Research on Financial Capacity and Risk Control of Yili Group

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***Abstract*—This paper takes the overall downturn of China's dairy industry in 2024, characterized by raw milk oversupply, differentiated consumption structures, and intensified market competition, as its research background. It selects the industry leader, Yili Group, as the research object and conducts an analysis and valuation based on its 2024 financial statements. The study explores the company's four core financial capabilities and three major risks and proposes practical development suggestions. The research finds that Yili Group's overall financial condition is relatively sound, with ample free cash flow and continuous growth in R&D investment. Industry competition and financial fraud risks are controllable. However, concurrently, Yili Group's operating revenue and net profit have declined due to industry fluctuations, and asset turnover ratios have also decreased, indicating short-term performance pressure and a need to improve operational efficiency. Based on these findings, this paper proposes recommendations, including optimizing the product structure, advancing the internationalization layout, and strengthening internal operational management, to enhance the company's risk resilience and consolidate its industry-leading position, providing a basis for management and decision-making for users of financial reports.**

***Keywords*—Yili corporation, financial statements, financial indicators**

I. Introduction

In recent years, China's dairy industry has entered a critical phase of structural transformation and cyclical adjustment. In 2024, the overall downward pressure on the industry intensified, marked by raw milk oversupply, differentiated consumption structures, and intense market competition. The performance and operational efficiency of leading enterprises generally came under pressure. In the field of financial and risk management research, existing studies largely focus on traditional financial indicators, the Harvard Analytical Framework for horizontal benchmarking, and historical reviews, with a predominant focus on profitability and operational analysis during industry upcycles. Systematic research on corporate financial resilience, risk transmission, and prevention/control mechanisms during downcycles remains relatively weak. Simultaneously, most literature does not incorporate the latest 2024 industry data or actual corporate operations, and it lacks sufficient quantitative analysis of real-world impacts, such as raw milk surpluses, goodwill impairments, and inventory write-downs. This makes it difficult to fully reveal the true risk profile and areas for improvement for leading enterprises.

This paper selects Yili Group as the research object. Based on financial data from 2021 to 2024, it employs indicator analysis, comparative analysis, and case study methods to systematically analyze three core capabilities: profitability, operational efficiency, and innovation capability. It further identifies three key risks: market competition, solvency, and financial fraud, and proposes optimization pathways.

II. Business and Governance

A. Overview of Main Products and Businesses

Established in 1993, Yili Group is a food manufacturing conglomerate centered on dairy products and health beverages, covering multiple categories and full life-cycle products. Its liquid milk business holds a firm lead in the industry, with star brands like Satine and Ambrosial. The sales volume of its milk powder company has ascended to the leading position in the Chinese market, with Pro-Kido exhibiting remarkable performance. Its ice cream enterprise has maintained the leading market position in China for 29 straight years, showcasing renowned brands such as Chocoz. Furthermore, the company has expanded into businesses such as bottled water and cheese, while actively exploring overseas markets. Products like Ambrosial and Chocoz have successfully entered the U.S. market. In terms of 2024 operating revenue composition, liquid milk, milk powder, dairy products, and ice cream accounted for approximately 65%, 25.6%, and 7.5%, respectively (Bao, 2022).

B. Industry Status and the Company's Position in the Industry

China's dairy industry faced multiple challenges in 2024: overall sales decreased by 3.1% year-on-year, raw milk oversupply led to persistently low prices, and the proportion of loss-making farming operations exceeded 80%. The consumption structure showed significant differentiation: while ambient white milk consumption declined for the third consecutive year, the penetration rate of fresh milk surged from 18% in 2018 to 39%, with the market size exceeding RMB 47.2 billion, making it the only segment maintaining relatively rapid growth. Industry concentration further increased. Leading enterprises responded to market weakness through product innovation (e.g., functional milk powder, cheese) and channel optimization (online-offline integration). Policy measures, including subsidies for milk powder production and plans to revitalize the dairy industry, aimed to alleviate pressure on the industry chain (Wang *et al.,* 2026).

Yili Group holds a leading position in the industry. In 2024, Yili Group's revenue reached RMB 115.78 billion, firmly ranking first in the Asian dairy industry, with a market share of 24.2% (compared to the industry's second-largest, Mengniu Dairy, at 21.3%), demonstrating

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industry leadership. Within core businesses, liquid milk held a 33.4% market share, milk powder ranked first in sales volume in China, and ice cream maintained the top national share for the 30th consecutive year.

C. Core Competitiveness and Development Strategy

Yili Group's core competitiveness is reflected in three dimensions: full control of the industry chain, technological innovation strength, and brand ecosystem advantages.

(1) Digital empowerment of the full industrial chain: Through the "Smart Farm - Intelligent Factory - Digital Supply Chain" integrated layout, Yili achieves precise management across the entire process, from forage planting and dairy farming to product manufacturing. For instance, the intelligent feeding system at the Chilechuan Ecological Smart Farm achieves 98% precision. The Global Benchmark Base for Liquid Milk Intelligent Manufacturing processes 6,500 tons of raw milk daily, and the end-to-end product innovation cycle has been shortened by 20%.

(2) Technological barriers and R&D transformation: The company has cumulatively obtained 4,348 patent authorizations (as of the end of 2023). It globally pioneered technologies for the targeted extraction of lactoferrin and ambient yogurt with active probiotics. It leads the construction of the National Center of Technology Innovation for Dairy. R&D investment has grown for four consecutive years, reaching RMB 870 million in 2024.

(3) Brand Portfolio and Consumer Insights: The portfolio covers 15 brands, including Satine, Ambrosial, and Prokido. Utilising a comprehensive data radar system, it accurately identifies the requirements of 150 million users. Revenue from new products accounts for more than 15% of overall revenue, while revenue from premium fresh white milk increased by over 30% (Su, 2020).

III. Analysis of Four Capabilities

A. Analysis of Profitability and Growth Capacity

Profitability can be categorized into business profitability, asset profitability, and market profitability. The primary metrics for business profitability are Gross Profit Margin and Net Profit Margin. Yili Group's gross profit margin in 2024 was 33.87%. Both operating revenue and operating costs decreased by 8.24% and 10.01%, respectively, leading to an overall increase in gross profit margin. Yili Group's net profit margin in 2024 was 7.33%, down from 2023.

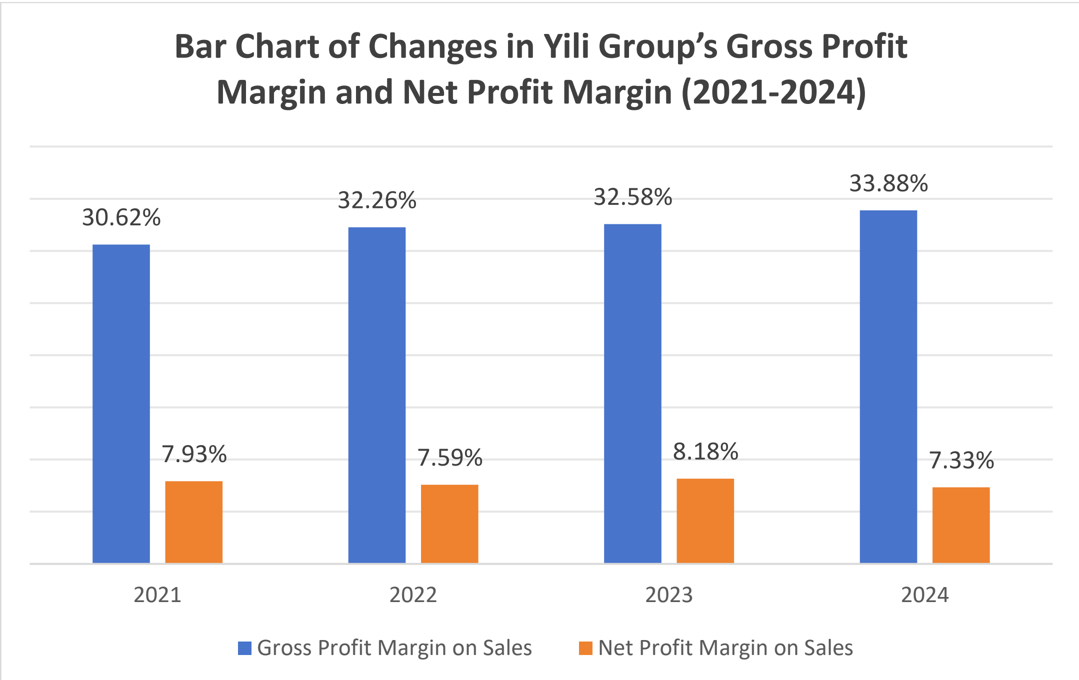

Fig. 1. Bar chart of changes in Yili Group's gross profit margin and net profit margin on sales from 2021 to 2024.

The changes in Yili Group's gross and net profit margins over the past four years are shown in Fig. 1. The data indicates that Yili Group's gross profit margin has generally trended upwards, while the net profit margin has fluctuated and even shown a downward trend. Possible reasons for the increase in gross profit but decrease in net profit include: Selling expenses reached RMB 20.3 billion in 2024, with the selling expense ratio increasing by 1.1 percentage points year-on-year to 18.99%, mainly due to increased investment in channel promotions and brand building amid intensified industry competition. Additionally, goodwill impairment of RMB 3.04 billion related to Ausnutria and a RMB 1.23 billion write-down of raw milk inventory led to a single-quarter loss of RMB 2.416 billion in Q4, directly eroding profits.

Yili's competitor, Mengniu Dairy, also saw gross profit growth between 2021 and 2024, but its net profit declined as well, plummeting from 4.96% to 0.25% in 2024, reflecting industry-wide compression of profit margins.

The core indicators for asset profitability and market profitability are Return on Invested Capital (ROIC) and Earnings Yield (E/P), respectively. Yili Group's ROIC in 2024 was 7.13%, having declined continuously from 2021 (15.31%) to less than half its previous value. The 2024 E/P ratio was approximately 5% (Earnings per share were 1.33; year-end 2024 stock price was approximately RMB 27 per share), which is a conventional earnings yield for the industry.

B. Analysis of Operational Capacity

According to the data in Fig. 2, Yili Group's Total Asset Turnover Ratio in 2024 was 75.84%, down year over year since 2021, to less than two-thirds of its 2021 level and below that of Mengniu Dairy. In 2024, Yili Group's Accounts Receivable Turnover Ratio and Inventory Turnover Ratio were 3870% and 656%, respectively, indicating approximately 39 times and 7 times turnover per year, respectively. While these turnover rates are relatively high, they have also shown a downward trend since 2021. The declining trends in the company's total asset turnover ratio, accounts receivable turnover ratio, and inventory turnover ratio indicate a reduction in Yili Group's overall asset operational efficiency (Jiang, 2023; Zhang & Li, 2019).

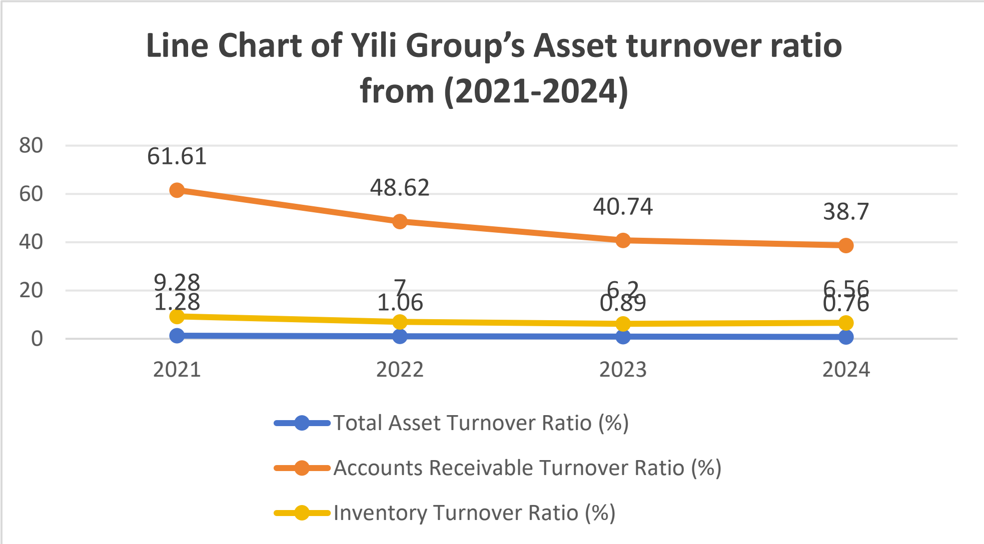

Fig. 2. Line chart of Yili Group's asset turnover ratio from 2021 to 2024.

C. Analysis of Innovation Capacity

According to Table 1, Yili Group's R&D expenditure in 2024 was RMB 870 million, an increase of RMB 20 million, or 2.4%, from the previous year. From 2021 to 2024, Yili Group's R&D expenditure showed a continuous growth trend and remained higher than that of industry competitors, such as Bright Dairy (approx. 3%–5%). Due to fluctuations in its operating revenue, its R&D intensity (R&D Expenditure/Operating Revenue) did not exhibit stable growth.

Table 1. R&D Expenditure and R&D Intensity of Yili Group from 2021 to 2024

Indicator Name	2021	2022	2023	2024
Operating Revenue (RMB Bn)	1226.98	1101.44	1257.58	1153.93
R&D Expenditure (RMB Bn)	6.01	8.21	8.5	8.7
R&D Intensity (%)	0.5	0.75	0.68	0.75

Yili Group's innovation capability is primarily manifested across multiple dimensions, including full industry chain technology R&D, product system innovation, and global collaborative innovation. Leveraging national-level scientific research platforms, such as the National Center of Technology Innovation for Dairy and its global innovation network, the company has achieved numerous technological breakthroughs in key areas, including dairy cattle breeding, development of nutritional functions, probiotic research, and dairy processing techniques. This has helped break foreign technological monopolies and establish a core technology system with independent intellectual property rights. At the product level, Yili continuously introduces functional and differentiated dairy products tailored to the needs of different consumer groups, including infants, middle-aged and elderly individuals, and those with lactose intolerance, thereby enriching its full life-cycle nutrition solutions and repeatedly winning international dairy innovation awards. Simultaneously, Yili actively participates in setting international standards, integrates global R&D resources and industry chain assets, and pursues technological innovation in areas like green, low-carbon, and sustainable production. This synergistic development of technological, product, and industrial innovation comprehensively enhances the core competitiveness and international influence of China's dairy industry.

R&D capability is a primary pillar supporting Yili Group's technological moat. Yili Group should continue to prioritize investment in R&D to maintain its competitive edge.

IV. Analysis of Three Major Risks

A. Analysis of Competitive Risk

1) Existing industry competitors

Competition in the dairy market exhibits an oligopolistic structure. Yili firmly holds the top position in China and Asia's dairy industry, leading in market share across core categories such as liquid milk, ice cream, and milk powder. However, it faces sustained challenges from domestic brands such as Mengniu and Bright Dairy, as well as international giants such as Nestlé and Danone. Mengniu and Nestlé boast gross profit margins of approximately 40%, while Bright Dairy's is nearly 20%. Competition among existing rivals is intense, manifesting in several areas: at the product level, frequent innovation occurs in subcategories such as ambient milk, yogurt, and cheese, e.g., Yili's launch of Ambrosial ambient probiotic yogurt and Pro-Kido premium milk powder. At the channel level, fierce omnichannel competition persists, with emerging channels (O2O, community group buying) becoming focal points for incremental growth. At the marketing level, brand competition centers on health and functional concepts, with price wars and promotional activities becoming the norm. Additionally, regional dairy companies leverage local milk sources and channel advantages to defend niche markets, intensifying localized competition. Against the backdrop of increasing industry concentration, Yili Group is strengthening its barriers to entry through capacity expansion, internationalization efforts, and supply chain integration, but competitive pressure within the industry persists (Ren, 2020).

2) Potential entrants and substitutes

Potential entrants face high barriers: The asset-intensive nature of the dairy industry requires substantial initial investment (e.g., farm construction, production lines). Moreover, companies like Yili have already established a "global network" supply chain system, making it difficult for new entrants to achieve breakthroughs quickly. Brand recognition and channel penetration require long-term accumulation. Cross-sector enterprises (e.g., food giants expanding dairy product lines) might enter via acquisitions, but the overall threat is limited. Regarding substitutes, plant-based beverages (soy milk, oat milk) and protein drinks divert some demand due to their health attributes, with penetration particularly increasing among younger consumer groups. However, the comprehensive nutritional profile of dairy products remains irreplaceable. Furthermore, companies like Yili have already diversified into plant-based and other categories (e.g., Yili Huoquan mineral water) to hedge against risks. The short-term threat from substitutes is manageable, but long-term shifts in consumption trends require attention.

3) Upstream and downstream bargaining power

Yili Group's Accounts Receivable Turnover Days in 2024 were 9.3 days. Although lower than 2023, this remains significantly below the industry average. Prepayments Turnover Days were 57.45 days, above the industry average, indicating strong bargaining power with both upstream and downstream partners. Specific analysis reveals: Upstream raw milk suppliers have relatively weak bargaining power. Yili binds farms through its "Benefit Linkage 2.0" mechanism (technical services and financial support), while the domestic oversupply of raw milk puts downward pressure on prices. However, high-quality milk sources remain scarce, and leading dairy companies maintain strong control over their core suppliers. Downstream bargaining power among distributors and consumers is differentiated. Yili's channel network covers over one million terminals; while it relies heavily on distributors, it strengthens its bargaining position through digital management and control. Consumers are price-sensitive, and promotions can easily influence purchasing decisions, but premium products (e.g., Satine Organic Milk) command stronger brand premiums. Additionally, the rise of e-commerce platforms has slightly increased downstream bargaining power, but Yili balances channel relationships through its omnichannel integration strategy.

B. Analysis of Solvency Risk

Primary indicators for short-term solvency are the Current Ratio and Quick Ratio. Yili Group's Current Ratio in 2024 was 0.74, and its Quick Ratio was 0.62, both below 1, indicating some pressure on short-term debt repayment capacity (Yao, 2024). However, Net Cash Flow from Operating Activities reached RMB 21.740 billion, a year-on-year increase of 18.86%, demonstrating strong cash generation capability. Furthermore, the Cash and Cash Equivalents balance at the end of 2024 was RMB 24.547 billion, sufficient to cover the RMB 9.230 billion in non-current liabilities due within one year. Consequently, short-term liquidity risk is controllable. The Asset-Liability Ratio is the principal metric for evaluating long-term solvency. In 2024, Yili Group's Asset-Liability Ratio was 62.91%, exceeding the average of the domestic dairy industry. Nonetheless, its effective debt ratio is at 26.7%.

In financial statement analysis, the effective asset-liability ratio is often measured by "Interest-Bearing Debt/Total Assets". By this metric, Yili Group's effective debt ratio is only 26.7%, indicating low leverage and relatively low operational risk. Interest-bearing debt totals RMB 60.558 billion, primarily consisting of bank loans and bonds, with a relatively stable structure. Furthermore, the company's strong operating cash flow supports long-term debt repayment. Other factors affecting solvency risk include goodwill impairment. The company's goodwill decreased significantly to RMB 2.337 billion, mainly due to an impairment related to Ausnutria, which has a limited impact on solvency. As an industry leader, the company maintains a strong credit profile and unimpeded access to external financing, further enhancing its debt repayment security.

C. Financial Fraud Risk

The risk of financial fraud at Yili Group in 2024 is considered low. The audit report issued by ShineWing Certified Public Accountants provides a standard unqualified opinion. The handling of key audit matters, such as revenue recognition and goodwill impairment, complies with accounting standards. The goodwill impairment of RMB 3.476 billion related to Ausnutria was adequately and reasonably disclosed. There are no instances of non-operational capital appropriation by the controlling shareholder or related parties, nor any irregular guarantees provided for them. Related-party transactions are transparent and standardized. Non-recurring profit and loss items, such as the RMB 2.564 billion gain on asset disposal, are detailed in the notes to the financial statements. Accounting policies are applied prudently and consistently. The Board of Directors has a reasonable structure, with independent directors comprising over one-third of the board. Specialized committees, such as the Audit Committee, function efficiently. The internal control system is robust, with no significant deficiencies detected. The decline in operating revenue and net profit is attributable to changes in market supply and demand dynamics and cost pressures. Net cash flow from operating activities reached RMB 21.739 billion, growing 18.86% year-on-year, demonstrating strong cash generation capability. The logical relationships in the financial data appear normal, with no signs of unusual fluctuations or earnings management. Overall, the risk of financial fraud is considered controllable.

V. Conclusion

This paper, set against the backdrop of the 2024 downturn in China's dairy industry, characterized by raw milk oversupply and differentiation in consumption structure, takes industry leader Yili Group as its research object. Based on financial data from 2021 to 2024, it systematically analyzes three core financial capabilities—profitability/growth, operational efficiency, and innovation—and identifies major risks in three areas: market competition, solvency, and financial fraud. Finally, it infers development trends and proposes optimization recommendations, arriving at the following conclusions.

Overall, Yili Group's long-term development fundamentals are robust and generally positive. As the top dairy company in Asia and a member of the global dairy industry's first tier, the company has a strong market position and significant brand influence. Its market share in core categories leads the industry, with premium products accounting for over 45% of revenue, continuously supporting gross margin improvement. Financially, cash flow is ample, with 2024 Free Cash Flow reaching RMB 17.761 billion and an effective debt ratio of only 26.7%, providing a solid foundation for debt repayment and risk resilience. R&D investment continues to grow, technological barriers are prominent, and the advantages of the full industry chain and digital operations are significant, underpinning long-term growth prospects.

However, the company faces noticeable pressure on short-term performance and operational efficiency. Affected by the industry cycle and oversupply, revenue from liquid milk and ice cream declined significantly in 2024, resulting in a substantial drop in net profit and underscoring insufficient resilience to industry fluctuations. Simultaneously, from 2021 to 2024, Total Asset Turnover Ratio, Accounts Receivable Turnover Ratio, and Inventory Turnover Ratio have continuously declined, reflecting decreased asset utilization efficiency. Inventory buildup and slower receivable collection, combined with the short shelf life of dairy products, further exacerbate operational risks, underscoring the need to improve operational management and asset control.

Addressing these issues, this paper proposes three improvement pathways: First, strengthen product innovation and structural optimization, deepen the core liquid milk business, expand into non-dairy categories like plant-based proteins and bottled water, and focus on premiumization, functionalization, and customized products for specific consumer segments to cultivate new growth drivers. Second, accelerate internationalization efforts by leveraging existing bases in Southeast Asia and New Zealand to expand overseas markets, promote localized production and marketing, and alleviate pressure from domestic oversupply. Third, enhance internal operational efficiency, optimize supply chain coordination and production planning, strengthen inventory and accounts receivable management, accelerate capital turnover, and reduce operational risks.

This study has limitations: the data primarily rely on public financial reports, which lack in-depth internal operational details; the quantitative analysis of the industry cycle and the expansion of non-dairy businesses is insufficient. Future research could involve collecting internal operational data, conducting quantitative studies that incorporate industry cycle dynamics, and continuously tracking and validating the effectiveness of non-dairy business expansion efforts, thereby providing more targeted guidance for the high-quality development of the dairy industry.

Conflict of Interest

The authors declare no conflict of interest.

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