

# Analysis and Research on the Necessity of Enterprise Debt Restructuring

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## Abstract

The continuous deepening of economic globalization is undoubtedly a double-edged sword for enterprises. Enterprises will gain greater development space and face the threat of more intense market competition. With the development of the market economy, the reform and adjustment of the economic system and economic structure, China has experienced the problem of excessive debts and debts of state-owned banks with excessive non-performing assets and excessive debts of enterprises. This paper analyzes several common ways of debt restructuring, compares the debt restructuring with the restructuring system, and finally analyzes the necessity of debt restructuring.

## Keywords

Debt restructuring; economic system; necessity analysis.

## 1. Introduction

The problems of high debt, large-area loss and asset loss in enterprises have seriously affected the sustained and stable development of the national economy and the improvement of overall efficiency. If the debt problem is not resolved, other measures of enterprise reform, such as the transformation of property rights structure, the reform of the shareholding system, the adjustment of asset stocks, the transformation of product direction, mergers and acquisitions of enterprises, and technological transformation of enterprises are all difficult to carry out. Therefore, state-owned enterprises debt reorganization is important and practical, recognizing the problems that arise in the process, and finding solutions to problems is imminent.

## 2. Common Ways of Debt Restructuring

1) The settlement of debts by assets refers to the debt restructuring method in which the debtor transfers its assets to the creditors to pay off the debts. The assets that debtors usually use to pay debts mainly include: cash, inventory, fixed assets, intangible assets, equity investments, etc. Cash here refers to monetary funds, that is, cash on hand, bank deposits and other monetary funds. In the case of debt restructuring, the settlement of debts in cash usually means paying off debts in cash below the book value of the debts. The amount of cash paid back to the debts owed is not part of the debt restructuring referred to in this chapter.

2) The conversion of debt into capital refers to the debt restructuring method in which the debtor converts the debt into capital and the creditor converts the debt into equity. However, if the debtor converts the convertible corporate bonds into capital according to the conversion agreement, it is a debt-to-capital under normal circumstances and cannot be treated as debt restructuring.

When debt is converted into capital, it is converted to equity for the company, and for other companies, it is converted into debt. As a result of the conversion of debt into capital, the debtor thus increases the share capital (or paid-in capital), and the investor thus increases the equity.

3) Modification of other debt conditions refers to the modification of debt conditions that do not include the above-mentioned first and second circumstances, such as reducing the principal of the debt, lowering the interest rate, and exempting the unpaid interest.

4) The combination of the above three methods refers to the form of debt restructuring that uses the above three methods to jointly pay off debts. For example, a part of a debt is paid off by the transfer of assets, and another part of the debt is restructured by modifying other debt conditions. It mainly includes the following possible ways:

- (1) Part of the debt is paid off by the assets, and the other part is converted into capital;
- (2) part of the debt is repaid by the asset, and the other part is modified by other debt conditions;
- (3) part of the debt is converted into capital, and the other part is modified by other debt conditions;
- (4) Part of the debt is offset by assets, part of which is converted into capital, and the other part is modified by other debt conditions.

### 3. Differences Between Debt Restructuring and Restructuring

The object of debt restructuring and restructuring is different, and every person must make concessions on the interests. Debt restructuring is an accounting concept. According to the accounting standards, the financial difficulties of the debtor and the creditor's concession are the basic characteristics of debt restructuring. The financial difficulties of the debtor refer to the debtor's difficulty in cash flow, business difficulties or other reasons. It is unable or incapable of repaying the debts according to the original conditions. The creditor's concession means that the creditor agrees that the debtor who has financial difficulties will repay the debt now or in the future at a value or value lower than the book value of the restructured debt. As a kind of legal system, reorganization means that when an enterprise legal person cannot pay off the debts due, it does not immediately carry out bankruptcy liquidation. Instead, under the auspices of the people's court, the creditor and the debtor reach an agreement to formulate a debtor reorganization plan, and the debtor continues. A system that operates and pays off all or part of the debt within a certain period of time. It can be seen that the debtor in the reorganization faces the possibility of bankruptcy liquidation, while the debtor in the debt restructuring is not necessarily. Despite the different objects of application, creditors generally need to make concessions in practice.

The scope of adjustment of debt restructuring interests involves both creditors and debtors, while the scope of interest adjustment of the restructuring system is broader. In debt restructuring, after the creditor and the debtor negotiate and sign a debt restructuring agreement, the rights and obligations of both parties can be clarified. The debt restructuring agreement generally does not involve the interests of other creditors and other entities.

According to the relevant provisions of the Bankruptcy Law, when the debtor or creditor has not entered the bankruptcy proceedings, the debtor or the creditor may apply to the people's court for reorganization of the debtor. If the creditor applies for bankruptcy and liquidation of the debtor, after the people's court accepts the bankruptcy application and declares the debtor bankrupt, The debtor or the investor who contributes more than 10% of the debtor's registered capital may apply to the people's court for reorganization. Once the reorganization plan is approved by the people's court, it is binding on the debtor and all creditors. Some reorganization plans also involve the adjustment of the investor's rights and interests.

The restructuring system is more flexible, integrated and complex than debt restructuring. The reorganization system can not only deal with the interests of listed companies and creditors, but also coordinate the interests of the original controlling shareholders, tradable shareholders and reorganization parties of listed companies, and complete this kind of interest adjustment

under the judicial system, which is more than the administrative examination and approval system. easily. Therefore, in the merger and reorganization of crisis companies, the restructuring system will certainly be more widely used.

## **4. Analysis of the Necessity of Debt Restructuring**

### **4.1. Reduce the Cost of Operating Operations**

Debt restructuring methods include immediate settlement, deferred settlement, conversion of debt into capital without liquidation, or any combination of the above points. You can choose the method of extension, reduce the payment risk, increase the cash flow of the enterprise as much as possible, and enhance the acquisition. Profitability, reduce business risks, and lay a solid foundation for sustainable development.

Debt restructuring can reduce corporate debt and reduce asset use costs. Generally speaking, the assets exchanged by enterprises are idle assets for enterprises, and the inflow of economic benefits brought by enterprises is less. The exchange can increase the value of assets and reduce the cost of using assets.

Debt restructuring can be used to repay debts by using some idle assets, realizing the revitalization of idle assets, effectively reducing the level of idle assets, improving the efficiency of asset use, and increasing the economic benefits of inflowing enterprises, which is conducive to the long-term development of enterprises. To a certain extent, it will optimize the use efficiency of assets, and can create more social wealth, thereby increasing the total assets of the society and realizing the value-added preservation of state-owned assets.

Debt restructuring can improve the credibility of the company itself. The level of corporate reputation can be said to be the main factor attracting investors, which determines the financing ability of enterprises. If their own credibility is good, they can raise funds for the sustainable development of enterprises from different financing channels in the capital market. Through debt restructuring, it is an important measure for enterprises to re-create business success, promote industrial transformation and upgrading, and accelerate the transformation of development mode, showing the superiority of the socialist system, so that the people firmly believe in the correctness of the current economic system.

### **4.2. The Need for Strategic Restructuring**

The financial goals determine the basic direction of corporate financial management. The development of corporate financial goals has gone through different stages, and the impact of different financial objectives on corporate debt is different. The misplacement of corporate financial goals is an important reason for the company's excessive debt, but also an internal cause. Chinese enterprises have long implemented the financial goals of "maximizing output value" and "maximizing total profit", and the shortcomings of business target positioning are important reasons for the formation of excessive debt and the intensification of enterprises, and the reason why financial activities are distorted in special periods.

The capital system plays an important role in the sustainable development of enterprises. Capital is the basic fund for an enterprise to exist and develop, to withstand (or guarantee) debt and to obtain borrowed funds. The amount of capital affects the scale of debt borrowing and solvency of enterprises, thus affecting the investment capacity and development capability of enterprises. The lack of necessary capital compensation mechanism for enterprises is an important reason for the deteriorating capital structure. Moreover, under the constraints of the state's long-term implementation of low-depreciation and high-tax policies, enterprises' self-accumulation ability and motivation are weak, resulting in corporate capital. Did not get added in time. Insufficient capital injection or capital injection, is the most direct cause of excessive debt. Therefore, through debt restructuring, temporary cash flow is obtained,

financial distress is alleviated, the profitability of enterprises is enhanced, and fresh blood is injected into the sustainable development of enterprises.

## 5. In Conclusion

In the process of development, the company may accumulate many debt problems. Once the company accumulates more debts, it needs to be dealt with. Debt restructuring is a way for the company to solve debts. The break of the capital chain is a crisis that enterprises can easily face. Under this circumstance, debt restructuring has great necessity. Through debt restructuring, it can optimize the economic development environment of enterprises and enable enterprises to obtain good buffer opportunities. For a company, the problem of funds is just as serious as a person's food. Debt restructuring is a good choice to solve the food problem of enterprises.

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