

Analysis of Zhejiang Heping Financing Lease Model in the Context of Dual-Business Integration

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Abstract: Zhejiang Heping Automobile Sales and Service Co., Ltd., established in 2000, is a leading automotive sales enterprise integrating car sales and repair services. Undergoing three stages of development, namely, expanding and strengthening car sales, venturing into financing leasing, and consistently enhancing efficiency, the company has successfully achieved a clever integration of "financing leasing + car sales." This integration ensures a steady and ample supply of funds for the enterprise while simultaneously increasing profits. Seizing the opportunities of era development and conducting a rational analysis of the industry's strengths and weaknesses, Zhejiang Heping has innovatively adopted a new approach, combining "car sales + tunnel boring machine financing leasing," thereby ensuring a robust cash flow for the enterprise, continuously expanding business operations, reducing operational risks, and increasing overall company returns.

Keywords: Financing Lease, Car Sales, Tunnel Boring Machine, Business Integration

1. Introduction

Financing leasing, a non-banking financial activity, has been widely used internationally. As early as the mid-1980s, the prospects of the financing leasing industry began to gradually take shape in China. In its initial introduction to China, the financing leasing transaction model did not receive much attention. By the end of 1999, there were only 15 financial leasing companies in China, with leasing amounts accounting for only 1% of the United States' [1]. However, in recent years, under market economic conditions, financing leasing has continuously developed, playing a crucial role in transforming China's economic development, promoting the integration of secondary and tertiary industries, and alleviating financing difficulties for small and medium-sized enterprises. It has become a key industry fostered by China [2]. As time has progressed, some larger cities have considered it a new business format, providing more related policy support in an attempt to promote its rapid development.

Currently, the positive impact of financing leasing in the global economic growth is increasingly evident due to its flexible and innovative characteristics, with a lower susceptibility to economic rapid development, market turbulence, or regulatory changes [3]. Additionally, over the past decade, the global financing leasing industry market has continuously expanded. According to the Committee of the International Leasing Market and the Joint Leasing Research Institute in the "2021 World Leasing Business Development Report," the global leasing business scale was \$38.2 trillion at the end of 2021, a 4.02% decrease compared to \$39.8 trillion in 2020. China has developed into the world's second-

largest leasing market, experiencing periods of rapid development, problem exposure, and recovery adjustments, and has now gradually entered a period of leapfrog development. From 2013 to 2020, China's leasing market penetration rate and market scale have shown a trend of high-speed growth. In 2013, the market scale was ¥21 billion, accounting for 4.81% of fixed assets, and in 2020, it increased to ¥66.5 billion, accounting for 10.46%. As of the end of 2021, the total business volume was \$900 billion, accounting for 23.6% of the global total business volume.

Despite the rapid growth in the penetration rate, China's financing leasing still lags far behind developed European countries. Moreover, issues such as frequent defaults and a lack of unified regulation in the application of financing leasing have led to significant operational risks for financing leasing companies, necessitating specialized risk control [4]. From the current perspective, China's financing leasing industry still needs further development, with improvements in relevant laws, tax systems, and efforts to promote a healthier and more stable development of the financing leasing industry [5].

The automotive sales industry has always been characterized by strong autonomy, large sales scale, and significant cash flow. With increasing market saturation, stricter environmental regulations, the development of e-commerce squeezing offline automotive sales, and growing competition in the automotive market, sales pressure has intensified, posing challenges for automotive sales companies [6]. To address these challenges, in addition to continually improving their traditional sales business capabilities, automotive sales companies also need to explore new business models and find new breakthroughs—entering into financing leasing business.

This study first explores the motivations and reasons for Zhejiang Heping Automobile Sales and Service Co., Ltd. (hereinafter referred to as Zhejiang Heping) to transition from its original automotive sales business to developing financing leasing business. Through analyzing the characteristics of automotive sales and financing leasing business, as well as how Zhejiang Heping utilizes the operational model of "tunnel boring machine financing leasing + car sales" to enhance enterprise sales profits and reduce enterprise financing risks, this research presents a new financing model. This case study can provide a real sample and reference for other enterprises similar to the automotive sales industry, offering insights into venturing into financing leasing business beyond automotive sales.

2. Introduction to Zhejiang Heping

2.1. Company Overview

Zhejiang Heping Automobile Sales and Service Co., Ltd. was established in 2000. In 2011, the company entered the financing leasing industry. After careful consideration, the founder, Hu Xincheng, chose construction machinery as the direction for financing leasing and selected tunnel boring machines as the leased assets. Currently, Zhejiang Heping owns multiple tunnel boring machines and related supporting equipment. These construction machinery assets are leased to state-owned enterprises through long-term financing leasing arrangements. The income from financing leasing is stable, with relatively low risks. In addition to financing leasing, Zhejiang Heping also engages in long-term fixed investments in real estate. The company owns and leases out the Zan Cheng Mei Yin Jin Zuo Building 3 as a corporate financing guarantee project, ensuring a stable and continuous income.

2.2. Motivation for Business Integration at Zhejiang Heping

2.2.1. Development and Challenges of Traditional Automotive Sales Business

The automotive business is the main operation of Zhejiang Heping, including the sale of complete vehicles, automotive maintenance services, and other related businesses. Vehicle sales, constituting 80%-90% of the overall revenue, are the starting point and foundation of the 4S dealership operation. The sales business provides a stable customer flow foundation for subsequent maintenance services and other derivative businesses. In 2022, the company averages annual sales of approximately 3,600 vehicles, generating over ¥400 million in annual sales revenue and achieving a profit of around ¥20 million. Maintenance services cover around 14,000 vehicles, contributing ¥23 million in service revenue. The company also generates approximately ¥6 million in other derivative value-added service income.

2.2.2. Facing Bottlenecks in Development

In recent years, the volume of automotive sales and the profits obtained by the company have faced certain challenges, and the development of Heping has encountered bottlenecks. Due to industry characteristics, the automotive industry is subject to cyclical fluctuations, the impact of changes in national policies, and high financial risks associated with large asset sizes. Additionally, there is an issue of overcapacity in the traditional automotive industry due to a sustained weak demand for fuel vehicles. Financial, operational, and policy risks have negatively affected Heping's business situation. After experiencing rapid growth, the domestic automotive market has entered a phase of maturation, with a noticeable slowdown in sales growth, increased competition, and even negative growth in recent years. With declining car sales, the domestic car market has shifted from an incremental market to a stock market. Combined with the difficulty of innovating automotive products, Heping's operating profit margin has consistently remained at a relatively low level, and the profit situation cannot meet the development needs of the enterprise.

2.2.3. Seeking a Turning Point: Diversifying into Financing Leasing Business

After years of accumulation, Zhejiang Heping has acquired a certain amount of funds through automotive sales. Therefore, Heping aims to expand its business scope and increase revenue. It is observed that other automotive sales enterprises that started around the same time as Heping mainly expanded their business by adding new 4S dealerships, essentially competing in the field of automotive sales. However, due to factors such as technological changes and policy shifts affecting the automotive sales industry, there is a sustained weak demand, leading to an oversupply problem. Therefore, Zhejiang Heping boldly chose a new path—financing leasing—breaking free from constraints and seeking a new direction.

3. Analysis of Zhejiang Heping Financing Leasing Model

3.1. Cash Flow Cycle Model and Analysis Under Dual Business

Zhejiang Heping, leveraging the characteristics of both automotive sales and financing leasing businesses, utilizes the abundant cash flow from automotive sales to invest in the financing leasing industry. Simultaneously, it utilizes the rental income obtained from the financing leasing industry to repay loans, reducing risks and increasing the profitability of the enterprise. This creates a favorable cash flow cycle between these two businesses.

Through financing activities, Zhejiang Heping obtains funds by accepting bank acceptance drafts. These funds are used for operational activities, specifically for purchasing vehicles. After the sale of

vehicles, Zhejiang Heping gains a significant cash flow, which is then invested in financing leasing activities to acquire tunnel boring machines. Additionally, through financing activities such as bank loans, Zhejiang Heping secures the necessary cash flow for purchasing tunnel boring machines. In the first half of 2022, Zhejiang Heping achieved a total sales volume of 1,800 vehicles.

Zhejiang Heping purchased two tunnel boring machines at a price of ¥40 million each, totaling ¥80 million. At the beginning of the investment activities, Zhejiang Heping used real estate investments as collateral to obtain a ¥60 million loan from the bank. The loan repayment period is five years, with a monthly repayment of ¥1.2 million, and the remaining ¥20 million is paid in cash. Simultaneously, Zhejiang Heping reached a 1.5-year agreement with China Railway Group to lease the tunnel boring machines at ¥1 million per machine per month. Therefore, Zhejiang Heping's monthly income from leasing the tunnel boring machines is ¥2 million, with monthly repayments to the bank of ¥1.2 million, resulting in a net monthly profit of approximately ¥800,000. The accumulated net profit over six months is about ¥5 million.

Considering repayment of financing funds, at the end of the sixth month, Zhejiang Heping needs to repay a ¥70 million bank acceptance draft. In the worst-case scenario, assuming a cash-to-sales ratio of 2, the cash flow from automotive sales amounts to ¥90 million. After deducting the ¥20 million used for purchasing tunnel boring machines, the remaining cash flow is sufficient to meet the conditions for repaying the bank acceptance draft. In terms of tunnel boring machine leasing, the accumulated net profit of ¥5 million over six months serves as a safeguard against the risk of being unable to repay the bank acceptance draft in case of extremely low automotive sales, leading to a high cash-to-sales ratio.

In the event of significant fluctuations in the macroeconomic environment or unexpected incidents causing a severe decline in automotive sales, resulting in a high cash-to-sales ratio exceeding 2, the funds obtained through tunnel boring machine leasing can bridge the gap. Through calculation, it is determined that the tunnel boring machine leasing business can serve as a safety net for a sales gap of around 80 (¥5 million/¥60,000) vehicles, acting as a "firewall" for enterprise sales.

3.2. Integration of Industry and Finance to Obtain New Profit Growth Points

Having accumulated substantial high-quality resources over the years, Heping possesses inherent advantages in supporting financing leasing and revitalizing existing resources. By investing funds raised from automotive sales into other service industries, Heping strengthens its overall capabilities. Establishing financing leasing operations not only promotes a virtuous cycle of capital but also enhances competitiveness in the core business of automotive sales. Furthermore, by providing funds for other business sectors, Heping ensures the efficient utilization of resources, thereby improving overall economic efficiency for the enterprise.

4. Conclusion

Through the exploration of Zhejiang Heping Automobile Sales Company, we gain insights into the current state of the financing leasing market in China. The success of Zhejiang Heping Automobile Sales Company can be summarized as follows:

1. Seizing the Right Entry Timing

Zhejiang Heping Automobile Sales Company closely monitors industry dynamics and the overall economic trends of the country. Leveraging the support of national policies, the company became a pioneer in financing leasing within the automotive sales industry. Furthermore, at that time, the company had ample funds and needed to seek new investment projects. Financing leasing became the optimal choice for risk mitigation and profit enhancement. Lastly, the domestic financing leasing

market was still in its early stages, with relatively less intense competition. These three timing factors laid the foundation for the success of Zhejiang Heping.

2. Innovative "Heping-style Financing New Approach"

Zhejiang Heping Automobile Sales Company continuously roots itself in the financing leasing industry and innovatively develops a "Heping-style financing leasing new approach." By utilizing bank acceptance drafts, bank loans, vehicle purchases, automotive sales, and financing leasing of tunnel boring machines, the company effectively plans its cash flow, maintains a healthy operating condition, mitigates corporate risks, and simultaneously enhances sales profits.

Zhejiang Heping achieves a clever integration of "financing leasing + automotive sales," ensuring a steady and ample supply of corporate funds while increasing profits. This case can serve as a reference for other enterprises similar to the automotive sales industry facing the exploration of financing leasing business.

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