Pharmaceutical Companies

Short-term debt solvency refers to the company's ability to repay current debts with current assets. This article selects three representative financial indicators, current ratio, quick ratio, and cash ratio, to evaluate listed Tibetan pharmaceutical companies, as shown in Table 1.

**Table 1.** Comparison table of short-term solvency indicators of six listed pharmaceutical companies in Tibet and Yunnan Baiyao

Indicator	Company Name	2014	2015	2016	2017	2018
Current Ratio	AIM Pharma.	1.79	1.94	5.08	3.8	3.37
	Tibet Cheezheng Tibetan Med.	7.81	4	5.29	4.58	7.36
	Tibet Rhodiola Pharma.	1.34	2.52	0.4	3.07	4.16
	Lionco Pharma.	1.1	4.56	5.56	3.33	2.63
	Haisco Pharma.	2.93	1.4	2.22	0.89	0.96
	Tibet Weixinkang Med.	1.89	2.25	3.05	4.47	2.54
	Avg. Value of the six Companies	2.81	2.78	3.6	3.36	3.5
Quick Ratio	Yunnan Baiyao	3.57	3.61	3.28	3.34	2.68
	AIM Pharma.	1.46	1.51	4.67	3.53	3.16
	Tibet Cheezheng Tibetan Med.	7.3	3.83	5.12	4.43	7.06
	Tibet Rhodiola Pharma.	0.83	1.86	0.34	2.75	3.92
	Lionco Pharma.	0.63	4.14	5.06	3.06	2.49
	Haisco Pharma.	2.84	1.32	2.1	0.82	0.89
	Tibet Weixinkang Med.	1.54	1.91	2.44	4.21	2.51
Cash Ratio	Avg. Value of the six Companies	2.43	2.43	3.29	3.13	3.34
	Yunnan Baiyao	2.3	2.41	2.25	2.18	1.7
	AIM Pharma.	43.94	35.49	316.46	207.4	173.4
	Tibet Cheezheng Tibetan Med.	163.59	101.4	174.11	113.6	195.53
	Tibet Rhodiola Pharma.	49.6	166.04	23.27	119.35	202.6
	Lionco Pharma.	48.64	76.62	136.91	91.99	141.06
	Haisco Pharma.	179.24	120.29	180.57	50.26	48.71
Cash Ratio	Tibet Weixinkang Med.	100.61	128.81	104.5	49.72	46.35
	Avg. Value of the six Companies	97.6	104.78	155.97	105.39	134.61
	Yunnan Baiyao	51.36	56.67	48.89	35.44	29.62

Data source: NetEase Finance

## 2.1 Current ratio evaluation

It is generally believed that when the current ratio is 2, the company's solvency is relatively good. As long as 50% of the company's current assets can be realized at the time, it can meet the needs of the company to repay short-term debts and provide greater buffer zone for cash flow. But the index is not as big as possible. A higher current ratio will take up too much corporate funds and affect corporate profitability. On the other hand, the value of this indicator will also be affected by the industry. It can be seen from Table 1 that listed Tibetan pharmaceutical companies as a whole and Yunnan Baiyao belong to the type of high current ratio. The short-term debt solvency of the company is relatively strong, the financial situation is relatively stable, and the financial risk is small. In addition to daily production and operation, there are still a lot of funds available to pay off the debt. However, it also reflects the fact that the company's funds stranded in current assets are relatively high, which will weaken its profitability. From 2016 to 2018, the average current ratios of listed Tibetan pharmaceutical companies were higher than that of Yunnan Baiyao, indicating that Tibetan pharmaceutical listed companies are conservative

in financial decision-making, and a large amount of funds are stranded in the enterprise. Although it reduces financial risks, it also affects the overall profitability of the company.

## 2.2 Quick ratio evaluation

Quick ratio indicates assets with excellent liquidity among current assets. Combined with the current ratio, they can more fully reflect the company's relevant liquidity indicators to evaluate the company's short-term solvency. If the quick ratio is too high or too low, it is not conducive to the development of the enterprise. Internationally, it is generally considered that the quick ratio of 1 is appropriate. Generally speaking, companies do not want to maintain an excessively high quick ratio because quick assets take up too much capital, the opportunity cost increases and the company's income level is reduced. However, when the ratio is low, the safety and stability of the company's current debt repayment will also be reduced. When the company's indicator is less than 1, it indicates that the company is going to be in the stage of bankruptcy or liquidation, and it can only repay all short-term liabilities by means of inventory sales. According to the study in Table 1, the quick ratios of the average of the six listed pharmaceutical

companies in Tibet and Yunnan Baiyao are all higher, in fact far higher than the experience value of 1, especially in the past three years, the quick ratios of the six listed pharmaceutical companies in Tibet are much higher than Yunnan Baiyao, once again shows that their debt repayment safety factor is high, but it also sacrifices the return rate of the enterprises.

### 2.3 Cash ratio evaluation

The cash ratio is based on the quick ratio deducting accounts receivable that have a risk of recovery, and only retain cash assets that can be withdrawn or transferred at any time. This indicator is the most stable with rigorous basis for evaluating short-term debt solvency, and its significance is to reflect the company's ability to pay off short-term debt under the worst case scenarios of the company. If the cash ratio is low, the solvency of the company is relatively weak, but it also shows that the amount of capital stranded is low, and the effectiveness of capital utilization is high. According to the study in Table 1, the average cash ratio of the six listed Tibetan pharmaceutical companies in the past five years is higher and in fact much higher than that of Yunnan Baiyao. They have better solvency, showing that corporate funds are not fully utilized and idle funds are too much, the effective utilization of funds is low, which in turn affects the company's profitability.

Yunnan Baiyao has always been in a relatively stable and low state. Although the liquidity of assets is weaker than that of the six listed companies in Tibet, it has better capital utilization efficiency.

In summary, the current ratios, quick ratios, and cash ratios of the six listed pharmaceutical companies in Tibet are all at a relatively high level, indicating that the companies are focused on stable development. Current assets, quick assets, and cash assets account for the total assets. The ratio continues to rise, and short-term debt solvency continues to increase. Compared with Yunnan Baiyao, all indicators are also at a relatively high level, indicating that the company's liquidity is not well used, resulting in low profitability of the company.

### 3 Analysis on the Short-term Solvency of Tibetan Pharmaceutical Companies

Long-term solvency means the company's ability to pay off long-term debt, and reflects the company's ability to bear and pay off long-term debt. The level of this ability is an important basis for reflecting the stability and safety of the company's finances. This paper selects two financial indicators, asset-liability ratio and equity ratio, to evaluate the long-term debt solvency of six listed pharmaceutical companies in Tibet and Yunnan Baiyao.

**Table 2.** Comparison table of long-term solvency indicators of six listed pharmaceutical companies in Tibet and Yunnan Baiyao

Indicator	Company	2014	2015	2016	2017	2018
Debt-to-asset Ratio	AIM Pharma.	33.27	37.58	14.07	17.56	18.41
	Tibet Cheezheng Tibetan Med.	13.52	20.24	15.63	17.54	11.57
	Tibet Rhodiola Pharma.	60.42	31.21	71.27	12.22	10.86
	Lionco Pharma.	33.17	16.67	12.99	21.34	33.37
	Haisco Pharma.	26.7	33.18	39.03	52.05	54.32
	Tibet Weixinkang Med.	21.22	20.8	16.83	15.6	27.32
	Avg. Value of the six Companies	31.38	26.61	28.3	22.72	25.98
	Yunnan Baiyao	30.88	29.87	35.56	34.51	34.42
	AIM Pharma.	49.71	59.41	16	20.87	22.26
	Tibet Cheezheng Tibetan Med.	11.2	21.05	15.02	17.96	9.89
Equity Ratio	Tibet Rhodiola Pharma.	146.15	39.56	243.81	12.92	11.58
	Lionco Pharma.	44.85	18.5	13.74	26.17	49.3
	Haisco Pharma.	34.23	47.54	53.6	103.24	115.5
	Tibet Weixinkang Med.	26.93	26.26	18.6	17.67	37.08
	Avg. Value of the six Companies	52.18	35.39	60.13	33.14	40.94
	Yunnan Baiyao	34.94	34.61	42.55	41.49	51.14

Data Source: NetEase Finance

The debt-to-asset ratio is the ratio of the total liabilities to the total assets of the company, reflecting the proportion of the company's capital acquired by creditors in all the company's assets. The decline in

the debt-to-asset ratio indicates that the proportion of the company's total liabilities is shrinking, and the creditors are more likely to be repaid. Therefore, the long-term solvency of the company is increasing. It

also shows that the company is conservative or lacks confidence in the future prospects and unable to make full use of financial leverage. It can be seen from Table 2 that the overall debt-to-asset ratio of the listed pharmaceutical companies in Tibet has shown an obvious downward trend, with relatively conservative financing, relatively stable operations, and strong solvency, but the rate of profit is low and profitability is poor. Yunnan Baiyao's debt-to-asset ratio is higher than that of most Tibetan pharmaceutical companies, which proves that Tibetan pharmaceutical companies are relatively conservative compared with mainland companies and have a low utilization of financial leverage.

The equity ratio is the ratio of the total debt to the total owner's equity. The size of this ratio is inversely proportional to the long-term solvency. A low company equity ratio indicates that the company's long-term solvency is strong and the capital structure has the characteristics of low-yield and low risk. It can be seen from Table 2 that except for the large fluctuations in the data of Tibet Rhodiola Pharmaceutical Holding, the asset-liability ratios of the other five listed Tibetan pharmaceutical companies are not high, and most of them are lower than Yunnan Baiyao, which means that these companies face little risk, have low financial costs, better ability to pay off debts, and their operation is relatively stable and healthy. At the same time, it once again reflects the fact that Tibet's listed pharmaceutical companies are relatively conservative in operation and have low profitability.

#### **4 Optimization Path of the Solvency of Listed Tibetan Pharmaceutical Companies**

First of all, change the business concepts. The business philosophy is the guiding ideology for the company's healthy and sustainable development, and is related to the company's survival, development and profitability. Due to the special geographical environment, resource distribution, history, culture, policies and other factors, the listed Tibetan pharmaceutical companies have relatively lagging business concepts. Most companies have chosen cautious and conservative business strategies, resulting in excessive solvency that leads to waste of resources. Therefore, on the one hand, listed

Tibetan pharmaceutical companies should actively take advantage of policy incentives and rationally plan the scope of debt-raising operations, so that the company's asset-to-liability ratio and capital return ratio can reach a more reasonable structure as far as possible. On the other hand, appropriately increase liabilities, especially long-term liabilities, such as issuing bonds, and appropriately increasing long-term borrowings, etc., to make good use of financial leverage, increase the debt-to-asset ratio that is too low, and thereby increase the profitability of the company.

Secondly, maintain good solvency. Listed Tibetan pharmaceutical companies should maintain good solvency while improving their profitability. First, the company should formulate reasonable debt repayment methods and plans, improve information quality, optimize corporate equity structure, strengthen corporate management and improve capital utilization efficiency. The second is to reasonably increase the debt ratio and increase the long-term financing ratio. The third is to raise funds through multiple channels, make good use of funds, reduce idle funds and cash ratios, try to avoid large amounts of capital waste and cost consumption, improve capital liquidity, and improve corporate profitability.

Lastly, broaden investment channels and investment methods. Listed Tibetan pharmaceutical companies can also broaden corporate investment channels and investment methods, increase corporate investment income by diversifying corporate investment risks, and maximize the utilization of corporate funds so that companies can remain invincible in the competition to achieve healthy development.

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